

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Unaudited Condensed Separate and Consolidated Interim Financial Statements for the Period 1 January – 30 June 2021

Zagreb, August 2021

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

Contents

	Page
Responsibilities of the Management and Supervisory Boards for the preparation and approval of the condensed separate and consolidated interim financial statements	3
Condensed Consolidated Interim Financial Statements of the Group:	4
Statement of Profit or Loss	4
Statement of Profit or Loss and Other Comprehensive Income	5
Statement of Financial Position	6
Statement of Cash Flows	7
Statement of Changes in Equity	8
Condensed Separate Interim Financial Statements of the Bank:	9
Statement of Profit or Loss	9
Statement of Profit or Loss and Other Comprehensive Income	10
Statement of Financial Position	11
Statement of Cash Flows	12
Statement of Changes in Equity	13
Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations	14- 123
Appendix - Financial Performance of the HKO Group	124 - 127

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 2021

We confirm that, to the best of our knowledge, the condensed separate interim financial statements of the Croatian Bank for Reconstruction and Development (“the Bank” or “HBOR”) and condensed consolidated interim financial statements of the Croatian Bank for Reconstruction and Development Group (“the Group”) set out on pages 4 to 127 have been prepared in accordance with International Accounting Standard 34: “Interim Financial Reporting” applicable for the preparation of interim financial statements, and give a true and fair view of assets, liabilities, financial position, financial performance and cash flows for the reporting period.

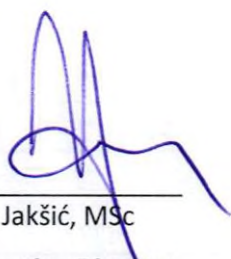
The Management Board has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

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

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

The Condensed separate and consolidated interim financial statements on pages 4 to 127 have been approved by the Management Board on 27 August 2021 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, 27 August 2021

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	2021		2020	
		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	167,935	338,041	151,597	312,119
Interest expense	6	(47,463)	(97,244)	(61,593)	(134,352)
Net interest income		120,472	240,797	90,004	177,767
Fee and commission income		6,572	14,535	6,180	12,179
Fee and commission expense		(464)	(3,468)	(326)	(617)
Net fee and commission income		6,108	11,067	5,854	11,562
Net gains/(losses) on financial operations		994	(4,285)	7,850	(11,226)
Other income		14,482	20,680	3,429	7,247
		142,056	268,259	107,137	185,350
Employee expenses	7 a)	(24,349)	(48,317)	(23,774)	(47,217)
Depreciation and amortization	7 b)	(3,021)	(5,576)	(2,372)	(4,575)
Other expenses	7 c)	(17,387)	(38,099)	(10,070)	(22,539)
Impairment gain/loss and provisions	8	127,013	136,610	(75,728)	(93,367)
Profit before income tax		224,312	312,877	(4,807)	17,652
Income tax		-	-	(1)	(229)
Profit for the period		224,312	312,877	(4,808)	17,423
Attributable to:					
Owner of the Bank		224,312	312,877	(4,808)	17,423

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

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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)

	2021		2020	
	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	224,312	312,877	(4,808)	17,423
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	(5,092)	(11,288)	(1,152)	(21,789)
Net foreign exchange on equity instruments	(276)	(160)	(177)	410
Deferred tax – other comprehensive income	5	101	13	183
Total items that may be reclassified subsequently to profit or loss	(5,363)	(11,347)	(1,316)	(21,196)
Other comprehensive income/(loss) after income tax	(5,363)	(11,347)	(1,316)	(21,196)
Total comprehensive income/(loss) after income tax	218,949	301,530	(6,124)	(3,773)
Income/(loss) attributable to:				
Owner of the Bank	218,949	301,530	(6,124)	(3,773)

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, 2021 HRK '000	Dec 31, 2020 HRK '000
Assets			
Cash on hand and current accounts with banks	9	1,194,590	1,659,116
Deposits with other banks	10	30,403	7,337
Loans to financial institutions	11	7,666,573	8,842,580
Loans to other customers	12	15,697,974	14,796,179
Financial assets at fair value through profit or loss	13	219,166	191,756
Financial assets at fair value through other comprehensive income	14	3,045,205	3,105,764
Investments in associates		-	-
Property, plant and equipment and intangible assets		46,315	46,448
Foreclosed assets	15	23,374	25,222
Other assets	16	33,615	32,140
Total assets		27,957,215	28,706,542
Liabilities			
Deposits from customers	17	926,046	974,393
Borrowings	18	15,860,012	16,863,935
Provisions for guarantees, commitments and other	19	149,650	108,056
Other liabilities	20	356,287	396,393
Total liabilities		17,291,995	18,342,777
Equity			
Founder's capital	26	7,134,632	7,134,632
Retained earnings and reserves		3,157,684	3,076,153
Other reserves		47,761	59,108
Profit for the period		312,877	81,531
Guarantee fund		12,266	12,341
Total equity		10,665,220	10,363,765
Total liabilities and total equity		27,957,215	28,706,542

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	2021 HRK '000	2020 HRK '000
Operating activities			
Profit before income tax		312,877	17,652
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		5,576	4,575
Income tax		-	(229)
Impairment gain/loss and provisions		(136,610)	93,367
Accrued interest		27,690	(145,710)
Deferred fees		(3,756)	(1,395)
Net loss from trading with derivative financial instruments		2,393	-
Other changes in assets at fair value		(51,926)	(936)
<i>Operating profit before working capital changes</i>		<i>156,244</i>	<i>(32,676)</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase)/decrease in deposits with other banks, before impairment		(25,327)	422,206
Net decrease in loans to financial institutions, before impairment		1,184,925	353,316
Net (increase)/decrease in loans to other customers, before loss impairment		(718,543)	763,029
Decrease of discount in debt securities issued and financial assets at fair value through other comprehensive income		-	1,545
Net decrease in foreclosed assets		1,848	592
Net (increase) in other assets, before impairment		(3,276)	(9,136)
Net increase/(decrease) in deposits from banks and companies		(48,306)	193,781
Net (decrease)/increase in other liabilities, before provisions		(40,180)	18,144
Net cash provided from operating activities		507,385	1,710,801
Investment activities			
Purchase of financial assets at fair value through profit or loss		(20,867)	(1,263)
Sale of financial assets at fair value through profit or loss		3,700	20,847
Purchase of financial assets at fair value through other comprehensive income		(1,152,282)	(1,219,322)
Sale of financial assets at fair value through other comprehensive income		1,187,421	449,346
Sale of debt instruments at amortised cost		-	448
Investments in subsidiaries – sales and write-offs		5,979	-
Net purchase of property, plant and equipment and intangible assets		(10)	(3,873)
Net cash (used in)/provided from investment activities		23,941	(753,817)
Financing activities			
Increase in founder's capital		-	25,000
Increase in borrowings – withdrawn funds		346,432	3,042,715
Decrease in borrowings – repayments of principal		(1,266,896)	(1,503,478)
Decrease in bonds payable – repayment		-	(1,135,104)
Other		2,033	(205)
Net cash (used in) financing activities		(918,431)	428,928
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(77,983)	221,967
Net effect		(77,983)	221,967
Net (decrease)/increase in cash and cash equivalents		(465,088)	1,607,879
Cash and cash equivalents balance as of 1 January, before impairment		1,660,768	884,890
Net (decrease)/increase in cash and cash equivalents		(465,088)	1,607,879
Cash and cash equivalents balance as of 30 June before impairment	9	1,195,680	2,492,769
Additional note - Operational cash flows			
Interest paid		97,575	175,913
Interest received		299,796	177,538

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 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
Balance as at 1 January 2021	7,134,632	3,076,153	59,108	81,531	12,341	10,363,765
Profit for the period	-	-	-	312,877	-	312,877
Other comprehensive income	-	-	(11,347)	-	-	(11,347)
Total comprehensive income	-	-	(11,347)	312,877	-	301,530
Net foreign exchange – Guarantee fund	-	-	-	-	(75)	(75)
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2020 to retained earnings	-	81,531	-	(81,531)	-	-
Balance as at 30 June 2021	7,134,632	3,157,684	47,761	312,877	12,266	10,665,220

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	2021		2020	
		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	167,616	337,405	151,319	311,542
Interest expense	6	(47,459)	(97,235)	(61,584)	(134,333)
Net interest income		120,157	240,170	89,735	177,209
Fee and commission income		5,847	12,945	5,432	10,739
Fee and commission expense		(464)	(3,468)	(326)	(617)
Net fee and commission income		5,383	9,477	5,106	10,122
Net gains/(losses) on financial operations		1,212	(4,160)	7,935	(11,218)
Other income		12,609	17,064	1,579	3,757
		139,361	262,551	104,355	179,870
Employee expenses	7 a)	(23,131)	(45,860)	(22,649)	(45,105)
Depreciation and amortization	7 b)	(2,942)	(5,418)	(2,272)	(4,385)
Other expenses	7 c)	(15,657)	(35,482)	(9,423)	(20,966)
Impairment gain/loss and provisions	8	126,985	136,625	(75,775)	(93,425)
Profit/(loss) before income tax		224,616	312,416	(5,764)	15,989
Income tax		-	-	-	-
Profit/(loss) for the period		224,616	312,416	(5,764)	15,989
Profit/(loss) attributable to: Owner of the Bank		224,616	312,416	(5,764)	15,989

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)

	2021		2020	
	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	224,616	312,416	(5,764)	15,989
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	(4,962)	(10,622)	(1,077)	(20,771)
Net foreign exchange on equity instruments	(276)	(160)	(177)	410
Total items that may be reclassified subsequently to profit or loss	(5,238)	(10,782)	(1,254)	(20,361)
Other comprehensive income after income/(loss) tax	(5,238)	(10,782)	(1,254)	(20,361)
Total comprehensive income/(loss) after income tax	219,378	301,634	(7,018)	(4,372)
Profit/(loss) attributable to:				
Owner of the Bank	219,378	301,634	(7,018)	(4,372)

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, 2021 HRK '000	Dec 31, 2020 HRK '000
Assets			
Cash on hand and current accounts with banks	9	1,187,598	1,653,162
Deposits with other banks	10	30,403	7,337
Loans to financial institutions	11	7,666,573	8,842,580
Loans to other customers	12	15,697,974	14,796,179
Financial assets at fair value through profit or loss	13	219,166	191,756
Financial assets at fair value through other comprehensive income	14	2,993,631	3,053,326
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		45,561	45,592
Foreclosed assets	15	23,374	25,222
Other assets	16	29,366	29,082
Total assets		27,929,770	28,680,360
Liabilities			
Deposits from customers	17	926,046	974,393
Borrowings	18	15,860,012	16,863,935
Provisions for guarantees, commitments and other liabilities	19	149,428	107,796
Other liabilities	20	338,101	379,612
Total liabilities		17,273,587	18,325,736
Equity			
Founder's capital	26	7,134,632	7,134,632
Retained earnings and reserves		3,153,745	3,074,406
Other reserves		43,124	53,906
Profit for the period		312,416	79,339
Guarantee fund		12,266	12,341
Total equity		10,656,183	10,354,624
Total liabilities and total equity		27,929,770	28,680,360

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	2021 HRK '000	2020 HRK '000
Operating activities			
Profit before income tax		312,416	15,989
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		5,418	4,385
Impairment gain/loss and provisions		(136,625)	93,425
Accrued interest		27,687	(145,778)
Deferred fees		(3,756)	(1,395)
Net loss from trading with derivative financial instruments		2,393	-
Other changes in assets at fair value		(51,971)	(1,215)
<i>Operating profit before working capital changes</i>		<i>155,562</i>	<i>(34,589)</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase)/decrease in deposits with other banks, before impairment		(25,327)	422,206
Net decrease in loans to financial institutions, before impairment		1,184,925	353,316
Net (increase)/decrease in loans to other customers, before impairment		(718,543)	763,029
Decrease of discount in debt securities issued and financial assets at fair value through other comprehensive income		-	1,411
Net (increase) in foreclosed assets		1,848	592
Net (increase) in other assets, before impairment		(2,174)	(9,540)
Net increase/decrease in deposits from banks and companies		(48,306)	193,781
Net (decrease)/increase in other liabilities, before provisions		(41,511)	18,710
Net cash provided from operating activities		506,474	1,708,916
Investment activities			
Purchase of financial assets at fair value through profit or loss income		(20,867)	(1,263)
Sale of financial assets at fair value through profit or loss		3,700	11,100
Purchase of financial assets at fair value through other comprehensive income		(1,152,282)	(1,216,278)
Sale of financial assets at fair value through other comprehensive income		1,187,421	446,000
Investments in subsidiaries – sales and write-offs		5,979	-
Net purchase of property, plant and equipment and intangible assets		31	(3,524)
Net cash (used in)/provided from investment activities		23,982	(763,965)
Financing activities			
Increase in founder's capital		-	25,000
Increase in borrowings – withdrawn funds		346,432	3,042,715
Decrease in borrowings – repayments of principle		(1,266,896)	(1,503,478)
Decrease in bonds payable - repayment		-	(1,135,104)
Other		1,993	(337)
Net cash (used) in financing activities		(918,471)	428,796
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(78,113)	222,177
Net effect		(78,113)	222,177
Net (decrease)/increase in cash and cash equivalents		(466,128)	1,595,924
Cash and cash equivalents balance as of 1 January, before impairment		1,654,805	881,966
Net (decrease)/increase in cash and cash equivalents		(466,128)	1,595,924
Cash and cash equivalents balance as at 30 June, before impairment	9	1,188,677	2,477,890
Additional note – operating activities			
Interest paid		97,575	175,913
Interest received		299,133	176,841

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 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
Balance as at 1 January 2021	7,134,632	3,074,406	53,906	79,339	12,341	10,354,624
Profit for the period	-	-	-	312,416	-	312,416
Other comprehensive income	-	-	(10,782)	-	-	(10,782)
Total comprehensive income	-	-	(10,782)	312,416	-	301,634
Net foreign exchange – Guarantee fund	-	-	-	-	(75)	(75)
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2020 to retained earnings	-	79,339	-	(79,339)	-	-
Balance as at 30 June 2021	7,134,632	3,153,745	43,124	312,416	12,266	10,656,183

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 2021

(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 2021, the Group had 382 employees (30 June 2020: 387 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 2021 (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, Chairman of the Croatian Chamber of Economy – ex officio Member of
the Supervisory Board,
- Žarko Tušek, member of Parliament,
- Predrag Štromar, member of Parliament,
- Siniša Hajdaš Dončić, DSc, member of Parliament.

Management Board

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

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

As of 30 June 2021, HBOR had 362 employees (30 June 2020: 366 employees).

Audit Committee

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

- Prof. DSc. Lajoš Žager, Faculty of Economics and Business of the University of Zagreb, Chairman
of the Audit Committee,
- Predrag Štromar, Chairman of the Physical Planning and Construction Committee of the
Croatian Parliament, 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 2021 (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 2020, 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 2021 (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)

The Bank, with the aim of preserving the level of economic activity and liquidity of economic entities and most importantly, preserving jobs, enabled rescheduling of obligations for all clients and a moratorium in the period from 1 April 2020 to 30 June 2020, for outstanding liabilities due from 1 March 2020 to 30 June 2020.

As the negative impact of the coronavirus pandemic on the economy prolonged, the Bank introduced an additional moratorium option for all clients on the liabilities maturing from 1 July 2020 until at the latest:

- 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.

The previously mentioned general moratoriums were implemented until 31 March 2021, and after that date, it is possible to consider individual reschedulings due to COVID-19 and the earthquake by a separate assessment of individual debtors.

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;
- 23.3. Credit risk;
- 23.3.3. Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD;
- 23.3.2.5. Significant increase in credit risk and
- 23.4. 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 2021 (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 2021 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 2021 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 2020.

