**CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**Unaudited Consolidated Interim Condensed Financial Statements for the Period 1 January – 30 September 2017**

Zagreb, November 2017

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We confirm that, to the best of our knowledge, the Consolidated Interim Condensed Financial Statements of the Croatian Bank for Reconstruction and Development Group set out on pages 9 to 94 have been prepared in accordance with International Accounting Standard 34: “Interim Financial Reporting” applicable for the preparation of interim financial statements, and give a true and fair view of assets, liabilities, financial position, financial performance and cash flows for the reporting period.

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

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

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

|  |
| --- |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Vedran Jakšić, MSc |
|  |
| **Senior Executive Director** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Tamara Perko, MSc |  |  |  | Hrvoje Čuvalo, MSc |
|  |  |  |  |  |
| **President of the Management Board** |  |  |  | **Member of the Management Board** |

Zagreb, November 2017

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **2017** | | **2016** | |
|  | **Notes** | Current period  July 1 – September 30 | Cumulatively  January 1 – September 30 | Current period  July 1 – September 30 | Cumulatively  January 1 – September 30 |
|  |  |  |  |  |  |
| Interest income | 4 | 209,356 | 661,197 | 215,899 | 644,925 |
| Interest expense | 5 | (86,308) | (301,461) | (112,639) | (340,875) |
|  |  |  |  |  |  |
| **Net interest income** |  | **123,048** | **359,736** | **103,260** | **304,050** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| Fee income |  | 16,770 | 33,114 | 7,235 | 22,361 |
| Fee expense |  | (914) | (2,591) | (401) | (1,820) |
|  |  |  |  |  |  |
| **Net fee income** |  | **15,856** | **30,523** | **6,834** | **20,541** |
|  |  |  |  |  |  |
| Net losses on financial operations |  | (11,175) | (18,988) | (246) | (11,037) |
| Other income |  | 2,985 | 11,347 | 3,454 | 10,283 |
|  |  | **130,714** | **382,618** | **113,302** | **323,837** |
|  |  |  |  |  |  |
| Operating expenses | 6 | (36,150) | (114,179) | (37,353) | (119,252) |
| Impairment loss and provisions | 7 | (48,773) | (91,898) | (23,849) | (44,807) |
|  |  |  |  |  |  |
| **Profit before income tax** |  | **45,791** | **176,541** | **52,100** | **159,778** |
|  |  |  |  |  |  |
| Income tax |  | - | - | - | - |
| **Profit for the period** |  | **45,791** | **176,541** | **52,100** | **159,778** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| **Attributable to:** |  |  |  |  |  |
| **Equity holders of the parent** |  | **45,791** | **176,541** | **52,100** | **159,778** |
|  |  |  |  | 211,727 | 432,727 |

The accompanying selected notes are an integral part of this Statement of Profit or Loss.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2017** | | **2016** | |
|  | Current period  July 1 – September 30 | Cumulatively  January 1 – September 30 | Current period  July 1 – September 30 | Cumulatively  January 1 – September 30 |
|  |  |  |  |  |
| **Profit for the period** | **45,791** | **176,541** | **52,100** | **159,778** |
|  |  |  |  |  |
| **Other comprehensive income** |  |  |  |  |
|  |  |  |  |  |
| **Items that may be reclassified subsequently to profit or loss:** |  |  |  |  |
| Increase in fair value of assets available for sale | 20,624 | 42,387 | 40,070 | 72,153 |
| Decrease in fair value of assets available for sale | (3,168) | (23,324) | (21,520) | (38,583) |
| Net foreign exchange on available for sale equity instruments | 307 | (210) | (18) | (405) |
| Transfer of realized gains on assets available for sale to statement of profit or loss | (514) | (8,630) | (1,825) | (2,079) |
| Transfer of realized losses on assets available for sale to statement of profit or loss | 76 | 6,581 | 16 | 16 |
| Deferred tax – other comprehensive income | (115) | (140) | (155) | (262) |
| **Total items that may be reclassified subsequently to profit or loss** | **17,210** | **16,664** | **16,568** | **30,840** |
|  |  |  |  |  |
| **Other comprehensive income after income tax** | **17,210** | **16,664** | **16,568** | **30,840** |
|  |  |  |  |  |
| **Total comprehensive income after income tax** | **63,001** | **193,205** | **68,668** | **190,618** |
|  |  |  |  |  |
|  |  |  |  |  |
| **Attributable to:** |  |  |  |  |
| **Equity holders of the parent** | **63,001** | **193,205** | **68,668** | **190,618** |

The accompanying selected notes are an integral part of this Statement of Profit or Loss and Other Comprehensive Income.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Notes** | **Sep 30, 2017** |  | **Dec 31, 2016** |
|  |  |  |  |  |
| **Assets** |  |  |  |  |
| Cash on hand and due from banks | 8 | 739,917 |  | 491,246 |
| Deposits with other banks |  | 76 |  | 23,872 |
| Loans to financial institutions | 9 | 12,247,287 |  | 11,889,111 |
| Loans to other customers | 10 | 11,913,212 |  | 11,511,194 |
| Financial assets at fair value through profit or loss |  | 288 |  | 286 |
| Assets available for sale | 11 | 3,314,045 |  | 3,390,034 |
| Assets held to maturity |  | 1,404 |  | 1,422 |
| Investments in associates |  | - |  | - |
| Property, plant and equipment and intangible assets |  | 54,076 |  | 57,305 |
| Non-current assets held for sale |  | 17,045 |  | 17,230 |
| Other assets |  | 13,374 |  | 9,122 |
|  |  |  |  |  |
| **Total assets** |  | **28,300,724** |  | **27,390,822** |
|  |  |  |  |  |
| **Liabilities** |  |  |  |  |
| Deposits |  | 940,784 |  | 142,844 |
| Borrowings | 12 | 15,335,834 |  | 13,391,749 |
| Bonds payable | 13 | 1,141,222 |  | 3,105,569 |
| Other liabilities |  | 622,070 |  | 707,952 |
|  |  |  |  |  |
| **Total liabilities** |  | **18,039,910** |  | **17,348,114** |
|  |  |  |  |  |
| **Equity** |  |  |  |  |
| Founder’s capital |  | 6,984,632 |  | 6,959,632 |
| Retained earnings and reserves |  | 2,996,968 |  | 2,682,127 |
| Other reserves |  | 90,397 |  | 73,733 |
| Profit for the period |  | 176,541 |  | 314,841 |
|  |  |  |  |  |
| **Total equity attributable to equity holders of the parent** |  | **10,248,538** |  | **10,030,333** |
|  |  |  |  |  |
|  |  |  |  |  |
| Guarantee fund |  | 12,276 |  | 12,375 |
|  |  |  |  |  |
| **Total equity** |  | **10,260,814** |  | **10,042,708** |
|  |  |  |  |  |
| **Total liabilities and total equity** |  | **28,300,724** |  | **27,390,822** |
|  |  | **\_\_\_\_\_\_\_\_\_\_\_\_** |  | **\_\_\_\_\_\_\_\_\_\_\_\_** |

The accompanying selected notes are an integral part of this Statement of Financial Position.

|  |  |  |
| --- | --- | --- |
| **Note** | **2017** | **2016** |
| **Operating activities** |  |  |
| Profit before income tax | 176,541 | 159,778 |
| *Adjustments to reconcile to net cash from and used in operating activities:* |  |  |
| Depreciation | 5,742 | 5,722 |
| Income tax | 140 | 262 |
| Impairment loss and provisions | 91,898 | 44,807 |
| Accrued interest | (59,064) | (54,715) |
| Deferred fees | (9,560) | 4,145 |
| *Operating profit before working capital changes* | *205,697* | *159,999* |
| *Changes in operating assets and liabilities:* |  |  |
| Net decrease in deposits with other banks, before provision for impairment | 24,119 | 208,142 |
| Net (increase)/decrease in loans to financial institutions, before provision for impairment | (260,326) | 744,463 |
| Net (increase) in loans to other customers, before provision for impairment | (588,756) | (1,422,785) |
| Net (gain) on financial assets at fair value through profit or loss | (4) | (128) |
| Net realised (gain)/losses on assets available for sale | (2,049) | (2,063) |
| Decrease/(increase) of discount in assets available for sale, assets held to maturity and bonds payable | 1,678 | (1,726) |
| Net (decrease)/increase in non-current assets held for sale | 212 | (15) |
| Net (increase) in other assets, before provision for impairment | (4,476) | (154) |
| Net increase/(decrease) in deposits from banks and companies | 797,940 | (44,040) |
| Net (decrease) in other liabilities, before provisions | (74,455) | (100,106) |
|  |  |  |
| **Net cash** **provided/(used in) by operating activities** | **99,580** | **(458,413)** |
|  |  |  |
| **Investment activities** |  |  |
| (Purchase) of financial assets at fair value through profit or loss | - | (7,640) |
| Sale of financial assets at fair value through profit or loss | - | 5,813 |
| Net (purchase) of assets available for sale | (1,239,643) | (2,027,244) |
| Sale of assets available for sale | 1,320,401 | 1,381,318 |
| Net (purchase) of property, plant and equipment and intangible assets | (2,464) | (851) |
|  |  |  |
| **Net cash provided by/(used in) investment activities** | **78,294** | **(648,604)** |
|  |  |  |
| **Financing activities** |  |  |
| Increase in founder’s capital | 25,000 | - |
| Increase in borrowings – withdrawn funds | 3,255,181 | 2,383,300 |
| (Decrease) in borrowings – repayments of principal | (1,195,372) | (699,445) |
| (Decrease) in bonds payable – repayment | (1,852,051) | (224,487) |
|  |  |  |
| **Net cash provided by financing activities** | **232,758** | **1,459,368** |
|  |  |  |
| **Effect of foreign currency to cash and cash equivalents** |  |  |
| Net foreign exchange | (161,404) | (211,901) |
|  |  |  |
| **Net effect** | **(161,404)** | **(211,901)** |
|  |  |  |
| Net increase in cash and cash equivalents | 249,228 | 140,450 |
|  |  |  |
| Balance as of 1 January, before provisions | 494,325 | 486,743 |
| Net increase in cash | 249,228 | 140,450 |
| **Balance as of 30 September, before provisions 8** | **743,553** | **627,193** |
|  |  |  |
| **Additional note - Operational cash flows** |  |  |
| Interest paid | 354,581 | 393,557 |
| Interest received | 532,638 | 539,897 |

The accompanying selected notes are an integral part of this Statement of Cash Flows.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Founder’s capital** | **Retained earnings and reserves** | **Other reserves** | **Net profit for the period** | **Total**  **equity** |
|  |  |  |  |  |  |
| **Balance as of 1 January 2016** | **6,926,632** | **2,475,862** | **43,283** | **206,265** | **9,652,042** |
|  | \_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_ |
|  |  |  |  |  |  |
| Profit for the period | - | - | - | 159,778 | **159,778** |
| Other comprehensive income | - | - | 30,840 | - | **30,840** |
|  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
| Total comprehensive income | - | - | 30,840 | 159,778 | **190,618** |
|  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
| Capital paid-in from the State Budget | - | - | - | - | **-** |
| Transfer of profit 2015 to retained earnings | - | 206,265 | - | (206,265) | **-** |
|  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
| **Balance as of 30 September 2016** | **6,926,632** | **2,682,127** | **74,123** | **159,778** | **9,842,660** |
|  | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** |
| **Balance as of 1 January 2017** | **6,959,632** | **2,682,127** | **73,733** | **314,841** | **10,030,333** |
|  | \_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_ |
|  |  |  |  |  |  |
| Profit for the period | - | - | - | 176,541 | **176,541** |
| Other comprehensive income | - | - | 16,664 | - | **16,664** |
|  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
| Total comprehensive income | - | - | 16,664 | 176,541 | **193,205** |
|  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
| Capital paid-in from the State Budget | 25,000 | - | - | - | **25,000** |
| Transfer of profit 2016 to retained earnings | - | 314,841 | - | (314,841) | **-** |
|  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
| **Balance as of 30 September 2017** | **6,984,632** | **2,996,968** | **90,397** | **176,541** | **10,248,538** |
|  | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** |

The accompanying selected notes are an integral part of this Statement of Changes in Equity.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **2017** | | **2016** | |
|  | **Notes** | Current period  July 1 – September 30 | Cumulatively  January 1 – September 30 | Current period  July 1 – September 30 | Cumulatively  January 1 – September 30 |
|  |  |  |  |  |  |
| Interest income | 4 | 208,951 | 659,963 | 215,494 | 643,683 |
| Interest expense | 5 | (86,308) | (301,461) | (112,639) | (340,875) |
|  |  |  |  |  |  |
| **Net interest income** |  | **122,643** | **358,502** | **102,855** | **302,808** |
|  |  |  |  |  |  |
| Fee income |  | 16,305 | 31,365 | 6,658 | 20,678 |
| Fee expense |  | (914) | (2,591) | (402) | (1,821) |
|  |  |  |  |  |  |
| **Net fee income** |  | **15,391** | **28,774** | **6,256** | **18,857** |
|  |  |  |  |  |  |
| Net losses on financial operations |  | (11,304) | (18,878) | (312) | (11,128) |
| Other income |  | 1,308 | 6,278 | 1,728 | 5,275 |
|  |  | **128,038** | **374,676** | **110,527** | **315,812** |
|  |  |  |  |  |  |
| Operating expenses | 6 | (33,164) | (107,296) | (34,961) | (112,011) |
| Impairment loss and provisions | 7 | (48,719) | (91,869) | (23,880) | (44,880) |
|  |  |  |  |  |  |
| **Profit before income tax** |  | **46,155** | **175,511** | **51,686** | **158,921** |
|  |  |  |  |  |  |
| Income tax |  | - | - | - | - |
| **Profit for the period** |  | **46,155** | **175,511** | **51,686** | **158,921** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| **Attributable to:** |  |  |  |  |  |
| **Equity holders of the parent** |  | **46,155** | **175,511** | **51,686** | **158,921** |
|  |  | **\_\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_\_** |  |  |

The accompanying selected notes are an integral part of this Statement of Profit or Loss.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2017** | | **2016** | |
|  | Current period  July 1 – September 30 | Cumulatively  January 1 – September 30 | Current period  July 1 – September 30 | Cumulatively  January 1 – September 30 |
|  |  |  |  |  |
| **Profit for the period** | **46,155** | **175,511** | **51,686** | **158,921** |
|  |  |  |  |  |
| **Other comprehensive income** |  |  |  |  |
|  |  |  |  |  |
| **Items that may be reclassified subsequently to profit or loss:** |  |  |  |  |
| Increase in fair value of assets available for sale | 19,891 | 40,418 | 39,207 | 70,321 |
| Decrease in fair value of assets available for sale | (3,079) | (22,135) | (21,468) | (38,261) |
| Net foreign exchange on available for sale equity instruments | 307 | (210) | (18) | (405) |
| Transfer of realized gains on assets available for sale to statement of profit or loss | (514) | (8,629) | (1,788) | (1,878) |
| Transfer of realized losses on assets available for sale to statement of profit or loss | 76 | 6,575 | 16 | 16 |
| **Total items that may be reclassified subsequently to profit or loss** | **16,681** | **16,019** | **15,949** | **29,793** |
|  |  |  |  |  |
| **Other comprehensive income after tax** | **16,681** | **16,019** | **15,949** | **29,793** |
|  |  |  |  |  |
| **Total comprehensive income after tax** | **62,836** | **191,530** | **67,635** | **188,714** |
|  |  |  |  |  |
|  |  |  |  |  |
| **Attributable to:** |  |  |  |  |
| **Equity holders of the parent** | **62,836** | **191,530** | **67,635** | **188,714** |

The accompanying selected notes are an integral part of this Statement of Profit or Loss and Other Comprehensive Income.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Notes** | **Sep 30, 2017** |  | **Dec 31, 2016** |
| **Assets** |  |  |  |  |
| Cash on hand and due from banks | 8 | 737,631 |  | 490,695 |
| Deposits with other banks |  | 76 |  | 23,872 |
| Loans to financial institutions | 9 | 12,247,287 |  | 11,889,111 |
| Loans to other customers | 10 | 11,913,212 |  | 11,511,194 |
| Assets available for sale | 11 | 3,264,520 |  | 3,343,574 |
| Investments in subsidiaries |  | 36,124 |  | 36,124 |
| Investments in associates |  | - |  | - |
| Property, plant and equipment and intangible assets |  | 54,022 |  | 57,216 |
| Non-current assets held for sale |  | 17,045 |  | 17,230 |
| Other assets |  | 11,678 |  | 5,900 |
|  |  |  |  |  |
| **Total assets** |  | **28,281,595** |  | **27,374,916** |
|  |  |  |  |  |
| **Liabilities** |  |  |  |  |
| Deposits |  | 940,784 |  | 142,844 |
| Borrowings | 12 | 15,335,834 |  | 13,391,749 |
| Bonds payable | 13 | 1,141,222 |  | 3,105,569 |
| Other liabilities |  | 609,344 |  | 696,774 |
|  |  |  |  |  |
| **Total liabilities** |  | **18,027,184** |  | **17,336,936** |
|  |  |  |  |  |
| **Equity** |  |  |  |  |
| Founder’s capital |  | 6,984,632 |  | 6,959,632 |
| Retained earnings and reserves |  | 2,995,656 |  | 2,682,131 |
| Other reserves |  | 86,336 |  | 70,317 |
| Profit for the period |  | 175,511 |  | 313,525 |
|  |  |  |  |  |
| **Capital** |  | **10,242,135** |  | **10,025,605** |
|  |  |  |  |  |
| Guarantee fund |  | 12,276 |  | 12,375 |
|  |  |  |  |  |
| **Total equity** |  | **10,254,411** |  | **10,037,980** |
|  |  |  |  |  |
| **Total liabilities and total equity** |  | **28,281,595** |  | **27,374,916** |
|  |  |  |  |  |

The accompanying selected notes are an integral part of this Statement of Financial Position.

|  |  |  |
| --- | --- | --- |
| **Note** | **2017** | **2016** |
| **Operating activities** |  |  |
| Profit before income tax | 175,511 | 158,921 |
| *Adjustments to reconcile to net cash from and used in operating activities:* |  |  |
| Depreciation | 5,697 | 5,670 |
| Impairment loss and provisions | 91,869 | 44,880 |
| Accrued interest | (59,177) | (54,871) |
| Deferred fees | (9,560) | 4,145 |
| *Operating profit before working capital changes* | 204,340 | 158,745 |
| *Changes in operating assets and liabilities:* |  |  |
| Net decrease in deposits with other banks, before provision for impairment | 24,119 | 205,142 |
| Net (increase)/decrease in loans to financial institutions, before provision for impairment | (260,326) | 744,463 |
| Net (increase) in loans to other customers, before provision for impairment | (588,756) | (1,422,785) |
| Net realised (gain)/losses on assets available for sale | (2,054) | (1,862) |
| Decrease/(increase) of discount in assets available for sale and bonds payable | 1,359 | (2,028) |
| Net (decrease)/increase in non-current assets held for sale | 212 | (15) |
| Net (increase) in other assets, before provision for impairment | (6,316) | (167) |
| Net increase/(decrease) in deposits from banks and companies | 797,940 | (44,040) |
| Net (decrease) in other liabilities, before provisions | (75,381) | (100,366) |
|  |  |  |
| **Net cash provided by/(used in) operating activities** | **95,137** | **(462,913)** |
|  |  |  |
| **Investment activities** |  |  |
| Net (purchase) of assets available for sale | (1,233,053) | (2,022,409) |
| Sale of assets available for sale | 1,316,657 | 1,379,193 |
| Net (purchase) of property, plant and equipment and intangible assets | (2,454) | (847) |
|  |  |  |
| **Net cash provided by/(used in) investment activities** | **81,150** | **(644,063)** |
|  |  |  |
| **Financing activities** |  |  |
| Increase in founder’s capital | 25,000 | - |
| Increase in borrowings – withdrawn funds | 3,255,181 | 2,383,300 |
| (Decrease) in borrowings – repayments of principal | (1,195,372) | (699,445) |
| (Decrease) in bonds payable – repayment | (1,852,051) | (224,487) |
|  |  |  |
| **Net cash provided by financing activities** | **232,758** | **1,459,368** |
|  |  |  |
| **Effect of foreign currency to cash and cash equivalents** |  |  |
| Net foreign exchange | (161,552) | (212,148) |
|  |  |  |
| **Net effect** | **(161,552)** | **(212,148)** |
|  |  |  |
| Net increase in cash and cash equivalents | 247,493 | 140,244 |
|  |  |  |
| Balance as of 1 January, before provisions | 493,774 | 486,501 |
| Net increase in cash | 247,493 | 140,244 |
|  |  |  |
| **Balance as of 30 September, before provisions 8** | **741,267** | **626,745** |
|  |  |  |
| **Additional note - Operational cash flows** |  |  |
| Interest paid | 354,581 | 393,557 |
| Interest received | 530,972 | 538,182 |

The accompanying selected notes are an integral part of this Statement of Cash Flows.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Founder`s capital** | **Retained earnings and reserves** | **Other reserves** | **Net profit for the period** | **Total**  **equity** |
|  |  |  |  |  |  |
| **Balance as of 1 January 2016** | **6,926,632** | **2,476,903** | **41,182** | **205,228** | **9,649,945** |
|  | \_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_ |
|  |  |  |  |  |  |
| Profit for the period | - | - | - | 158,921 | **158,921** |
| Other comprehensive income | - | - | 29,793 | - | **29,793** |
|  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
| Total comprehensive income | - | - | 29,793 | 158,921 | **188,714** |
|  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
| Capital paid-in from the State Budget | - | - | - | - | **-** |
| Transfer of profit 2015 to retained earnings | - | 205,228 | - | (205,228) | **-** |
|  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
| **Balance as of 30 September 2016** | **6,926,632** | **2,682,131** | **70,975** | **158,921** | **9,838,659** |
|  | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** |
| **Balance as of 1 January 2017** | **6,959,632** | **2,682,131** | **70,317** | **313,525** | **10,025,605** |
|  | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** |
| Profit for the period | - | - | - | 175,511 | **175,511** |
| Other comprehensive income | - | - | 16,019 | - | **16,019** |
|  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
| Total comprehensive income | - | - | 16,019 | 175,511 | **191,530** |
|  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
| Capital paid-in from the State Budget | 25,000 | - | - | - | **25,000** |
| Transfer of profit 2016 to retained earnings | - | 313,525 | - | (313,525) | **-** |
|  | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ |
| **Balance as of 30 September 2017** | **6,984,632** | **2,995,656** | **86,336** | **175,511** | **10,242,135** |
|  | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** |

The accompanying selected notes are an integral part of this Statement of Changes in Equity.

