

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Unaudited Condensed Separate and Consolidated Interim Financial Statements for the Period 1 January – 30 June 2022

Zagreb, August 2022

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

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Responsibilities of the Management and Supervisory Boards for the preparation and approval of the condensed separate and consolidated interim financial statements for the period 1 January – 30 June 2022

We confirm that, to the best of our knowledge, the condensed separate interim financial statements of the Croatian Bank for Reconstruction and Development (“the Bank” or “HBOR”) and condensed consolidated interim financial statements of the Croatian Bank for Reconstruction and Development Group (“the Group”) set out on pages 4 to 129 have been prepared in accordance with International Accounting Standard 34: “Interim Financial Reporting” applicable for the preparation of interim financial statements, and give a true and fair view of assets, liabilities, financial position, financial performance and cash flows for the reporting period.

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

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

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

The Condensed separate and consolidated interim financial statements on pages 4 to 128 have been approved by the Management Board on 26 August 2022 as confirmed by the signatures below.

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



Vedran Jakšić, MSc
Senior Executive Director



Marin Pranjić
Accounting Division Executive Director



Tamara Perko, MSc
President of the Management Board



Hrvoje Čuvalo, MSc
Member of the Management Board

Zagreb, 26 August 2022

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

	Notes	2022		2021	
		Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Interest income calculated using the effective interest method	5	143,553	328,892	167,935	338,041
Interest expense	6	(39,211)	(79,445)	(47,463)	(97,244)
Net interest income		104,342	249,447	120,472	240,797
Fee and commission income		7,550	14,299	6,572	14,535
Fee and commission expense		(647)	(1,878)	(464)	(3,468)
Net fee and commission income		6,903	12,421	6,108	11,067
Net gains/(losses) on financial operations		13,739	18,026	994	(4,285)
Other income		6,222	12,837	14,482	20,680
		131,206	292,731	142,056	268,259
Employee expenses	7 a)	(26,193)	(51,750)	(24,349)	(48,317)
Depreciation and amortization	7 b)	(2,885)	(5,797)	(3,021)	(5,576)
Other expenses	7 c)	(22,138)	(55,444)	(17,387)	(38,099)
Impairment gains and provisions	8	61,968	192,318	127,013	136,610
Profit before income tax		141,958	372,058	224,312	312,877
Income tax		-	-	-	-
Profit for the period		141,958	372,058	224,312	312,877
Attributable to:					
Owner of the Bank		141,958	372,058	224,312	312,877

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

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

(All amounts are expressed in HRK thousand)

	2022		2021	
	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Profit for the period	141,958	372,058	224,312	312,877
Other comprehensive income				
Items that are not transferred subsequently to profit or loss:				
Deferred tax-adjustment for previous period	-	-	-	-
Total items that are not transferred subsequently to profit or loss	-	-	-	-
Items that may be reclassified subsequently to profit or loss:				
Net changes in financial assets at fair value through other comprehensive income	(17,524)	(47,241)	(5,092)	(11,288)
Net foreign exchange on equity instruments	(298)	42	(276)	(160)
Deferred tax – other comprehensive income	336	1,020	5	101
Total items that may be reclassified subsequently to profit or loss	(17,486)	(46,179)	(5,363)	(11,347)
Other comprehensive (loss) after income tax	(17,486)	(46,179)	(5,363)	(11,347)
Total comprehensive income after income tax	124,472	325,879	218,949	301,530
Income attributable to:				
Owner of the Bank	124,472	325,879	218,949	301,530

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

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

(All amounts are expressed in HRK thousand)

	Notes	Jun 30, 2022 HRK '000	Dec 31, 2021 HRK '000
Assets			
Cash on hand and current accounts with banks	9	1,248,604	1,961,986
Deposits with other banks	10	11,888	7,500
Loans to financial institutions	11	6,902,706	7,050,143
Loans to other customers	12	16,136,847	15,964,376
Financial assets at fair value through profit or loss	13	149,789	218,984
Financial assets at fair value through other comprehensive income	14	2,999,189	2,972,530
Property, plant and equipment and intangible assets		42,270	43,937
Foreclosed assets	15	25,336	21,369
Other assets	16	38,291	37,537
Total assets		27,554,920	28,278,362
Liabilities			
Deposits from customers	17	448,155	960,541
Borrowings	18	15,644,733	16,115,237
Provisions for guarantees, commitments and other	19	157,408	190,560
Other liabilities	20	401,942	435,239
Total liabilities		16,652,238	17,701,577
Equity			
Founder's capital	26	7,184,632	7,184,632
Retained earnings and reserves		3,345,869	3,157,684
Other reserves		(12,204)	33,975
Profit for the period		372,058	188,185
Guarantee fund		12,327	12,309
Total equity		10,902,682	10,576,785
Total liabilities and total equity		27,554,920	28,278,362