2.2. Measurement

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

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

2.3. Functional and presentation currency

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

3. Use of judgements and estimates

For the preparation of financial statements in accordance with IFRSs, the Management Board is required to give estimations and make assumptions that influence the reported balances of assets and liabilities and to disclose contingent 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 2021 (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 2021 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:

- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018 – 2020 (EU effective date 1 January 2022),
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform,
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

5. Interest income calculated using the effective interest method

Interest income by borrowers:

	Group				Bank			
	2021		2020		2021		2020	
	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	35,675	69,506	26,764	50,438	35,356	68,870	26,486	49,861
State-owned companies	4,993	14,772	6,316	15,084	4,993	14,772	6,316	15,084
Foreign companies	7,080	14,880	7,943	18,595	7,080	14,880	7,943	18,595
Domestic companies	76,647	153,671	71,000	144,853	76,647	153,671	71,000	144,853
Domestic financial institutions	34,987	63,977	34,050	68,658	34,987	63,977	34,050	68,658
Foreign financial institutions	250	912	1	104	250	912	1	104
Penalty interest	4,721	11,169	1,427	5,659	4,721	11,169	1,427	5,659
Other	3,582	9,154	4,096	8,728	3,582	9,154	4,096	8,728
	167,935	338,041	151,597	312,119	167,616	337,405	151,319	311,542

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

Interest income by type of facility:

	Group				Bank			
	2021		2020		2021		2020	
	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	34,975	63,970	34,050	68,660	34,975	63,970	34,050	68,660
- other customers	124,753	257,256	110,105	228,841	124,753	257,256	110,105	228,841
	159,728	321,226	144,155	297,501	159,728	321,226	144,155	297,501
Investments in securities	7,948	15,894	7,439	14,512	7,629	15,258	7,161	13,935
- Bonds of the Republic of Croatia	7,730	15,396	7,288	14,251	7,419	14,776	7,014	13,683
- Corporate bonds	49	97	45	90	41	81	41	81
- Treasury bills of the Ministry of Finance	169	401	106	171	169	401	106	171
Deposits	259	921	3	106	259	921	3	106
	167,935	338,041	151,597	312,119	167,616	337,405	151,319	311,542

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 recognised 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 2021 amounts to HRK 22,348 thousand (1 January to 30 June 2020: HRK 19,502 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

6. Interest expense

Interest expense by type of payee:

	Group				Bank			
	2021		2020		2021		2020	
	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	-	6	113	336	-	6	113	336
Foreign financial institutions	44,019	90,394	61,440	133,931	44,019	90,394	61,440	133,931
State units	3,424	6,799	-	-	3,424	6,799	-	-
Other	20	45	40	85	16	36	31	66
	47,463	97,244	61,593	134,352	47,459	97,235	61,584	134,333

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

Interest expense by type of facility:

	Group				Bank			
	2021		2020		2021		2020	
	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	47,230	96,840	53,552	107,220	47,230	96,840	53,552	107,220
Debt securities	11	11	7,423	25,334	11	11	7,423	25,334
Deposits	202	348	578	1,713	202	348	578	1,713
Leases – interest expenses on long term contracts	20	45	40	85	16	36	31	66
	47,463	97,244	61,593	134,352	47,459	97,235	61,584	134,333

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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

7. Operating expenses

Operating expenses can be shown as follows:

	Group				Bank			
	2021		2020		2021		2020	
	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	24,349	48,317	23,774	47,217	23,131	45,860	22,649	45,105
7 b) Depreciation	3,021	5,576	2,372	4,575	2,942	5,418	2,272	4,385
7 c) Other expenses	17,387	38,099	10,070	22,539	15,657	35,482	9,423	20,966
Of which:								
<i>Administration expenses</i>	3,642	6,942	1,470	4,496	3,544	6,775	1,396	4,348
<i>Material and services</i>	7,602	14,221	7,481	14,014	7,229	13,433	7,151	13,329
<i>Other expenses</i>	6,143	16,936	1,119	4,029	4,884	15,274	876	3,289
	44,757	91,992	36,216	74,331	41,730	86,760	34,344	70,456

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

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

	2021		2020		2021		2020	
	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
Change in the claims provision	842	964	45	324	-	-	-	-
Change in the claims provision, reinsurer's share	(286)	(306)	(54)	(255)	-	-	-	-
Expenses of insurance operations	556	658	(9)	69	-	-	-	-

Loss provisions as at 30 June 2021 consisted of reported and unreported losses in the approximate proportion 51:49. At the end of Q2 2021, total reserves exceeded those at the end of 2020 by 10.5%. 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 2021 (continued)

(All amounts are expressed in HRK thousand)

8. Impairment gain/loss and provisions

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

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

	Group				Bank			
	2021		2020		2021		2020	
	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	(249)	(562)	1,090	1,459	(250)	(564)	1,087	1,440
Impairment losses on deposits with other banks	2,193	2,203	(149)	(512)	2,193	2,203	(149)	(512)
Impairment losses on loans to financial institutions	(5,305)	(11,759)	(3,892)	(5,552)	(5,305)	(11,759)	(3,892)	(5,552)
Impairment losses on loans to other customers and interest	(146,739)	(201,284)	18,325	16,036	(146,739)	(201,284)	18,325	16,036
Modification loss/(gain) – financial institutions	2,046	1,419	(837)	(1,115)	2,046	1,419	(837)	(1,115)
Modification (gain)/loss – other customers	(5,032)	(9,248)	(790)	35,071	(5,032)	(9,248)	(790)	35,071
POCI assets – fair value adjustment at initial recognition	238	41,273	7,363	17,476	238	41,273	7,363	17,476
Impairment of financial assets at fair value through other comprehensive income	(342)	(5)	516	419	(341)	(5)	517	420
Impairment losses on other assets	(565)	(207)	615	550	(575)	(258)	629	590
Provisions for commitments	30,286	29,659	56,538	32,645	30,286	29,659	56,538	32,645
Provision for guarantees	(276)	15,209	548	733	(276)	15,209	548	733
Total	(123,745)	(133,302)	79,327	97,210	(123,755)	(133,355)	79,339	97,232

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

b) Other impairment gains/losses and provisions

	Group				Bank			
	2021		2020		2021		2020	
	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		
Provision for other liabilities	(3,268)	(3,308)	(3,599)	(3,843)	(3,230)	(3,270)	(3,564)	(3,807)
Total	(3,268)	(3,308)	(3,599)	(3,843)	(3,230)	(3,270)	(3,564)	(3,807)
Total	(127,013)	(136,610)	75,728	93,367	(126,985)	(136,625)	75,775	93,425

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

9. Cash on hand and current accounts with banks

	Group		Bank	
	30 June 2021 HRK 000	31 December 2020 HRK 000	30 June 2021 HRK 000	31 December 2020 HRK 000
Account with the Croatian National Bank	1,114,297	1,491,187	1,114,297	1,491,187
Cash on hand	1	5	1	5
Foreign currency account - domestic banks	211	155,772	204	155,766
Foreign currency account - foreign banks	74,273	9,512	74,175	7,847
Domestic currency account - domestic banks	6,898	4,292	-	-
	<u>1,195,680</u>	<u>1,660,768</u>	<u>1,188,677</u>	<u>1,654,805</u>
Loss allowances	(1,090)	(1,652)	(1,079)	(1,643)
	<u>1,194,590</u>	<u>1,659,116</u>	<u>1,187,598</u>	<u>1,653,162</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 2021	Group				Bank			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Gross amount	1,195,679	-	-	1,195,679	1,188,676	-	-	1,188,676
Loss allowances	(1,090)	-	-	(1,090)	(1,079)	-	-	(1,079)
Balance as of 30 June 2021	<u>1,194,589</u>	<u>-</u>	<u>-</u>	<u>1,194,589</u>	<u>1,187,597</u>	<u>-</u>	<u>-</u>	<u>1,187,597</u>

31 December 2020	Group				Bank			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Gross amount	1,660,763	-	-	1,660,763	1,654,800	-	-	1,654,800
Loss allowances	(1,652)	-	-	(1,652)	(1,643)	-	-	(1,643)
Balance as of 31 December 2020	<u>1,659,111</u>	<u>-</u>	<u>-</u>	<u>1,659,111</u>	<u>1,653,157</u>	<u>-</u>	<u>-</u>	<u>1,653,157</u>

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (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, 2021 HRK 000	Group Jan 1 - Dec 31, 2020 HRK 000	Jan 1 – Jun 30, 2021 HRK 000	Bank Jan 1 - Dec 31, 2020 HRK 000
Balance as of 1 January	1,652	483	1,643	479
Net (decrease)/increase of loss allowances on amounts due from banks	(562)	1,160	(564)	1,155
<i>Total recognised through Income Statement (Note 8)</i>	<i>(562)</i>	<i>1,160</i>	<i>(564)</i>	<i>1,155</i>
Net foreign exchange gain/loss on loss allowances	-	9	-	9
Balance at the end of the reporting period	1,090	1,652	1,079	1,643

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 2021 (continued)

(All amounts are expressed in HRK thousand)

10. Deposits with other banks

	Group and Bank	
	30 June 2021 HRK '000	31 December 2020 HRK '000
Deposits with foreign banks	2,640	7,280
Deposits with domestic banks	29,965	-
Accrued interest	-	58
	32,605	7,338
Loss allowances	(2,202)	(1)
	30,403	7,337

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 2021

	Group and Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	2,640	29,965	-	32,605
Loss allowances	-	(2,202)	-	(2,202)
Balance as of 30 June 2021	2,640	27,763	-	30,403

31 December 2020

	Group and Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	7,338	-	-	7,338
Loss allowances	(1)	-	-	(1)
Balance as of 31 December 2020	7,337	-	-	7,337

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (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:

	Jan 1 - Jun 30, 2021 HRK 000	Group and Bank Jan 1 – Dec 31, 2020 HRK 000
Balance as of 1 January	1	1,256
Net increase/(decrease) of loss allowances on deposits with other banks	2,203	(1,268)
<i>Total recognised through Income Statement (Note 8)</i>	<u>2,203</u>	<u>(1,268)</u>
Net foreign exchange gain/loss on loss allowances	(2)	13
Balance at the end of the reporting period	<u>2,202</u>	<u>1</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 2021 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions

	Group and Bank	
	30 June 2021 HRK '000	31 December 2020 HRK '000
Long-term loans under loan programmes	7,758,186	8,765,744
Short-term loans and reverse repo transactions	-	177,574
Accrued interest	3,932	10,907
Deferred recognition of loan origination fees	(24,798)	(28,848)
	<u>7,737,320</u>	<u>8,925,377</u>
Loss allowances	(70,747)	(82,797)
	<u>7,666,573</u>	<u>8,842,580</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 2021	Group and Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	7,546,789	178,335	12,196	7,737,320
Loss allowances	(35,048)	(27,730)	(7,969)	(70,747)
Balance as of 30 June 2021	<u>7,511,741</u>	<u>150,605</u>	<u>4,227</u>	<u>7,666,573</u>

31 December 2020	Group and Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	8,650,474	254,544	20,359	8,925,377
Loss allowances	(36,795)	(35,435)	(10,567)	(82,797)
Balance as of 31 December 2020	<u>8,613,679</u>	<u>219,109</u>	<u>9,792</u>	<u>8,842,580</u>

7

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (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, 2021 HRK 000	Group and Bank Jan 1 - Dec 31, 2020 HRK 000
Balance as of 1 January	82,797	58,698
Net (decrease)/increase of loss allowances on loans to financial institutions	(11,759)	23,836
<i>Total recognised through Income Statement (Note 8)</i>	<u>(11,759)</u>	<u>23,836</u>
Net foreign exchange gain/loss on loss allowances	(191)	272
Loss allowances transferred to loans to other customers	(16)	(36)
Unwinding – changes due to the lapse of time	(84)	27
Balance at the end of the reporting period	<u>70,747</u>	<u>82,797</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 2021 (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:

	30 June 2021 HRK '000	Group and Bank 31 December 2020 HRK '000
EU Projects	190,216	146,416
Financial Restructuring	3,502	3,792
Pre-Export Finance	1,009	1,015
Public Sector Investment	580,167	298,851
Private Sector Investment	188,658	169,996
Youth, Female, Start-up Entrepreneurship	45,852	31,056
Working Capital	4,597	1,778
Working Capital – COVID 19 measures	61,734	44,457
Loan programme for reconstruction and development of the economy	1,174,009	1,382,832
Export financing	1,773,053	2,095,602
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,179,898	1,421,077
Loan programme for small and medium-sized enterprises	2,551,512	3,164,285
Loan programme for war-torn and demolished housing and business facilities	3,979	4,587
Other	-	177,574
Accrued interest	3,932	10,907
Deferred recognition of loan fees	(24,798)	(28,848)
	<u>7,737,320</u>	<u>8,925,377</u>
Loss allowances	(70,747)	(82,797)
	<u>7,666,573</u>	<u>8,842,580</u>

Average interest rates for total loans to financial institutions are stated at 0.45% (1 January – 30 June 2020: 0.51%) 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 0 thousand (31 December 2020: HRK 27,574 thousand), The above placements are collateralized by securities in the amount of HRK 0 thousand (31 December 2020: HRK 28,996 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2021 (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 2021	31 December 2020
	HRK '000	HRK '000
Domestic companies	11,533,147	10,388,049
State-owned companies	1,040,857	1,474,038
Public sector	5,084,521	4,489,021
Foreign companies	371,337	981,652
Other	526,596	542,754
Accrued interest	465,310	484,863
Deferred recognition of loan origination fees	(84,847)	(88,468)
	<u>18,936,921</u>	<u>18,271,909</u>
Loss allowances	(3,238,947)	(3,475,730)
	<u>15,697,974</u>	<u>14,796,179</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 2021	Group and Bank				
	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Gross amount	13,028,296	862,640	3,656,639	1,389,346	18,936,921
Loss allowances	(380,753)	(323,274)	(2,312,725)	(222,195)	(3,238,947)
Balance as of 30 June 2021	<u>12,647,543</u>	<u>539,366</u>	<u>1,343,914</u>	<u>1,167,151</u>	<u>15,697,974</u>
31 December 2020	Group and Bank				
	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Gross amount	11,479,156	1,606,757	3,918,415	1,267,581	18,271,909
Loss allowances	(353,077)	(517,219)	(2,422,493)	(182,941)	(3,475,730)
Balance as of 31 December 2020	<u>11,126,079</u>	<u>1,089,538</u>	<u>1,495,922</u>	<u>1,084,640</u>	<u>14,796,179</u>

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers (continued)

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

	Jan 1 - Jun 30, 2021 HRK 000	Group and Bank Jan 1 - Dec 31, 2020 HRK 000
Balance as of 1 January	3,475,730	3,365,074
Net (decrease)/increase of loss allowances on loans to other customers and interest	(201,284)	69,861
<i>Total recognised through Income Statement (Note 8)</i>	<i>(201,284)</i>	<i>69,861</i>
Net foreign exchange gain/loss on loss allowances	(2,055)	479
Write-offs	(7,059)	(384)
Derecognition due to reduction to fair value	(48,019)	-
Loss allowances transferred from loans to financial institutions	16	36
Unwinding – changes due to the lapse of time	10,840	40,997
Acquisition of immovable property	-	(6,198)
Exchange of receivables	(737)	-
Interest transferred from the off-balance sheet records and other	11,515	5,865
Balance at the end of the reporting period	3,238,947	3,475,730

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 2021 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers (continued)

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

	Group and Bank	
	30 June 2021	31 December 2020
	HRK '000	HRK '000
EU Projects	210,093	115,740
Financial Restructuring	1,202,643	834,309
Pre-Export Finance	100,434	38,528
Public Sector Investment	1,220,154	878,539
Private Sector Investment	647,787	509,264
Youth, Female, Start-up Entrepreneurship	20,175	13,111
Working Capital	438,773	347,833
Working Capital – COVID 19 measures	1,262,845	608,444
Loan programme for reconstruction and development of the economy	2,659,280	2,847,070
Export financing	4,585,839	5,377,356
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	4,551,671	4,535,276
Loan programme for small and medium-sized enterprises	1,342,521	1,503,037
Other	314,243	267,007
Accrued interest	465,310	484,863
Deferred recognition of loan origination fees	(84,847)	(88,468)
	<u>18,936,921</u>	<u>18,271,909</u>
Loss allowances	(3,238,947)	(3,475,730)
	<u>15,697,974</u>	<u>14,796,179</u>

Average interest rates on loans to other customers are stated at 1.82% (1 January – 30 June 2020: 1.68%).