1. **General information**

**1.1. Group:**

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

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

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

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

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

As of 30 September 2017, the Group had 383 employees (30 September 2016: 356 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.

1. **General information (continued)**

**1.2. Bank (continued):**

*Supervisory Board*

As of the date of preparing these Statements, the Supervisory Board of HBOR consisted of the following members:

- Zdravko Marić, DSc, Minister of Finance - ex officio President of the Supervisory Board,

- Martina Dalić, DSc, Deputy Prime Minister of the Republic of Croatia and Minister of the Economy,

Entrepreneurship and Trade – ex officio Vice President of the Supervisory Board,

* Predrag Štromar, Deputy Prime Minister of the Republic of Croatia and Minister of Construction and Physical Planning (from 4 August 2017),
* Gabrijela Žalac, Minister of Regional Development and EU Funds – ex officio Member of the Supervisory Board,
* Gari Cappelli, Minister of Tourism,
* Tomislav Tolušić, Minister of Agriculture,
* Luka Burilović, President of the Croatian Chamber of Economy – ex officio Member of the Supervisory Board,
* Boris Lalovac, MSc, Member of the Croatian Parliament,
* Božica Makar, Member of the Croatian Parliament (from 14 July 2017)
* Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament.

*Management Board*

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

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

On 9 October 2017, the Supervisory Board of HBOR, following the proposal of the Government of the Republic of Croatia, made a decision on the appointment of a new Management Board of HBOR.

As of 16 October 2017, Tamara Perko, MSc, is appointed President of the Management Board of HBOR, and Hrvoje Čuvalo, MSc, Member of the Management Board.

The new Management Board is appointed for a five-year term of office.

Tamara Perko, MSc, has been holding the position of the President of the Management Board of HBOR since 1 February 2017.

As of 30 September 2017, there were 366 employees at the Bank (30 September 2016: 342 employees).

1. **General information (continued)**

**1.2. Bank (continued):**

*Audit Committee*

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

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

**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. **Basis of Preparation of the Interim Condensed Financial Statements**

The Consolidated Interim Condensed Financial Statements of the HBOR Group for the period 1 January to 30 September 2017 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Consolidated Interim Condensed Financial Statements for the period 1 January to 30 September 2017 do not include all the information and disclosures required in annual consolidated financial statements. Therefore, they have to be read in conjunction with the Annual Consolidated Financial Statements of the HBOR Group for the year ended 31 December 2016.

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

The Financial Statements of the HBOR Group and HBOR are comprised of consolidated and unconsolidated Statement of Financial Position as of 30 September 2017, the Statement of Profit or Loss for the period 1 January – 30 September 2017, the Statement of Profit or Loss and other Comprehensive Income for the period 1 January – 30 September 2017, the Statement of Cash Flows for the period 1 January – 30 September 2017, the Statement of Changes in Equity for the period 1 January – 30 September 2017, and the accompanying Notes on significant accounting policies and other explanations.

**3. Summary of significant accounting policies**

**3.1. Accounting policies**

Principal accounting policies applied when preparing these Interim Condensed Financial Statements are consistent with those followed in the preparation of the Annual Financial Statements as of 31 December 2016 that were disclosed on the web address: <http://www.hbor.hr>.

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

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

1. *New and amended International Financial Reporting Standards effective in the reporting period and adopted in the European Union :*

* Amended IAS 12 Income Taxes (effective for periods beginning on or after 1 January 2017, adopted in the European Union on 9 November 2017) – Recognition of Deferred Tax Assets for Unrealised Losses. IASB has concluded that the diversity in practice around the recognition of a deferred tax asset that is related to a debt instrument measured at fair value is mainly attributable to uncertainty about the application of some of the principles in IAS 12. Therefore the amendments consist of some clarifications and an illustrating example.

This amendment do not affect the Group after the initial application.

* Amended IAS 7 Statement of Cash Flows (effective for periods beginning on or after 1 January 2017, adopted in the European Union on 9 November 2017) – Disclosure Initiative. The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

This amendment do not affect the Group after the initial application.

1. *New and amended International Financial Reporting Standards effective in the reporting period and that have not been adopted in the European Union yet.*

* Annual improvements 2014-2016 - The primary objective of the process is to enhance the quality of standards, by amending existing IFRSs to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights.

The issues included in this cycle are:

* IFRS 12 Disclosure of Interests in Other Entities(effective for periods beginning on or after 1 January 2017, but have not been adopted in the European Union yet): Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity’s interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

This amendment will not affect the Group after the initial application.

1. **Summary of significant accounting policies**
   1. **Adoption of new and amended International Financial Reporting Standards (continued):**
2. *New and amended International Financial Reporting Standards effective in the reporting period and that have not been adopted in the European Union yet (continued):*

* Annual improvements 2014-2016 (continued)
  + IFRS 1 First-time Application of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures under Annual Improvements 2014-2016 that are effective for periods beginning on or after 1 January 2018 but have not been adopted in the European Union yet are described under c) New and amended International Financial Reporting Standards that become effective after the reporting period and have not been adopted in the European Union yet.

1. *New and amended International Financial Reporting Standards not effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements:*

* New IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018, adopted in the European Union on 22 September 2016) establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. After its effective date, it will supersede the following standards and interpretations: IAS 18 Revenues; IAS 11 Construction Contracts; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is for companies to recognise revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard establishes a five-step model framework that will be applied to revenues generated from contracts with customers irrespective of the type of transaction or activity as follows: identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognise revenues when (or as) the entity satisfies a performance obligation. However, the standard does not apply to financial instruments and other contractual rights or obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement, i.e. IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures, insurance contracts within the scope of IFRS 4 Insurance Contracts, and consequently it will not affect the Group after the initial application.

* IFRS 9 Financial instruments - in July 2014, the final wording of the new IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2018, adopted in the European Union on 22 November 2016), that shall from the date of its effectiveness completely replace IAS 39 Financial Instruments: Recognition and Measurement, and contains requirements relating to the recognition and measurement, impairment, de-recognition and hedge accounting in general.

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

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

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

1. *New and amended International Financial Reporting Standards not effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements (continued):*

* IFRS 9 Financial instruments (continued)

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

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

The Group shall not apply IFRS 9 in the period before its obligatory application.

During 2016, the Bank started the IFRS 9 Implementation Project, engaging external consultants.

Based on this project, the following phases are conducted:

* Series of educations for acquainting employees with the IFRS 9 and its requirements
* Gap analysis between the current status and IFRS 9 requirements in the classification and measurement stream:
  + Determine business models
  + Determine characteristics of contracted cash flows
* Gap analysis between the current status and IFRS 9 requirements in the impairment stream,
* Quantitative impact study of the IFRS 9 effects,
* Development of functional specifications for the IT application solution – software implementation,
  + Development of the impairment methodology according to the business models of the Bank – development of the model for calculating risk parameters required for expected credit loss calculation as required per IFRS 9.

For the classification and measurement stream, the Bank is in the stage of defining of the business models and other requirements of the IFRS 9 based on determined gaps and identified activities for bridging the gaps.

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1. **Summary of significant accounting policies (continued)**
   1. **Adoption of new and amended International Financial Reporting Standards (continued):**

*c) New and amended International Financial Reporting Standards not effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements (continued):*

* IFRS 9 Financial instruments (continued)

The impact in the field of impairment will depend on the determined methodology for calculating expected credit losses and modelling of risk parameters based on expected credit losses. The adjustments of HBOR accounting policies and the process of financial reporting are being prepared simultaneously.

Temporary exemption has been granted to the subsidiary company – the HKO Group – owing to immateriality and will be applied from 1 January 2018 to 1 January 2021, i.e. the start of the implementation of the new insurance contracts Standard, unless otherwise determined by the Croatian Financial Services Supervisory Agency (HANFA).

* New IFRS 16 Leases (effective for periods beginning on or after 1 January 2019 adopted in the European Union on 9 November 2017) – sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (“lessee”) and the supplier “lessor”). The new standard requires lessees to recognise most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions.

The above new IFRS will not affect the significantly Group after the initial application.

* Changes and amendments to IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018, adopted in the European Union on 9 November 2017) – Clarifications to IFRS 15 issued.

The amendments do not change the underlying principles of the standard, just clarify and offer some additional transition relief.

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

* Amendments to IFRS 4 Insurance Contracts - Applying IFRS 9 Financial Instruments with IFRS 4 (effective for periods beginning on or after 1 January 2018, adopted in the European Union on 9 November 2017) – the Amendments to existing requirements—IFRS 4 *Insurance Contracts*:
* the „temporary exemption“ - permit entities whose predominant activities are connected with insurance to defer the application of IFRS 9 until 2021; and

1. **Summary of significant accounting policies (continued)**
   1. **Adoption of new and amended International Financial Reporting Standards (continued):**

*c) New and amended International Financial Reporting Standards not effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements (continued):*

* the „overlay approach“ - permits all issuers of insurance contracts to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued.

Temporary exemption has been granted to the subsidiary company – the HKO Group – owing to immateriality and will be applied from 1 January 2018 to 1 January 2021, i.e. the start of the implementation of the new insurance contracts Standard, unless otherwise determined by the Croatian Financial Services Supervisory Agency (HANFA).

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

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

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

* Annual improvements 2014-2016 - The primary objective of the process is to enhance the quality of standards, by amending existing IFRSs to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights.

The issues included in this cycle are:

* IFRS 1 First-time Application of International Financial Reporting Standards (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet): Deleted the short-term exemptions in para­graphs E3–E7 of IFRS 1, because they have now served their intended purpose.
* IAS 28 Investments in Associates and Joint Ventures (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet): Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

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

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

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

This amendment will not affect the Group after the initial application.

* New interpretation - IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet) – clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The In­ter­pre­ta­tion covers foreign currency trans­ac­tions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or payed at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

The In­ter­pre­ta­tions Committee came to the following con­clu­sion:

* The date of the trans­ac­tion, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
* If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
* Amendments to IAS 40 Investment Property—Transfers of investment property (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet).

The amend­ments in Transfers of In­vest­ment Property are:

* Paragraph 57 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use.
* The list of evidence in paragraph 57(a) – (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.

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

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

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

* New IFRS 17 Insurance Contracts (effective for periods beginning on or after 1 January 2021, but have not been adopted in the European Union yet) - replaces IFRS 4 Insurance Contracts.

The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally.

The Group plans to adopt the standard after it has become effective and currently estimates its impact.

* New Interpretation - IFRIC 23 Uncertainty over Income Tax Treatments (effective for periods beginning on or after 1 January 2019, but have not been adopted in the European Union yet) - The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Group currently estimates the impact of these interpretations on financial reporting.

Amend­ments to IFRS 9 - „Pre­pay­ment Features with Negative Com­pen­sa­tion“ (effective for periods beginning on or after 1 January 2019, but have not been adopted in the European Union yet).

The amendments to the financial instruments Standard IFRS 9, allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss.

The Group currently estimates the impact of these interpretations on financial reporting.

* Amendments to IAS 28 Investments in Associates and Joint Ventures (effective for periods beginning on or after 1 January 2019, but have not been adopted in the European Union yet).

The Amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied.

An entity applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28.

The Group currently estimates the impact of these interpretations on financial reporting.

**4. Interest income**

Interest income by borrowers:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Group** | | | | **Bank** | | | |
|  | **2017** | | **2016** | | **2017** | | **2016** | |
|  | Current period  July 1 –  September 30 | Cumulatively  January 1 – September 30 | Current period  July 1 –  September 30 | Cumulatively  January 1 – September 30 | Current period  July 1 –  September 30 | Cumulatively  January 1 – September 30 | Current period  July 1 –  September 30 | Cumulatively  January 1 – September 30 |
|  |  |  |  |  |  |  |  |  |
| Public sector | 27,889 | 83,267 | 28,832 | 89,750 | 27,484 | 82,033 | 28,433 | 88,565 |
| State-owned companies | 15,051 | 41,036 | 10,936 | 29,574 | 15,051 | 41,036 | 10,936 | 29,574 |
| Foreign companies | 3,025 | 9,534 | 3,294 | 9,688 | 3,025 | 9,534 | 3,294 | 9,688 |
| Domestic companies | 86,206 | 272,668 | 86,967 | 249,075 | 86,206 | 272,668 | 86,967 | 249,075 |
| Domestic financial institutions | 61,449 | 187,271 | 70,347 | 215,894 | 61,449 | 187,271 | 70,341 | 215,837 |
| Foreign financial institutions | 226 | 399 | 34 | 97 | 226 | 399 | 34 | 97 |
| Penalty interest | 3,993 | 8,150 | 4,267 | 10,607 | 3,993 | 8,150 | 4,267 | 10,607 |
| Other | 11,517 | 58,872 | 11,222 | 40,240 | 11,517 | 58,872 | 11,222 | 40,240 |
|  | **209,356** | **661,197** | **215,899** | **644,925** | **208,951** | **659,963** | **215,494** | **643,683** |

**4. Interest income (continued)**

Interest income by type of facility:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Group** | | | | **Bank** | | | | |
|  | **2017** | | **2016** | | **2017** | | **2016** | | |
|  | Current period  July 1 –  September 30 | Cumulatively  January 1 – September 30 | Current period  July 1 –  September 30 | Cumulatively  January 1 – September 30 | Current period  July 1 –  September 30 | Cumulatively  January 1 – September 30 | Current period  July 1 –  September 30 | Cumulatively  January 1 – September 30 |
| Interest on loans |  |  |  |  |  |  |  |  |
| - financial institutions | 61,206 | 189,595 | 70,341 | 216,033 | 61,206 | 189,595 | 70,341 | 216,033 |
| - other customers | 138,144 | 440,147 | 133,029 | 391,634 | 138,144 | 440,147 | 133,029 | 391,634 |
|  | 199,350 | 629,742 | 203,370 | 607,667 | 199,350 | 629,742 | 203,370 | 607,667 |
|  |  |  |  |  |  |  |  |  |
| Investments in securities | 9,777 | 31,047 | 12,485 | 37,064 | 9,372 | 29,813 | 12,085 | 35,878 |
| Deposits | 229 | 408 | 44 | 194 | 229 | 408 | 39 | 138 |
|  | **209,356** | **661,197** | **215,899** | **644,925** | **208,951** | **659,963** | **215,494** | **643,683** |

The difference between interest income and interest received or collected (see Statement of Cash Flows) mostly relates to the income in respect to interest subsidies inflows that are recorded upon payment. The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income and is recognised in the statement of profit or loss and other comprehensive income on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 30 September 2017 amounts to HRK 76,607 thousand (1 January to 30 September 2016: HRK 98,485 thousand).

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

**5. Interest expense**

Interest expense by type of payee:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Group** | | | | **Bank** | | | |
|  | **2017** | | **2016** | | **2017** | | **2016** | |
|  | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 |
|  |  |  |  |  |  |  |  |  |
| Domestic financial institutions | 614 | 2,083 | 3,001 | 8,324 | 614 | 2,083 | 3,001 | 8,324 |
| Foreign financial institutions | 85,694 | 299,378 | 109,638 | 332,551 | 85,694 | 299,378 | 109,638 | 332,551 |
|  | **86,308** | **301,461** | **112,639** | **340,875** | **86,308** | **301,461** | **112,639** | **340,875** |

Interest expense by type of facility:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Group** | | | | **Bank** | | | |
|  | **2017** | | **2016** | | **2017** | | **2016** | |
|  | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 |
|  |  |  |  |  |  |  |  |  |
| Borrowings | 67,813 | 205,106 | 70,562 | 210,352 | 67,813 | 205,106 | 70,562 | 210,352 |
| Debt securities | 17,765 | 95,364 | 42,076 | 130,522 | 17,765 | 95,364 | 42,076 | 130,522 |
| Deposits | 730 | 991 | 1 | 1 | 730 | 991 | 1 | 1 |
|  | **86,308** | **301,461** | **112,639** | **340,875** | **86,308** | **301,461** | **112,639** | **340,875** |

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

6. Operating expenses

Operating expenses can be shown as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Group** | | | | **Bank** | | | |
|  | **2017** | | **2016** | | **2017** | | **2016** | |
|  | Current period  July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period  July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period  July 1 –  September 30 | Cumulatively  January 1 –  September 30 |
| General and administrative expenses: | | | | | | | | |
| Employee expenses | 22,448 | 68,070 | 22,334 | 66,031 | 21,561 | 65,494 | 21,674 | 63,731 |
| Depreciation | 1,786 | 5,742 | 1,764 | 5,722 | 1,771 | 5,697 | 1,747 | 5,670 |
| Administration expenses | 2,141 | 8,789 | 3,091 | 8,981 | 2,064 | 8,536 | 2,989 | 8,750 |
| Material and services | 7,028 | 22,233 | 7,327 | 20,573 | 6,551 | 20,802 | 6,921 | 19,351 |
|  | 33,403 | 104,834 | 34,516 | 101,307 | 31,947 | 100,529 | 33,331 | 97,502 |
| Other expenses: |  |  |  |  |  |  |  |  |
| Taxes and contributions | 218 | 523 | 174 | 514 | 217 | 520 | 171 | 510 |
| Other expenses | 2,529 | 8,822 | 2,663 | 17,431 | 1,000 | 6,247 | 1,459 | 13,999 |
|  | 2,747 | 9,345 | 2,837 | 17,945 | 1,217 | 6,767 | 1,630 | 14,509 |
|  | **36,150** | **114,179** | **37,353** | **119,252** | **33,164** | **107,296** | **34,961** | **112,011** |

6. Operating expenses (continued)

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Group** | | | | **Bank** | | | |
|  | **2017** | | **2016** | | **2017** | | **2016** | |
|  | Current period  July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period  July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period  July 1 –  September 30 | Cumulatively  January 1 –  September 30 |
| Changes in claims provisions | 2,944 | 3,743 | 1,249 | 1,786 | - | - | - | - |
| Changes in claims provisions, reinsurer's share | (1,629) | (1,894) | (437) | (1,031) | - | - | - | - |
| **Expenses of insurance operations** | **1,315** | **1,849** | **812** | **755** | **-** | **-** | **-** | **-** |

The most significant part of provisions for losses relates to the IBNR provision, the method of calculation of which was changed as compared to the same reporting date of the previous year. The Bornhuetter-Ferguson method was used for the gross amount of provisions. The provisions and the share of reinsurance decreased in gross amount as compared to the same reporting date of the previous year. The reinsurance share is determined in accordance with the valid terms and conditions of the reinsurance contract.