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

Condensed Consolidated Interim Financial Statements of the Group
Statement of Cash Flows
for the period 1 January - 30 June

(All amounts are expressed in HRK thousand)

	Notes	2022 HRK '000	2021 HRK '000
Operating activities			
Profit before income tax		372,058	312,877
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		5,797	5,576
Income tax		-	-
Impairment gains and provisions		(192,247)	(136,610)
Accrued interest		46,848	27,690
Deferred fees		(11,151)	(3,756)
Net loss from trading with derivative financial instruments		1,770	2,393
Other changes in assets at fair value		11,762	(51,926)
<i>Operating profit before working capital changes</i>		<i>234,837</i>	<i>156,244</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease/(increase) in deposits with other banks, before impairment		4,388	(25,327)
Net decrease in loans to financial institutions, before impairment		154,116	1,184,925
Net (increase) in loans to other customers, before loss impairment		(82,216)	(718,543)
Net (increase)/decrease in foreclosed assets		(3,967)	1,848
Net (increase) in other assets, before impairment		(3,072)	(3,276)
Net (decrease) in deposits from banks and companies		(512,386)	(48,306)
Net (decrease) in other liabilities, before provisions		(33,310)	(40,180)
Net cash (used in)/provided from operating activities		(241,610)	507,385
Investment activities			
Purchase of financial assets at fair value through profit or loss		(16,586)	(20,867)
Sale of financial assets at fair value through profit or loss		102,388	3,700
Purchase of financial assets at fair value through other comprehensive income		(1,321,432)	(1,152,282)
Sale of financial assets at fair value through other comprehensive income		1,239,600	1,187,421
Investments in subsidiaries – sales and write-offs		-	5,979
Net (purchase) of property, plant and equipment and intangible assets		(3,127)	(10)
Net cash provided from investment activities		843	23,941
Financing activities			
Increase in founder's capital		-	-
Increase in borrowings – withdrawn funds		747,367	346,432
(Decrease) in borrowings – repayments of principal		(1,246,685)	(1,266,896)
Other		(9,547)	2,033
Net cash (used in) financing activities		(508,865)	(918,431)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		35,581	(77,983)
Net effect		35,581	(77,983)
Net (decrease) in cash and cash equivalents		(714,051)	(465,088)
Cash and cash equivalents balance as of 1 January, before impairment		1,963,795	1,660,768
Net (decrease) in cash and cash equivalents		(714,051)	(465,088)
Cash and cash equivalents balance as of 30 June before impairment	9	1,249,744	1,195,680
Additional note - Operational cash flows			
Interest paid		87,415	97,575
Interest received		319,523	299,796

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

Condensed Consolidated Interim Financial Statements of the Group
Statement of Changes in Equity
for the period 1 January - 30 June

(All amounts are expressed in HRK thousand)

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Net profit for the period HRK '000	Guarantee fund HRK '000	Total HRK '000
Balance as at 1 January 2021	7,134,632	3,076,153	59,108	81,531	12,341	10,363,765
Profit for the period	-	-	-	312,877	-	312,877
Other comprehensive income	-	-	(11,347)	-	-	(11,347)
Total comprehensive income	-	-	(11,347)	312,877	-	301,530
Net foreign exchange –						
Guarantee fund	-	-	-	-	(75)	(75)
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2020 to retained earnings	-	81,531	-	(81,531)	-	-
Balance as at 30 June 2021	7,134,632	3,157,684	47,761	312,877	12,266	10,665,220
Balance as at 1 January 2022	7,184,632	3,157,684	33,975	188,185	12,309	10,576,785
Profit for the period	-	-	-	372,058	-	372,058
Other comprehensive income	-	-	(46,179)	-	-	(46,179)
Total comprehensive income	-	-	(46,179)	372,058	-	325,879
Net foreign exchange –						
Guarantee fund	-	-	-	-	18	18
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2021 to retained earnings	-	188,185	-	(188,185)	-	-
Balance as at 30 June 2022	7,184,632	3,345,869	(12,204)	372,058	12,327	10,902,682