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

Item "Other" refers to reverse repo agreements in the total amount of HRK 18,841 thousand (31 December 2020: HRK 0 thousand), The above placements are collateralized by securities in the amount of HRK 19,833 thousand (31 December 2020: HRK 0 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

13. Financial assets at fair value through profit or loss

	30 June 2021 HRK '000	Group and Bank 31 December 2020 HRK '000
Loans at FVPL:		
Mezzanine loans	15,722	2,658
	15,722	2,658
Investments in investment funds:		
Investments in investment funds at FVPL	203,096	188,289
	203,096	188,289
Unlisted equity instruments:		
Investments in corporate shares	31	31
Depository receipt - DR	317	319
Investments in financial institutions' shares	-	161
	348	511
Derivative financial assets-positive fair value	-	298
	219,166	191,756

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 2020: HRK 0 thousand).

The shares of companies not listed on the stock exchange in the amount of HRK 31 thousand (31 December 2020.: HRK 31 thousand) (0.03% portion) relate to the shares of the company Helios Faros d.d., in bankruptcy, acquired by HBOR in the reporting period in substitution for a portion of receivables by accepting the company's bankruptcy restructuring plan.

Non-listed equity securities in the amount of HRK 317 thousand (31 December 2020: HRK 319 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 0 thousand (31 December 2020: HRK 161 thousand). Following the liquidation of the company Tržište novca i kratkoročnih vrijednosnica d.d. and the payment received after the liquidation, HBOR derecognised the shares from the business records.

As at 30 June 2021, a positive fair value of derivative financial instruments was stated in the amount of HRK 0 thousand (31 December 2020: HRK 298 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income

	Group		Bank	
	30 June	31 December	30 June	31 December
	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	1,552,252	1,519,381	1,503,493	1,469,742
Corporate bonds	2,374	2,355	-	-
Treasury bills of the Ministry of Finance	1,449,781	1,537,395	1,449,781	1,537,395
Accrued interest	12,200	17,663	11,759	17,219
	3,016,607	3,076,794	2,965,033	3,024,356
Unlisted debt instruments:				
Corporate bonds	539	564	539	564
Convertible bonds - CB	1,392	1,307	1,392	1,307
Accrued interest	271	391	271	391
	2,202	2,262	2,202	2,262
Equity instruments:				
Unlisted equity instruments:				
Investments in shares of foreign legal entities - SWIFT	44	43	44	43
Shares of foreign financial institutions – EIF	26,352	26,665	26,352	26,665
	26,396	26,708	26,396	26,708
	3,045,205	3,105,764	2,993,631	3,053,326

Non-listed convertible bonds (CB) of the Fortenova Group TopCo B.V. in the amount of HRK 1,392 thousand (31 December 2020: HRK 1,307 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 2021	Group							Bank
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Gross amount	3,017,394	-	1,415	3,018,809	2,965,820	-	1,415	2,967,235
Balance as of 30 June 2021	3,017,394	-	1,415	3,018,809	2,965,820	-	1,415	2,967,235
31 December 2020	Group							Bank
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Gross amount	3,077,679	-	1,377	3,079,056	3,025,241	-	1,377	3,026,618
Balance as of 31 December 2020	3,077,679	-	1,377	3,079,056	3,025,241	-	1,377	3,026,618

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

	Group		Bank	
	Jan 1 – Jun 30, 2021 HRK 000	Jan 1 – Dec 31, 2020 HRK 000	Jan 1 – Jun 30, 2021 HRK 000	Jan 1 – Dec 31, 2020 HRK 000
Balance as of 1 January	4,582	3,355	4,499	3,283
Net increase of loss allowances	(5)	1,193	(5)	1,182
<i>Total recognised through Income Statement (Note 8)</i>	<i>(5)</i>	<i>1,193</i>	<i>(5)</i>	<i>1,182</i>
Net foreign exchange gain/loss on loss allowances	(16)	34	(16)	34
Balance at the end of the reporting period	4,561	4,582	4,478	4,499

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 2021 (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 (%)	Group		Bank	
				30 June 2021	31 December 2020	30 June 2021	31 December 2020
				HRK '000	HRK '000	HRK '000	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	151,995	157,527	151,995	157,527
RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	17,307	17,857	12,230	12,608
RHMF-O222E	5.2.2019.	5.2.2022.	0.5	15,008	15,149	15,008	15,149
<i>Bonds of the Republic of Croatia in foreign currency:</i>							
XS1117298916	11.3.2015.	11.3.2025.	3.0	316,421	321,176	316,421	321,176
XS1843434876	19.6.2019.	19.10.2029.	1.125	15,394	15,829	15,394	15,829
XS1028953989	17.06.2020.	17.06.2031.	1,500	55,201	56,627	55,201	56,627
<i>Bonds of the Republic of Croatia in HRK:</i>							
RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	9,876	9,982	-	-
RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	46,176	46,380	36,533	36,709
RHMF-O-217A	8.7.2016.	8.7.2021.	2.75	218,085	221,281	216,082	219,251
RHMF-O-222A	7.2.2017.	7.2.2022.	2.25	70,931	71,663	70,931	71,663
RHMF-O-282A	7.2.2017.	7.2.2028.	2.875	13,705	13,786	11,534	11,591
RHMF-O-023BA	27.11.2017.	27.11.2023.	1.75	512,321	462,464	512,321	462,464
RHMF-O-297A	9.7.2018.	9.7.2029.	2.38	3,449	3,445	-	-
RHMF-O-34BA	27.11.2019.	27.11.2034.	1.00	7,939	7,975	-	-
RHMF-O-403E	3.3.2020.	3.3.2040.	1.25	8,602	9,092	-	-
RHMF-O-253A	3.3.2020.	3.3.2025.	0.25	80,147	79,526	80,147	79,526
RHMF-O-24BA	27.11.2019.	27.11.2024.	0.25	9,696	9,622	9,696	9,622
<i>Corporate bonds in HRK:</i>							
JDGL-O-24XA	18.12.2019.	18.12.2024.	1.75	995	977	-	-
HRATGRO25CA5	11.12.2020.	11.12.2025.	0.88	1,378	1,378	-	-
			(0.035-				
Treasury bills in HRK up to 364 days			0.019)	1,299,912	1,009,812	1,299,912	1,009,812
Treasury bills in foreign currency up to 364 days			0.000	149,869	527,583	149,869	527,583
Accrued interest				12,200	17,663	11,759	17,219
				3,016,607	3,076,794	2,965,033	3,024,356
Unlisted debt instruments:							
<i>Corporate bonds with a currency clause:</i>							
LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	539	564	539	564
<i>Bonds of foreign corporate in foreign currency</i>							
Fortenova Group TopCo B.V.	1.4.2019.	1.4.2029.	2.5	1,392	1,307	1,392	1,307
Accrued interest				271	391	271	391
				2,202	2,262	2,202	2,262
Equity instruments:							
<i>Unlisted equity instruments:</i>							
Investments in shares of foreign legal entities - SWIFT				44	43	44	43
Investments in shares of foreign financial institutions - EIF				26,352	26,665	26,352	26,665
				26,396	26,708	26,396	26,708
Total				3,045,205	3,105,764	2,993,631	3,053,326

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

15. Foreclosed assets

	30 June 2021 HRK '000	Group and Bank 31 December 2020 HRK '000
Foreclosed assets	23,374	25,222
	23,374	25,222

In the reporting period 2021, acquisition of property took place with present value in the amount of HRK 1,469 thousand, acquisition value of HRK 1,469 thousand and provisions of HRK 0 thousand, and relates to land plot in the amount of HRK 758 thousand, acquisition value of HRK 758 thousand and provisions of HRK 0 thousand, buildings in the amount of HRK 711 thousand, acquisition value of HRK 711 thousand and provisions of HRK 0 thousand (in 2020, acquisition of property took place with present value in the amount of HRK 647 thousand, acquisition value of HRK 1,002 thousand and provisions of HRK 355 thousand, and relates to land plot in the amount of HRK 0 thousand, acquisition value and provisions of HRK 160 thousand, buildings in the amount of HRK 171 thousand, acquisition value of HRK 171 thousand and provisions of HRK 0 thousand and apartments in the amount of HRK 405 thousand, acquisition value of HRK 613 thousand and provisions of HRK 208 thousand). Fair value of acquired property at the end of the second quarter of 2021 amounted to HRK 1,469 thousand.

In the reporting period, sale of foreclosed assets took place with present value in the amount of HRK 1,862 thousand, acquisition value of HRK 7,002 thousand and provisions of HRK 5,140 thousand relates to land plot in the amount of HRK 161 thousand, buildings in the amount of HRK 841 thousand and apartments in the amount of HRK 860 thousand (in 2020, sale of foreclosed assets took place with present value in the amount of HRK 452 thousand, acquisition value and provisions of HRK 8,923 thousand and provisions of HRK 8,471 thousand, and relates to land plot in the amount of HRK 0 thousand, buildings in the amount of HRK 33 thousand and apartments of HRK 419 thousand).

In the reporting period 2021, foreclosed assets were transferred to lease on the item Investments in property in the amount of HRK 2,830 thousand (2020: HRK 1,435 thousand), which is presented under Other assets due to immaterial significance. In the reporting period, this property was depreciated in the amount of HRK 61 thousand (2020: HRK 85 thousand).

The fair value of foreclosed assets at the beginning of the reporting period stood at HRK 34,480 thousand and the end of the reporting period at HRK 28,303 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 2021 (2020: increase of HRK 582 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

16. Other assets

	Group		Bank	
	30 June 2021	31 December 2020	30 June 2021	31 December 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Fees receivable	27,761	28,052	27,761	28,052
Other receivables	9,573	11,058	9,573	11,058
Prepaid expenses	3,136	2,315	2,848	2,115
Accrued income	18,422	17,684	18,422	17,685
Premium receivables	2,634	1,718	-	-
Receivables for reinsurance commissions	989	854	-	-
Receivables for risk assessment fees	287	350	-	-
Deferred tax assets	199	-	-	-
Leased assets	1,826	2,867	1,815	2,828
Other assets	3,142	1,778	3,078	1,740
	67,969	66,676	63,497	63,478
Loss allowances	(34,354)	(34,536)	(34,131)	(34,396)
	33,615	32,140	29,366	29,082

Lease assets are recognised in accordance with the application of the IFRS 16 and depreciation during the year stood at HRK 1,040 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 amortised cost. The amounts in the table represent gross carrying amounts:

30 June 2021					Group					Bank	
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	
Gross amount	5,854	558	34,806	26	41,244	1,944	558	34,806	26	37,334	
Loss allowances	(239)	(67)	(34,043)	(5)	(34,354)	(16)	(67)	(34,043)	(5)	(34,131)	
Balance as of 30 June 2021	5,615	491	763	21	6,890	1,928	491	763	21	3,203	

31 December 2020					Group					Bank	
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	
Gross amount	6,328	2	35,667	35	42,032	3,406	2	35,667	35	39,110	
Loss allowances	(171)	(1)	(34,359)	(5)	(34,536)	(31)	(1)	(34,359)	(5)	(34,396)	
Balance as of 31 December 2020	6,157	1	1,308	30	7,496	3,375	1	1,308	30	4,714	

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

16. Other assets (continued)

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

	Group		Bank	
	30 June 2021 HRK '000	31 December 2020 HRK '000	30 June 2021 HRK '000	31 December 2020 HRK '000
Fees receivable	27,761	28,052	27,761	28,052
Other receivables	9,573	11,058	9,573	11,058
Premium receivables	2,634	1,718	-	-
Receivables for reinsurance	989	854	-	-
Receivables for risk assessment fees	287	350	-	-
	41,244	42,032	37,334	39,110
Loss allowance	(34,354)	(34,536)	(34,131)	(34,396)
Subtotal – credit risk	6,890	7,496	3,203	4,714

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

	Group		Bank	
	Jan 1 - Jun 30, 2021 HRK 000	Jan 1 - Dec 31, 2020 HRK 000	Jan 1 - Jun 30, 2021 HRK 000	Jan 1 - Dec 31, 2020 HRK 000
Balance as of 1 January	34,536	35,570	34,396	35,436
Net increase/(decrease) of loss allowances on other assets	(207)	(1,032)	(258)	(1,001)
<i>Total recognised through Income statement (Note 8)</i>	<i>(207)</i>	<i>(1,032)</i>	<i>(258)</i>	<i>(1,001)</i>
Acquisition of immovable property	-	(2)	-	(2)
Write-offs	(1)		(1)	
Net foreign exchange gain/loss on loss allowances	(6)	(37)	(6)	(37)
Other adjustments	32	37	-	-
Balance at the end of the reporting period	34,354	34,536	34,131	34,396

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 2021 (continued)

(All amounts are expressed in HRK thousand)

17. Deposits from customers

	30 June 2021 HRK '000	Group and Bank 31 December 2020 HRK '000
Bank deposits	592,589	626,261
Foreign currency regular accounts of companies	6	6
Foreign currency account of the Ministry of Finance of the Republic of Croatia	6,513	9,114
Foreign currency special purpose accounts of the companies	60,782	25,657
Foreign currency special accounts of foreign financial institutions	4,814	5,685
State institutions' deposits	241,088	279,208
Other deposits	20,254	28,462
	926,046	974,393

Bank deposits in 2021 relate to loro deposits of the European Investment Bank (EIB) and Bulgarian Development Bank AD.

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 6,513 thousand (31 December 2020: HRK 9,114 thousand).

State institution's demand deposits relate to the Bank's operations carried out for and on behalf of the Ministry of Finance, 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, reduced by funds used for the intended purpose and account balance on 30 June 2021 amounted to HRK 4,814 thousand (31 December 2020: HRK 5,685 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 2021 (continued)

(All amounts are expressed in HRK thousand)

18. Borrowings

	30 June 2021	Group and Bank 31 December 2020
	HRK '000	HRK '000
Balance as of 1 January	16,852,094	14,385,635
New borrowings	346,432	4,994,515
Repayments	(1,266,896)	(2,664,047)
Net foreign exchange gain/loss	(82,936)	135,991
	<u>15,848,694</u>	<u>16,852,094</u>
Accrued interest	36,282	40,720
Deferred fees	(24,964)	(28,879)
	<u>15,860,012</u>	<u>16,863,935</u>

The bank is subject to financial clauses in some Contracts. On 30 June 2021 the Bank was in compliance with all required financial clauses from the Contract.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

19. Provisions for guarantees, commitments and other liabilities

	Group		Bank	
	30 June 2021 HRK '000	31 December 2020 HRK '000	30 June 2021 HRK '000	31 December 2020 HRK '000
Provisions for guarantees and commitments	90,458	45,556	90,458	45,556
Provisions for other liabilities	59,192	62,500	58,970	62,240
	149,650	108,056	149,428	107,796

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

	Group		Bank	
	Jan 1 - Jun 30, 2021 HRK '000	Jan 1 - Dec 31, 2020 HRK '000	Jan 1 - Jun 30, 2021 HRK '000	Jan 1 - Dec 31, 2020 HRK '000
Balance as of 1 January	45,556	57,716	45,556	57,716
Net increase of loss allowances on guarantees	15,209	2,184	15,209	2,184
<i>Total recognised through Income Statement (Note 8)</i>	<i>15,209</i>	<i>2,184</i>	<i>15,209</i>	<i>2,184</i>
Net (release) of loss allowances on commitments	29,659	(13,998)	29,659	(13,998)
<i>Total recognised through Income Statement (Note 8)</i>	<i>29,659</i>	<i>(13,998)</i>	<i>29,659</i>	<i>(13,998)</i>
Net foreign exchange on loss allowances	34	(346)	34	(346)
Balance at the end of the reporting period - Provisions for guarantees and commitments	90,458	45,556	90,458	45,556
Balance as of 1 January	62,500	63,064	62,240	62,915
Net (release) of loss allowances on other liabilities	(3,308)	(4,230)	(3,270)	(4,341)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(3,308)</i>	<i>(4,230)</i>	<i>(3,270)</i>	<i>(4,341)</i>
Unrealised actuarial gains/(losses)	-	3,666	-	3,666
Balance at the end of the reporting period - Provisions for other liabilities	59,192	62,500	58,970	62,240

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 3,070 thousand relates to financial institutions (31 December 2020: HRK 8,492 thousand), HRK 87,003 thousand relates to domestic companies (31 December 2020: HRK 35,683 thousand), HRK 293 thousand relates to the public sector (31 December 2020: HRK 1,286 thousand), HRK 92 thousand relates to other (31 December 2020: HRK 95 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

20. Other liabilities

	Group		Bank	
	30 June 2021 HRK '000	31 December 2020 HRK '000	30 June 2021 HRK '000	31 December 2020 HRK '000
Liabilities in respect of subsidized interest (a)	112,239	139,722	203,991	139,722
Deferred recognition of interest income (b)	203,991	198,715	112,239	198,715
Accrued salaries	7,874	8,382	7,651	8,146
Liabilities to suppliers	1,641	2,090	1,546	2,017
Liabilities for prepaid receivables	6,944	24,342	6,944	24,342
Deferrable premium	4,270	3,650	-	-
Provisions for claims	6,043	5,584	-	-
Provisions for return premiums	1,337	1,143	-	-
Liabilities to re-insurers	3,543	3,277	-	-
Deferred tax liabilities	897	819	-	-
Corporate income tax-current liability	-	151	-	-
Lease liabilities	2,313	3,453	1,856	2,893
Other liabilities	4,276	5,065	2,955	3,777
Derivative financial liabilities (c)	919	-	919	-
	356,287	396,393	338,101	379,612

(a) 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 105,803 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2020: HRK 131,273 thousand),
- HRK 2,602 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 2020: HRK 3,734 thousand),
- HRK 3,834 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 2020: HRK 4,715 thousand).