1. **Impairment loss and provisions:**

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Group** | | | | **Bank** | | | |
|  | **2017** | | **2016** | | **2017** | | **2016** | |
|  | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 | Current period July 1 –  September 30 | Cumulatively  January 1 –  September 30 |
| Impairment losses on cash on hand and due from banks | 1,769 | 557 | 3,148 | 2,356 | 1,769 | 557 | 3,148 | 2,356 |
| Impairment losses on deposits with other banks | (18) | (247) | (111) | (2,153) | (18) | (247) | (111) | (2,153) |
| Impairment losses on loans to financial institutions | (40,725) | (98,079) | (11,204) | (39,839) | (40,725) | (98,079) | (11,204) | (39,839) |
| Impairment losses on loans to other customers and interest | 83,463 | 201,224 | 9,388 | 47,812 | 83,463 | 201,224 | 9,388 | 47,812 |
| Impairment losses on non-current assets held for sale | (15) | (27) | (37) | (89) | (15) | (27) | (37) | (89) |
| Impairment losses on other assets | 61 | 593 | (293) | 348 | 7 | 490 | (296) | 348 |
| Total increase in provision for impairment losses on assets | 44,535 | 104,021 | 891 | 8,435 | 44,481 | 103,918 | 888 | 8,435 |
| Provision for guarantees and commitments | 1,074 | (7,336) | 21,680 | 18,817 | 1,074 | (7,336) | 21,680 | 18,817 |
| Other provisions | 3,164 | (4,787) | 1,278 | 17,555 | 3,164 | (4,713) | 1,312 | 17,628 |
| Total increase/(decrease) in provision for guarantees and commitments and other provisions | 4,238 | (12,123) | 22,958 | 36,372 | 4,238 | (12,049) | 22,992 | 36,445 |
| **Total increase of provisions** | **48,773** | **91,898** | **23,849** | **44,807** | **48,719** | **91,869** | **23,880** | **44,880** |

7. Impairment loss and provisions (continued):

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

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

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
| Account with the Croatian National Bank | 378,200 | 186,167 | 378,200 | 186,167 |
| Due from domestic banks in foreign currency | 2,773 | 1,626 | 2,773 | 1,626 |
| Due from foreign banks in foreign currency | 360,294 | 305,981 | 360,294 | 305,981 |
| Due from domestic banks in HRK | 2,286 | 551 | - | - |
|  | 743,553 | 494,325 | 741,267 | 493,774 |
| Provisions for impairment losses | (3,636) | (3,079) | (3,636) | (3,079) |
|  | **739,917** | **491,246** | **737,631** | **490,695** |

**9. Loans to financial institutions**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
| Long-term loans under loan programmes | 11,227,670 | 11,918,947 | 11,227,670 | 11,918,947 |
| Short-term loans and reverse repo transactions | 1,312,480 | 362,489 | 1,312,480 | 362,489 |
| Accrued interest | 30,833 | 37,363 | 30,833 | 37,363 |
| Deferred recognition of loan origination fees | (60,070) | (66,371) | (60,070) | (66,371) |
|  | 12,510,913 | 12,252,428 | 12,510,913 | 12,252,428 |
| Provisions for impairment losses | (263,626) | (363,317) | (263,626) | (363,317) |
|  | **12,247,287** | **11,889,111** | **12,247,287** | **11,889,111** |

Loans to financial institutions by purpose of the loan programmes:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
| Loan programme for reconstruction and development of the economy | 2,330,026 | 2,775,682 | 2,330,026 | 2,775,682 |
| Export financing | 3,260,880 | 3,466,148 | 3,260,880 | 3,466,148 |
| Loan programme for reconstruction and development of infrastructure in the Republic of Croatia | 1,595,280 | 1,602,331 | 1,595,280 | 1,602,331 |
| Loan programme for small and medium-sized enterprises | 4,032,457 | 4,064,711 | 4,032,457 | 4,064,711 |
| Loan programme for war-torn and demolished housing and business facilities | 9,027 | 10,075 | 9,027 | 10,075 |
| Other | 1,312,480 | 362,489 | 1,312,480 | 362,489 |
| Accrued interest | 30,833 | 37,363 | 30,833 | 37,363 |
| Deferred recognition of loan fees | (60,070) | (66,371)  371) | (60,070) | (66,371) |
|  | 12,510,913 | 12,252,428 | 12,510,913 | 12,252,428 |
| Provisions for impairment losses | (263,626) | (363,317) | (263,626) | (363,317) |
|  | **12,247,287** | **11,889,111** | **12,247,287** | **11,889,111** |

Average interest rates for total loans to financial institutions, at year level, are stated at 0.91% (1 January to 30 September 2016: 1.10%) and are equal to average interest rates for loans under HBOR loan programmes excluding the liquidity reserve).

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

Item „Other“ refers to reverse REPO agreements in the total amount of HRK 1,312,480 thousand (31 December 2016: HRK 232,489 thousand). The above placements are collateralised by securities in the amount of HRK 1,403,847 thousand (31 December 2016: HRK 247,026 thousand).

In the reporting period, provisions for loans to financial institutions in the amount of HRK 13,869 thousand were charged and provisions in the amount of HRK 111,948 thousand were reversed.

**10. Loans to other customers**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
| Domestic companies | 10,759,127 | 10,463,392 | 10,759,127 | 10,463,392 |
| State-owned companies | 1,267,664 | 1,183,103 | 1,267,664 | 1,183,103 |
| Public sector | 1,646,614 | 1,528,564 | 1,646,614 | 1,528,564 |
| Foreign companies | 336,354 | 237,429 | 336,354 | 237,429 |
| Non-profit institutions | 1,712 | 1,712 | 1,712 | 1,712 |
| Other | 667,111 | 712,400 | 667,111 | 712,400 |
| Accrued interest | 92,497 | 83,423 | 92,497 | 83,423 |
| Deferred recognition of loan origination fees | (113,917) | (119,328) | (113,917) | (119,328) |
|  | 14,657,162 | 14,090,695 | 14,657,162 | 14,090,695 |
| Provisions for impairment losses | (2,743,950) | (2,579,501) | (2,743,950) | (2,579,501) |
|  | **11,913,212** | **11,511,194** | **11,913,212** | **11,511,194** |

Loans to other customers by loan programmes:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
| Loan programme for reconstruction and development of the economy | 4,150,093 | 4,123,892 | 4,150,093 | 4,123,892 |
| Export financing | 5,207,562 | 4,687,115 | 5,207,562 | 4,687,115 |
| Loan programme for reconstruction and development of infrastructure in the Republic of Croatia | 3,233,109 | 3,075,022 | 3,233,109 | 3,075,022 |
| Loan programme for small and medium-sized enterprises | 2,039,616 | 2,158,612 | 2,039,616 | 2,158,612 |
| Other | 48,202 | 81,959 | 48,202 | 81,959 |
| Accrued interest | 92,497 | 83,423 | 92,497 | 83,423 |
| Deferred recognition of loan origination fees | (113,917) | (119,328) | (113,917) | (119,328) |
|  | 14,657,162 | 14,090,695 | 14,657,162 | 14,090,695 |
| Provisions for impairment losses | (2,743,950) | (2,579,501) | (2,743,950) | (2,579,501) |
|  | **11,913,212** | **11,511,194** | **11,913,212** | **11,511,194** |

Average interest rates for total loans to other customers, at annual level, are stated at 2.11% (1 January to 30 September 2016: 2.00%).

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

In the reporting period, provisions for loans to other customers in the amount of HRK 384,499 thousand were charged and provisions in the amount of HRK 181,153 thousand were reversed.

**11. Assets available for sale**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
| ***Debt instruments:*** |  |  |  |  |
| **Listed debt instruments:** |  |  |  |  |
| Bonds of the Ministry of Finance of the Republic of Croatia | 896,476 | 925,887 | 853,824 | 884,914 |
| Financial institution bonds | 511 | 910 | - | - |
| Corporate bonds | 1,152 | 1,161 | - | - |
| Treasury bills of the Ministry of Finance of the Republic of Croatia | 1,548,521 | 1,500,420 | 1,548,521 | 1,500,420 |
| Accrued interest | 10,369 | 14,495 | 9,883 | 13,890 |
|  | **2,457,029** | **2,442,873** | **2,412,228** | **2,399,224** |
|  |  |  |  |  |
| **Unlisted debt instruments:** |  |  |  |  |
| Corporate bonds | 512 | 502 | 512 | 502 |
| Accrued interest | 150 | 99 | 150 | 99 |
|  | **662** | **601** | **662** | **601** |
|  |  |  |  |  |
| ***Equity instruments:*** |  |  |  |  |
| **Listed equity instruments:** |  |  |  |  |
| Investments in companies’ shares | 16,805 | 10,938 | 16,805 | 10,938 |
|  | **16,805** | **10,938** | **16,805** | **10,938** |
|  |  |  |  |  |
| **Unlisted equity instruments:** |  |  |  |  |
| Investments in shares of foreign legal entities | 35 | 32 | 35 | 32 |
| Investments in financial institutions shares | 161 | 161 | 161 | 161 |
| Shares of foreign financial institutions – EIF | 25,371 | 25,815 | 25,371 | 25,815 |
| Investments in companies’ shares | 16,725 | 16,725 | 16,725 | 16,725 |
| Provision for impairment losses | (16,725) | (16,725) | (16,725) | (16,725) |
|  | **25,567** | **26,008** | **25,567** | **26,008** |
| ***Investments in investment funds:*** |  |  |  |  |
| Shares classified as assets available for sale | 813,982 | 909,614 | 809,258 | 906,803 |
|  | **813,982** | **909,614** | **809,258** | **906,803** |
| **Balance** | **3,314,045** | **3,390,034** | **3,264,520** | **3,343,574** |

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

The following text contains investment breakdown:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Group** | | **Bank** | |
|  | **Date of issue** | **Date of maturity** | **Interest rate**  **(%)** | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
|  |
| **Debt instruments:** |  |  |  |  |  |  |  |
| Listed debt instruments: |  |  |  |  |  |  |  |
| Bonds of the Republic of Croatia indexed to foreign currency: | | |  |  |  |  |  |
| RHMF-O-19BA | 29.11.2004 | 29.11.2019 | 5.375 | 47,794 | 48,602 | 46,794 | 47,588 |
| RHMF-O -227E | 22.7.2011 | 22.7.2022 | 6.5 | 174,498 | 172,432 | 174,498 | 172,432 |
| RHMF-O-247E | 10.7.2013 | 10.7.2024 | 5.75 | 18,195 | 17,802 | 12,853 | 12,558 |
| RHMF-O-203E | 5.3.2010 | 5.3.2020 | 6.5 | 865 | 875 | - | - |
| Bonds of the Republic of Croatia in foreign currency: | | |  |  |  |  |  |
| XS0645940288 | 8.7.2011 | 9.7.2018 | 5.875 | 54,760 | 57,370 | 54,760 | 57,370 |
| XS0776179656 | 27.4.2012 | 27.4.2017 | 6.25 | - | 14,529 | - | 14,529 |
| XS1117298916 | 11.3.2015 | 11.3.2025 | 3.0 | 56,397 | 53,248 | 56,397 | 53,248 |
| Bonds of the Republic of Croatia in HRK: | | |  |  |  |  |  |
| RHMF-O-172A | 8.2.2007 | 8.2.2017 | 4.75 | - | 100,995 | - | 100,410 |
| RHMF-O-187A | 10.7.2013 | 10.7.2018 | 5.25 | 41,450 | 42,406 | 36,255 | 37,094 |
| RHMF-O-17BA | 25.11.2010 | 25.11.2017 | 6.25 | 155,808 | 161,910 | 151,263 | 157,185 |
| RHMF-O-203A | 5.3.2010 | 5.3.2020 | 6.75 | 2,987 | 3,003 | - | - |
| RHMF-O-257A | 9.7.2015 | 9.7.2025 | 4.5 | 9,647 | 9,335 | - | - |
| RHMF-O-26CA | 14.12.2015 | 14.12.2026 | 4.25 | 43,152 | 41,909 | 34,115 | 33,089 |
| RHMF-O-217A | 8.7.2016 | 8.7.2021 | 2.75 | 206,787 | 201,471 | 204,672 | 199,411 |
| RHMF-O-222A | 7.2.2017 | 7.2.2022 | 2.25 | 72,115 | - | 72,115 | - |  |
| RHMF-O-282A | 7.2.2017 | 7.2.2028 | 2.875 | 12,021 | - | 10,102 | - |  |
| Financial institution bonds in HRK: | | |  |  |  |  |  |
| RIBA-O-17BA | 23.11.2012 | 23.11.2017 | 5.88 | 511 | 522 | - | - |
| Financial institution bonds indexed to foreign currency: | | |  |  |  |  |  |
| RIBA-O-177A | 18.7.2011 | 18.7.2017 | 6.5 | - | 388 | - | - |
| Corporate bonds in HRK: | | |  |  |  |  |  |
| JDGL-O-20CA | 21.12.2015 | 21.12.2020 | 5.81 | 769 | 770 | - | - |
| Corporate bonds indexed to foreign currency: | | |  |  |  |  |  |
| JRLN-O-17AA | 24.10.2012 | 24.10.2017 | 6.5 | 383 | 391 | - | - |
| Treasury bills in HRK up to 281 days | |  | 0,728 | 29,978 | - | 29,978 | - |
| Treasury bills in HRK up to 364 days | |  | 0,398-0,856 0,.856 | 1,106,421 | 1,087,406 | 1,106,421 | 1,087,406 |
| Treasury bills in foreign currency up to 455 days | |  | 0,267 | 412,123 | 413,014 | 412,123 | 413,014 |
| Accrued interest | |  |  | 10,369 | 14,495 | 9,883 | 13,890 |
|  |  |  |  | **2,457,029** | **2,442,873** | **2,412,228** | **2,399,224** |
| **Unlisted debt instruments:** |  |  |  |  |  |  |  |
| Corporate bonds indexed to foreign currency: | | |  |  |  |  |  |
| LNGU-O-31AE | 24.7.2015 | 15.10.2031 | 4.5 | 512 | 502 | 512 | 502 |
| Accrued interest |  |  |  | 150 | 99 | 150 | 99 |
|  |  |  |  | **662** | **601** | **662** | **601** |

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

The following text contains investment breakdown (continued):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
|  |  |  |  |  |
| **Equity instruments:** |  |  |  |  |
| Listed equity instruments: |  |  |  |  |
| Investments in companies’ shares | 16,805 | 10,938 | 16,805 | 10,938 |
|  | **16,805** | **10,938** | **16,805** | **10,938** |
|  |  |  |  |  |
| Unlisted equity instruments: |  |  |  |  |
| Investments in shares of foreign legal entities in foreign currency | 35 | 32 | 35 | 32 |
| Investments in financial institutions’ shares | 161 | 161 | 161 | 161 |
| Investments in shares of foreign financial institutions in foreign currency - EIF | 25,371 | 25,815 | 25,371 | 25,815 |
| Investments in companies’ shares | 16,725 | 16,725 | 16,725 | 16,725 |
| Provisions for impairment losses | (16,725) | (16,725) | (16,725) | (16,725) |
|  | **25,567** | **26,008** | **25,567** | **26,008** |
| **Investments in investments funds in the Republic of Croatia** | **813,982** | **909,614** | **809,258** | **906,803** |
| **Total** | **3,314,045** | **3,390,034** | **3,264,520** | **3,343,574** |

**12. Borrowings**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
| Balance as of 1 January | 13,378,057 | 11,453,796 | 13,378,057 | 11,453,796 |
| New borrowings | 3,255,181 | 3,730,867 | 3,255,181 | 3,730,867 |
| Repayments | (1,195,372) | (1,730,849) | (1,195,372) | (1,730,849) |
| Net foreign exchange gains/(losses) | (126,396) | (75,757) | (126,396) | (75,757) |
|  | 15,311,470 | 13,378,057 | 15,311,470 | 13,378,057 |
| Accrued interest | 72,632 | 64,018 | 72,632 | 64,018 |
| Deferred recognition of borrowing origination fees | (48,268) | (50,326) | (48,268) | (50,326) |
| **Balance** | **15,335,834** | **13,391,749** | **15,335,834** | **13,391,749** |

The Bank is subject to different financial covenants arising from the Contract. As of 30 September 2017 the Bank was in compliance with all required financial covenants from the Contract.

Average interest rates on borrowings, on annual level, are 1.55% (1 January to 30 September 2016: 1.71%).

Average interest rates represent the ratio of interest expenses on borrowings and average total liabilities.

**13. Bonds payable**

The book value of bonds includes interest.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group and Bank** | **Effective interest rate** | **Fair**  **value**  **Sep 30, 2017** | **Net book value**  **Sep 30, 2017** | **Fair**  **value**  **Dec 31, 2015** | **Net book value**  **Dec 31, 2015** |
| Bonds EUR 250 million | 5.076 | - | - | 1,915,899 | 1,888,837 |
| Bonds EUR 150 million | 6.37 | 1,251,981 | 1,114,784 | 1,270,695 | 1,121,261 |
| Accrued interest |  | - | 26,805 | - | 95,932 |
| Deferred recognition of bond payable origination fees |  | - | (367) | - | (461) |
|  |  | **1,251,981** | **1,141,222** | **3,186,594** | **3,105,569** |

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

Average interest rates on bonds payable, on yearly level, are 0.72% (1 January to 30 September 2016: 1.06%).

Average interest rates represent the ratio of interest expenses on bonds payable and average total liabilities.

On 13 June 2017, HBOR redeemed long-term securities of HRK 1,852,051 thousand together with interest of HRK 92,603 thousand.

According to the Agreement between HBOR and Deutsche Bank AG London Branch and J.P. Morgan Securities PLC (as joint lead managers), on 13 August 2013 HBOR issued bonds of EUR 150,000 thousand (HRK 1,114,784 thousand as at 30 September 2017 and HRK 1,121,261 thousand as at 31 December 2016) with maturity period of 6 years and 9 months and fixed interest rate of 6.0%.

**14. Guarantees and commitments**

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

The balance of total gross contingent liabilities as of 30 September 2017 amounted to HRK 5,665,776 thousand, decreased by 7% compared with the beginning of the year. Overview of guarantees and commitments:

|  |  |  |
| --- | --- | --- |
| **Group and Bank** |  | |
|  | **Sep 30, 2017** | **Dec 31, 2016** |
| Guarantees issued in HRK | 21,239 | 32,409 |
| Guarantees issued in foreign currency | 2,220,372 | 2,007,578 |
| Undrawn loans | 3,374,845 | 3,978,340 |
| EIF – subscribed, not called up capital | 47,981 | 48,370 |
| Open letters of credit in foreign currency | 1,000 | - |
| Other irrevocable contingent liabilities | 339 | 339 |
|  | 5,665,776 | 6,067,036 |
| Provisions for guarantees and commitments | (67,548) | (75,103) |
|  | **5,598,228** | **5,991,933** |

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 83%, collateralised by the guarantees, deposits and bank guarantees. Open letters of credit are fully covered by deposits.

Commitments upon undrawn loans

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

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

Other irrevocable contingent liabilities

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

**15. Related-party transactions**

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

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

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

Exposure and liabilities as of 30 September 2017 and 31 December 2016, and income and expense for the period 1 January to 30 September 2017 and for the period 1 January to 30 September 2016 arising from transactions with related parties, including the Bank’s key management personnel, include the following:

1. Related-party transactions

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group** | **Exposure** | **Liabilities** | **Exposure** | | **Liabilities** |
|  | **Sep 30, 2017** | **Sep 30, 2017** | **Dec 31, 2016** | **Dec 31, 2016** | |
| Owner | 3,019,212 | 173,846 | 3,193,565 | 153,374 | |
| Government funds, executive authorities and agencies | 1,007,177 | 175,824 | 1,087,460 | 14,214 | |
| State-owned companies | 1,283,327 | 2 | 1,193,668 | 2 | |
| Associates | 4 | - | 6 | - | |
| Other intra-group transactions | - | - | - | - | |
| Key management personnel | 4,027 | - | 4,289 | - | |
| **Total** | **5,313,747** | **349,672** | **5,478,988** | **167,590** | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Group** | **Income** | **Expense** | **Income** | **Expense** |
|  | **Jan 1 to Sep 30, 2017** | **Jan 1 to Sep 30, 2017** | **Jan 1 to Sep 30, 2016** | **Jan 1 to Sep 30, 2016** |
| Owner | 61,481 | 496 | 70,624 | 5,228 |
| Government funds, executive authorities and agencies | 22,864 | 612 | 15,920 | 952 |
| State-owned companies | 47,676 | 3,765 | 38,069 | 9,877 |
| Associates | 3,814 | - | 536 | - |
| Other intra-group transactions | - | - | - | 53 |
| Key management personnel | 95 | - | 110 | - |
| **Total** | **135,930** | **4,873** | **125,259** | **16,110** |

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

a) Related-party transactions (continued)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank** | **Exposure** | **Liabilities** | | **Exposure** | | **Liabilities** |
|  | **Sep 30, 2017** | | **Sep 30, 2017** | **Dec 31, 2016** | **Dec 31, 2016** | |
| Owner | 3,019,212 | | 173,846 | 3,193,565 | 153,374 | |
| Government funds, executive authorities and agencies | 963,096 | | 175,713 | 1,044,382 | 14,079 | |
| State-owned companies | 1,282,942 | | - | 1,193,271 | - | |
| Subsidiary companies | 36,124 | | - | 36,124 | - | |
| Associates | 4 | | - | 6 | - | |
| Key management personnel | 3,783 | | - | 4,000 | - | |
| **Total** | **5,305,161** | | **349,559** | **5,471,348** | **167,453** | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank** | **Income** | **Expense** | | **Income** | **Expense** | |
|  | **Jan 1 to Sep 30, 2017** | | **Jan 1 to Sep 30, 2017** | **Jan 1 to Sep 30, 2016** | | **Jan 1 to Sep 30, 2016** |
| Owner | 61,481 | | 496 | 70,624 | | 5,228 |
| Government funds, executive authorities and agencies | 21,548 | | 36 | 14,565 | | 544 |
| State-owned companies | 47,657 | | 3,701 | 38,055 | | 9,826 |
| Subsidiary companies | - | | - | - | | - |
| Associates | 3,814 | | - | 536 | | - |
| Key management personnel | 89 | | - | 107 | | - |
| **Total** | **134,589** | | **4,233** | **123,887** | | **15,598** |

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

Liabilities include deposits and other liabilities.