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

Condensed Separate Interim Financial Statements of the Bank
Income Statement
for the period 1 January - 30 June
(All amounts are expressed in HRK thousand)

	Notes	2022		2021	
		Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Interest income calculated using the effective interest method	5	143,233	328,242	167,616	337,405
Interest expense	6	(39,208)	(79,439)	(47,459)	(97,235)
Net interest income		104,025	248,803	120,157	240,170
Fee and commission income		6,615	12,414	5,847	12,945
Fee and commission expense		(647)	(1,878)	(464)	(3,468)
Net fee and commission income		5,968	10,536	5,383	9,477
Net gains/(losses) on financial operations		13,895	17,969	1,212	(4,160)
Other income		3,534	7,695	12,609	17,064
		127,422	285,003	139,361	262,551
Employee expenses	7 a)	(24,982)	(49,337)	(23,131)	(45,860)
Depreciation and amortization	7 b)	(2,796)	(5,614)	(2,942)	(5,418)
Other expenses	7 c)	(20,934)	(51,389)	(15,657)	(35,482)
Impairment gains and provisions	8	61,950	192,341	126,985	136,625
Profit/(loss) before income tax		140,660	371,004	224,616	312,416
Income tax		-	-	-	-
Profit/(loss) for the period		140,660	371,004	224,616	312,416
Profit/(loss) attributable to: Owner of the Bank		140,660	371,004	224,616	312,416

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

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

(All amounts are expressed in HRK thousand)

	2022		2021	
	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Profit for the period	140,660	371,004	224,616	312,416
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Net changes in financial assets at fair value through other comprehensive income	(15,481)	(41,406)	(4,962)	(10,622)
Net foreign exchange on equity instruments	(298)	42	(276)	(160)
Total items that may be reclassified subsequently to profit or loss	(15,779)	(41,364)	(5,238)	(10,782)
Other comprehensive (loss) after income tax	(15,779)	(41,364)	(5,238)	(10,782)
Total comprehensive income after income tax	124,881	329,640	219,378	301,634
Profit attributable to:				
Owner of the Bank	124,881	329,640	219,378	301,634

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

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

(All amounts are expressed in HRK thousand)

	Notes	Jun 30, 2022 HRK '000	Dec 31, 2021 HRK '000
Assets			
Cash on hand and current accounts with banks	9	1,244,181	1,958,620
Deposits with other banks	10	11,888	7,500
Loans to financial institutions	11	6,902,706	7,050,143
Loans to other customers	12	16,136,847	15,964,376
Financial assets at fair value through profit or loss	13	149,789	218,984
Financial assets at fair value through other comprehensive income	14	2,948,200	2,915,704
Investments in subsidiaries		36,124	36,124
Property, plant and equipment and intangible assets		41,137	42,674
Foreclosed assets	15	25,336	21,369
Other assets	16	31,301	34,494
Total assets		27,527,509	28,249,988
Liabilities			
Deposits from customers	17	448,155	960,541
Borrowings	18	15,644,733	16,115,237
Provisions for guarantees, commitments and other liabilities	19	157,178	190,303
Other liabilities	20	380,056	416,178
Total liabilities		16,630,122	17,682,259
Equity			
Founder's capital	26	7,184,632	7,184,632
Retained earnings and reserves		3,340,827	3,153,745
Other reserves		(11,403)	29,961
Profit for the period		371,004	187,082
Guarantee fund		12,327	12,309
Total equity		10,897,387	10,567,729
Total liabilities and total equity		27,527,509	28,249,988