(b) Deferred recognition of interest income of HRK 203,991 thousand (31 December 2020: HRK 198,715 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 77,315 thousand (31 December 2020: HRK 74,659 thousand), and in respect of those already in repayment stage amounting to HRK 126,676 thousand (31 December 2020: HRK 124,056 thousand).

(c) Derivative financial liabilities

As at 30 June 2021, a negative fair value of derivative financial instruments was stated in the amount of HRK 919 thousand (31 December 2020: HRK 0 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

21. Guarantees and commitments

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

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

Group and Bank

	30 June 2021	31 December 2020
	HRK '000	HRK '000
Guarantees issued in HRK	136,565	126,469
Guarantees issued in foreign currency	360,148	331,815
Undrawn loans	4,982,552	4,779,853
Open letters of credit	-	1,472
EIF – subscribed, not called up capital	47,944	48,236
EIF CROGIP Contracted Liability	269,461	287,683
EIF FRC2 Contracted Liability	6,967	9,487
	<u>5,803,637</u>	<u>5,585,015</u>
Provisions for guarantees and commitments	(90,458)	(45,556)
	<u>5,713,179</u>	<u>5,539,459</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:

	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
30 June 2021						
Gross amount	4,998,527	68,772	364,087	47,879	-	5,479,265
Loss allowances	(43,348)	(812)	(34,862)	(11,436)	-	(90,458)
Balance as of 30 June 2021	<u>4,955,179</u>	<u>67,960</u>	<u>329,225</u>	<u>36,443</u>	<u>-</u>	<u>5,388,807</u>
31 December 2020						
Gross amount	4,644,976	153,026	338,419	101,716	1,472	5,239,609
Loss allowances	(8,659)	(11,523)	(17,525)	(7,849)	-	(45,556)
Balance as of 31 December 2020	<u>4,636,317</u>	<u>141,503</u>	<u>320,894</u>	<u>93,867</u>	<u>1,472</u>	<u>5,194,053</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 2021 (continued)

(All amounts are expressed in HRK thousand)

21. 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 34%, 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

22. 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 2021 and 31 December 2020, and income and expense for the period 1 January to 30 June 2021 and for the period 1 January to 30 June 2020 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
	2021	2021	2020	2020
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,471,586	1,724,784	3,560,948	1,775,799
Government funds, executive authorities and agencies	3,862,756	136,649	3,424,357	169,844
State-owned companies	1,083,996	39	1,535,839	1,322
Associates	8	-	7	5
Key management personnel	3,231	2,396	253	2,204
Total	8,421,577	1,863,868	8,521,404	1,949,174

Group	Income	Expense	Income	Expense
	Jan 1 – Jun 30	Jan 1 – Jun 30	Jan 1 – Jun 30	Jan 1 – Jun 30
	2021	2021	2020	2020
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	25,641	11,646	27,712	238
Government funds, executive authorities and agencies	42,088	1,663	46,221	238
State-owned companies	23,308	16,174	18,540	2,842
Associates	26	-	-	-
Key management personnel	3,380	4,108	57	4,048
Total	94,443	33,591	92,530	7,366

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

22. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Assets	Liabilities	Assets	Liabilities
	30 June 2021	30 June 2021	31 December 2020	31 December 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,471,586	1,724,784	3,560,948	1,775,799
Government funds, executive authorities and agencies	3,813,517	136,621	3,371,905	169,665
State-owned companies	1,083,992	36	1,535,832	1,319
Subsidiary companies	36,124	-	36,124	-
Associates	8	-	7	5
Key management personnel	3,231	2,281	253	2,096
Total	8,408,458	1,863,722	8,505,069	1,948,884

Bank	Income	Expense	Income	Expense
	Jan 1 – Jun 30 2021	Jan 1 – Jun 30 2021	Jan 1 – Jun 30 2020	Jan 1 – Jun 30 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	25,641	11,646	27,713	238
Government funds, executive authorities and agencies	41,463	1,642	45,641	229
State-owned companies	23,308	16,149	18,540	2,817
Subsidiary companies	-	-	-	-
Associates	26	-	-	-
Key management personnel	3,380	3,339	56	3,315
Total	93,818	32,776	91,950	6,599

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

22. Related-party transactions (continued)

b) Collateral received

	Group		Bank	
	30 June 2021	31 December 2020	30 June 2021	31 December 2020
	HRK '000	HRK '000	HRK '000	HRK '000
The Republic of Croatia	5,855,323	5,150,786	5,852,736	5,148,197
State agencies	621,354	608,048	621,354	608,048
Total	6,476,677	5,758,834	6,474,090	5,756,245

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.

Pursuant to the Quota Reinsurance Contract between HBOR, in the name and for the account of the Republic of Croatia, and HKO d.d., reinsurance is carried out, i.e. cover is provided for a proportional part (quota reinsurance) of political and commercial risks under export loans and receivables arising from the export of goods and services. The Reinsurer covers all non-marketable (non-market) risks assumed by the Insurer, i.e. Croatian Credit Insurance, joint stock insurance company, in the range from 15% to 90% of the insured amount.

c) Salaries of key management personnel

Key members of the Group's and the Bank's management include members of the Management Board, senior executive directors, head of the Management Board Office, executive directors, assistant director, advisors to the Management Board and an authorised agent (proxy).

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 4,067 thousand (1 January to 30 June 2020: HRK 3,967 thousand), and for the Bank amounted to HRK 3,336 thousand (1 January to 30 June 2020: HRK 3,275 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 41 thousand (1 January to 30 June 2020: HRK 81 thousand) and for the Bank amounted to HRK 3 thousand (1 January to 30 June 2020: HRK 40 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
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. 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, 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.

23.1. 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

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

Liquidity risk

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

In order to manage liquidity risk, the Group has established a system of limits and early warning signals, monitors and controls limit utilisation, maintains the adequate level of liquidity reserve, continuously monitors current and planned liquidity, and based on the results of liquidity projections 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 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.1. 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.

Interest rate risk

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. The impact of changes in interest rates is also considered through the BPV (basis point value) calculation, and the economic value of the bank's book is also calculated. 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. 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.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.1. 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 utilisation. The IT system security control function is in charge of monitoring the security of the IT system. Within this function, a system for the management of business continuity was established.

During 2021, the impact of two significant operational risk events on the Bank's operations continued – the Covid-19 pandemic and the earthquake in Zagreb. The crisis events were recorded in 2020 in the database for operational risk, where the financial effects of these events are continuously updated.

With the aim of conducting business without interruption due to the unusability of the earthquake-damaged main office building of the Bank as well as the compliance with pandemic protection measures, it was made possible for workers to continue working from home.

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.

The crisis events of operational risk (pandemic and earthquake) did not expose the Bank to an increase in the risk of externalisation, and it was established that there were no interruptions of key externalised services („core“ banking applications and data centre) caused by the crisis events.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.2. 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 and currency risk within the framework of the Liquidity Risk Management Ordinance, the Currency Risk Management Ordinance and the Interest Rate Risk Management Procedures, Trading Book Ordinance, the Assets and Liabilities Management Policies as well as other documents of the Bank that regulate this area,
- **Credit Risk Evaluation and Measurement Committee** – manages credit risk within the framework set through accepted Loan Policies, Credit Risk Management Ordinance, methodologies 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.

Risk Management Division

One of the important preconditions for the realisation of HBOR Business Strategy 2020-2024 was an organisational and operational improvement of the Risk Management organisational unit. Further to this, as of 1 May 2021, the Risk Management organisational unit has become the Risk Management Division. The Division is, just like the Risk Management organisational unit was, responsible for the control, identification, measurement, assessment and supervision of risks that HBOR is exposed or may be exposed to within the framework of its operations. Furthermore, for the purpose of establishing an adequate and effective risk control system, the Risk Management Division is also a permanent risk control function that is functionally and organisationally independent of the business processes and activities within which risks arise and which it monitors and supervises.

The Risk Management Division carries out its role by performing risk analyses and evaluations or measurements, developing risk management ordinances, procedures, policies 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.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.2. Strategy and risk management systems (continued)

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 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, the impact of changes in foreign exchange rates and interest rates on operating results, 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.

23.3. 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 Bank 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.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Pursuant to the HBOR Act, part of placements is approved through 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 Bank, as a developmental financial institution, supports growth and development of the Croatian economy through investment. For this reason, the clients mainly approach the Bank 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 Bank is constantly improving existing organisational and technical solutions, reports and internal acts and proposes new organisation regulations and implementation instructions.

By continuous monitoring and evaluation of the clients' businesses, efforts are made to identify difficulties in their operation on a timely basis. For clients with difficulties, the Bank 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.

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.

In order to mitigate the negative consequences of the coronavirus pandemic, the Bank, with the aim of preserving the level of economic activity and liquidity of economic entities and most importantly, preserving jobs, enabled rescheduling of obligations for all clients and a moratorium in the period from 1 April 2020 to 30 June 2020, for outstanding liabilities due from 1 March 2020 to 30 June 2020. As the negative impact of the coronavirus pandemic on the economy prolonged, the Bank introduced an additional moratorium option for all clients on the liabilities maturing from 1 July 2020 to 30 September 2020, for the clients who can prove that their operations have been affected by the coronavirus pandemic (COVID score, etc.) a moratorium on liabilities maturing from 1 July 2020 to 31 December 2020, whereas for all clients engaged in tourism activities, a moratorium on liabilities maturing from 1 July 2020 to 30 June 2021.

In addition to the rescheduling and the moratorium, the Bank introduced new liquidity loans in order to preserve the level of economic activity and liquidity:

- for small and medium-sized enterprises through framework loans to commercial banks,
- for large entrepreneurs through loans according to the risk-sharing model and
- direct loans for particularly affected clients operating in the strategic branch - tourism.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Together with the Ministry of Tourism and Sport, the Bank provided entrepreneurs in tourism with favourable direct loans for necessary liquidity by securing funds from the interest rate subsidy fund. Due to the approval of a larger number of loans in a relatively short time, certain activities in the manner of implementation and loan application procedure prescribed by the Credit Risk Management Ordinance that are covered by separate Instructions, have been reduced for the purpose of greater flow and speed of approval of these loans. To a lesser extent, the possibility of liquidity financing was also used by other relevant ministries for the most affected activities (transport, wood processing, etc.)

Adverse effects of the coronavirus pandemic (COVID-19)

The coronavirus (COVID-19) pandemic has affected and is expected to continue to affect negatively the world economy and economic activities and conditions in almost all countries in the world, including Croatia. Among other challenges, the Republic of Croatia has recorded an increase in unemployment and a decline in production, while public debt has significantly increased thanks to state aid. In addition, there has been an increase in the uncertainty of receivables collection both from natural persons and companies, especially those in the affected sectors, volatility in financial markets, exchange rate volatility as well as the decline in assets and investment values.

During the year, the Bank closely monitored developments related to the COVID-19 pandemic, including the spread of the virus and related operational and economic effects. Mandatory measures as a consequence of the lockdown introduced by the Government resulted in a sharp and serious decline in GDP in the Croatian economy. However, the Government support measures have helped to mitigate negative effects to some extent. As mentioned earlier, the Bank also played an important role in maintaining economic activity and introduced a number of measures to help clients in the industries significantly affected by the crisis in order to facilitate liquidity and operations.

Macroeconomic forecasts show that long-term impacts will result in a higher level of risk and likely in a higher number of defaulting clients. The average portfolio risk profile remained mostly stable throughout the year and did not deteriorate significantly due to the macroeconomic crisis. The Bank has included in the calculation of the ECL the updated macroeconomic parameters, with respect to which it adjusted the PD rate in its forecasts in order to ensure that all potential future adverse effects are included in the ECL.

The Bank continues to monitor the situation, considering whether there will be new waves of the COVID-19 pandemic, whether COVID-19 vaccines approved by regulatory bodies will be effective, whether the desired vaccination results will be achieved, whether new strains of COVID-19 will emerge and whether, and in which way, additional restrictions will be imposed and/or the existing ones extended.

The economic environment is still uncertain; therefore, in the future, there may be additional impairments in the future as a result of the long duration of the COVID-19 pandemic and the application of measures to combat the spread of the virus, as well as the ineffectiveness of the vaccine against COVID-19.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.1. 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 Bank 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 loan.

23.3.2. 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,
- and separate category of 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.

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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

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.

23.3.2.1. 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,
- clients is more than 90 days overdue in settling its due obligation under any significant loan liability. The significance threshold equals HRK 1,750 and is calculated on the client level by adding due obligations under all client placements.

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

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

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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

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

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

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

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

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

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

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

23.3.2.2. 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 analysed:

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

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

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 Bank 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 Bank'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.

23.3.2.3. 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 and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

23.3.2.4. 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.

23.3.2.5. Significant increase in credit risk

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

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

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

23.3.2.5. Significant increase in credit risk (continued)

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.

23.3.2.6. 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 recognising expected credit losses during the entire lifetime of a financial instrument is attained, even if the evidence on such significant increase in credit risk is still not available on the level of an individual instrument.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.3. 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 (gross domestic product), correlations on total PDs have been established for all homogenous groups.

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.

23.3.4. 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%.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.5. Overview of modified and restructured loans

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

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

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

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

Evidence on concession includes the following:

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

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

23.3.6. 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 2021, the highest credit exposure of the Group and of the Bank to one debtor equalled HRK 2,301,746 thousand (31 December 2020: HRK 2,675,492 thousand for the Group and HRK 2,669,528 thousand for the Bank) without considering the effect of mitigation through collateral received.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.6. Analysis of risk concentration

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 one bank and its group of related parties.

23.3.7. 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.

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

for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.7. Risk-Sharing Model (continued)

- 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 measures to help the economy due to the coronavirus pandemic, it was possible to grant new liquidity loans to entrepreneurs that were severely affected by the crisis caused by the coronavirus pandemic under the risk-sharing model with commercial banks. Due to the expected short deadline for processing of a larger number of loan applications, the existing loan procedure prescribed by the Credit Risk Management Ordinance has been accelerated and reduced for this purpose.

23.3.8. 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.8. Collaterals and other credit quality (creditworthiness) improvement (continued)

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

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

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

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

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

All direct placements are mainly secured with a transfer of ownership or with a mortgage over real estate and, if is possible, the Bank 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

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

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.