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

Expense includes impairment losses and provisions.

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

1. Collateral received

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
|  |  |  |  |  |
| The Republic of Croatia | 3,668,156 | 3,092,258 | 3,571,221 | 3,007,698 |
| State agencies | 576,863 | 603,215 | 576,863 | 603,215 |
| **Total** | **4,245,019** | **3,695,473** | **4,148,084** | **3,610,913** |

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

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

c) Salaries of key management personnel

Salaries include compensation paid for regular work, annual vacation, national holidays, paid leave, sick leave, jubilee awards and payments pursuant to contracts. Salaries for the Group in the reporting period amounted to HRK 5,873 thousand (1 January to 30 September 2016: HRK 5,965 thousand), and for the Bank amounted to HRK 5,471 thousand (1 January to 30 September 2016: HRK 5,139 thousand).

In the reporting period, remuneration for the work of the members of the Supervisory Board for the Group

amounted to HRK 257 thousand (1 January to 30 September 2016: HRK 251 thousand) and for the Bank amounted to HRK 113 thousand (1 January to 30 September 2016: HRK 147 thousand) and it relates to members of the supervisory boards at associates and subsidiaries who were appointed by HBOR.

**16. Risk management**

**16.1. Introduction**

Based on the Act on the Croatian Bank for Reconstruction and Development, the Bank is obliged to mitigate business risks directed by the principles of banking operations. In the process of risk management, the Bank identifies, estimates, measures, monitors, masters and controls the risks to which it is or might be exposed in the course of business and reports about them to the bodies in charge. The mode, methods and frequency of risk estimations and measurements are prescribed by the internal documents of the Bank. In its daily operations, the Bank manages credit risk, liquidity risk, interest rate risk in the Bank’s book, currency risk, operational risk and outsourcing risk. The mentioned risks are managed on the basis of policies, procedures, methodologies, regulations and systems, limits and decisions/conclusions of the Supervisory Board, the Management Board and the risk management committees.

The Bank has afunctionally and organizationally separate and independent organizational unit for the control of business risks, which is directly responsible to the Management Board. This organisational unit is responsible for definition, evaluation, measurement and control of the risks to which the Bank is exposed or might be exposed in the course of its business. It carries out its role by performing analyses, assessment and measurement of risks, developing risk management policies, procedures, ordinances and methodologies, supervising and monitoring their application, recommending and controlling the accepted exposure limits, giving suggestions and recommendations for adequate management of exposure to credit and non-credit risks as well as reporting to the Management Board and the competent risk management committees.

When assessing or measuring risk, the Bank takes into account historical data, business plans, current and expected market conditions and the specific characteristics of the Bank as a special financial institution. The results of risk assessments or measurements, analyses and stress tests carried out are presented at the meetings of the risk management committees, the Management Board and the Supervisory Board. For the purpose of monitoring and control of risks, systems of limits are introduced for the management of credit risk, liquidity risk, interest rate risk in the Bank’s book and currency risk. The Bank implements the sensitivity analyses and scenario analyses, provided that one or several risk factors are changed in regular or stressful circumstances, and their results are reported to the competent bodies of HBOR. Systems of pro-active risk management are continuously developed for the purpose of reducing possible future risks.

The Management Board of the Bankis responsible for implementing risk management strategies 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:

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

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

**16. Risk management (continued)**

**16.2. Credit risk**

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

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

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

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

As of 30 September 2017, the highest credit exposure of the Group to one debtor equalled HRK 3,243,576 thousand (as of 31 December 2016: HRK 3,147,235 thousand) and of the Bank HRK 3,240,768 thousand (as of 31 December 2016: HRK 3,147,235 thousand), without considering the effect of mitigation through collateral received.

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Gross**  **highest exposure**  **Sep 30, 2017** | **Gross**  **highest exposure**  **Dec 31, 2016** | **Gross**  **highest exposure**  **Sep 30, 2017** | **Gross**  **highest exposure**  **Dec 31, 2016** |
| **Assets** |  |  |  |  |
| Cash on hand and due from banks | 739,907 | 491,243 | 737,621 | 490,692 |
| Deposits with other banks | 76 | 23,872 | 76 | 23,872 |
| Loans to financial institutions | 12,247,287 | 11,889,111 | 12,247,287 | 11,889,111 |
| Loans to other customers | 11,913,212 | 11,511,194 | 11,913,212 | 11,511,194 |
| Financial assets at fair value through profit or loss | 288 | 286 | - | - |
| Assets available for sale | 3,271,673 | 3,353,086 | 3,222,148 | 3,306,628 |
| Assets held to maturity | 1,404 | 1,422 | - | - |
| Other assets | 6,109 | 6,249 | 4,675 | 3,079 |
| **Total** | **28,179,956** | **27,276,463** | **28,125,019** | **27,224,576** |
|  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |
| Guarantees issued in HRK | 21,026 | 32,082 | 21,026 | 32,082 |
| Issued guarantees in foreign currency | 2,191,616 | 1,982,969 | 2,191,616 | 1,982,969 |
| Open letters of credit in foreign currency | 990 | - | 990 | - |
| Undrawn loans | 3,336,279 | 3,928,177 | 3,336,279 | 3,928,177 |
| Other irrevocable contingent liabilities | 335 | 335 | 335 | 335 |
| **Total** | **5,550,246** | **5,943,563** | **5,550,246** | **5,943,563** |
| **Total credit risk exposure** | **33,730,202** | **33,220,026** | **33,675,265** | **33,168,139** |
|  |  |  |  |  |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

| **Group**  **Sep 30, 2017** | **Republic of Croatia** | **EU**  **countries** | **Other**  **countries** | **Total** |
| --- | --- | --- | --- | --- |
| **Assets** |  |  |  |  |
| Cash on hand and due from banks | 383,216 | 347,402 | 9,289 | 739,907 |
| Deposits with other banks | - | 76 | - | 76 |
| Loans to financial institutions | 12,247,287 | - | - | 12,247,287 |
| Loans to other customers | 11,589,479 | - | 323,733 | 11,913,212 |
| Financial assets at fair value through profit or loss | 288 | - | - | 288 |
| Assets available for sale | 3,271,673 | - | - | 3,271,673 |
| Assets held to maturity | 1,404 | - | - | 1,404 |
| Other assets | 5,528 | 581 | - | 6,109 |
| **Total** | **27,498,875** | **348,059** | **333,022** | **28,179,956** |
|  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |
| Guarantees issued in HRK | 20,424 | 602 | - | 21,026 |
| Issued guarantees in foreign currency | 2,191,616 | - | - | 2,191,616 |
| Open letters of credit in foreign currency | 990 | - | - | 990 |
| Undrawn loans | 3,194,161 | - | 142,118 | 3,336,279 |
| Other irrevocable contingent liabilities | 335 | - | - | 335 |
| **Total** | **5,407,526** | **602** | **142,118** | **5,550,246** |
| **Total credit risk exposure** | **32,906,401** | **348,661** | **475,140** | **33,730,202** |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

| **Group**  **Dec 31, 2016** | **Republic of Croatia** | **EU**  **countries** | | **Other countries** | | **Total** | |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | |  | |  | |
| **Assets** |  |  | |  | |  | |
| Cash on hand and due from banks | 188,322 | 301,354 | | 1,567 | | 491,243 | |
| Deposits with other banks | 3,291 | 20,581 | | - | | 23,872 | |
| Loans to financial institutions | 11,889,111 | - | | - | | 11,889,111 | |
| Loans to other customers | 11,281,848 | - | | 229,346 | | 11,511,194 | |
| Financial assets at fair value through profit or loss | 286 | - | | - | | 286 | |
| Assets available for sale | 3,353,086 | - | | - | | 3,353,086 | |
| Assets held to maturity | 1,422 | - | | - | | 1,422 | |
| Other assets | 5,644 | 605 | | - | | 6,249 | |
| **Total** | **26,723,010** | **322,540** | | **230,913** | | **27,276,463** | |
|  |  |  | |  | |  | |
| **Guarantees and commitments** |  |  | |  | |  | |
| Guarantees issued in HRK | 31,480 | 602 | | - | | 32,082 | |
| Issued guarantees in foreign currency | 1,982,969 | - | | - | | 1,982,969 | |
| Undrawn loans | 3,928,177 | - | | - | | 3,928,177 | |
| Other irrevocable contingent liabilities | 335 | - | | - | | 335 | |
| **Total** | **5,942,961** | **602** | | **-** | | **5,943,563** | |
|  |  |  | |  | |  | |
| **Total credit risk exposure** | **32,665,971** | **323,142** | | **230,913** | | **33,220,026** | |
|  |  | |  | |  | |  |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

| **Bank**  **Sep 30, 2017** | **Republic of Croatia** | **EU**  **countries** | **Other**  **countries** | **Total** |
| --- | --- | --- | --- | --- |
| **Assets** |  |  |  |  |
| Cash on hand and due from banks | 380,930 | 347,402 | 9,289 | 737,621 |
| Deposits with other banks | - | 76 | - | 76 |
| Loans to financial institutions | 12,247,287 | - | - | 12,247,287 |
| Loans to other customers | 11,589,479 | - | 323,733 | 11,913,212 |
| Assets available for sale | 3,222,148 | - | - | 3,222,148 |
| Other assets | 4,438 | 237 | - | 4,675 |
| **Total** | **27,444,282** | **347,715** | **333,022** | **28,125,019** |
|  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |
| Guarantees issued in HRK | 20,424 | 602 | - | 21,026 |
| Issued guarantees in foreign currency | 2,191,616 | - | - | 2,191,616 |
| Open letters of credit in foreign currency | 990 | - | - | 990 |
| Undrawn loans | 3,194,161 | - | 142,118 | 3,336,279 |
| Other irrevocable contingent liabilities | 335 | - | - | 335 |
| **Total** | **5,407,526** | **602** | **142,118** | **5,550,246** |
| **Total credit risk exposure** | **32,851,808** | **348,317** | **475,140** | **33,675,265** |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

| **Bank**  **Dec 31, 2016** | **Republic of Croatia** | **EU**  **countries** | **Other countries** | **Total** |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **Assets** |  |  |  |  |
| Cash on hand and due from banks | 187,771 | 301,354 | 1,567 | 490,692 |
| Deposits with other banks | 3,291 | 20,581 | - | 23,872 |
| Loans to financial institutions | 11,889,111 | - | - | 11,889,111 |
| Loans to other customers | 11,281,848 | - | 229,346 | 11,511,194 |
| Assets available for sale | 3,306,628 | - | - | 3,306,628 |
| Other assets | 2,844 | 235 | - | 3,079 |
| **Total** | **26,671,493** | **322,170** | **230,913** | **27,224,576** |
|  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |
| Guarantees issued in HRK | 31,480 | 602 | - | 32,082 |
| Issued guarantees in foreign currency | 1,982,969 | - | - | 1,982,969 |
| Undrawn loans | 3,928,177 | - | - | 3,928,177 |
| Other irrevocable contingent liabilities | 335 | - | - | 335 |
| **Total** | **5,942,961** | **602** | **-** | **5,943,563** |
|  |  |  |  |  |
| **Total credit risk exposure** | **32,614,454** | **322,772** | **230,913** | **33,168,139** |
|  |  |  |  |  |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

| **Group** | **Gross**  **highest exposure** | **Net**  **highest exposure** | **Gross**  **highest exposure** | **Net**  **highest exposure** |
| --- | --- | --- | --- | --- |
|  | **Sep 30, 2017** | **Sep 30, 2017** | **Dec 31, 2016** | **Dec 31, 2016** |
| Financial intermediation and insurance | 15,734,672 | - | 15,359,154 | - |
| Water and electric supply and other infrastructure | 1,238,166 | 947,121 | 1,322,277 | 959,881 |
| Tourism | 3,643,698 | 283,906 | 3,630,150 | 363,739 |
| Transport, warehousing and connections | 1,876,406 | 789,194 | 1,714,718 | 836,069 |
| Shipbuilding | 2,506,555 | 409,031 | 2,257,050 | 572,383 |
| Agriculture and fishery | 478,355 | 69,543 | 515,711 | 68,982 |
| Food industry | 1,018,003 | 181,995 | 1,159,546 | 205,632 |
| Construction industry | 1,130,121 | 24,447 | 1,225,887 | 53,900 |
| Other industry | 491,463 | 149,900 | 527,352 | 138,850 |
| Public administration | 2,443,045 | 2,443,045 | 2,426,716 | 2,426,716 |
| Education | 47,308 | 41,904 | 47,020 | 40,956 |
| Manufacture of basic metals and fabricated metal products, except machinery and equipment | 350,334 | 52,965 | 407,254 | 62,818 |
| Manufacture of chemicals and chemical products | 404,188 | 89,818 | 255,576 | 16,761 |
| Manufacture of other non-metallic mineral products | 201,528 | 3,829 | 273,959 | 4,399 |
| Pharmaceutical industry | 547,060 | 836 | 572,470 | 809 |
| Other | 1,619,300 | 480,651 | 1,525,185 | 311,092 |
| **Total credit risk exposure** | **33,730,202** | **5,968,185** | **33,220,026** | **6,062,987** |
|  |  |  |  |  |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

| **Bank** | **Gross**  **highest exposure** | **Net**  **highest exposure** | **Gross**  **highest exposure** | **Net**  **highest exposure** |
| --- | --- | --- | --- | --- |
|  | **Sep 30, 2017** | **Sep 30, 2017** | **Dec 31, 2016** | **Dec 31, 2016** |
| Financial intermediation and insurance | 15,726,433 | - | 15,352,325 | - |
| Water and electric supply and other infrastructure | 1,238,166 | 947,121 | 1,322,277 | 959,881 |
| Tourism | 3,643,698 | 283,906 | 3,630,150 | 363,739 |
| Transport, warehousing and connections | 1,875,969 | 788,757 | 1,714,322 | 835,673 |
| Shipbuilding | 2,506,555 | 409,031 | 2,257,050 | 572,383 |
| Agriculture and fishery | 478,332 | 69,521 | 515,702 | 68,974 |
| Food industry | 1,017,946 | 181,938 | 1,159,491 | 205,577 |
| Construction industry | 1,129,939 | 24,265 | 1,225,813 | 53,826 |
| Other industry | 491,155 | 149,591 | 527,143 | 138,641 |
| Public administration | 2,398,470 | 2,398,470 | 2,383,635 | 2,383,635 |
| Education | 47,308 | 41,904 | 47,020 | 40,956 |
| Manufacture of basic metals and fabricated metal products, except machinery and equipment | 350,283 | 52,915 | 407,200 | 62,764 |
| Manufacture of chemicals and chemical products | 404,166 | 89,795 | 255,537 | 16,721 |
| Manufacture of other non-metallic mineral products | 201,516 | 3,817 | 273,896 | 4,336 |
| Pharmaceutical industry | 546,225 | - | 571,663 | - |
| Other | 1,619,104 | 480,455 | 1,524,915 | 310,823 |
| **Total credit risk exposure** | **33,675,265** | **5,921,486** | **33,168,139** | **6,017,929** |
|  |  |  |  |  |

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

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

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

The fair value of collateral for the Group as of 30 September 2017 amounted to HRK 27,762,017 thousand (31 December 2016: HRK 27,157,039 thousand), and for the Bank HRK 27,753,779 thousand (31 December 2016: HRK 27,150,210 thousand).

In the total net highest exposure of the Bank as of 30 September 2017, the credit risk of HRK 3,940,148 thousand (31 December 2016: HRK 4,136,125 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 611,997 thousand (31 December 2016: HRK 867,410 thousand), from local (regional) authorities of HRK 504,120 thousand (31 December 2016: HRK 395,629 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 240,746 thousand (31 December 2016: HRK 242,735 thousand), government funds of HRK 33 thousand (31 December 2016: HRK 1,250 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,412,228 thousand (31 December 2016: HRK 2,399,224 thousand). In addition, an amount of HRK 171,024 thousand (31 December 2016: HRK 229,877 thousand) relates to receivables from a majority state-owned company (controlling influence).

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

Financial intermediation includes mainly commercial banks.

Credit risk exposure by internal credit rating:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Internal credit rating** | **Historical**  **default**  **rate**  **(%)** | **Historical**  **default**  **rate**  **(%)** |  | **Group** |  | **Bank** |
|  | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
|  |  |  |  |  |  |  |
| **A** | **1,13%** | **1.52%** | 32,003,912 | 31,671,378 | 31,948,975 | 31,619,491 |
| **B** | **34,50%** | **34.08%** | 1,726,290 | 1,548,648 | 1,726,290 | 1,548,648 |
| **C** | **96,10%** | **95.56%** | - | - | - | - |
|  | **Total** |  | **33,730,202** | **33,220,026** | **33,675,265** | **33,168,139** |
|  |  |  |  |  |  |  |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Sep 30, 2017** | **Gross**  **exposure of portfolio of risk group A** | **Gross exposure of portfolio of risk group B** | **Gross exposure of portfolio of risk group C** | **Gross exposure of total portfolio** | **Net exposure of portfolio of risk group A** | **Net exposure of portfolio of risk group B** | **Net exposure of portfolio of risk group C** | **Net exposure of total portfolio** |
| **Assets** |  |  |  |  |  |  |  |  |
| Cash on hand and due from banks | 739,907 | - | - | 739,907 | - | - | - | - |
| Deposits with other banks | 76 | - | - | 76 | - | - | - | - |
| Loans to financial institutions | 12,019,833 | 227,454 | - | 12,247,287 | - | - | - | - |
| Loans to other customers | 10,445,613 | 1,467,599 | - | 11,913,212 | 2,699,305 | 47,822 | - | 2,747,127 |
| Financial assets at fair value through profit or loss | 288 | - | - | 288 | - | - | - | - |
| Assets available for sale | 3,271,673 | - | - | 3,271,673 | 2,457,169 | - | - | 2,457,169 |
| Assets held to maturity | 1,404 | - | - | 1,404 | 1,404 | - | - | 1,404 |
| Other assets | 4,744 | 1,365 | - | 6,109 | 4,000 | 1,365 | - | 5,365 |
| **Total** | **26,483,538** | **1,696,418** | **-** | **28,179,956** | **5,161,878** | **49,187** | **-** | **5,211,065** |
| **Guarantees and commitments** |  |  |  |  |  |  |  |  |
| Guarantees issued in HRK | 21,026 | - | - | 21,026 | 1,254 | - | - | 1,254 |
| Issued guarantees in foreign currency | 2,164,257 | 27,359 | - | 2,191,616 | 288,987 | - | - | 288,987 |
| Open letters of credit in foreign currency | 990 | - | - | 990 | - | - | - | - |
| Undrawn loans | 3,333,766 | 2,513 | - | 3,336,279 | 466,544 | - | - | 466,544 |
| Other irrevocable contingent liabilities | 335 | - | - | 335 | 335 | - | - | 335 |
| **Total** | **5,520,374** | **29,872** | **-** | **5,550,246** | **757,120** | **-** | **-** | **757,120** |
| **Total credit risk exposure** | **32,003,912** | **1,726,290** | **-** | **33,730,202** | **5,918,998** | **49,187** | **-** | **5,968,185** |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Dec 31, 2016** | **Gross**  **exposure of portfolio of risk group A** | **Gross exposure of portfolio of risk group B** | **Gross exposure of portfolio of risk group C** | **Gross exposure of total portfolio** | **Net exposure of portfolio of risk group A** | **Net exposure of portfolio of risk group B** | **Net exposure of portfolio of risk group C** | **Net exposure of total portfolio** |
| **Assets** |  |  |  |  |  |  |  |  |
| Cash on hand and due from banks | 491,243 | - | - | 491,243 | - | - | - | - |
| Deposits with other banks | 23,872 | - | - | 23,872 | - | - | - | - |
| Loans to financial institutions | 11,472,130 | 416,981 | - | 11,889,111 | - | - | - | - |
| Loans to other customers | 10,415,684 | 1,095,510 | - | 11,511,194 | 2,484,106 | 34,930 | - | 2,519,036 |
| Financial assets at fair value through profit or loss | 286 | - | - | 286 | - | - | - | - |
| Assets available for sale | 3,353,086 | - | - | 3,353,086 | 2,442,549 | - | - | 2,442,549 |
| Assets held to maturity | 1,422 | - | - | 1,422 | 1,422 | - | - | 1,422 |
| Other assets | 5,853 | 396 | - | 6,249 | 3,270 | 396 | - | 3,666 |
| **Total** | **25,763,576** | **1,512,887** | **-** | **27,276,463** | **4,931,347** | **35,326** | **-** | **4,966,673** |
| **Guarantees and commitments** |  |  |  |  |  |  |  |  |
| Guarantees issued in HRK | 32,082 | - | - | 32,082 | - | - | - | - |
| Issued guarantees in foreign currency | 1,964,149 | 18,820 | - | 1,982,969 | 437,160 | - | - | 437,160 |
| Undrawn loans | 3,911,236 | 16,941 | - | 3,928,177 | 658,819 | - | - | 658,819 |
| Other irrevocable contingent liabilities | 335 | - | - | 335 | 335 | - | - | 335 |
| **Total** | **5,907,802** | **35,761** | **-** | **5,943,563** | **1,096,314** | **-** | **-** | **1,096,314** |
|  |  |  |  |  |  |  |  |  |
| **Total credit risk exposure** | **31,671,378** | **1,548,648** | **-** | **33,220,026** | **6,027,661** | **35,326** | **-** | **6,062,987** |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Sep 30, 2017** | **Gross exposure of portfolio of risk group A** | **Gross exposure of portfolio of risk group B** | **Gross exposure of portfolio of risk group C** | **Gross exposure of total portfolio** | **Net exposure of portfolio of risk group A** | **Net**  **exposure of portfolio of risk group B** | **Net**  **exposure of portfolio of risk group C** | **Net exposure of total portfolio** |
| **Assets** |  |  |  |  |  |  |  |  |
| Cash on hand and due from banks | 737,621 | - | - | 737,621 | - | - | - | - |
| Deposits with other banks | 76 | - | - | 76 | - | - | - | - |
| Loans to financial institutions | 12,019,833 | 227,454 | - | 12,247,287 | - | - | - | - |
| Loans to other customers | 10,445,613 | 1,467,599 | - | 11,913,212 | 2,699,305 | 47,822 | - | 2,747,127 |
| Assets available for sale | 3,222,148 | - | - | 3,222,148 | 2,412,890 | - | - | 2,412,890 |
| Other assets | 3,310 | 1,365 | - | 4,675 | 2,984 | 1,365 | - | 4,349 |
| **Total** | **26,428,601** | **1,696,418** | **-** | **28,125,019** | **5,115,179** | **49,187** | **-** | **5,164,366** |
| **Guarantees and commitments** |  |  |  |  |  |  |  |  |
| Guarantees issued in HRK | 21,026 | - | - | 21,026 | 1,254 | - | - | 1,254 |
| Issued guarantees in foreign currency | 2,164,257 | 27,359 | - | 2,191,616 | 288,987 | - | - | 288,987 |
| Open letters of credit in foreign currency | 990 | - | - | 990 | - | - | - | - |
| Undrawn loans | 3,333,766 | 2,513 | - | 3,336,279 | 466,544 | - | - | 466,544 |
| Other irrevocable contingent liabilities | 335 | - | - | 335 | 335 | - | - | 335 |
| **Total** | **5,520,374** | **29,872** | **-** | **5,550,246** | **757,120** | **-** | **-** | **757,120** |
| **Total credit risk exposure** | **31,948,975** | **1,726,290** | **-** | **33,675,265** | **5,872,299** | **49,187** | **-** | **5,921,486** |

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,525,570 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 609,680 thousand, local (regional) authorities of HRK 504,120 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 240,746 thousand and the government funds of HRK 0 thousand. An additional amount of HRK 171,024 thousand relates to receivables from majority state-owned companies (controlling influence).

The amount of assets available for sale and held to maturity is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,456,736 thousand for the Group and HRK 2,412,228 thousand for the Bank.

Other assets of HRK 2,015 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Dec 31, 2016** | **Gross exposure**  **of portfolio**  **of risk**  **group A** | **Gross exposure**  **of portfolio**  **of risk**  **group B** | **Gross exposure of portfolio**  **of risk**  **group C** | **Gross exposure of total portfolio** | **Net exposure of portfolio**  **of risk**  **group A** | **Net exposure of portfolio**  **of risk**  **group B** | **Net exposure of portfolio**  **of risk**  **group C** | **Net exposure of total portfolio** |
| **Assets** |  |  |  |  |  |  |  |  |
| Cash on hand and due from banks | 490,692 | - | - | 490,692 | - | - | - | - |
| Deposits with other banks | 23,872 | - | - | 23,872 | - | - | - | - |
| Loans to financial institutions | 11,472,130 | 416,981 | - | 11,889,111 | - | - | - | - |
| Loans to other customers | 10,415,684 | 1,095,510 | - | 11,511,194 | 2,484,106 | 34,930 | - | 2,519,036 |
| Assets available for sale | 3,306,628 | - | - | 3,306,628 | 2,399,825 | - | - | 2,399,825 |
| Other assets | 2,683 | 396 | - | 3,079 | 2,358 | 396 | - | 2,754 |
| **Total** | **25,711,689** | **1,512,887** | **-** | **27,224,576** | **4,886,289** | **35,326** | **-** | **4,921,615** |
| **Guarantees and commitments** |  |  |  |  |  |  |  |  |
| Guarantees issued in HRK | 32,082 | - | - | 32,082 | - | - | - | - |
| Issued guarantees in foreign currency | 1,964,149 | 18,820 | - | 1,982,969 | 437,160 | - | - | 437,160 |
| Undrawn loans | 3,911,236 | 16,941 | - | 3,928,177 | 658,819 | - | - | 658,819 |
| Other irrevocable contingent liabilities | 335 | - | - | 335 | 335 | - | - | 335 |
| **Total** | **5,907,802** | **35,761** | **-** | **5,943,563** | **1,096,314** | **-** | **-** | **1,096,314** |
|  |  |  |  |  |  |  |  |  |
| **Total credit risk exposure** | **31,619,491** | **1,548,648** | **-** | **33,168,139** | **5,982,603** | **35,326** | **-** | **6,017,929** |

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,498,400 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 628,961 thousand, local (regional) authorities of HRK 395,629 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 242,735 thousand and the government funds of HRK 1,198 thousand. An additional amount of HRK 229,877 thousand relates to receivables from majority state-owned companies (controlling influence).

The amount of assets available for sale and held to maturity is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,399,224 thousand for the Group and HRK 2,442,203 thousand for the Bank.

Other assets of HRK 922 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

The amount of HRK 237,245 thousand relates to a guarantee issued in foreign currency, for which the liability was assumed by the Republic of Croatia. The guarantee was removed from business records of HBOR after the reporting period date, i.e. on 13 February 2017, due to the cessation of payment obligation resulting from arbitration decision.

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Group**  **Sep 30, 2017** | **Gross exposure neither past due nor impaired** | **Gross exposure**  **past due**  **not**  **impaired** | **Gross exposure**  **individually impaired** | **Total** |
| **Assets** |  |  |  |  |
| Cash on hand and due from banks | 739,907 | - | - | 739,907 |
| Deposits with other banks | 76 | - | - | 76 |
| Loans to financial institutions | 11,729,583 | 290,250 | 227,454 | 12,247,287 |
| Loans to other customers | 10,269,097 | 176,516 | 1,467,599 | 11,913,212 |
| Financial assets at fair value through profit or loss | 288 | - | - | 288 |
| Assets available for sale | 3,271,673 | - | - | 3,271,673 |
| Assets held to maturity | 1,404 | - | - | 1,404 |
| Other assets | 3,593 | 1,151 | 1,365 | 6,109 |
| **Total** | **26,015,621** | **467,917** | **1,696,418** | **28,179,956** |
| **Guarantees and commitments** |  |  |  |  |
| Guarantees issued in HRK | 21,026 | - | - | 21,026 |
| Issued guarantees in foreign currency | 2,164,257 | - | 27,359 | 2,191,616 |
| Open letters of credit in foreign currency | 990 | - | - | 990 |
| Undrawn loans | 3,333,766 | - | 2,513 | 3,336,279 |
| Other irrevocable contingent liabilities | 335 | - | - | 335 |
| **Total** | **5,520,374** | **-** | **29,872** | **5,550,246** |
| **Total credit risk exposure** | **31,535,995** | **467,917** | **1,726,290** | **33,730,202** |
|  |  |  |  |  |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Group**  **Dec 31, 2016** | **Gross**  **exposure neither past due nor impaired** | **Gross**  **exposure**  **past**  **due not**  **impaired** | **Gross**  **exposure**  **individually impaired** | **Total** |
| **Assets** |  |  |  |  |
| Cash on hand and due from banks | 491,243 | - | - | 491,243 |
| Deposits with other banks | 23,872 | - | - | 23,872 |
| Loans to financial institutions | 11,259,676 | 212,454 | 416,981 | 11,889,111 |
| Loans to other customers | 10,249,918 | 165,766 | 1,095,510 | 11,511,194 |
| Financial assets at fair value through profit or loss | 286 | - | - | 286 |
| Assets available for sale | 3,353,086 | - | - | 3,353,086 |
| Assets held to maturity | 1,422 | - | - | 1,422 |
| Other assets | 4,528 | 1,325 | 396 | 6,249 |
|  |  |  |  |  |
| **Total** | **25,384,031** | **379,545** | **1,512,887** | **27,276,463** |
|  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |
| Guarantees issued in HRK | 32,082 | - | - | 32,082 |
| Issued guarantees in foreign currency | 1,964,149 | - | 18,820 | 1,982,969 |
| Undrawn loans | 3,911,236 | - | 16,941 | 3,928,177 |
| Other irrevocable contingent liabilities | 335 | - | - | 335 |
|  |  |  |  |  |
| **Total** | **5,907,802** | **-** | **35,761** | **5,943,563** |
|  |  |  |  |  |
| **Total credit risk exposure** | **31,291,833** | **379,545** | **1,548,648** | **33,220,026** |
|  |  |  |  |  |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Bank**  **Sep 30, 2017** | **Gross**  **exposure neither past due nor impaired** | **Gross**  **exposure**  **past due**  **not**  **impaired** | **Gross**  **exposure**  **individually impaired** | **Total** |
| **Assets** |  |  |  |  |
| Cash on hand and due from banks | 737,621 | - | - | 737,621 |
| Deposits with other banks | 76 | - | - | 76 |
| Loans to financial institutions | 11,729,583 | 290,250 | 227,454 | 12,247,287 |
| Loans to other customers | 10,269,097 | 176,516 | 1,467,599 | 11,913,212 |
| Assets available for sale | 3,222,148 | - | - | 3,222,148 |
| Other assets | 2,485 | 825 | 1,365 | 4,675 |
| **Total** | **25,961,010** | **467,591** | **1,696,418** | **28,125,019** |
| **Guarantees and commitments** |  |  |  |  |
| Guarantees issued in HRK | 21,026 | - | - | 21,026 |
| Issued guarantees in foreign currency | 2,164,257 | - | 27,359 | 2,191,616 |
| Open letters of credit in foreign currency | 990 | - | - | 990 |
| Undrawn loans | 3,333,766 | - | 2,513 | 3,336,279 |
| Other irrevocable contingent liabilities | 335 | - | - | 335 |
| **Total** | **5,520,374** | **-** | **29,872** | **5,550,246** |
| **Total credit risk exposure** | **31,481,384** | **467,591** | **1,726,290** | **33,675,265** |
|  |  |  |  |  |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Bank**  **Dec 31, 2016** | **Gross**  **exposure**  **neither past**  **due nor**  **impaired** | **Gross**  **exposure**  **past**  **due not**  **impaired** | **Gross**  **exposure**  **individually impaired** | **Total** |
| **Assets** |  |  |  |  |
| Cash on hand and due from banks | 490,692 | - | - | 490,692 |
| Deposits with other banks | 23,872 | - | - | 23,872 |
| Loans to financial institutions | 11,259,676 | 212,454 | 416,981 | 11,889,111 |
| Loans to other customers | 10,249,918 | 165,766 | 1,095,510 | 11,511,194 |
| Assets available for sale | 3,306,628 | - | - | 3,306,628 |
| Other assets | 1,666 | 1,017 | 396 | 3,079 |
|  |  |  |  |  |
| **Total** | **25,332,452** | **379,237** | **1,512,887** | **27,224,576** |
|  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |
| Guarantees issued in HRK | 32,082 | - | - | 32,082 |
| Issued guarantees in foreign currency | 1,964,149 | - | 18,820 | 1,982,969 |
| Undrawn loans | 3,911,236 | - | 16,941 | 3,928,177 |
| Other irrevocable contingent liabilities | 335 | - | - | 335 |
|  |  |  |  |  |
| **Total** | **5,907,802** | **-** | **35,761** | **5,943,563** |
|  |  |  |  |  |
| **Total credit risk exposure** | **31,240,254** | **379,237** | **1,548,648** | **33,168,139** |
|  |  |  |  |  |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Sep 30, 2017** | **Up to**  **15 days** | **16 to 30**  **days** | **31 to 60**  **days** | **61 to 90**  **days** | **Over**  **90 days** | **Total** |
| **Assets** |  |  |  |  |  |  |
| Loans to financial institutions | 210,002 | 55,790 | 23,657 | 801 | - | 290,250 |
| Loans to other customers | 70,863 | 2,634 | 21 | 1,612 | 101,386 | 176,516 |
| Other assets | 411 | 38 | 38 | 252 | 412 | 1,151 |
|  |  |  |  |  |  |  |
| **Total** | **281,276** | **58,462** | **23,716** | **2,665** | **101,798** | **467,917** |
|  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Dec 31, 2016** | **Up to**  **15 days** | **16 to 30**  **days** | **31 to 60**  **days** | **61 to 90**  **days** | **Over**  **90 days** | **Total** |
| **Assets** |  |  |  |  |  |  |
| Loans to financial institutions | 200,364 | 552 | 4,000 | 17 | 7,521 | 212,454 |
| Loans to other customers | 109,035 | 36 | 8,072 | 803 | 47,820 | 165,766 |
| Other assets | 936 | 200 | 125 | 38 | 26 | 1,325 |
|  |  |  |  |  |  |  |
| **Total** | **310,335** | **788** | **12,197** | **858** | **55,367** | **379,545** |
|  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Sep 30, 2017** | **Up to**  **15 days** | **16 to 30**  **days** | **31 to 60**  **days** | **61 to 90**  **days** | **Over**  **90 days** | **Total** |
| **Assets** |  |  |  |  |  |  |
| Loans to financial institutions | 210,002 | 55,790 | 23,657 | 801 | - | 290,250 |
| Loans to other customers | 70,863 | 2,634 | 21 | 1,612 | 101,386 | 176,516 |
| Other assets | 164 | 2 | - | 247 | 412 | 825 |
|  |  |  |  |  |  |  |
| **Total** | **281,029** | **58,426** | **23,678** | **2,660** | **101,798** | **467,591** |
|  |  |  |  |  |  |  |

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Dec 31, 2016** | **Up to**  **15 days** | **16 to 30**  **days** | **31 to 60**  **days** | **61 to 90**  **days** | **Over**  **90 days** | **Total** |
| **Assets** |  |  |  |  |  |  |
| Loans to financial institutions | 200,364 | 552 | 4,000 | 17 | 7,521 | 212,454 |
| Loans to other customers | 109,035 | 36 | 8,072 | 803 | 47,820 | 165,766 |
| Other assets | 862 | 73 | 38 | 18 | 26 | 1,017 |
|  |  |  |  |  |  |  |
| **Total** | **310,261** | **661** | **12,110** | **838** | **55,367** | **379,237** |
|  |  |  |  |  |  |  |

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

From total due and not impaired loans to financial institutions in the reporting period, an amount of HRK 87,167 thousand, i.e. 30%, relates to not executed extensions of short-term revolving loans.

Due to the maturity falling on 30 September 2017 being a non-working day, an amount of HRK 200.006 thousand, i.e. 69% of due but not impaired loans to financial institutions, was collected on 2 October 2017 being the first following working day.

From total due and not impaired loans to other customers in the reporting period, an amount of HRK 70,863 thousand, i.e. 40%, relates to delays of up to 15 days, of which the amount of HRK 13,904 thousand, i.e. 20%, was guaranteed by the Republic of Croatia.

From total due and not impaired loans to financial institutions in 2016, an amount of HRK 11,448 thousand, i.e. 5%, relates to not executed extensions of short-term revolving loans.

Due to the maturity falling on 31 December 2016 being a non-working day, an amount of HRK 193,524 thousand, i.e. 91% of due but not impaired loans to financial institutions, was collected on 2 January 2017 being the first following working day.

From total due and not impaired loans to other customers in 2016, an amount of HRK 109,035 thousand, i.e. 66%, relates to delays of up to 15 days, of which the amount of HRK 10,430 thousand, i.e. 10%, was guaranteed by the Republic of Croatia.

**16. Risk management (continued)**

**16.3. Liquidity risk**

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

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

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

The table below provides an analysis of total assets and total liabilities and equity as of 30 September 2017 and 31 December 2016 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Sep 30, 2017** | **Up to 1**  **month** | **1 to 3 months** | **3 months to 1 year** | **1 to 3**  **years** | **Over 3**  **years** | **Total** |
| **Assets** |  |  |  |  |  |  |
| Cash on hand and due from banks | 739,917 | - | - | - | - | 739,917 |
| Deposits with other banks | 76 | - | - | - | - | 76 |
| Loans to financial institutions\* | 989,428 | 1,052,929 | 1,394,685 | 2,949,319 | 5,860,926 | 12,247,287 |
| Loans to other customers | 1,972,564 | 207,291 | 889,924 | 1,963,395 | 6,880,038 | 11,913,212 |
| Financial assets at fair value through profit or loss | 288 | - | - | - | - | 288 |
| Assets available for sale | 3,303,536 | 10,269 | 240 | - | - | 3,314,045 |
| Assets held to maturity | - | 16 | 2 | - | 1,386 | 1,404 |
| Investments in associates | - | - | - | - | - | - |
| Property, plant and equipment and intangible assets | - | - | - | - | 54,076 | 54,076 |
| Non-current assets held for sale | - |  | 1,972 | 2,765 | 12,308 | 17,045 |
| Other assets | 8,745 | 2,271 | 1,183 | 2 | 1,173 | 13,374 |
| **Total assets (1)** | **7,014,554** | **1,272,776** | **2,288,006** | **4,915,481** | **12,809,907** | **28,300,724** |
| **Liabilities** |  |  |  |  |  |  |
| Deposits | 732,851 | 165,501 | 1,739 | 20,775 | 19,918 | 940,784 |
| Borrowings | 74,500 | 528,428 | 1,175,170 | 3,683,546 | 9,874,190 | 15,335,834 |
| Bonds payable | - | 26,805 | - | 1,114,417 | - | 1,141,222 |
| Other liabilities | 165,353 | 26,800 | 83,220 | 168,359 | 178,338 | 622,070 |
| **Total liabilities** | **972,704** | **747,534** | **1,260,129** | **4,987,097** | **10,072,446** | **18,039,910** |
| **Equity** |  |  |  |  |  |  |
| Founder’s capital | - | - | - | - | 6,984,632 | 6,984,632 |
| Retained earnings and reserves | - | - | - | - | 2,996,968 | 2,996,968 |
| Other reserves | - | - | - | - | 90,397 | 90,397 |
| Net profit for the year | - | - | - | - | 176,541 | 176,541 |
| **Total equity attributable to equity holders of the parent** | **-** | **-** | **-** | **-** | **10,248,538** | **10,248,538** |
|  |  |  |  |  |  |  |
| Guarantee fund | - | - | - | - | 12,276 | 12,276 |
| **Total equity** | **-** | **-** | **-** | **-** | **10,260,814** | **10,260,814** |
|  |  |  |  |  |  |  |
| **Total liabilities and total equity (2)** | **972,704** | **747,534** | **1,260,129** | **4,987,097** | **20,333,260** | **28,300,724** |
| **Net assets/liabilities (1) – (2)** | **6,041,850** | **525,242** | **1,027,877** | **(71,616)** | **(7,523,353)** | **-** |
| **Net cumulative assets/liabilities** | **6,041,850** | **6,567,092** | **7,594,969** | **7,523,353** | **-** | **-** |

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

\* Receivables of HRK 1,312,480 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 700,000 thousand was placed in the 1 up to 3 months maturity category.