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 organisational 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 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure

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

	Group		Bank	
	Highest exposure	Highest exposure	Highest exposure	Highest exposure
	30 June 2021 HRK '000	31 December 2020 HRK '000	30 June 2021 HRK '000	31 December 2020 HRK '000
Assets				
Cash on hand and current accounts with banks	1,194,589	1,659,111	1,187,597	1,653,157
Deposits with other banks	30,403	7,337	30,403	7,337
Loans to financial institutions	7,666,573	8,842,580	7,666,573	8,842,580
Loans to other customers	15,697,974	14,796,179	15,697,974	14,796,179
Financial assets at fair value through profit or loss	15,722	2,956	15,722	2,956
Financial assets at fair value through other comprehensive income	3,018,809	3,079,056	2,967,235	3,026,618
Other assets	6,890	7,496	3,203	4,714
Total	27,630,960	28,394,715	27,568,707	28,333,541
Guarantees and commitments				
Guarantees issued in HRK	135,199	125,204	135,199	125,204
Issued guarantees in foreign currency	327,821	314,842	327,821	314,842
Open letters of credit in foreign currency	-	1,472	-	1,472
Undrawn loans	4,925,787	4,752,535	4,925,787	4,752,535
Total	5,388,807	5,194,053	5,388,807	5,194,053
Total credit risk exposure	33,019,767	33,588,768	32,957,514	33,527,594

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Republic of Croatia	EU countries	Other countries	Total
30 June 2021	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,120,439	67,426	6,724	1,194,589
Deposits with other banks	27,763	2,640	0	30,403
Loans to financial institutions	7,666,573	0	0	7,666,573
Loans to other customers	15,385,610	0	312,364	15,697,974
Financial assets at fair value through profit or loss	15,722	0	0	15,722
Financial assets at fair value through other comprehensive income	3,017,394	1,415	0	3,018,809
Other assets	5,015	108	1,767	6,890
Total	27,238,516	71,589	320,855	27,630,960
Guarantees and commitments				
Guarantees issued in HRK	135,199	-	-	135,199
Issued guarantees in foreign currency	327,821	-	-	327,821
Open letters of credit in foreign currency	-	-	-	-
Undrawn loans	4,922,072	-	3,715	4,925,787
Total	5,385,092	-	3,715	5,388,807
Total credit risk exposure	32,623,608	71,589	324,570	33,019,767

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. 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 2020				
Assets				
Cash on hand and current accounts with banks	1,651,267	7,532	312	1,659,111
Deposits with other banks	-	7,337	-	7,337
Loans to financial institutions	8,842,580	-	-	8,842,580
Loans to other customers	14,016,403	-	779,776	14,796,179
Financial assets at fair value through profit or loss	2,956	-	-	2,956
Financial assets at fair value through other comprehensive income	3,077,679	1,377	-	3,079,056
Debt instruments at amortised cost	-	-	-	-
Other assets	6,352	94	1,050	7,496
Total	27,597,237	16,340	781,138	28,394,715
Guarantees and commitments				
Guarantees issued in HRK	125,204	-	-	125,204
Issued guarantees in foreign currency	314,842	-	-	314,842
Open letters of credit in foreign currency	1,472	-	-	1,472
Undrawn loans	4,731,158	-	21,377	4,752,535
Total	5,172,676	-	21,377	5,194,053
Total credit risk exposure	32,769,913	16,340	802,515	33,588,768

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. 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 30 June 2021	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
Assets				
Cash on hand and current accounts with banks	1,113,447	67,426	6,724	1,187,597
Deposits with other banks	27,763	2,640	-	30,403
Loans to financial institutions	7,666,573	-	-	7,666,573
Loans to other customers	15,385,610	-	312,364	15,697,974
Financial assets at fair value through profit or loss	15,722	-	-	15,722
Financial assets at fair value through other comprehensive income	2,965,820	1,415	-	2,967,235
Other assets	3,203	-	-	3,203
Total	27,178,138	71,481	319,088	27,568,707
Guarantees and commitments				
Guarantees issued in HRK	135,199	-	-	135,199
Issued guarantees in foreign currency	327,821	-	-	327,821
Open letters of credit in foreign currency	-	-	-	-
Undrawn loans	4,922,072	-	3,715	4,925,787
Total	5,385,092	-	3,715	5,388,807
Total credit risk exposure	32,563,230	71,481	322,803	32,957,514

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. 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
31 December 2020	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,645,313	7,532	312	1,653,157
Deposits with other banks	-	7,337	-	7,337
Loans to financial institutions	8,842,580	-	-	8,842,580
Loans to other customers	14,016,403	-	779,776	14,796,179
Financial assets at fair value through profit or loss	2,956	-	-	2,956
Financial assets at fair value through other comprehensive income	3,025,241	1,377	-	3,026,618
Other assets	4,714	-	-	4,714
Total	27,537,207	16,246	780,088	28,333,541
Guarantees and commitments				
Guarantees issued in HRK	125,204	-	-	125,204
Issued guarantees in foreign currency	314,842	-	-	314,842
Open letters of credit in foreign currency	1,472	-	-	1,472
Undrawn loans	4,731,158	-	21,377	4,752,535
Total	5,172,676	-	21,377	5,194,053
Total credit risk exposure	32,709,883	16,246	801,465	33,527,594

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. 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 2021 HRK '000	30 June 2021 HRK '000	31 December 2020 HRK '000	31 December 2020 HRK '000
Financial intermediation and insurance	11,514,728	-	13,600,142	-
Water and electric supply and other infrastructure	2,015,942	1,036,668	1,927,789	1,136,584
Tourism	4,043,486	721,828	3,821,623	560,776
Transport, warehousing and connections	2,615,907	568,597	2,308,679	645,451
Shipbuilding	1,564,342	623,733	1,262,057	42,694
Agriculture and fishery	577,888	189,647	564,526	173,996
Food industry	1,024,643	187,795	1,024,670	139,475
Construction industry	2,894,781	173,110	2,442,149	185,442
Other industry	557,548	182,118	422,415	161,533
Public administration	3,007,015	3,003,665	3,065,554	3,064,916
Education	34,095	32,023	36,722	34,084
Manufacture of basic metals and fabricated metal products, except machinery and equipment	236,367	45,108	203,214	44,217
Manufacture of chemicals and chemical products	89,290	23,521	95,217	24,827
Manufacture of other non-metallic mineral products	169,672	132,656	168,235	53,238
Pharmaceutical industry	427,669	392,028	439,106	260,851
Manufacture of motor vehicles, trailers and semi-trailers	254,313	17,803	219,756	21,954
Other	1,992,081	338,627	1,986,914	306,054
Total credit risk exposure	33,019,767	7,668,927	33,588,768	6,856,092

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. 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 2021 HRK '000	30 June 2021 HRK '000	31 December 2020 HRK '000	31 December 2020 HRK '000
Financial intermediation and insurance	11,505,895	-	13,593,044	-
Water and electric supply and other infrastructure	2,015,942	1,036,668	1,927,789	1,136,584
Tourism	4,043,485	721,828	3,821,623	560,776
Transport, warehousing and connections	2,615,844	568,535	2,308,501	645,273
Shipbuilding	1,564,342	623,733	1,262,057	42,694
Agriculture and fishery	577,855	189,614	564,506	173,976
Food industry	1,024,548	187,699	1,024,593	139,397
Construction industry	2,894,496	172,824	2,441,981	185,274
Other industry	557,237	181,807	422,077	161,194
Public administration	2,957,781	2,954,431	3,015,472	3,014,834
Education	34,095	32,023	36,722	34,084
Manufacture of basic metals and fabricated metal products, except machinery and equipment	236,273	45,014	203,139	44,142
Manufacture of chemicals and chemical products	89,290	23,521	95,217	24,828
Manufacture of other non-metallic mineral products	169,672	132,656	168,235	53,238
Pharmaceutical industry	426,185	390,544	437,600	259,346
Manufacture of motor vehicles, trailers and semi-trailers	254,313	17,803	219,756	21,954
Other	1,990,261	336,808	1,985,282	304,422
Total credit risk exposure	32,957,514	7,615,508	33,527,594	6,802,016

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 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group as of 30 June 2021 amounted to HRK 25,350,840 thousand (31 December 2020: HRK 26,732,676 thousand) and for the Bank HRK 25,342,006 thousand (31 December 2020: HRK 26,725,578 thousand).

Net highest exposure as at 30 June 2021 for the Group amounted to HRK 7,668,927 thousand (31 December 2020: HRK 6,856,092 thousand) and for the Bank HRK 7,615,508 thousand (31 December 2020: HRK 6,802,016 thousand).

In the total net highest exposure after the effect of mitigation through collateral received as of 30 June 2021, the credit risk of HRK 4,531,938 thousand for the Group (31 December 2020: HRK 4,623,158 thousand) and HRK 4,482,739 thousand for the Bank (31 December 2020: HRK 4,573,075 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 506,161 thousand (31 December 2020: HRK 537,474 thousand), from local (regional) authorities of HRK 819,417 thousand (31 December 2020: HRK 807,097 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 192,122 thousand (31 December 2020: HRK 204,135 thousand), government funds of HRK 6 thousand (31 December 2020: HRK 13 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 3,014,232 thousand for the Group and HRK 2,965,033 thousand for the Bank (31 December 2020: HRK 3,074,439 thousand for the Group and HRK 3,024,356 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 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. 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 30 June 2021	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
Assets												
Cash on hand and current accounts with banks	1,194,589	-	-	-	-	1,194,589	-	-	-	-	-	-
Deposits with other banks	2,640	27,763	-	-	-	30,403	-	-	-	-	-	-
Loans to financial institutions	7,511,741	150,605	4,227	-	-	7,666,573	-	-	-	-	-	-
Loans to other customers	12,647,543	539,366	1,343,914	1,167,151	-	15,697,974	3,047,932	119,410	244,606	49,797	-	3,461,745
Financial assets at fair value through profit or loss	-	-	-	-	15,722	15,722	-	-	-	-	15,722	15,722
Financial assets at fair value through other comprehensive income	3,017,394	-	1,415	-	-	3,018,809	3,017,394	-	1,415	-	-	3,018,809
Other assets	5,615	491	763	21	-	6,890	2,258	491	763	22	-	3,534
Total	24,379,522	718,225	1,350,319	1,167,172	15,722	27,630,960	6,067,584	119,901	246,784	49,819	15,722	6,499,810
Guarantees and commitments												
Guarantees issued in HRK	72,393	12,562	50,244	-	-	135,199	56,106	6,374	14,602	-	-	77,082
Issued guarantees in foreign currency	51,073	-	276,748	-	-	327,821	40,744	-	111,774	-	-	152,518
Open letters of credit in foreign currency	-	-	-	-	-	-	-	-	-	-	-	-
Undrawn loans	4,831,713	55,398	2,233	36,443	-	4,925,787	929,737	6,229	2,234	1,317	-	939,517
Total	4,955,179	67,960	329,225	36,443	-	5,388,807	1,026,587	12,603	128,610	1,317	-	1,169,117
Total credit risk exposure	29,334,701	786,185	1,679,544	1,203,615	15,722	33,019,767	7,094,171	132,504	375,394	51,136	15,722	7,668,927

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. 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 31 December 2020	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
Assets												
Cash on hand and current accounts with banks	1,659,111	-	-	-	-	1,659,111	-	-	-	-	-	-
Deposits with other banks	7,337	-	-	-	-	7,337	-	-	-	-	-	-
Loans to financial institutions	8,613,679	219,109	9,792	-	-	8,842,580	-	-	-	-	-	-
Loans to other customers	11,126,079	1,089,538	1,495,922	1,084,640	-	14,796,179	2,689,969	71,907	272,269	53,250	-	3,087,395
Financial assets at fair value through profit or loss	298	-	-	-	2,658	2,956	-	-	-	-	2,658	2,658
Financial assets at fair value through other comprehensive income	3,077,679	-	1,377	-	-	3,079,056	3,077,679	-	1,377	-	-	3,079,056
Other assets	6,157	1	1,308	30	-	7,496	2,417	-	1,308	29	-	3,754
Total	24,490,340	1,308,648	1,508,399	1,084,670	2,658	28,394,715	5,770,065	71,907	274,954	53,279	2,658	6,172,863
Guarantees and commitments												
Guarantees issued in HRK	106,162	-	19,042	-	-	125,204	50,130	-	17,670	-	-	67,800
Issued guarantees in foreign currency	10,871	3,012	300,959	-	-	314,842	1,591	-	104,863	-	-	106,454
Open letters of credit in foreign currency	-	-	-	-	1,472	1,472	-	-	-	-	-	-
Undrawn loans	4,519,284	138,491	893	93,867	-	4,752,535	475,581	26,417	889	6,088	-	508,975
Total	4,636,317	141,503	320,894	93,867	1,472	5,194,053	527,302	26,417	123,422	6,088	-	683,229
Total credit risk exposure	29,126,657	1,450,151	1,829,293	1,178,537	4,130	33,588,768	6,297,367	98,324	398,376	59,367	2,658	6,856,092

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. 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 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 2021	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						
Assets												
Cash on hand and current accounts with banks	1,187,597	-	-	-	-	1,187,597	-	-	-	-	-	-
Deposits with other banks	2,640	27,763	-	-	-	30,403	-	-	-	-	-	-
Loans to financial institutions	7,511,741	150,605	4,227	-	-	7,666,573	-	-	-	-	-	-
Loans to other customers	12,647,543	539,366	1,343,914	1,167,151	-	15,697,974	3,047,932	119,410	244,606	49,797	-	3,461,745
Financial assets at fair value through profit or loss	-	-	-	-	15,722	15,722	-	-	-	-	15,722	15,722
Financial assets at fair value through other comprehensive income	2,965,820	-	1,415	-	-	2,967,235	2,965,820	-	1,415	-	-	2,967,235
Other assets	1,928	491	763	21	-	3,203	413	491	763	22	-	1,689
Total	24,317,269	718,225	1,350,319	1,167,172	15,722	27,568,707	6,014,165	119,901	246,784	49,819	15,722	6,446,391
Guarantees and commitments												
Guarantees issued in HRK	72,393	12,562	50,244	-	-	135,199	56,106	6,374	14,602	-	-	77,082
Issued guarantees in foreign currency	51,073	-	276,748	-	-	327,821	40,744	-	111,774	-	-	152,518
Open letters of credit in foreign currency	-	-	-	-	-	-	-	-	-	-	-	-
Undrawn loans	4,831,713	55,398	2,233	36,443	-	4,925,787	929,737	6,229	2,234	1,317	-	939,517
Total	4,955,179	67,960	329,225	36,443	-	5,388,807	1,026,587	12,603	128,610	1,317	-	1,169,117
Total credit risk exposure	29,272,448	786,185	1,679,544	1,203,615	15,722	32,957,514	7,040,752	132,504	375,394	51,136	15,722	7,615,508

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. 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	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
31 December 2020	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	Stage 1	Stage 2	Stage 3	POCI	HRK '000	HRK '000
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets												
Cash on hand and current accounts with banks	1,653,157	-	-	-	-	1,653,157	-	-	-	-	-	-
Deposits with other banks	7,337	-	-	-	-	7,337	-	-	-	-	-	-
Loans to financial institutions	8,613,679	219,109	9,792	-	-	8,842,580	-	-	-	-	-	-
Loans to other customers	11,126,079	1,089,538	1,495,922	1,084,640	-	14,796,179	2,689,969	71,907	272,269	53,250	-	3,087,395
Financial assets at fair value through profit or loss	298	-	-	-	2,658	2,956	-	-	-	-	2,658	2,658
Financial assets at fair value through other comprehensive income	3,025,241	-	1,377	-	-	3,026,618	3,025,242	-	1,377	-	-	3,026,619
Other assets	3,375	1	1,308	30	-	4,714	778	-	1,308	29	-	2,115
Total	24,429,166	1,308,648	1,508,399	1,084,670	2,658	28,333,541	5,715,989	71,907	274,954	53,279	2,658	6,118,787
Guarantees and commitments												
Guarantees issued in HRK	106,162	-	19,042	-	-	125,204	50,130	-	17,670	-	-	67,800
Issued guarantees in foreign currency	10,871	3,012	300,959	-	-	314,842	1,591	-	104,863	-	-	106,454
Open letters of credit in foreign currency	-	-	-	-	1,472	1,472	-	-	-	-	-	-
Undrawn loans	4,519,284	138,491	893	93,867	-	4,752,535	475,581	26,417	889	6,088	-	508,975
Total	4,636,317	141,503	320,894	93,867	1,472	5,194,053	527,302	26,417	123,422	6,088	-	683,229
Total credit risk exposure	29,065,483	1,450,151	1,829,293	1,178,537	4,130	33,527,594	6,243,291	98,324	398,376	59,367	2,658	6,802,016

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

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

As at 30 June 2021 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 1,507,502 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 505,963 thousand, local and regional authorities of HRK 819,417 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 192,122 thousand.