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Dec 31, 2016** | **Up to 1 month** | **1 - 3 months** | **3 - 12**  **months** | **1 - 3**  **years** | **Over 3 years** | **Total** |
| **Assets** |  |  |  |  |  |  |
| Cash on hand and due from banks | 491,246 | - | - | - | - | 491,246 |
| Deposits with other banks | - | 23,872 | - | - | - | 23,872 |
| Loans to financial institutions\* | 684,891 | 441,872 | 1,774,961 | 3,131,823 | 5,855,564 | 11,889,111 |
| Loans to other customers | 1,423,234 | 385,784 | 948,959 | 1,850,611 | 6,902,606 | 11,511,194 |
| Financial assets at fair value through profit or loss | 286 | - | - | - | - | 286 |
| Assets available for sale | 3,375,864 | 14,074 | 96 | - | - | 3,390,034 |
| Assets held to maturity | - | 10 | 4 | - | 1,408 | 1,422 |
| Investments in associates | - | - | - | - | - | - |
| Property, plant and equipment and intangible assets | - | - | - | - | 57,305 | 57,305 |
| Non-current assets held for sale | - | - | 27 | 11,450 | 5,753 | 17,230 |
| Other assets | 6,225 | 748 | 530 | 620 | 999 | 9,122 |
| **Total assets (1)** | **5,981,746** | **866,360** | **2,724,577** | **4,994,504** | **12,823,635** | **27,390,822** |
|  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |
| Deposits | 75,581 | - | 12,687 | 46,407 | 8,169 | 142,844 |
| Borrowings | 355,456 | 237,339 | 1,017,892 | 3,060,113 | 8,720,949 | 13,391,749 |
| Bonds payable | - | 95,932 | 1,888,837 | - | 1,120,800 | 3,105,569 |
| Other liabilities | 151,186 | 29,918 | 105,330 | 194,459 | 227,059 | 707,952 |
| **Total liabilities** | **582,223** | **363,189** | **3,024,746** | **3,300,979** | **10,076,977** | **17,348,114** |
|  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |
| Founder’s capital | - | - | - | - | 6,959,632 | 6,959,632 |
| Retained earnings and reserves | - | - | - | - | 2,682,127 | 2,682,127 |
| Other reserves | - | - | - | - | 73,733 | 73,733 |
| Net profit for the year | - | - | - | - | 314,841 | 314,841 |
| **Total equity attributable to equity holders of the parent** | **-** | **-** | **-** | **-** | **10,030,333** | **10,030,333** |
|  |  |  |  |  |  |  |
| Guarantee fund | - | - | - | - | 12,375 | 12,375 |
|  |  |  |  |  |  |  |
| **Total equity** | - | **-** | **-** | - | **10,042,708** | **10,042,708** |
| **Total liabilities and total equity (2)** | **582,223** | **363,189** | **3,024,746** | **3,300,979** | **20,119,685** | **27,390,822** |
| **Net assets/liabilities (1) – (2)** | **5,399,523** | **503,171** | **(300,169)** | **1,693,525** | **(7,296,050)** | **-** |
| **Net cumulative assets/liabilities** | **5,399,523** | **5,902,694** | **5,602,525** | **7,296,050** | **-** | **-** |

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

***\**** *Receivables of HRK 232,489 thousand relate to reverse REPO agreements and were placed in the up to 1 month maturity category.*

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

The table below provides an analysis of total assets and total liabilities and equity as of 30 September 2017 and 31 December 2016 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Sep 30, 2017** | **Up to 1**  **month** | **1 to 3 months** | **3 months to 1 year** | **1 to 3**  **years** | **Over 3**  **years** | **Total** |
| **Assets** |  |  |  |  |  |  |
| Cash on hand and due from banks | 737,631 | - | - | - | - | 737,631 |
| Deposits with other banks | 76 | - | - | - | - | 76 |
| Loans to financial institutions\* | 989,428 | 1,052,929 | 1,394,685 | 2,949,319 | 5,860,926 | 12,247,287 |
| Loans to other customers | 1,972,564 | 207,291 | 889,924 | 1,963,395 | 6,880,038 | 11,913,212 |
| Assets available for sale | 3,254,487 | 10,033 | - | - | - | 3,264,520 |
| Investments in subsidiaries | - | - | - | - | - | - |
| Investments in associates | - | - | - | - | 36,124 | 36,124 |
| Property, plant and equipment and intangible assets | -- | - | - | - | 54,022 | 54,022 |
| Non-current assets held for sale | - | - | 1,972 | 2,765 | 12,308 | 17,045 |
| Other assets | 7,734 | 1,885 | 1,146 | 2 | 911 | 11,678 |
| **Total assets (1)** | **6,961,920** | **1,272,138** | **2,287,727** | **4,915,481** | **12,844,329** | **28,281,595** |
| **Liabilities** |  |  |  |  |  |  |
| Deposits | 732,851 | 165,501 | 1,739 | 20,775 | 19,918 | 940,784 |
| Borrowings | 74,500 | 528,428 | 1,175,170 | 3,683,546 | 9,874,190 | 15,335,834 |
| Bonds payable | - | 26,805 | - | 1,114,417 | - | 1,141,222 |
| Other liabilities | 164,772 | 25,626 | 78,738 | 159,322 | 180,886 | 609,344 |
| **Total liabilities** | **972,123** | **746,360** | **1,255,647** | **4,978,060** | **10,074,994** | **18,027,184** |
| **Equity** |  |  |  |  |  |  |
| Founder’s capital | - | - | - | - | 6,984,632 | 6,984,632 |
| Retained earnings and reserves | - | - | - | - | 2,995,656 | 2,995,656 |
| Other reserves | - | - | - | - | 86,336 | 86,336 |
| Net profit for the year | - | - | - | - | 175,511 | 175,511 |
| **Capital** |  |  |  |  | **10,242,135** | **10,242,135** |
| Guarantee fund | - | - | - | - | 12,276 | 12,276 |
| **Total equity** | **-** | **-** | **-** | **-** | **10,254,411** | **10,254,411** |
| **Total liabilities and total equity (2)** | **972,123** | **746,360** | **1,255,647** | **4,978,060** | **20,329,405** | **28,281,595** |
| **Net assets/liabilities (1) – (2)** | **5,989,797** | **525,778** | **1,032,080** | **(62,579)** | **(7,485,076)** | **-** |
| **Net cumulative assets/liabilities** | **5,989,797** | **6,515,575** | **7,547,655** | **7,485,076** | **-** | **-** |

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

*\* \* Receivables of HRK 1,312,480 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 700,000 thousand was placed in the 1 up to 3 months maturity category.*

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Dec 31, 2016** | **Up to 1 month** | **1 - 3**  **months** | **3 - 12**  **months** | **1 - 3**  **years** | **Over 3**  **years** | **Total** |
| **Assets** |  |  |  |  |  |  |
| Cash on hand and due from banks | 490,695 | - | - | - | - | 490,695 |
| Deposits with other banks | - | 23,872 | - | - | - | 23,872 |
| Loans to financial institutions\* | 684,891 | 441,872 | 1,774,961 | 3,131,823 | 5,855,564 | 11,889,111 |
| Loans to other customers | 1,423,234 | 385,784 | 948,959 | 1,850,611 | 6,902,606 | 11,511,194 |
| Assets available for sale | 3,329,585 | 13,989 | - | - | - | 3,343,574 |
| Investments in subsidiaries | - | - | - | - | 36,124 | 36,124 |
| Investments in associates | - | - | - | - | - | - |
| Property, plant and equipment and intangible assets | - | - | - | - | 57,216 | 57,216 |
| Non-current assets held for sale | - | - | 27 | 11,450 | 5,753 | 17,230 |
| Other assets | 3,505 | 326 | 504 | 620 | 945 | 5,900 |
| **Total assets (1)** | **5,931,910** | **865,843** | **2,724,451** | **4,994,504** | **12,858,208** | **27,374,916** |
|  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |
| Deposits | 75,581 | - | 12,687 | 46,407 | 8,169 | 142,844 |
| Borrowings | 355,456 | 237,339 | 1,017,892 | 3,060,113 | 8,720,949 | 13,391,749 |
| Bonds payable | - | 95,932 | 1,888,837 | - | 1,120,800 | 3,105,569 |
| Other liabilities | 150,555 | 28,649 | 100,528 | 188,186 | 228,856 | 696,774 |
| **Total liabilities** | **581,592** | **361,920** | **3,019,944** | **3,294,706** | **10,078,774** | **17,336,936** |
|  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |
| Founder’s capital | - | - | - | - | 6,959,632 | 6,959,632 |
| Retained earnings and reserves | - | - | - | - | 2,682,131 | 2,682,131 |
| Other reserves | - | - | - | - | 70,317 | 70,317 |
| Net profit for the year | - | - | - | - | 313,525 | 313,525 |
| **Capital** | **-** | **-** | **-** | **-** | **10,025,605** | **10,025,605** |
|  |  |  |  |  |  |  |
| Guarantee fund | - | - | - | - | 12,375 | 12,375 |
|  |  |  |  |  |  |  |
| **Total equity** | **-** | **-** | **-** | **-** | **10,037,980** | **10,037,980** |
| **Total liabilities and total equity (2)** | **581,592** | **361,920** | **3,019,944** | **3,294,706** | **20,116,754** | **27,374,916** |
| **Net assets/liabilities (1) – (2)** | **5,350,318** | **503,923** | **(295,493)** | **1,699,798** | **(7,258,546)** | **-** |
| **Net cumulative assets/liabilities** | **5,350,318** | **5,854,241** | **5,558,748** | **7,258,546** | **-** | **-** |

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

*\* Receivables of HRK 232,489 thousand relate to reverse REPO agreements and were placed in the up to 1 month maturity category.*

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Sep 30, 2017** | **Up to 1 month** | **1 - 3 months** | **3 - 12**  **months** | **1 - 3**  **years** | **Over 3**  **years** | **Total** |
| **Financial liabilities** |  |  |  |  |  |  |
| Deposits | 732,851 | 165,501 | 1,739 | 20,775 | 19,918 | 940,784 |
| Borrowings | 100,165 | 501,689 | 1,374,467 | 4,129,466 | 10,605,419 | 16,711,206 |
| Bonds payable | - | - | 67,474 | 1,249,365 | - | 1,316,839 |
| Other liabilities | 165,353 | 26,800 | 83,220 | 168,359 | 178,338 | 622,070 |
|  |  |  |  |  |  |  |
| **Total** | **998,369** | **693,990** | **1,526,900** | **5,567,965** | **10,803,675** | **19,590,899** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Dec 31, 2016** | **Up to 1 month** | **1 - 3 months** | **3 - 12**  **months** | **1 - 3**  **years** | **Over 3 years** | **Total** |
| **Financial liabilities** |  |  |  |  |  |  |
| Deposits | 75,581 | - | 12,687 | 46,407 | 8,169 | 142,844 |
| Borrowings | 382,184 | 208,630 | 1,261,178 | 3,598,035 | 9,694,025 | 15,144,052 |
| Bonds payable | - | - | 2,051,330 | 136,040 | 1,188,820 | 3,376,190 |
| Other liabilities | 151,186 | 29,918 | 105,330 | 194,459 | 227,059 | 707,952 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **Total** | **608,951** | **238,548** | **3,430,525** | **3,974,941** | **11,118,073** | **19,371,038** |

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Sep 30, 2017** | **Up to 1 month** | **1 - 3 months** | **3 - 12**  **months** | **1 - 3**  **years** | **Over 3 years** | **Total** |
| **Financial liabilities** |  |  |  |  |  |  |
| Deposits | 732,851 | 165,501 | 1,739 | 20,775 | 19,918 | 940,784 |
| Borrowings | 100,165 | 501,689 | 1,374,467 | 4,129,466 | 10,605,419 | 16,711,206 |
| Bonds payable | - | - | 67,474 | 1,249,365 | - | 1,316,839 |
| Other liabilities | 164,772 | 25,626 | 78,738 | 159,322 | 180,886 | 609,344 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **Total** | **997,788** | **692,816** | **1,522,418** | **5,558,928** | **10,806,223** | **19,578,173** |
|  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Dec 31, 2016** | **Up to 1 month** | **1 - 3 months** | **3 - 12**  **months** | **1 - 3**  **years** | **Over 3 years** | **Total** |
| **Financial liabilities** |  |  |  |  |  |  |
| Deposits | 75,581 | - | 12,687 | 46,407 | 8,169 | 142,844 |
| Borrowings | 382,184 | 208,630 | 1,261,178 | 3,598,035 | 9,694,025 | 15,144,052 |
| Bonds payable | - | - | 2,051,330 | 136,040 | 1,188,820 | 3,376,190 |
| Other liabilities | 150,555 | 28,649 | 100,528 | 188,186 | 228,856 | 696,774 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **Total** | **608,320** | **237,279** | **3,425,723** | **3,968,668** | **11,119,870** | **19,359,860** |

**16. Risk management (continued)**

**16.4. Market risk**

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

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

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

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

The following tables demonstrate the sensitivity of the Group to interest rates risk as of 30 September 2017 and 31 December 2016 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter. Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of Group’s interest rate risk exposure as of 30 September 2017 and 31 December 2016 which may not be indicative for the positions in other periods.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Sep 30, 2017** | **Up to 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 3 years** | **Over 3 years** | **Non-interest bearing** | **Total** |
| **Assets** |  |  |  |  |  |  |  |
| Cash on hand and due from banks | 2,286 | - | - | - | - | 737,631 | 739,917 |
| Deposits with other banks | - | - | - | - | - | 76 | 76 |
| Loans to financial institutions | 1,108,362 | 1,243,129 | 1,440,286 | 2,800,134 | 5,624,913 | 30,463 | 12,247,287 |
| Loans to other customers | 2,033,676 | 761,799 | 770,835 | 1,665,456 | 6,618,197 | 63,249 | 11,913,212 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 288 | 288 |
| Assets available for sale | 2,451,409 | - | - | - | - | 862,636 | 3,314,045 |
| Assets held to maturity | - | - | - | - | 1,386 | 18 | 1,404 |
| Investments in associates | - | - | - | - | - | - | - |
| Property, plant and equipment and intangible assets | - | - | - | - | - | 54,076 | 54,076 |
| Non-current assets held for sale | - | - | - | - | - | 17,045 | 17,045 |
| Other assets | - | - | - | - | - | 13,374 | 13,374 |
| **Total assets (1)** | **5,595,733** | **2,004,928** | **2,211,121** | **4,465,590** | **12,244,496** | **1,778,856** | **28,300,724** |
|  |  |  |  |  |  |  |  |

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Sep 30, 2017** | **Up to 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 3**  **years** | **Over 3**  **years** | **Non-interest bearing** | **Total** |
| **Liabilities** |  |  |  |  |  |  |  |
| Deposits | 644,752 | - | - | - | - | 296,032 | 940,784 |
| Borrowings | 74,500 | 455,796 | 1,175,171 | 3,683,546 | 9,874,189 | 72,632 | 15,335,834 |
| Bonds payable | - | - | - | 1,114,417 | - | 26,805 | 1,141,222 |
| Other liabilities | - | - | - | - | - | 622,070 | 622,070 |
| **Total liabilities** | **719,252** | **455,796** | **1,175,171** | **4,797,963** | **9,874,189** | **1,017,539** | **18,039,910** |
| **Equity** |  |  |  |  |  |  |  |
| Founder’s capital | - | - | - | - | - | 6,984,632 | 6,984,632 |
| Retained earnings and reserves | - | - | - | - | - | 2,996,968 | 2,996,968 |
| Other reserves | - | - | - | - | - | 90,397 | 90,397 |
| Net profit for the year | - | - | - | - | - | 176,541 | 176,541 |
| **Total equity attributable to equity holders of the parent** | **-** | **-** | **-** | **-** | **-** | **10,248,538** | **10,248,538** |
| Guarantee fund | - | - | - | - | - | 12,276 | 12,276 |
| **Total equity** | **-** | **-** | **-** | **-** | **-** | **10,260,814** | **10,260,814** |
| **Total liabilities and total equity (2)** | **719,252** | **455,796** | **1,175,171** | **4,797,963** | **9,874,189** | **11,278,353** | **28,300,724** |
| **Net assets/liabilities (1) – (2)** | **4,876,481** | **1,549,132** | **1,035,950** | **(332,373)** | **2,370,307** | **(9,499,497)** | **-** |
|  |  |  |  |  |  |  |  |

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Dec 31, 2016** | **Up to 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 3 years** | **Over 3 years** | **Non-interest bearing** | **Total** |
| **Assets** |  |  |  |  |  |  |  |
| Cash on hand and due from banks | 551 | - | - | - | - | 490,695 | 491,246 |
| Deposits with other banks | - | 23,871 | - | - | - | 1 | 23,872 |
| Loans to financial institutions | 652,666 | 836,489 | 1,873,910 | 2,926,641 | 5,562,538 | 36,867 | 11,889,111 |
| Loans to other customers | 1,517,371 | 824,285 | 1,081,418 | 1,506,407 | 6,522,314 | 59,399 | 11,511,194 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 286 | 286 |
| Assets available for sale | 2,431,379 | - | - | - | - | 958,655 | 3,390,034 |
| Assets held to maturity | - | - | - | - | 1,408 | 14 | 1,422 |
| Investments in associates | - | - | - | - | - | - | - |
| Property, plant and equipment and intangible assets | - | - | - | - | - | 57,305 | 57,305 |
| Non-current assets held for sale | - | - | - | - | - | 17,230 | 17,230 |
| Other assets | - | - | - | - | - | 9,122 | 9,122 |
| **Total assets (1)** | **4,601,967** | **1,684,645** | **2,955,328** | **4,433,048** | **12,086,260** | **1,629,574** | **27,390,822** |
|  |  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |  |
| Deposits | - | - | - | - | - | 142,844 | 142,844 |
| Borrowings | 355,442 | 171,450 | 1,020,722 | 3,059,168 | 8,720,949 | 64,018 | 13,391,749 |
| Bonds payable | - | - | 1,888,837 | - | 1,120,800 | 95,932 | 3,105,569 |
| Other liabilities | - | - | - | - | - | 707,952 | 707,952 |
| **Total liabilities** | **355,442** | **171,450** | **2,909,559** | **3,059,168** | **9,841,749** | **1,010,746** | **17,348,114** |
| **Equity** |  |  |  |  |  |  |  |
| Founder’s capital | - | - | - | - | - | 6,959,632 | 6,959,632 |
| Retained earnings and reserves | - | - | - | - | - | 2,682,127 | 2,682,127 |
| Other reserves | - | - | - | - | - | 73,733 | 73,733 |
| Net profit for the year | - | - | - | - | - | 314,841 | 314,841 |
| **Total equity attributable to equity holders of the parent** | **-** | **-** | **-** | **-** | **-** | **10,030,333** | **10,030,333** |
| Guarantee fund | **-** | **-** | **-** | **-** | **-** | 12,375 | 12,375 |
| **Total equity** | **-** | **-** | **-** | **-** | **-** | **10,042,708** | **10,042,708** |
| **Total liabilities and total equity (2)** | **355,442** | **171,450** | **2,909,559** | **3,059,168** | **9,841,749** | **11,053,454** | **27,390,822** |
| **Net assets/liabilities (1) – (2)** | **4,246,525** | **1,513,195** | **45,769** | **1,373,880** | **2,244,511** | **(9,423,880)** | **-** |
|  |  |  |  |  |  |  |  |