As at 30 June 2021 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 3,014,232 thousand for the Group and HRK 2,965,033 thousand for the Bank.

As at 30 June 2021 other assets of HRK 204 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

As at 31 December 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 1,548,515 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 537,283 thousand, local and regional authorities of HRK 807,097 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 204,135 thousand.

As at 31 December 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 3,074,439 thousand for the Group and HRK 3,024,356 thousand for the Bank.

As at 31 December 2020 other assets of HRK 204 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 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. 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 2021	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2021	1,652	-	-	-	1,652
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(562)	-	-	-	(562)
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Balance at 30 June 2021	1,090	-	-	-	1,090

Group					
31 December 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	1,160	-	-	-	1,160
Net foreign exchange gain/loss on loss allowances	9	-	-	-	9
Balance at 31 December 2020	1,652	-	-	-	1,652

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Cash on hand and current accounts with banks (continued)

Bank					
30 June 2021	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2021	1.643	-	-	-	1.643
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(564)	-	-	-	(564)
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Balance at 30 June 2021	1.079	-	-	-	1.079

Bank					
31 December 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	1,155	-	-	-	1,155
Net foreign exchange gain/loss on loss allowances	9	-	-	-	9
Balance at 31 December 2020	1,643	-	-	-	1,643

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Deposits with other banks

Group and Bank

30 June 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	1	-	-	-	1
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	-	2,203	-	-	2,203
Net foreign exchange gain/loss on loss allowances	(1)	(1)	-	-	(2)
Balance at 30 June 2021	-	2,202	-	-	2,202

Group and Bank

31 December 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	(1,268)	-	-	-	(1,268)
Net foreign exchange gain/loss on loss allowances	13	-	-	-	13
Balance at 31 December 2020	1	-	-	-	1

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Loans to financial institutions

**Group and Bank
30 June 2021**

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	36,795	35,435	10,567	-	82,797
Transfer to Stage 1	1,193	(17)	(1,176)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(2,843)	(7,583)	(1,333)	-	(11,759)
Unwind – changes due to the lapse of time	-	-	(84)	-	(84)
Loss allowances transferred from/to loans to other customers	-	(16)	-	-	(16)
Net foreign exchange gain/loss on loss allowances	(97)	(89)	(5)	-	(191)
Balance at 30 June 2021	35,048	27,730	7,969	-	70,747

**Group and Bank
31 December 2020**

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	37,098	10,543	11,057	-	58,698
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(2,742)	2,742	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	2,290	22,091	(545)	-	23,836
Unwind – changes due to the lapse of time	-	-	27	-	27
Loss allowances transferred from/to loans to other customers	-	(36)	-	-	(36)
Net foreign exchange gain/loss on loss allowances	149	95	28	-	272
Balance at 31 December 2020	36,795	35,435	10,567	-	82,797

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Loans to other customers

Group and Bank 30 June 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	353,077	517,219	2,422,493	182,941	3,475,730
Transfer to Stage 1	89,621	(64,103)	(25,518)	-	-
Transfer to Stage 2	(6,498)	9,845	(3,347)	-	-
Transfer to Stage 3	(268)	(181,716)	171,962	10,022	-
Net increase/(release) of loss allowance	(52,446)	43,836	(164,500)	(28,174)	(201,284)
Write-offs	-	-	(7,059)	-	(7,059)
Unwind – changes due to the lapse of time	(1,668)	(135)	3,702	8,941	10,840
Loss allowances transferred to/from loans to financial institutions	-	16	-	-	16
Acquisition of immovable property	-	-	(737)	-	(737)
Derecognition due to reduction to fair value	-	-	(84,977)	36,958	(48,019)
Other	-	-	-	11,515	11,515
Net foreign exchange gain/loss on loss allowances	(1,065)	(1,688)	706	(8)	(2,055)
Balance at 30 June 2021	380,753	323,274	2,312,725	222,195	3,238,947

Group and Bank 31 December 2020	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	302,945	627,951	2,313,514	120,664	3,365,074
Transfer to Stage 1	240,277	(229,466)	(10,811)	-	-
Transfer to Stage 2	(22,462)	29,720	(7,258)	-	-
Transfer to Stage 3	(7,365)	(87,683)	72,940	22,108	-
Net increase/(release) of loss allowance	(162,930)	172,289	43,988	16,514	69,861
Write-offs	-	-	(384)	-	(384)
Unwind – changes due to the lapse of time	(427)	(434)	23,337	18,521	40,997
Loss allowances transferred to/from loans to financial institutions	-	36	-	-	36
Acquisition of immovable property	(690)	-	(5,508)	-	(6,198)
Other	-	-	-	5,865	5,865
Net foreign exchange gain/loss on loss allowances	3,729	4,806	(7,325)	(731)	479
Balance at 31 December 2020	353,077	517,219	2,422,493	182,941	3,475,730

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Financial assets at fair value through other comprehensive income

Group 30 June 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	2,935	-	1,647	-	4,582
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	(39)	-	34	-	(5)
Net foreign exchange gain/loss on loss allowances	(6)	-	(10)	-	(16)
Balance at 30 June 2021	2,890	-	1,671	-	4,561

Group 31 December 2020	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	1,422	426	1,507	-	3,355
Transfer to Stage 1	426	(426)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	1,081	-	112	-	1,193
Net foreign exchange gain/loss on loss allowances	6	-	28	-	34
Balance at 31 December 2020	2,935	-	1,647	-	4,582

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Financial assets at fair value through other comprehensive income

Bank 30 June 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	2,852	-	1,647	-	4,499
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	(39)	-	34	-	(5)
Net foreign exchange gain/loss on loss allowances	(6)	-	(10)	-	(16)
Balance at 30 June 2021	2,807	-	1,671	-	4,478

Bank 31 December 2020	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	1,350	426	1,507	-	3,283
Transfer to Stage 1	426	(426)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	1,070	-	112	-	1,182
Net foreign exchange gain/loss on loss allowances	6	-	28	-	34
Balance at 31 December 2020	2,852	-	1,647	-	4,499

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Other assets

Group 30 June 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	171	1	34,359	5	34,536
Transfer to Stage 1	5	(1)	(4)	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	(1)	(1)	2	-	-
Net increase/(release) of loss allowance	36	64	(307)	-	(207)
Write-offs	-	-	(1)	-	(1)
Foreclosed assets	-	-	-	-	-
Net foreign exchange gain/loss on loss allowances	-	-	(6)	-	(6)
Other adjustments	32	-	-	-	32
Balance at 30 June 2021	239	67	34,043	5	34,354

Group 31 December 2020	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	164	18	35,382	6	35,570
Transfer to Stage 1	8	(1)	(7)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	(3)	(9)	12	-	-
Net release of loss allowance	(35)	(7)	(989)	(1)	(1,032)
Foreclosed assets	-	-	(2)	-	(2)
Net foreign exchange gain/loss on loss allowances	-	-	(37)	-	(37)
Other adjustments	37	-	-	-	37
Balance at 31 December 2020	171	1	34,359	5	34,536

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Other assets

Bank 30 June 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	31	1	34,359	5	34,396
Transfer to Stage 1	5	(1)	(4)	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	(1)	(1)	2	-	-
Net increase/(release) of loss allowance	(15)	64	(307)	-	(258)
Write-offs	-	-	(1)	-	(1)
Foreclosed assets	-	-	-	-	-
Net foreign exchange gain/loss on loss allowances	-	-	(6)	-	(6)
Balance at 30 June 2021	16	67	34,043	5	34,131

Bank 31 December 2020	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	30	18	35,382	6	35,436
Transfer to Stage 1	8	(1)	(7)	-	-
Transfer to Stage 2	(2)	2	-	-	-
Transfer to Stage 3	(1)	(11)	12	-	-
Net increase/(release) of loss allowance	(4)	(7)	(989)	(1)	(1,001)
Foreclosed assets	-	-	(2)	-	(2)
Net foreign exchange gain/loss on loss allowances	-	-	(37)	-	(37)
Balance at 31 December 2020	31	1	34,359	5	34,396

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Guarantees and commitments

Group and Bank 30 June 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	8,659	11,523	17,525	7,849	45,556
Transfer to Stage 1	5,309	(5,309)	-	-	-
Transfer to Stage 2	(260)	260	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	29,790	(5,658)	17,106	3,630	44,868
Net foreign exchange gain/loss on loss allowances	(150)	(4)	231	(43)	34
Balance at 30 June 2021	43,348	812	34,862	11,436	90,458

Group and Bank 31 December 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	2,802	(2,802)	-	-	-
Transfer to Stage 2	(3,299)	3,299	-	-	-
Transfer to Stage 3	-	(2,616)	2,257	359	-
Net increase/(release) of loss allowance	(16,194)	(788)	228	4,941	(11,813)
Net foreign exchange gain/loss on loss allowances	404	141	(878)	(14)	(347)
Balance at 31 December 2020	8,659	11,523	17,525	7,849	45,556

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. Liquidity risk

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 30 June 2021 and 31 December 2020 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 2021	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	1,194,590	-	-	-	-	1,194,590
Deposits with other banks	27,763	-	-	-	2,640	30,403
Loans to financial institutions	92,431	296,669	931,225	2,018,695	4,327,553	7,666,573
Loans to other customers*	2,008,438	428,038	1,091,624	2,864,124	9,305,750	15,697,974
Financial assets at fair value through profit or loss	203,444	-	-	-	15,722	219,166
Financial assets at fair value through other comprehensive income	3,033,633	11,547	25	-	-	3,045,205
Property, plant and equipment and intangible assets	-	-	-	-	46,315	46,315
Foreclosed assets	-	8,293	-	9,742	5,339	23,374
Other assets	5,914	6,622	4,440	4,585	12,054	33,615
Total assets	6,566,213	751,169	2,027,314	4,897,146	13,715,373	27,957,215
Liabilities						
Deposits from customers	735,130	33,486	45,516	45,266	66,648	926,046
Borrowings	207,007	372,452**	1,785,340	5,503,349	7,991,864	15,860,012
Provisions for guarantees, commitments and other liabilities	60,889	6,668	20,881	31,939	29,273	149,650
Other liabilities	138,927	18,597	53,162	81,912	63,689	356,287
Total liabilities	1,141,953	431,203	1,904,899	5,662,466	8,151,474	17,291,995
Liquidity gap	5,424,260	319,966	122,415	(765,320)	5,563,899	10,665,220
Guarantees and commitments						
Guarantees issued in HRK	136,565	-	-	-	-	136,565
Issued guarantees in foreign currency	360,148	-	-	-	-	360,148
Open letters of credit in foreign currency	-	-	-	-	-	-
Undrawn loans	4,982,552	-	-	-	-	4,982,552
EIF – subscribed, not called up capital	47,944	-	-	-	-	47,944
EIF CROGIP Contracted Liability	11,992	16,819	42,850	86,018	111,782	269,461
EIF FRC2 Contracted Liability	205	454	2,182	3,450	676	6,967
Total guarantees and commitments	5,539,406	17,273	45,032	89,468	112,458	5,803,637

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

* Receivables of HRK 18,841 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 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. Liquidity risk (continued)

Group 31 December 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	1,659,116	-	-	-	-	1,659,116
Deposits with other banks	58	-	-	-	7,279	7,337
Loans to financial institutions*	140,541	386,838	1,131,004	2,330,714	4,853,483	8,842,580
Loans to other customers	1,773,535	266,248	1,120,651	2,605,303	9,030,442	14,796,179
Financial assets at fair value through profit or loss	189,098	-	-	-	2,658	191,756
Financial assets at fair value through other comprehensive income	3,088,069	17,669	26	-	-	3,105,764
Property, plant and equipment and intangible assets	-	-	-	-	46,448	46,448
Foreclosed assets	2,044	-	841	18,467	3,870	25,222
Other assets	6,838	2,061	18,939	3,626	676	32,140
Total assets	6,859,299	672,816	2,271,461	4,958,110	13,944,856	28,706,542
Liabilities						
Deposits from customers	787,664	18,526	75,995	57,212	34,996	974,393
Borrowings	198,450	369,081**	1,729,314	5,710,981	8,856,109	16,863,935
Provisions for guarantees, commitments and other liabilities	50,188	3,912	15,745	19,847	18,364	108,056
Other liabilities	181,974	16,904	58,933	77,558	61,024	396,393
Total liabilities	1,218,276	408,423	1,879,987	5,865,598	8,970,493	18,342,777
Liquidity gap	5,641,023	264,393	391,474	(907,488)	4,974,363	10,363,765
Guarantees and commitments						
Guarantees issued in HRK	125,204	-	-	-	-	125,204
Issued guarantees in foreign currency	314,843	-	-	-	-	314,843
Open letters of credit in foreign currency	1,471	-	-	-	-	1,471
Undrawn loans	4,752,535	-	-	-	-	4,752,535
EIF – subscribed, not called up capital	48,236	-	-	-	-	48,236
EIF CROGIP Contracted Liability	-	10,000	38,000	114,382	125,301	287,683
EIF FRC2 Contracted Liability	436	700	3,600	4,650	101	9,487
Total guarantees and commitments	5,242,725	10,700	41,600	119,032	125,402	5,539,459

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

* Receivables of HRK 27,574 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 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. Liquidity risk (continued)

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 30 June 2021 and 31 December 2020 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 2021	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	1,187,598	-	-	-	-	1,187,598
Deposits with other banks	27,763				2,640	30,403
Loans to financial institutions	92,431	296,669	931,225	2,018,695	4,327,553	7,666,573
Loans to other customers*	2,008,438	428,038	1,091,624	2,864,124	9,305,750	15,697,974
Financial assets at fair value through profit	203,444	-	-	-	15,722	219,166
Financial assets at fair value through other	2,982,143	11,488	-	-	-	2,993,631
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	45,561	45,561
Foreclosed assets	-	8,293	-	9,742	5,339	23,374
Other assets	3,960	4,740	4,225	4,585	11,856	29,366
Total assets	6,505,777	749,228	2,027,074	4,897,146	13,750,545	27,929,770
Liabilities						
Deposits from customers	735,130	33,486	45,516	45,266	66,648	926,046
Borrowings	207,007	372,452**	1,785,340	5,503,349	7,991,864	15,860,012
Provisions for guarantees, commitments and other liabilities	60,889	6,668	20,659	31,939	29,273	149,428
Other liabilities	138,280	15,048	46,624	72,083	66,066	338,101
Total liabilities	1,141,306	427,654	1,898,139	5,652,637	8,153,851	17,273,587
Liquidity gap	5,364,471	321,574	128,935	(755,491)	5,596,694	10,656,183
Guarantees and commitments						
Guarantees issued in HRK	136,565	-	-	-	-	136,565
Issued guarantees in foreign currency	360,148	-	-	-	-	360,148
Open letters of credit in foreign currency	-	-	-	-	-	-
Undrawn loans	4,982,552	-	-	-	-	4,982,552
EIF – subscribed, not called up capital	47,944	-	-	-	-	47,944
EIF CROGIP Contracted Liability	11,992	16,819	42,850	86,018	111,782	269,461
EIF FRC2 Contracted Liability	205	454	2,182	3,450	676	6,967
Total guarantees and commitments	5,539,406	17,273	45,032	89,468	112,458	5,803,637

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

* Receivables of HRK 18,841 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 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. Liquidity risk (continued)

Bank 31 December 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	1,653,162	-	-	-	-	1,653,162
Deposits with other banks	58	-	-	-	7,279	7,337
Loans to financial institutions*	140,541	386,838	1,131,004	2,330,714	4,853,483	8,842,580
Loans to other customers	1,773,535	266,248	1,120,651	2,605,303	9,030,442	14,796,179
Financial assets at fair value through profit	189,098	-	-	-	2,658	191,756
Financial assets at fair value through other	3,035,716	17,610	-	-	-	3,053,326
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	45,592	45,592
Foreclosed assets	2,044	-	841	18,467	3,870	25,222
Other assets	5,083	912	18,786	3,625	676	29,082
Total assets	6,799,237	671,608	2,271,282	4,958,109	13,980,124	28,680,360
Liabilities						
Deposits from customers	787,664	18,526	75,995	57,212	34,996	974,393
Borrowings	198,450	369,081**	1,729,314	5,710,981	8,856,109	16,863,935
Provisions for guarantees, commitments and other liabilities	50,188	3,912	15,485	19,847	18,364	107,796
Other liabilities	181,256	13,470	53,316	68,338	63,232	379,612
Total liabilities	1,217,558	404,989	1,874,110	5,856,378	8,972,701	18,325,736
Liquidity gap	5,581,679	266,619	397,172	(898,269)	5,007,423	10,354,624
Guarantees and commitments						
Guarantees issued in HRK	125,204	-	-	-	-	125,204
Issued guarantees in foreign currency	314,843	-	-	-	-	314,843
Open letters of credit in foreign currency	1,471	-	-	-	-	1,471
Undrawn loans	4,752,535	-	-	-	-	4,752,535
EIF – subscribed, not called up capital	48,236	-	-	-	-	48,236
EIF CROGIP Contracted Liability	-	10,000	38,000	114,382	125,301	287,683
EIF FRC2 Contracted Liability	436	700	3,600	4,650	101	9,487
Total guarantees and commitments	5,242,725	10,700	41,600	119,032	125,402	5,539,459

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

* Receivables of HRK 27,574 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 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. 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 2021	month	months	months	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	735,130	33,486	45,516	45,266	66,648	926,046
Borrowings	222,257	390,543	1,914,366	5,745,224	8,445,807	16,718,197
Provisions for guarantees, commitments and other liabilities	60,889	6,668	20,881	31,939	29,273	149,650
Other liabilities	138,927	18,597	53,162	81,912	63,689	356,287
Total	1,157,203	449,294	2,033,925	5,904,341	8,605,417	18,150,180
Guarantees and commitments						
Guarantees issued in HRK	136,565	-	-	-	-	136,565
Issued guarantees in foreign currency	360,148	-	-	-	-	360,148
Open letters of credit in foreign currency	-	-	-	-	-	-
Undrawn loans	4,982,552	-	-	-	-	4,982,552
EIF – subscribed, not called up capital	47,944	-	-	-	-	47,944
EIF CROGIP Contracted Liability	11,992	16,819	42,850	86,018	111,782	269,461
EIF FRC2 Contracted Liability	205	454	2,182	3,450	676	6,967
Total guarantees and commitments	5,539,406	17,273	45,032	89,468	112,458	5,803,637
Group						
31 December 2020	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	787,664	18,526	75,995	57,212	34,996	974,393
Borrowings	215,012	390,277	1,872,218	5,985,297	9,351,468	17,814,272
Provisions for guarantees, commitments and other liabilities	50,188	3,912	15,745	19,847	18,364	108,056
Other liabilities	181,974	16,904	58,933	77,558	61,024	396,393
Total	1,234,838	429,619	2,022,891	6,139,914	9,465,852	19,293,114
Guarantees and commitments						
Guarantees issued in HRK	125,204	-	-	-	-	125,204
Issued guarantees in foreign currency	314,843	-	-	-	-	314,843
Open letters of credit in foreign currency	1,471	-	-	-	-	1,471
Undrawn loans	4,752,535	-	-	-	-	4,752,535
EIF – subscribed, not called up capital	48,236	-	-	-	-	48,236
EIF CROGIP Contracted Liability	-	10,000	38,000	114,382	125,301	287,683
EIF FRC2 Contracted Liability	436	700	3,600	4,650	101	9,487
Total guarantees and commitments	5,242,725	10,700	41,600	119,032	125,402	5,539,459

2

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. 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 30 June 2021	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	735,130	33,486	45,516	45,266	66,648	926,046
Borrowings	222,257	390,543	1,914,366	5,745,224	8,445,807	16,718,197
Provisions for guarantees, commitments and other liabilities	60,889	6,668	20,659	31,939	29,273	149,428
Other liabilities	138,280	15,048	46,624	72,083	66,066	338,101
Total	1,156,556	445,745	2,027,165	5,894,512	8,607,794	18,131,772
Guarantees and commitments						
Guarantees issued in HRK	136,565	-	-	-	-	136,565
Issued guarantees in foreign currency	360,148	-	-	-	-	360,148
Open letters of credit in foreign currency	-	-	-	-	-	-
Undrawn loans	4,982,552	-	-	-	-	4,982,552
EIF – subscribed, not called up capital	47,944	-	-	-	-	47,944
EIF CROGIP Contracted Liability	11,992	16,819	42,850	86,018	111,782	269,461
EIF FRC2 Contracted Liability	205	454	2,182	3,450	676	6,967
Total guarantees and commitments	5,539,406	17,273	45,032	89,468	112,458	5,803,637
Bank 31 December 2020	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	787,664	18,526	75,995	57,212	34,996	974,393
Borrowings	215,012	390,277	1,872,218	5,985,297	9,351,468	17,814,272
Provisions for guarantees, commitments and other liabilities	50,188	3,912	15,485	19,847	18,364	107,796
Other liabilities	181,256	13,470	53,316	68,338	63,232	379,612
Total	1,234,120	426,185	2,017,014	6,130,694	9,468,060	19,276,073
Guarantees and commitments						
Guarantees issued in HRK	125,204	-	-	-	-	125,204
Issued guarantees in foreign currency	314,843	-	-	-	-	314,843
Open letters of credit in foreign currency	1,471	-	-	-	-	1,471
Undrawn loans	4,752,535	-	-	-	-	4,752,535
EIF – subscribed, not called up capital	48,236	-	-	-	-	48,236
EIF CROGIP Contracted Liability	-	10,000	38,000	114,382	125,301	287,683
EIF FRC2 Contracted Liability	436	700	3,600	4,650	101	9,487
Total guarantees and commitments	5,242,725	10,700	41,600	119,032	125,402	5,539,459

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk

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

23.5.1. Interest rate risk

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 30 June 2021 and 31 December 2020 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 2021 and 31 December 2020 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
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
30 June 2021								
Assets								
Cash on hand and current accounts with banks	81,345	-	-	-	-	1,113,245	1,194,590	81,345
Deposits with other banks	27,763	-	-	-	-	2,640	30,403	27,763
Loans to financial institutions	88,351	443,419	902,851	1,961,094	4,267,049	3,809	7,666,573	7,502,760
Loans to other customers	1,948,746	601,805	1,281,615	2,732,088	8,865,703	268,017	15,697,974	14,591,443
Financial assets at fair value through profit or loss	-	-	-	-	15,722	203,444	219,166	15,722
Financial assets at fair value through other comprehensive income	3,006,338	-	-	-	-	38,867	3,045,205	3,006,338
Other assets	-	-	-	-	-	33,615	33,615	-
Total assets	5,152,543	1,045,224	2,184,466	4,693,182	13,148,474	1,663,637	27,887,526	25,225,371
Liabilities								
Deposits from customers	591,808	-	-	-	-	334,238	926,046	591,808
Borrowings	207,007	336,170	1,785,340	5,503,349	7,991,864	36,282	15,860,012	15,823,730
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	149,650	149,650	-
Other liabilities	919	-	-	-	-	355,368	356,287	919
Total liabilities	799,734	336,170	1,785,340	5,503,349	7,991,864	875,538	17,291,995	16,416,457
Interest rate gap	4,352,809	709,054	399,126	(810,167)	5,156,610	788,099	10,595,531	8,808,914

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. 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 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	169,334	-	-	-	-	1,489,782	1,659,116	169,334
Deposits with other banks	-	-	-	-	-	7,337	7,337	-
Loans to financial institutions	135,389	549,052	1,099,713	2,264,789	4,782,876	10,761	8,842,580	8,656,158
Loans to other customers	1,690,359	591,488	1,214,415	2,473,860	8,544,386	281,671	14,796,179	13,626,578
Financial assets at fair value through profit or loss	298	-	-	-	2,658	188,800	191,756	2,956
Financial assets at fair value through other comprehensive income	3,061,002	-	-	-	-	44,762	3,105,764	3,061,002
Other assets	-	-	-	-	-	32,140	32,140	-
Total assets	5,056,382	1,140,540	2,314,128	4,738,649	13,329,920	2,055,253	28,634,872	25,516,028
Liabilities								
Deposits from customers	-	-	-	-	-	974,393	974,393	-
Borrowings	198,450	328,361	1,729,314	5,710,981	8,856,109	40,720	16,863,935	16,823,215
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	108,056	108,056	-
Other liabilities	-	-	-	-	-	396,393	396,393	-
Total liabilities	198,450	328,361	1,729,314	5,710,981	8,856,109	1,519,562	18,342,777	16,823,215
Interest rate gap	4,857,932	812,179	584,814	(972,332)	4,473,811	535,691	10,292,095	8,692,813

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

The following tables demonstrate the sensitivity of the HBOR to the interest rate risk as of 30 June 2021 and 31 December 2020 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 2021 and 31 December 2020 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
30 June 2021	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	74,353	-	-	-	-	1,113,245	1,187,598	74,353
Deposits with other banks	27,763	-	-	-	-	2,640	30,403	27,763
Loans to financial institutions	88,351	443,419	902,851	1,961,094	4,267,049	3,809	7,666,573	7,502,760
Loans to other customers	1,948,746	601,805	1,281,615	2,732,088	8,865,703	268,017	15,697,974	14,591,443
Financial assets at fair value through profit or loss	-	-	-	-	15,722	203,444	219,166	15,722
Financial assets at fair value through other comprehensive income	2,955,205	-	-	-	-	38,426	2,993,631	2,955,205
Other assets	-	-	-	-	-	29,366	29,366	-
Total assets	5,094,418	1,045,224	2,184,466	4,693,182	13,148,474	1,658,947	27,824,711	25,167,246
Liabilities								
Deposits from customers	591,808	-	-	-	-	334,238	926,046	591,808
Borrowings	207,007	336,170	1,785,340	5,503,349	7,991,864	36,282	15,860,012	15,823,730
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	149,428	149,428	-
Other liabilities	919	-	-	-	-	337,182	338,101	919
Total liabilities	799,734	336,170	1,785,340	5,503,349	7,991,864	857,130	17,273,587	16,416,457
Interest rate gap	4,294,684	709,054	399,126	(810,167)	5,156,610	801,817	10,551,124	8,750,789

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. 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 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	163,379	-	-	-	-	1,489,783	1,653,162	163,379
Deposits with other banks	-	-	-	-	-	7,337	7,337	-
Loans to financial institutions	135,389	549,052	1,099,713	2,264,789	4,782,876	10,761	8,842,580	8,656,158
Loans to other customers	1,690,359	591,488	1,214,415	2,473,860	8,544,386	281,671	14,796,179	13,626,578
Financial assets at fair value through profit or loss	298	-	-	-	2,658	188,800	191,756	2,956
Financial assets at fair value through other comprehensive income	3,009,009	-	-	-	-	44,317	3,053,326	3,009,009
Other assets	-	-	-	-	-	29,082	29,082	-
Total assets	4,998,434	1,140,540	2,314,128	4,738,649	13,329,920	2,051,751	28,573,422	25,458,080
Liabilities								
Deposits from customers	-	-	-	-	-	974,393	974,393	-
Borrowings	198,450	328,361	1,729,314	5,710,981	8,856,109	40,720	16,863,935	16,823,215
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	107,796	107,796	-
Other liabilities	-	-	-	-	-	379,612	379,612	-
Total liabilities	198,450	328,361	1,729,314	5,710,981	8,856,109	1,502,521	18,325,736	16,823,215
Interest rate gap	4,799,984	812,179	584,814	(972,332)	4,473,811	549,230	10,247,686	8,634,865

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. 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
	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Fixed interest rate assets	25,225,371	25,516,028	25,167,246	25,458,080
Variable interest rate assets	998,518	1,063,591	998,518	1,063,591
Non-interest bearing	1,663,637	2,055,253	1,658,947	2,051,751
Total	27,887,526	28,634,872	27,824,711	28,573,422
Liabilities				
Fixed interest rate liabilities	16,416,457	16,823,215	16,416,457	16,823,215
Variable interest rate liabilities	-	-	-	-
Non-interest bearing	875,538	1,519,562	857,130	1,502,521
Total liabilities	17,291,995	18,342,777	17,273,587	18,325,736

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. 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, 2021	Effect on profit Juna 30, 2021	Increase in b. p. Dec 31, 2020	Effect on profit Dec 31, 2020
		HRK '000		HRK '000
EUR	+7	-	+31	-
USD	+8	138	+16	343

Currency	Decrease in b. p. Jun 30, 2021	Effect on profit Juna 30, 2021	Decrease in b. p. Dec 31, 2020	Effect on profit Dec 31, 2020
		HRK '000		HRK '000
EUR	-7	- ¹	-31	-
USD	-8	(138)	-16	(343)

¹ There is no impact due to the application of zero floor

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk

Total assets and total liabilities as of 30 June 2021 and 31 December 2020 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
30 June 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	6,769	67,550	140	74,459	1,120,131	1,194,590
Deposits with other banks	-	30,403	-	30,403	-	30,403
Loans to financial institutions	-	3,833,031	-	3,833,031	3,833,542	7,666,573
Loans to other customers	237,553	9,888,674	-	10,126,227	5,571,747	15,697,974
Financial assets at fair value through profit or loss	15,191	79,885	-	95,076	124,090	219,166
Financial assets at fair value through other comprehensive income	-	773,713	-	773,713	2,271,492	3,045,205
Property, plant and equipment and intangible assets	-	-	-	-	46,315	46,315
Foreclosed assets	-	-	-	-	23,374	23,374
Other assets	-	1,878	-	1,878	31,737	33,615
Total assets	259,513	14,675,134	140	14,934,787	13,022,428*	27,957,215
Liabilities						
Deposits from customers	15,374	650,946	45	666,365	259,681	926,046
Borrowings	189,650	14,169,800	-	14,359,450	1,500,562	15,860,012
Provisions for guarantees, commitments and other liabilities	22,152	44,856	1,083	68,091	81,559	149,650
Other liabilities	477	15,096	59	15,632	340,655	356,287
Total liabilities	227,653	14,880,698	1,187	15,109,538	2,182,457	17,291,995
Currency gap	31,860	(205,564)	(1,047)	(174,751)	10,839,971	10,665,220

*Amounts linked to a one-way currency clause represent HRK 38,312 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk (continued)

Total assets and total liabilities as of 30 June 2021 and 31 December 2020 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 2020						
Assets						
Cash on hand and current accounts with banks	6,871	158,046	134	165,051	1,494,065	1,659,116
Deposits with other banks	-	7,337	-	7,337	-	7,337
Loans to financial institutions	-	4,404,829	-	4,404,829	4,437,751	8,842,580
Loans to other customers	265,977	9,878,211	-	10,144,188	4,651,991	14,796,179
Financial assets at fair value through profit or loss	-	61,949	-	61,949	129,807	191,756
Financial assets at fair value through other comprehensive income	-	1,170,687	-	1,170,687	1,935,077	3,105,764
Property, plant and equipment and intangible assets	-	-	-	-	46,448	46,448
Foreclosed assets	-	-	-	-	25,222	25,222
Other assets	-	1,255	-	1,255	30,885	32,140
Total assets	272,848	15,682,314	134	15,955,296	12,751,246*	28,706,542
Liabilities						
Deposits from customers	16,456	652,083	44	668,583	305,810	974,393
Borrowings	194,605	15,168,730	-	15,363,335	1,500,600	16,863,935
Provisions for guarantees, commitments and other liabilities	9,720	6,191	1,062	16,973	91,083	108,056
Other liabilities	183	25,136	58	25,377	371,016	396,393
Total liabilities	220,964	15,852,140	1,164	16,074,268	2,268,509	18,342,777
Currency gap	51,884	(169,826)	(1,030)	(118,972)	10,482,737	10,363,765

*Amounts linked to a one-way currency clause represent HRK 38,816 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk (continued)