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

The following tables demonstrate the sensitivity of HBOR to interest rates risk as of 30 September 2017 and 31 December 2016 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter. Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of HBOR’s interest rate risk exposure as of 30 September 2017 and 31 December 2016 which may not be indicative for the positions in other periods.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Sep 30, 2017** | **Up to 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 3 years** | **Over 3 years** | **Non-interest bearing** | **Total** |
| **Assets** |  |  |  |  |  |  |  |
| Cash on hand and due from banks | - | - | - | - | - | 737,631 | 737,631 |
| Deposits with other banks | - | - | - | - | - | 76 | 76 |
| Loans to financial institutions | 1,108,362 | 1,243,129 | 1,440,286 | 2,800,134 | 5,624,913 | 30,463 | 12,247,287 |
| Loans to other customers | 2,033,676 | 761,799 | 770,835 | 1,665,456 | 6,618,197 | 63,249 | 11,913,212 |
| Assets available for sale | 2,402,858 | - | - | - | - | 861,662 | 3,264,520 |
| Investments in subsidiaries | - | - | - | - | - | 36,124 | 36,124 |
| Investments in associates | - | - | - | - | - | - | - |
| Property, plant and equipment and intangible assets | - | - | - | - | - | 54,022 | 54,022 |
| Non-current assets held for sale | - | - | - | - | - | 17,045 | 17,045 |
| Other assets | - | - | - | - | - | 11,678 | 11,678 |
| **Total assets (1)** | **5,544,896** | **2,004,928** | **2,211,121** | **4,465,590** | **12,243,110** | **1,811,950** | **28,281,595** |
|  |  |  |  |  |  |  |  |

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Sep 30, 2017** | **Up to 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 3 years** | **Over 3 years** | **Non-interest bearing** | **Total** |
| **Liabilities** |  |  |  |  |  |  |  |
| Deposits | 644,752 | - | - | - | - | 296,032 | 940,784 |
| Borrowings | 74,500 | 455,796 | 1,175,171 | 3,683,546 | 9,874,189 | 72,632 | 15,335,834 |
| Bonds payable | - | - | - | 1,114,417 | - | 26,805 | 1,141,222 |
| Other liabilities | - | - | - | - | - | 609,344 | 609,344 |
| **Total liabilities** | **719,252** | **455,796** | **1,175,171** | **4,797,963** | **9,874,189** | **1,004,813** | **18,027,184** |
|  |  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |  |
| Founder’s capital | - | - | - | - | - | 6,984,632 | 6,984,632 |
| Retained earnings and reserves | - | - | - | - | - | 2,995,656 | 2,995,656 |
| Other reserves | - | - | - | - | - | 86,336 | 86,336 |
| Net profit for the year | - | - | - | - | - | 175,511 | 175,511 |
| **Capital** | **-** | **-** | **-** | **-** | **-** | **10,242,135** | **10,242,135** |
| Guarantee fund | - | - | - | - | - | 12,276 | 12,276 |
| **Total equity** | **-** | **-** | **-** | **-** | **-** | **10,254,411** | **10,254,411** |
| **Total liabilities and total equity (2)** | **719,252** | **455,796** | **1,175,171** | **4,797,963** | **9,874,189** | **11,259,224** | **28,281,595** |
| **Net assets/liabilities (1) – (2)** | **4,825,644** | **1,549,132** | **1,035,950** | **(332,373)** | **2,368,921** | **(9,447,274)** | **-** |
|  |  |  |  |  |  |  |  |

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Dec 31, 2016** | **Up to 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 3 years** | **Over 3 years** | **Non-interest bearing** | **Total** |
| **Assets** |  |  |  |  |  |  |  |
| Cash on hand and due from banks | - | - | - | - | - | 490,695 | 490,695 |
| Deposits with other banks | - | 23,871 | - | - | - | 1 | 23,872 |
| Loans to financial institutions | 652,666 | 836,489 | 1,873,910 | 2,926,641 | 5,562,538 | 36,867 | 11,889,111 |
| Loans to other customers | 1,517,371 | 824,285 | 1,081,418 | 1,506,407 | 6,522,314 | 59,399 | 11,511,194 |
| Assets available for sale | 2,385,835 | - | - | - | - | 957,739 | 3,343,574 |
| Investments in subsidiaries | - | - | - | - | - | 36,124 | 36,124 |
| Investments in associates | - | - | - | - | - | - | - |
| Property, plant and equipment and intangible assets | - | - | - | - | - | 57,216 | 57,216 |
| Non-current assets held for sale | - | - | - | - | - | 17,230 | 17,230 |
| Other assets | - | - | - | - | - | 5,900 | 5,900 |
| **Total assets (1)** | **4,555,872** | **1,684,645** | **2,955,328** | **4,433,048** | **12,084,852** | **1,661,171** | **27,374,916** |
|  |  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |  |
| Deposits | - | - | - | - | - | 142,844 | 142,844 |
| Borrowings | 355,442 | 171,450 | 1,020,722 | 3,059,168 | 8,720,949 | 64,018 | 13,391,749 |
| Bonds payable | - | - | 1,888,837 | - | 1,120,800 | 95,932 | 3,105,569 |
| Other liabilities | - | - | - | - | - | 696,774 | 696,774 |
| **Total liabilities** | **355,442** | **171,450** | **2,909,559** | **3,059,168** | **9,841,749** | **999,568** | **17,336,936** |
|  |  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |  |
| Founder’s capital | - | - | - | - | - | 6,959,632 | 6,959,632 |
| Retained earnings and reserves | - | - | - | - | - | 2,682,131 | 2,682,131 |
| Other reserves | - | - | - | - | - | 70,317 | 70,317 |
| Net profit for the year | - | - | - | - | - | 313,525 | 313,525 |
| **Capital** | **-** | **-** | **-** | **-** | **-** | **10,025,605** | **10,025,605** |
| Guarantee fund | - | - | - | - | - | 12,375 | 12,375 |
| **Total equity** | **-** | **-** | **-** | **-** | **-** | **10,037,980** | **10,037,980** |
| **Total liabilities and total equity (2)** | **355,442** | **171,450** | **2,909,559** | **3,059,168** | **9,841,749** | **11,037,548** | **27,374,916** |
| **Net assets/liabilities (1) – (2)** | **4,200,430** | **1,513,195** | **45,769** | **1,373,880** | **2,243,103** | **(9,376,377)** | **-** |
|  |  |  |  |  |  |  |  |

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
| **Assets** |  |  |  |  |
|  |  |  |  |  |
| Fixed interest rate assets | 25,098,785 | 23,991,858 | 25,046,562 | 23,944,355 |
| Variable interest rate assets | 1,423,083 | 1,769,390 | 1,423,083 | 1,769,390 |
| Non-interest bearing | 1,778,856 | 1,629,574 | 1,811,950 | 1,661,171 |
| **Total assets** | **28,300,724** | **27,390,822** | **28,281,595** | **27,374,916** |
|  |  |  |  |  |
| **Liabilities** |  |  |  |  |
|  |  |  |  |  |
| Fixed interest rate liabilities | 17,021,434 | 16,333,589 | 17,021,434 | 16,333,589 |
| Variable interest rate liabilities | 937 | 3,779 | 937 | 3,779 |
| Non-interest bearing | 11,278,353 | 11,053,454 | 11,259,224 | 11,037,548 |
| **Total liabilities and total equity** | **28,300,724** | **27,390,822** | **28,281,595** | **27,374,916** |

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

**Sensitivity analysis**

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

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

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Currency** | **Increase in b.p.**  **Jan 1 to**  **Sep 30, 2017** | **Effect on profit**  **Jan 1 to**  **Sep 30, 2017** | **Increase in**  **b.p. Jan 1 to**  **Dec 31, 2016** | **Effect on profit**  **Jan 1 to**  **Dec 31, 2016** |
|  |  | **HRK '000** |  | **HRK '000** |
|  |  |  |  |  |
| EUR | +2 | 214 | +4 | 535 |
| USD | +28 | 1,010 | +11 | 472 |
|  |  |  |  |  |
| **Currency** | **Decrease in b.p.**  **Jan 1 to**  **Sep 30, 2017** | **Effect on profit**  **Jan 1 to Sep 30, 2017** | **Decrease in**  **b.p. Jan 1 to**  **Dec 31, 2016** | **Effect on profit**  **Jan 1 to**  **Dec 31, 2016** |
|  |  | **HRK '000** |  | **HRK '000** |
|  |  |  |  |  |
| EUR | -2 | (214) | -4 | (535) |
| USD | -28 | (1,010) | -11 | (472) |

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk**

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

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

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

Total assets and total liabilities and equity as of 30 September 2017 and 31 December 2016 in HRK and foreign currencies can be shown as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Sep 30, 2017** | **USD** | **EUR** | **Other foreign currencies** | **Total foreign currencies** | **HRK** | **Total** |
| **Assets** |  |  |  |  |  |  |
| Cash on hand and due from banks | 9,328 | 347,477 | 2,626 | 359,431 | 380,486 | 739,917 |
| Deposits with other banks | - | 76 | - | 76 | - | 76 |
| Loans to financial institutions | - | 6,430,519 | - | 6,430,519 | 5,816,768 | 12,247,287 |
| Loans to other customers | 444,287 | 8,593,500 | - | 9,037,787 | 2,875,425 | 11,913,212 |
| Financial assets at fair value through profit or loss | - | 288 | - | 288 | - | 288 |
| Assets available for sale | - | 846,321 | - | 846,321 | 2,467,724 | 3,314,045 |
| Assets held to maturity | - | 1,404 | - | 1,404 | - | 1,404 |
| Investments in associates | - | - | - | - | - | - |
| Property, plant and equipment and intangible assets | - | - | - | - | 54,076 | 54,076 |
| Non-current assets held for sale | - | - | - | - | 17,045 | 17,045 |
| Other assets | - | 516 | - | 516 | 12,858 | 13,374 |
| **Total assets (1)** | **453,615** | **16,220,101** | **2,626** | **16,676,342** | **11,624,382\*** | **28,300,724** |
| **Liabilities** |  |  |  |  |  |  |
| Deposits | 20,573 | 691,008 | 1,250 | 712,831 | 227,953 | 940,784 |
| Borrowings | 404,582 | 14,931,252 | - | 15,335,834 | - | 15,335,834 |
| Bonds payable | - | 1,141,222 | - | 1,141,222 | - | 1,141,222 |
| Other liabilities | 3,896 | 14,036 | 2,775 | 20,707 | 601,363 | 622,070 |
| **Total liabilities** | **429,051** | **16,777,518** | **4,025** | **17,210,594** | **829,316** | **18,039,910** |
| **Equity** |  |  |  |  |  |  |
| Founder’s capital | - | - | - | - | 6,984,632 | 6,984,632 |
| Retained earnings and reserves | - | - | - | - | 2,996,968 | 2,996,968 |
| Other reserves | - | - | - | - | 90,397 | 90,397 |
| Net profit for the year | - | - | - | - | 176,541 | 176,541 |
| **Total equity attributable to equity holders of the parent** | - | - | - | - | **10,248,538** | **10,248,538** |
| Guarantee fund | - | 12,276 | - | 12,276 | - | 12,276 |
| **Total equity** | **-** | **12,276** | **-** | **12,276** | **10,248,538** | **10,260,814** |
| **Total liabilities and total equity (2)** | **429,051** | **16,789,794** | **4,025** | **17,222,870** | **11,077,854** | **28,300,724** |
| **Net assets/liabilities (1) – (2)** | **24,564** | **(569,693)** | **(1,399)\*\*** | **(546,528)** | **546,528** | **-** |

*\*Amounts linked to a one-way currency clause represent HRK 176,945 thousand.*

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

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group**  **Dec 31, 2016** | **USD** | **EUR** | **Other foreign currencies** | **Total foreign currencies** | **HRK** | **Total** |
| **Assets** |  |  |  |  |  |  |
| Cash on hand and due from banks | 1,606 | 301,338 | 1,584 | 304,528 | 186,718 | 491,246 |
| Deposits with other banks | 20,581 | - | 3,291 | 23,872 | - | 23,872 |
| Loans to financial institutions | - | 6,655,483 | - | 6,655,483 | 5,233,628 | 11,889,111 |
| Loans to other customers | 527,661 | 7,768,328 | - | 8,295,989 | 3,215,205 | 11,511,194 |
| Financial assets at fair value through profit or loss | - | 286 | - | 286 | - | 286 |
| Assets available for sale | 14,686 | 1,100,197 | - | 1,114,883 | 2,275,151 | 3,390,034 |
| Assets held to maturity | - | 1,422 | - | 1,422 | - | 1,422 |
| Investments in associates | - | - | - | - | - | - |
| Property, plant and equipment and intangible assets | - | - | - | - | 57,305 | 57,305 |
| Non-current assets held for sale | - | - | - | - | 17,230 | 17,230 |
| Other assets | - | 369 | - | 369 | 8,753 | 9,122 |
| **Total assets (1)** | **564,534** | **15,827,423** | **4,875** | **16,396,832** | **10,993,990\*** | **27,390,822** |
|  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |
| Deposits | 48,380 | 42,778 | 3,459 | 94,617 | 48,227 | 142,844 |
| Borrowings | 315,434 | 13,076,315 | - | 13,391,749 | - | 13,391,749 |
| Bonds payable | - | 3,105,569 | - | 3,105,569 | - | 3,105,569 |
| Other liabilities | 163 | 9,664 | 2,885 | 12,712 | 695,240 | 707,952 |
| **Total liabilities** | **363,977** | **16,234,326** | **6,344** | **16,604,647** | **743,467** | **17,348,114** |
|  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |
| Founder’s capital | - | - | - | - | 6,959,632 | 6,959,632 |
| Retained earnings and reserves | - | - | - | - | 2,682,127 | 2,682,127 |
| Other reserves | - | - | - | - | 73,733 | 73,733 |
| Net profit for the year | - | - | - | - | 314,841 | 314,841 |
| **Total equity attributable to equity holders of the parent** | **-** | **-** | **-** | **-** | **10,030,333** | **10,030,333** |
|  |  |  |  |  |  |  |
| Guarantee fund | - | 12,375 | - | 12,375 | - | 12,375 |
|  |  |  |  |  |  |  |
| **Total equity** | **-** | **12,375** | **-** | **12,375** | **10,030,333** | **10,042,708** |
| **Total liabilities and total equity (2)** | **363,977** | **16,246,701** | **6,344** | **16,617,022** | **10,773,800** | **27,390,822** |
| **Net assets/liabilities (1) – (2)** | **200,557** | **(419,278)** | **(1,469)\*\*** | **(220,190)** | **220,190** | **-** |

*\*Amounts linked to a one-way currency clause represent HRK 249,278 thousand.*

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

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

Total assets and total liabilities and equity as of 30 September 2017 and 31 December 2016 in HRK and foreign currencies can be shown as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Sep 30, 2017** | **USD** | **EUR** | **Other**  **foreign currencies** | **Total**  **foreign currencies** | **HRK** | **Total** |
| **Assets** |  |  |  |  |  |  |
| Cash on hand and due from banks | 9,328 | 347,477 | 2,626 | 359,431 | 378,200 | 737,631 |
| Deposits with other banks | - | 76 | - | 76 | - | 76 |
| Loans to financial institutions | - | 6,430,519 | - | 6,430,519 | 5,816,768 | 12,247,287 |
| Loans to other customers | 444,287 | 8,593,500 | - | 9,037,787 | 2,875,425 | 11,913,212 |
| Assets available for sale | - | 834,409 | - | 834,409 | 2,430,111 | 3,264,520 |
| Investments in subsidiaries | - | - | - | - | 36,124 | 36,124 |
| Investments in associates | - | - | - | - | - | - |
| Property, plant and equipment and intangible assets | - | - | - | - | 54,022 | 54,022 |
| Non-current assets held for sale | - | - | - | - | 17,045 | 17,045 |
| Other assets | - | 172 | - | 172 | 11,506 | 11,678 |
| **Total assets (1)** | **453,615** | **16,206,153** | **2,626** | **16,662,394** | **11,619,201\*** | **28,281,595** |
| **Liabilities** |  |  |  |  |  |  |
| Deposits | 20,573 | 691,008 | 1,250 | 712,831 | 227,953 | 940,784 |
| Borrowings | 404,582 | 14,931,252 | - | 15,335,834 | - | 15,335,834 |
| Bonds payable | - | 1,141,222 | - | 1,141,222 | - | 1,141,222 |
| Other liabilities | 3,658 | 6,377 | 2,721 | 12,756 | 596,588 | 609,344 |
| **Total liabilities** | **428,813** | **16,769,859** | **3,971** | **17,202,643** | **824,541** | **18,027,184** |
| **Equity** |  |  |  |  |  |  |
| Founder’s capital | - | - | - | - | 6,984,632 | 6,984,632 |
| Retained earnings and reserves | - | - | - | - | 2,995,656 | 2,995,656 |
| Other reserves | - | - | - | - | 86,336 | 86,336 |
| Net profit for the year | - | - | - | - | 175,511 | 175,511 |
| **Capital** | **-** | **-** | **-** | **-** | **10,242,135** | **10,242,135** |
| Guarantee fund | - | 12,276 | - | 12,276 | - | 12,276 |
| **Total equity** | **-** | **12,276** | **-** | **12,276** | **10,242,135** | **10,254,411** |
| **Total liabilities and total equity (2)** | **428,813** | **16,782,135** | **3,971** | **17,214,919** | **11,066,676** | **28,281,595** |
| **Net assets/liabilities (1) – (2)** | **24,802** | **(575,982)** | **(1,345)\*\*** | **(552,525)** | **552,525** | **-** |
|  |  |  |  |  |  |  |

*\* Amounts linked to a one-way currency clause represent HRK 176,945 thousand.*

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

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **Dec 31, 2016** | **USD** | **EUR** | **Other foreign currencies** | **Total foreign currencies** | **HRK** | **Total** |
| **Assets** |  |  |  |  |  |  |
| Cash on hand and due from banks | 1,606 | 301,338 | 1,584 | 304,528 | 186,167 | 490,695 |
| Deposits with other banks | 20,581 | - | 3,291 | 23,872 | - | 23,872 |
| Loans to financial institutions | - | 6,655,483 | - | 6,655,483 | 5,233,628 | 11,889,111 |
| Loans to other customers | 527,661 | 7,768,328 | - | 8,295,989 | 3,215,205 | 11,511,194 |
| Assets available for sale | 14,686 | 1,089,520 | - | 1,104,206 | 2,239,368 | 3,343,574 |
| Investments in subsidiaries | - | - | - | - | 36,124 | 36,124 |
| Investments in associates | - | - | - | - | - | - |
| Property, plant and equipment and intangible assets | - | - | - | - | 57,216 | 57,216 |
| Non-current assets held for sale | - | - | - | - | 17,230 | 17,230 |
| Other assets | - | - | - | - | 5,900 | 5,900 |
| **Total assets (1)** | **564,534** | **15,814,669** | **4,875** | **16,384,078** | **10,990,838\*** | **27,374,916** |
|  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |
| Deposits | 48,380 | 42,778 | 3,459 | 94,617 | 48,227 | 142,844 |
| Borrowings | 315,433 | 13,076,316 | - | 13,391,749 | - | 13,391,749 |
| Bonds payable | - | 3,105,569 | - | 3,105,569 | - | 3,105,569 |
| Other liabilities | - | 2,895 | 2,840 | 5,735 | 691,039 | 696,774 |
| **Total liabilities** | **363,813** | **16,227,558** | **6,299** | **16,597,670** | **739,266** | **17,336,936** |
|  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |
| Founder’s capital | - | - | - | - | 6,959,632 | 6,959,632 |
| Retained earnings and reserves | - | - | - | - | 2,682,131 | 2,682,131 |
| Other reserves | - | - | - | - | 70,317 | 70,317 |
| Net profit for the year | - | - | - | - | 313,525 | 313,525 |
| **Capital** | **-** | **-** | **-** | **-** | **10,025,605** | **10,025,605** |
| Guarantee fund | - | 12,375 | - | 12,375 | - | 12,375 |
| **Total equity** | **-** | **12,375** | **-** | **12,375** | **10,025,605** | **10,037,980** |
| **Total liabilities and total equity (2)** | **363,813** | **16,239,933** | **6,299** | **16,610,045** | **10,764,871** | **27,374,916** |
| **Net assets/liabilities (1) – (2)** | **200,721** | **(425,264)** | **(1,424)\*\*** | **(225,967)** | **225,967** | **-** |
|  |  |  |  |  |  |  |

*\*Amounts linked to a one-way currency clause represent HRK 249,278 thousand.*

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

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

**Sensitivity analysis**

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

An assumption of reasonably possible fluctuations in EUR exchange rates against HRK was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR’s profit as of 30 September 2017.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.5% in the previous 12 months.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Change in currency rate**  **Jan 1 to**  **Sep 30, 2017** | **Effect on**  **profit**  **Jan 1 to**  **Sep 30, 2017** | **Change in currency rate**  **Jan 1 to**  **Dec 31, 2016** | **Effect on**  **profit**  **Jan 1 to**  **Dec 31, 2016** |
|  | **%** | **HRK' 000** | **%** | **HRK' 000** |
|  |  |  |  |  |
| EUR | +1,5% | 1,926 | +1.5% | 5,912 |
|  | - |  |  |  |
| EUR | -1,5% | 52 | -1.5% | (5,020) |

**16.5. Operational risk**

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

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

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

**16. Risk management (continued)**

**16.6. Outsourcing risk**

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

The Bank manages the outsourcing risk on the basis of internal documents that are in compliance with the regulations prescribed by the Croatian National Bank and the good banking practice applicable to the operations of the Bank. Internal documents determine the management of this risk, the procedures for the carrying out of outsourced activities, the rules for the management of relations with the service providers and the obligation to reduce the risk to the lowest level possible.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**(continued)**

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

The fair value of bonds issued by HBOR on 30 September 2017 is stated in Note 13 and is presented by using level 2 inputs that are observable at Bloomberg service on the basis of mid-rate of Bloomberg Generic (BGN) prices.