Total assets and total liabilities as of 30 June 2021 and 31 December 2020 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 2021						
Assets						
Cash on hand and current accounts with banks	6,769	67,444	140	74,353	1,113,245	1,187,598
Deposits with other banks	-	30,403	-	30,403	-	30,403
Loans to financial institutions	-	3,833,031	-	3,833,031	3,833,542	7,666,573
Loans to other customers	237,553	9,888,674	-	10,126,227	5,571,747	15,697,974
Financial assets at fair value through profit or loss	15,191	79,885	-	95,076	124,090	219,166
Financial assets at fair value through other comprehensive income	-	751,932	-	751,932	2,241,699	2,993,631
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	45,561	45,561
Foreclosed assets	-	-	-	-	23,374	23,374
Other assets	-	-	-	-	29,366	29,366
Total assets	259,513	14,651,369	140	14,911,022	13,018,748*	27,929,770
Liabilities						
Deposits from customers	15,374	650,946	45	666,365	259,681	926,046
Borrowings	189,650	14,169,800	-	14,359,450	1,500,562	15,860,012
Provisions for guarantees, commitments and other liabilities	22,152	44,856	1,083	68,091	81,337	149,428
Other liabilities	344	5,014	-	5,358	332,743	338,101
Total liabilities	227,520	14,870,616	1,128	15,099,264	2,174,323	17,273,587
Currency gap	31,993	(219,247)	(988)	(188,242)	10,844,425	10,656,183

* Amounts linked to a one-way currency clause represent HRK 38,312 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk (continued)

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31 December 2020						
Assets						
Cash on hand and current accounts with banks	6,871	156,374	134	163,379	1,489,783	1,653,162
Deposits with other banks	-	7,337	-	7,337	-	7,337
Loans to financial institutions	-	4,404,829	-	4,404,829	4,437,751	8,842,580
Loans to other customers	265,977	9,878,211	-	10,144,188	4,651,991	14,796,179
Financial assets at fair value through profit or loss	-	61,949	-	61,949	129,807	191,756
Financial assets at fair value through other comprehensive income	-	1,148,204	-	1,148,204	1,905,122	3,053,326
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	45,592	45,592
Foreclosed assets	-	-	-	-	25,222	25,222
Other assets	-	112	-	112	28,970	29,082
Total assets	272,848	15,657,016	134	15,929,998	12,750,362*	28,680,360
Liabilities						
Deposits from customers	16,456	652,083	44	668,583	305,810	974,393
Borrowings	194,605	15,168,730	-	15,363,335	1,500,600	16,863,935
Provisions for guarantees, commitments and other liabilities	9,720	6,191	1,062	16,973	90,823	107,796
Other liabilities	26	16,059	-	16,085	363,527	379,612
Total liabilities	220,807	15,843,063	1,106	16,064,976	2,260,760	18,325,736
Currency gap	52,041	(186,047)	(972)	(134,978)	10,489,602	10,354,624

* Amounts linked to a one-way currency clause represent HRK 38,816 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. 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 2021.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.48% in the previous 12 months (2020:1.72%).

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, 2021 %	Effect on profit Jun 30, 2021 HRK' 000	Change in currency rate Dec 31, 2020 %	Effect on profit Dec 31, 2020 HRK' 000
EUR	+1.48	32	+1.72	(706)
EUR	-1.48	3	-1.72	738

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

24. Fair value of financial assets and financial liabilities

24.1. Fair value of financial assets and financial liabilities initially recognised and measured at fair value

Below is a breakdown of the financial assets at fair value based on IFRS 9 classification on 30 June 2021 and 31 December 2020.

Group	30 June 2021		
	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	-	-	15,722
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	203,096	-	-
Equity instruments:			
Unlisted equity instruments:			
Investments in corporate shares	-	-	31
Depository receipt - DR	-	-	317
Total financial assets at fair value through profit or loss	203,096	-	16,070
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,552,252	-	-
Corporate bonds	2,374	-	-
Treasury bills of the Ministry of Finance	1,449,781	-	-
Accrued interest	12,200	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	539
Convertible bonds - CB	-	-	1,392
Accrued interest	-	-	271
Total debt instruments	3,016,607	-	2,202
Unlisted equity instruments:			
Investment in shares of foreign legal entities	-	44	-
Shares of foreign financial institutions – EIF	-	26,352	-
Total equity instruments	-	26,396	-
Total financial assets at fair value through other comprehensive income	3,016,607	26,396	2,202
Derivative financial liabilities- negative fair value			
FX swap	-	919	-
Total liabilities	-	919	-

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.

OTC FX swap is not quoted in an active market, and the price is calculated according to the generally accepted model by using the current market parameters derived from the spot currency exchange rate and the difference in interest rates of the agreed maturity for the foreign currency that is the subject matter of the contract.

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 2021 (continued)

(All amounts are expressed in HRK thousand)

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

24.1. Fair value of financial assets and financial liabilities initially recognised and measured at fair value (continued)

Group	31 December 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	-	-	2,658
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	188,289	-	-
Equity instruments:			
Listed equity instruments:			
Investments in corporate shares	-	-	-
Unlisted equity instruments:			
Investments in corporate shares	-	-	31
Depository receipt - DR	-	-	319
Investment in financial institutions shares	-	161	-
Derivative financial assets-positive fair value			
FX swap	-	298	-
Total financial assets at fair value through profit or loss	188,289	459	3,008
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,519,381	-	-
Corporate bonds	2,355	-	-
Treasury bills of the Ministry of Finance	1,537,395	-	-
Accrued interest	17,663	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	564
Convertible bonds - CB	-	-	1,307
Accrued interest	-	-	391
Total debt instruments	3,076,794	-	2,262
Unlisted equity instruments:			
Investment in shares of foreign legal entities	-	43	-
Shares of foreign financial institutions – EIF	-	26,665	-
Total equity instruments	-	26,708	-
Total financial assets at fair value through other comprehensive income	3,076,794	26,708	2,262

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Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

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

24.1. Fair value of financial assets and financial liabilities initially recognised and measured at fair value (continued)

Bank	30 June 2021		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	15,722
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	203,096	-	-
Equity instruments:			
<i>Unlisted equity instruments:</i>			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	-	317
Total financial assets at fair value through profit or loss	203,096		16,070
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,503,493	-	-
Treasury bills of the Ministry of Finance	1,449,781	-	-
Accrued interest	11,759	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	539
Convertible bonds - CB	-	-	1,392
Accrued interest	-	-	271
Total debt instruments	2,965,033		2,202
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	44	-
Shares of foreign financial institutions – EIF	-	26,352	-
Total equity instruments		26,396	
Total financial assets at fair value through other comprehensive income	2,965,033	26,396	2,202
Derivative financial liabilities- negative fair value			
FX swap	-	919	-
Total liabilities		919	

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

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

24.1. Fair value of financial assets and financial liabilities initially recognised and measured at fair value (continued)

Bank	31 December 2020		
	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	-	-	2,658
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	188,289	-	-
Equity instruments:			
<i>Listed equity instruments:</i>			
Investments in companies' shares	-	-	-
<i>Unlisted equity instruments:</i>			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	-	319
Investment in financial institutions shares	-	161	-
<i>Derivative financial assets-positive fair value</i>			
FX swap	-	298	-
Total financial assets at fair value through profit or loss	188,289	459	3,008
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,469,742	-	-
Treasury bills of the Ministry of Finance	1,537,395	-	-
Accrued interest	17,219	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	564
Convertible bonds - CB	-	-	1,307
Accrued interest	-	-	391
Total debt instruments	3,024,356	-	2,262
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	43	-
Shares of foreign financial institutions – EIF	-	26,665	-
Total equity instruments	-	26,708	-
Total financial assets at fair value through other comprehensive income	3,024,356	26,708	2,262

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

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

24.1. Fair value of financial assets and financial liabilities initially recognised 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 2021, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to HRK 2.747 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 1,227 thousand, which represents the fair value of the mezzanine loan on 30 June 2021.

In the reporting period, based on the Decision in the pre-bankruptcy proceedings, HBOR took over 50% of the debtor's claims as senior debt and 50% of claims as mezzanine debt. Mezzanine debt is stated in the amount of HRK 15,191 thousand.

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
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

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

24.1. Fair value of financial assets and financial liabilities initially recognised 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 2021, 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 2021, 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 12.52%, the bond price would be 36.21%, which would result in an increase in HBOR's generated profits of HRK 11.70 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 16.52%, the bond price would be 34.70%, which would result in a decrease in HBOR's generated profits of HRK 11.17 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 2021. "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 53.91 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

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

24.1. Fair value of financial assets and financial liabilities initially recognised 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, 2021 HRK '000	Jun 30, 2020 HRK '000
Balance as at 1 January	2,658	2,234
Increase/(decrease) in fair value through profit or loss	(2,128)	(170)
Other	15,192	-
Balance as of 30 June	15,722	2,064

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

Group and Bank	Jun 30, 2021 HRK '000	Jun 30, 2020 HRK '000
Balance as at 1 January	2,262	3,097
Decrease in fair value through other comprehensive income	(1)	58
Net foreign exchange	(33)	81
Accrued interest	(26)	(5)
Balance as of 30 June	2,202	3,231

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2021 (continued)

(All amounts are expressed in HRK thousand)

25. 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 2021 (continued)

(All amounts are expressed in HRK thousand)

25. Reporting by segments

Jan 1 – Jun 30, 2021	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
Net interest income	240,170	627	-	-	240,797
Net fee income	9,477	639	951	-	11,067
Net income/(expenses) from financial operations	(4,160)	(125)	-	-	(4,285)
Net premiums earned	-	3,611	-	-	3,611
Other income	17,064	9	131	(135)	17,069
Income from operating activities	262,551	4,761	1,082	(135)	268,259
Operating costs	(86,760)	(2,945)	(911)	135	(90,481)
Impairment loss and provisions	136,625	(63)	48	-	136,610
Expenses for insured cases	-	(660)	-	-	(660)
Net change in provisions	-	(659)	-	-	(659)
Other expenses	-	(192)	-	-	(192)
Operating expenses	49,865	(4,519)	(863)	135	44,618
Profit before income tax	312,416	242	219	-	312,877
Income tax	-	-	-	-	-
Profit for the year	312,416	242	219	-	312,877
30 June 2021					
Assets of segment	27,929,770	62,551	1,546	(36,652)	27,957,215
Total assets	27,929,770	62,551	1,546	(36,652)	27,957,215
Liabilities of segment	17,273,587	18,325	109	(26)	17,291,995
Total equity	10,656,183	6,702	1,161	1,174	10,665,220
Total liabilities and total equity	27,929,770	25,027	1,270	1,148	27,957,215

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 2021 (continued)

(All amounts are expressed in HRK thousand)

25. Reporting by segments (continued)

	Banking activities	Insurance activities	Other activities	Unallocated	Total
Jan 1 – Jun 30, 2020	HRK '000	HRK '000	HRK '000	HRK '000	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 year	15,989	1,280	154	-	17,423
31 December 2020					
Assets of segment	28,680,360	61,390	1,441	(36,649)	28,706,542
Total assets	28,680,360	61,390	1,441	(36,649)	28,706,542
Liabilities of segment	18,325,736	16,903	162	(24)	18,342,777
Total equity	10,354,624	6,968	999	1,174	10,363,765
Total liabilities and total equity	28,680,360	23,871	1,161	1,150	28,706,542

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 2021 (continued)

(All amounts are expressed in HRK thousand)

26. 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 2021 and 31 December 2020.

	30 June 2020 HRK '000	Group 31 December 2020 HRK '000	30 June 2020 HRK '000	Bank 31 December 2020 HRK '000
Total regulatory capital	10,380,348	10,076,599	10,380,151	10,074,668
Credit risk weighted exposure amount	15,676,219	15,868,462	15,669,157	15,862,444
Credit requirements for operating risk	787,800	787,800	767,635	767,635
Capital requirements for currency risk	83,654	-	61,667	-
Total capital requirements	16,547,673	16,656,262	16,498,459	16,630,079
Capital adequacy ratio	62.73	60.50	62.92	60.58
	%	%	%	%
	HRK '000	HRK '000	HRK '000	HRK '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	1,985,721	1,998,751	1,979,815	1,995,609

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, 2021 HRK '000	Jun 30, 2020 HRK '000
Premium earned		
Gross premium written	7,793	6,021
Premium impairment allowance originated and reserved on collection	(32)	(31)
Gross outward reinsurance premium	(3,530)	(2,660)
Net premium written	4,231	3,330
Changes in the gross unearned premium reserve	(1,122)	176
Changes in the gross unearned premium reserve, reinsurer's share	502	(26)
Net premium earned	3,611	3,480
Fee and commission income	1,590	1,440
Net investment income	496	487
Other operating income	5	10
Net income	5,702	5,417
Gross expense for returned premiums	(383)	(267)
Reinsurer's share	191	131
Gross reserve for returned premiums	(191)	(81)
Reinsurer's share	(4)	40
Net expense and reserve for returned premiums	(387)	(177)
Claims incurred	(1,482)	(198)
Claims incurred, reinsurer's share	821	15
Change in the claims provision	(773)	(243)
Change in the claims provision, reinsurer's share	310	215
Net claims incurred	(1,124)	(211)
Marketing and provision expenses	(121)	(260)
Administrative expenses	(3,592)	(3,154)
Other operating expenses	(22)	(15)
Net exchange differences other than those on financial instruments	5	63
Profit before income tax	461	1,663
Income tax	-	(229)
Profit for the year	461	1,434
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	438	1,069
Decrease in the fair value of financial assets available for sale	(1,104)	(1,834)
Transfer of realised gains on asset available for sale to profit or loss	-	(253)
Deferred tax	102	183
Total items that may be reclassified subsequently to profit or loss:	(564)	(835)
Other comprehensive income after income tax	(564)	(835)
Total comprehensive income after income tax	(103)	599
Attributable to:		
Equity holder of the parent	(103)	599

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, 2021 HRK '000	Dec 31, 2020 HRK '000
Assets		
Non-current assets		
Property and equipment	490	594
Intangible assets	264	262
Held to maturity investments	-	-
Deferred tax	199	-
Total non-current assets	953	856
Current assets		
Investments available for sale	51,574	52,437
Investments at fair value through profit or loss	-	-
Receivables from insurance operations	3,515	2,497
Other receivables	536	562
Cash and cash equivalents	6,992	5,955
Total current assets	62,617	61,451
Total assets	63,570	62,307
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Retained earnings and reserves	3,941	1,749
Other reserves	3,261	3,825
Profit for the year	461	2,192
Total equity	45,163	45,266
Technical provisions		
Gross technical provisions	21,344	19,258
Technical provisions, reinsurer's share	(9,640)	(8,832)
	11,704	10,426
Current liabilities		
Liabilities from insurance operations	3,623	3,380
Other liabilities	3,080	3,235
Total liabilities	6,703	6,615
Total equity and liabilities	63,570	62,307

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, 2021 HRK '000	Jun 30, 2020 HRK '000
Operating activities		
Profit before income tax	461	1,663
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	158	191
Impairment gain/loss and provisions	47	(28)
Income tax	-	-
Accrued interest	3	69
Write-offs of tangible and intangible assets and other adjustments	(3)	-
<i>Operating profit before working capital changes</i>	<i>666</i>	<i>1,895</i>
Changes in operating assets and liabilities:		
Net realised (gain)/loss on assets available for sale	-	279
Decrease of discount in assets available for sale and assets held to maturity	45	64
Net gain on financial assets at fair value through profit or loss	-	70
Premium receivables	(1,050)	274
Net decrease/(increase) in other assets	(52)	129
Net decrease of assets and liabilities from insurance operations	243	(312)
Net increase in technical provisions	1,279	(81)
Net increase in other liabilities	(190)	(173)
Net cash provided/(used in) operating activities	941	2,145
Investment activities		
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
Collection of assets held to maturity when due	-	448
Net purchase of property, plant and equipment and intangible assets	(27)	(224)
Net cash (used in)/provided investment activities	(27)	10,273
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	125	(337)
Net effect	125	(337)
Other adjustments	-	(125)
Net increase in cash and cash equivalents	1,039	11,956
Balance as of 1 January	5,964	2,924
Net increase in cash	1,039	12,081
Balance as of 30 June	7,003	14,880

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 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
Balance as of 1 January 2021	37,500	1,749	3,825	2,192	45,266	45,266
Profit for the period	-	-	-	461	461	461
Other comprehensive income	-	-	(564)	-	(564)	(564)
Total comprehensive income	-	-	(564)	461	(103)	(103)
Transfer of profit 2020 to retained earnings	-	2,192	-	(2,192)	-	-
Balance as of 30 June 2021	37,500	3,941	3,261	461	45,163	45,163