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

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

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

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

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

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group** | **Sep 30, 2017** | | | **Dec 31, 2016** | | |
|  | **Level 1** | **Level 2** | **Level 3** | **Level 1** | **Level 2** | **Level 3** |
| ***Financial assets at fair value through profit or loss:*** |  |  |  |  |  |  |
| Shares in investment funds recognised at fair value through profit or loss | 288 | - | - | 286 | - | - |
| **Total financial assets at fair value through profit or loss** | **288** | - | - | **286** | **-** | **-** |
| **Assets available for sale:** |  |  |  |  |  |  |
| **Debt instruments:** |  |  |  |  |  |  |
| ***Listed debt instruments:*** |  |  |  |  |  |  |
| Bonds of the Ministry of Finance of the Republic of Croatia | 896,475 | - | - | 925,887 | - | - |
| Financial institution bonds | 878 | - | - | 910 | - | - |
| Corporate bonds | 786 | - | - | 1,161 | - | - |
| Treasury bills of the Ministry of Finance of the Republic of Croatia | 1,548,521 | - | - | 1,500,420 | - | - |
| Accrued interest | 10,369 | - | - | 14,495 | - | - |
| ***Unlisted debt instruments:*** |  |  |  |  |  |  |
| Corporate bonds | - | - | 512 | - | - | 502 |
| Accrued interest | - | - | 150 | - | - | 99 |
| **Total debt instruments** | **2,457,029** | **-** | **662** | **2,442,873** | **-** | **601** |
| **Equity instruments:** |  |  |  |  |  |  |
| ***Listed equity instruments:*** |  |  |  |  |  |  |
| Corporate shares | 16,805 | - | - | 10,938 | - | - |
| **Unlisted equity instruments:** |  |  |  |  |  |  |
| Investment in shares of foreign companies | - | 35 | - | - | 32 | - |
| Investment in financial institutions shares | - | 161 | - | - | 161 | - |
| Shares of foreign financial institutions – EIF | - | 25,371 | - | - | 25,815 | - |
| Corporate shares | - | - | - | - | - | - |
| **Total equity instruments** | **16,805** | **25,567** | **-** | **10,938** | **26,008** | **-** |
| ***Investments in investment funds:*** |  |  |  |  |  |  |
| Shares classified as assets available for sale | 813,982 | - | - | 909,614 | - | - |
| **Total investments in investment funds** |  | **-** | **-** |  |  |  |
| **813,982** | **-** | **-** | **909,614** | **-** | **-** |
| **Total assets available for sale** | **3,287,816** | **25,567** | **662** | **3,363,425** | **26,008** | **601** |

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.

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank** | **Sep 30, 2017** | | | **Dec 31, 2016** | | |
|  | **Level 1** | **Level 2** | **Level 3** | **Level 1** | **Level 2** | **Level 3** |
| ***Assets available for sale:*** |  |  |  |  |  |  |
| ***Debt instruments:*** |  |  |  |  |  |  |
| ***Listed debt instruments:*** |  |  |  |  |  |  |
| Bonds of the Ministry of Finance of the Republic of Croatia | 853,824 | - | - | 884,914 | - | - |
| Treasury bills of the Ministry of finance of the Republic of Croatia | 1,548,521 | - | - | 1,500,420 | - | - |
| Accrued interest | 9,883 | - | - | 13,890 | - | - |
| ***Unlisted debt instruments:*** |  |  |  |  |  |  |
| Corporate bonds | - | - | 512 | - | - | 502 |
| Accrued interest | - | - | 150 | - | - | 99 |
| **Total debt instruments** | **2,412,228** | **-** | **662** | **2,399,224** | **-** | **601** |
|  |  |  |  |  |  |  |
| **Equity instruments:** |  |  |  |  |  |  |
| ***Listed equity instruments:*** |  |  |  |  |  |  |
| Corporate shares | 16,805 | - | - | 10,938 | - | - |
| **Unlisted equity instruments:** |  |  |  |  |  |  |
| Investment in shares of foreign companies | - | 35 | - | - | 32 | - |
| Investment in financial institutions shares | - | 161 | - | - | 161 | - |
| Shares of foreign financial institutions – EIF | - | 25,371 | - | - | 25,815 | - |
| Corporate shares | - | - | - | - | - | - |
| **Total equity instruments** | **16,805** | **25,567** | **-** | **10,938** | **26,008** | **-** |
|  |  | - | - |  |  |  |
| ***Investments in investment funds:*** |  |  |  |  |  |  |
| Shares classified as assets available for sale | 809,258 | **-** | **-** | 906,803 | - | - |
| **Total investments in investment funds** | **809,258** | **-** | **-** | **906,803** | **-** | **-** |
| **Total assets available for sale** | **3,238,291** | **25,567** | **662** | **3,316,965** | **26,008** | **601** |

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.

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

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

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

**18. Reporting by segments**

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

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

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

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

**Business segments:**

The Group has following business segments:

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

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| **Sep 30, 2017** | **Banking activities** | **Insurance activities** | **Other activities** | **Unallocated** | **Total** |
| Net interest income | 358,502 | 1,234 | - | - | 359,736 |
| Net fee income | 28,774 | 954 | 795 | - | 30,523 |
| Net income/(expenses) from financial operations | (18,878) | (112) | 2 | - | (18,988) |
| Net premiums earned | - | 5,022 | - | - | 5,022 |
| Other income | 6,278 | 56 | 211 | (220) | 6,325 |
| **Income from operating activities** | **374,676** | **7,154** | **1,008** | **(220)** | **382,618** |
|  |  |  |  |  |  |
| Operating costs | (107,296) | (4,841) | (806) | 221 | (112,722) |
| Impairment loss and provisions | (91,869) | (22) | (7) | - | (91,898) |
| Expenses for insured cases | - | (210) | - | - | (210) |
| Net change in provisions | - | (1,097) | - | - | (1,097) |
| Other expenses | - | (150) | - | - | (150) |
| **Operating expenses** | **(199,165)** | **(6,320)** | **(813)** | **221** | **(206,077)** |
|  |  |  |  |  |  |
| **Profit/(loss) before income tax** | 175,511 | 834 | 195 | 1 | 176,541 |
| Income tax | - | - | - | - | - |
| **Profit/(loss) for the year** | **175,511** | **834** | **195** | **1** | **176,541** |
|  |  |  |  |  |  |
| Assets of segment | 28,281,595 | 54,780 | 1,006 | (36,657) | 28,300,724 |
| **Total assets** | **28,281,595** | **54,780** | **1,006** | **(36,657)** | **28,300,724** |
|  |  |  |  |  |  |
| Liabilities of segment | 18,027,184 | 12,690 | 65 | (29) | 18,039,910 |
| Total equity | 10,254,411 | 4,589 | 641 | 1,173 | 10,260,814 |
| **Total liabilities and total equity** | **28,281,595** | **17,279** | **706** | **1,144** | **28,300,724** |

Intra-group transactions are presented under “Unallocated”.

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

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

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| **Sep 30, 2016** | **Banking activities** | **Insurance activities** | **Other activities** | **Unallocated** | **Total** |
|  |  |  |  |  |  |
| Net interest income | 302,808 | 1,242 | - | - | 304,050 |
| Net fee income | 18,857 | 954 | 730 | - | 20,541 |
| Net income/(expenses) from financial operations | (11,128) | 87 | 4 | - | (11,037) |
| Net premiums earned | - | 4,976 | - | - | 4,976 |
| Other income | 5,275 | 43 | 212 | (223) | 5,307 |
| **Income from operating activities** | **315,812** | **7,302** | **946** | **(223)** | **323,837** |
|  |  |  |  |  |  |
| Operating costs | (112,011) | (3,925) | (795) | 224 | (116,507) |
| Impairment loss and provisions | (44,880) | 63 | 10 | - | (44,807) |
| Expenses for insured cases | - | (1,591) | - | - | (1,591) |
| Net change in provisions | - | (755) | - | - | (755) |
| Other expenses | - | (399) | - | - | (399) |
| **Operating expenses** | **(156,891)** | **(6,607)** | **(785)** | **224** | **(164,059)** |
|  |  |  |  |  |  |
| **Profit/(loss) before income tax** | 158,921 | 695 | 161 | 1 | 159,778 |
| Income tax | - | - | - | - |  |
| **Profit/(loss) for the year** | **158,921** | **695** | **161** | **1** | **159,778** |
|  |  |  |  |  |  |
| **Dec 31, 2016** |  |  |  |  |  |
|  |  |  |  |  |  |
| Assets of segment | 27,374,916 | 51,667 | 895 | (36,656) | 27,390,822 |
| **Total assets** | **27,374,916** | **51,667** | **895** | **(36,656)** | **27,390,822** |
|  |  |  |  |  |  |
| Liabilities of segment | 17,336,936 | 11,049 | 159 | (30) | 17,348,114 |
| Total equity | 10,037,980 | 3,119 | 436 | 1,173 | 10,042,708 |
| **Total liabilities and total equity** | **27,374,916** | **14,168** | **595** | **1,143** | **27,390,822** |

Intra-group transactions are presented under “Unallocated”.

**19. Capital management**

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

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

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

Own funds consist of original own funds (Tier 1) and additional own funds (Tier 2).

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

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

In regard to the calculation of the capital adequacy ratio HBOR voluntarily decided to apply the relevant bank regulation previously prescribed by the Croatian National Bank, in accordance with Basel I and the Bank’s internal acts.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Group** |  | **Bank** |
|  | **Sep 30, 2017** | **Dec 31, 2016** | **Sep 30, 2017** | **Dec 31, 2016** |
| Original own funds – Tier 1 | 10,156,829 | 9,956,604 | 10,155,799 | 9,955,288 |
| Additional own funds – Tier 2 | 334,876 | 333,571 | 334,876 | 333,571 |
| **Total own funds** | **10,491,705** | **10,290,175** | **10,490,675** | **10,288,859** |
| Risk weighted assets | 16,619,470 | 16,415,582 | 16,650,801 | 16,447,428 |
| Capital requirements for currency risk | 245,662 | 609,631 | 233,935 | 597,377 |
| **Total capital requirements** | **16,865,132** | **17,025,213** | **16,884,736** | **17,044,805** |
|  | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** |
|  | **%** | **%** | **%** | **%** |
| **Capital ratio (Tier 1)** | **60,22** | **58.48** | **60,15** | **58.41** |
| **Capital adequacy ratio** | **62,21** | **60.44** | **62,13** | **60.36** |
|  | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** |
|  |  |  |  |  |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Own funds needed for ensuring capital adequacy according to regulatory requirements** | **1,349,211** | **1,362,017** | **1,350,779** | **1,363,584** |
|  | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_\_** |

Minimum capital adequacy ratio as of the reporting date was 8% (31 December 2016: 8%).

**19. Capital management (continued)**

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

The Management Board of the Group does not expect any adverse effects on the level of capital adequacy as a result of application of the new regulations for credit institutions, taking into account that the Bank’s capital adequacy ratio as of 30 September 2017 was 8 times higher than the prescribed one. This was primarily due to the model of operation and its orientation to the lending operations.

**20. Events after the reporting period date**

**20.1 Appointment of the Management Board**

After the reporting period, on 9 October 2017, the Supervisory Board of HBOR, following the proposal of the Government of the Republic of Croatia, made a decision on the appointment of a new Management Board of HBOR.

As of 16 October 2017, Tamara Perko, MSc is appointed President of the Management Board of HBOR, and Hrvoje Čuvalo, MSc, Member of the Management Board.

The new Management Board is appointed for a five-year term of office.

**20.2. Raising of funds**

After the reporting period, on 5 November 2017, HBOR and the European Investment Bank (EIB) concluded the Finance Contract in the amount of EUR 250,000 thousand for financing the projects of small and medium-sized enterprises.

|  |  |  |
| --- | --- | --- |
|  | **Sep 30, 2017** | **Sep 30, 2016** |
|  |  |  |
| **Premium earned** |  |  |
| Gross premium written | 7,762 | 8,980 |
| Premium impairment allowance originated and reserved on collection | (88) | - |
| Gross outward reinsurance premium | (3,001) | (3,792) |
| **Net premium written** | **4,673** | **5,188** |
|  |  |  |
| Changes in the gross unearned premium reserve | 834 | 98 |
| Changes in the gross unearned premium reserve, reinsurer's share | (573) | (310) |
| **Net premium earned** | **4,934** | **4,976** |
|  |  |  |
| Fee and commission income | 1,749 | 1,684 |
| Net investment income | 1,119 | 1,326 |
| Other operating income | 47 | 32 |
| **Net income** | **7,849** | **8,018** |
|  |  |  |
| Gross expense for returned premiums | (329) | (892) |
| Reinsurer's share | 119 | 493 |
| Gross reserve for returned premiums | (284) | (122) |
| Reinsurer's share | 99 | 19 |
| **Net expense and reserve for returned premiums** | **(395)** | **(502)** |
|  |  |  |
| Claims incurred | (208) | (1,712) |
| Claims incurred, reinsurer's share | 59 | 121 |
| Change in the claims provision | (3,459) | (1,664) |
| Change in the claims provision, share of reinsurance | 1,795 | 1,012 |
| **Net claims incurred** | **(1,813)** | **(2,243)** |
|  |  |  |
| Marketing and provision expenses | (251) | (557) |
| Administrative expenses | (4,325) | (3,829) |
| Other operating expenses | (38) | (37) |
| Net exchange differences other than those on financial instruments | 3 | 6 |
| **Profit before income tax** | **1,030** | **856** |
|  |  |  |
| Income tax | - | - |
|  |  |  |
| **Profit/(loss) for the year** | **1,030** | **856** |
|  |  |  |
| **Other comprehensive income** |  |  |
|  |  |  |
| **Items that may be reclassified subsequently to profit or loss:** |  |  |
| Gains on revaluation of financial assets available for sale | 1,969 | 1,832 |
| Decrease in the fair value of financial assets available for sale | (1,189) | (322) |
| Transfer of realised gains on asset available for sale to statement of profit or loss | (1) | (201) |
| Transfer of realised loses on asset available for sale to statement of profit or loss | 6 | - |
| Deferred tax | (140) | (262) |
| **Total items that may be reclassified subsequently to profit or loss:** | **645** | **1,047** |
|  |  |  |
| **Other comprehensive income after income tax** | **645** | **1,047** |
|  |  |  |
| **Total comprehensive income after income tax** | **1,675** | **1,903** |
|  |  |  |
| **Attributable to:** |  |  |
| **Equity holders of the parent** | 1,675 | 1,903 |

|  |  |  |
| --- | --- | --- |
|  | **Sep 30, 2017** | **Dec 31, 2016** |
|  |  |  |
| **Assets** |  |  |
| **Non-current assets** |  |  |
| Property and equipment | 53 | 86 |
| Intangible assets | 3 | 5 |
| Held to maturity investments | 1,404 | 1,422 |
| Deferred tax | 262 | 54 |
| **Total non-current assets** | **1,722** | **1,567** |
|  |  |  |
| **Current assets** |  |  |
| Investments available for sale | 49,525 | 46,459 |
| Investments at fair value through profit or loss | 288 | 286 |
| Receivables from insurance operations | 1,253 | 985 |
| Other receivables | 183 | 2,185 |
| Cash and cash equivalents | 2,286 | 551 |
| **Total current assets** | **53,535** | **50,466** |
|  |  |  |
| **Total assets** | **55,257** | **52,033** |
|  |  |  |
| **Equity and liabilities** |  |  |
| **Equity** |  |  |
| Share capital | 37,500 | 37,500 |
| Accumulated losses | 1,167 | (148) |
| Other reserves | 2,833 | 2,188 |
| Profit for the year | 1,030 | 1,315 |
| **Total equity** | **42,530** | **40,855** |
|  |  |  |
| **Technical provisions** |  |  |
| Gross technical provisions | 17,134 | 14,225 |
| Technical provisions, reinsurer's share | (7,739) | (6,419) |
|  | **9,395** | **7,806** |
|  |  |  |
| **Current liabilities** |  |  |
| Liabilities from insurance operations | 1,187 | 1,190 |
| Other liabilities | 2,145 | 2,182 |
| **Total liabilities** | **3,332** | **3,372** |
|  |  |  |
| **Total equity and liabilities** | **55,257** | **52,033** |

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  | **Sep 30, 2017** | **Sep 30, 2016** |
|  |  |  |
| **Operating activities** |  |  |
| Profit before income tax | 1,030 | 856 |
| *Adjustments to reconcile to net cash from and used in operating activities:* |  |  |
| Depreciation | 46 | 53 |
| Impairment loss and provisions | 28 | (73) |
| Income tax | - | - |
| Accrued interest | 114 | 156 |
| *Operating profit before working capital changes* | *1,218* | *992* |
|  |  |  |
| **Changes in operating assets and liabilities:** |  |  |
| Net decrease in deposits with other banks | - | 3,000 |
| Net realised losses/(gain) on assets available for sale | 5 | (201) |
| Decrease of discount in assets available for sale and assets held to maturity | 319 | 303 |
| Net gain/(losses) on financial assets at fair value through profit or loss | (4) | (128) |
| Premium receivables | (356) | 41 |
| Net decrease/(increase) in other assets | 1,639 | (414) |
| Net (decrease) of assets and liabilities from insurance operations | (3) | (283) |
| Net increase in technical provisions | 1,588 | 968 |
| Net increase in other liabilities | 37 | 222 |
| **Net cash provided by operating activities** | **4,443** | **4,500** |
|  |  |  |
| **Investment activities** |  |  |
| (Purchase) of financial assets at fair value through profit or loss | - | (7,640) |
| Sale of financial assets at fair value through profit or loss | - | 5,813 |
| Net (purchase) of assets available for sale | (6,590) | (4,835) |
| Net sale of assets available for sale | 3,744 | 2,125 |
| Net (purchase) of property, plant and equipment and intangible assets | (10) | (4) |
| **Net cash (used in) investment activities** | **(2,856 )** | **(4,541)** |
|  |  |  |
| **Effect of foreign currency to cash and cash equivalents** |  |  |
| Net foreign exchange | 148 | 247 |
| **Net effect** | **148** | 247 |
|  |  |  |
| Net increase in cash and cash equivalents | 1,735 | 206 |
|  |  |  |
| Balance as of 1 January | 551 | 242 |
| Net increase in cash | 1,735 | 206 |
|  |  |  |
| **Balance as of 30 September** | **2,286** | **448** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Share**  **capital** | **Accumulated losses** | **Other reserves** | **Profit/(loss) for the year** | **Total equity attributable to the equity holders of the Company** | **Total**  **equity** |
|  |  |  |  |  |  |  |
| **Balance as of 1 January 2016** | **37,500** | **(1,184)** | **874** | **1,036** | **38,226** | **38,226** |
|  | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** |
| Profit for the year | - | - | - | 856 | 856 | **856** |
| Other comprehensive income | - | - | 1,047 | - | 1,047 | **1,047** |
|  | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ |
| Total comprehensive income | - | - | 1,047 | 856 | 1,903 | **1,903** |
|  | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ |
| Transfer of profit 2015 to retained earnings | - | 1,036 | - | (1,036) | **-** | - |
|  | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ |
| **Balance as of 30 September 2016** | **37,500** | **(148)** | **1,921** | **856** | **40,129** | **40,129** |
|  | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** |
|  |  |  |  |  |  |  |
| **Balance as of 1 January 2017** | **37,500** | **(148)** | **2,188** | **1,315** | **40,855** | **40,855** |
|  | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** |
| Profit for the year | - | - | - | 1,030 | **1,030** | **1,030** |
| Other comprehensive income | - | - | 645 | - | **645** | **645** |
|  | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ |
| Total comprehensive income | - | - | 645 | 1,030 | **1,675** | **1,675** |
|  | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ |
| Transfer of profit 2016 to retained earnings | - | 1,315 | - | (1,315) | **-** | **-** |
|  | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ |
| **Balance as of 30 September 2017** | **37,500** | **1,167** | **2,833** | **1,030** | **42,530** | **42,530** |
|  | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** | **\_\_\_\_\_\_\_\_\_\_** |
|  |  |  |  |  |  |  |