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

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

	Notes	2022 HRK '000	2021 HRK '000
Operating activities			
Profit before income tax		371,004	312,416
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		5,614	5,418
Impairment gains and provisions		(192,341)	(136,625)
Accrued interest		46,846	27,687
Deferred fees		(11,151)	(3,756)
Net loss from trading with derivative financial instruments		1,770	2,393
Other changes in assets at fair value		11,717	(51,971)
<i>Operating profit before working capital changes</i>		<i>233,459</i>	<i>155,562</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease/(increase) in deposits with other banks, before impairment		4,388	(25,327)
Net decrease in loans to financial institutions, before impairment		154,116	1,184,925
Net (increase) in loans to other customers, before impairment		(82,216)	(718,543)
Net (increase)/decrease in foreclosed assets		(3,967)	1,848
Net (increase) in other assets, before impairment		(46)	(2,174)
Net (decrease) in deposits from banks and companies		(512,386)	(48,306)
Net (decrease) in other liabilities, before provisions		(36,122)	(41,511)
Net cash (used in)/provided from operating activities		(242,774)	506,474
Investment activities			
Purchase of financial assets at fair value through profit or loss income		(16,586)	(20,867)
Sale of financial assets at fair value through profit or loss		102,388	3,700
Purchase of financial assets at fair value through other comprehensive income		(1,321,432)	(1,152,282)
Sale of financial assets at fair value through other comprehensive income		1,239,600	1,187,421
Investments in subsidiaries – sales and write-offs		-	5,979
Net (purchase)/decrease of property, plant and equipment and intangible assets		(3,070)	31
Net cash provided from investment activities		900	23,982
Financing activities			
Increase in founder's capital		-	-
Increase in borrowings – withdrawn funds		747,367	346,432
(Decrease) in borrowings – repayments of principle		(1,246,685)	(1,266,896)
Other		(9,553)	1,993
Net cash (used) in financing activities		(508,871)	(918,471)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		35,639	(78,113)
Net effect		35,639	(78,113)
Net (decrease) in cash and cash equivalents		(715,106)	(466,128)
Cash and cash equivalents balance as of 1 January, before impairment		1,960,424	1,654,805
Net (decrease) in cash and cash equivalents		(715,106)	(466,128)
Cash and cash equivalents balance as at 30 June, before impairment	9	1,245,318	1,188,677
Additional note – operating activities			
Interest paid		87,415	97,575
Interest received		318,854	299,133

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

Condensed Separate Interim Financial Statements of the Bank
Statement of Changes in Equity
for the period 1 January – 30 June

(All amounts are expressed in HRK thousand)

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Net profit for the period HRK '000	Guarantee fund HRK '000	Total equity HRK '000
Balance as at 1 January 2021	7,134,632	3,074,406	53,906	79,339	12,341	10,354,624
Profit for the period	-	-	-	312,416	-	312,416
Other comprehensive income	-	-	(10,782)	-	-	(10,782)
Total comprehensive income	-	-	(10,782)	312,416	-	301,634
Net foreign exchange – Guarantee fund	-	-	-	-	(75)	(75)
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2020 to retained earnings	-	79,339	-	(79,339)	-	-
Balance as at 30 June 2021	7,134,632	3,153,745	43,124	312,416	12,266	10,656,183
Balance as at 1 January 2022	7,184,632	3,153,745	29,961	187,082	12,309	10,567,729
Profit for the period	-	-	-	371,004	-	371,004
Other comprehensive income	-	-	(41,364)	-	-	(41,364)
Total comprehensive income	-	-	(41,364)	371,004	-	329,640
Net foreign exchange – Guarantee fund	-	-	-	-	18	18
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2021 to retained earnings	-	187,082	-	(187,082)	-	-
Balance as at 30 June 2022	7,184,632	3,340,827	(11,403)	371,004	12,327	10,897,387

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022

(All amounts are expressed in HRK thousand)

1. General information

1.1. Group:

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

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

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

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

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

As of 30 June 2022, the Group had 392 employees (30 June 2021: 382 employees).

1.2. Bank:

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

The Republic of Croatia guarantees HBOR’s liabilities unconditionally, irrevocably and on first call, without issuing any particular guarantee. The responsibility of the Republic of Croatia as guarantor for HBOR’s liabilities is joint and unlimited.

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

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

for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

1. General information (continued)

1.2. Bank (continued):

Supervisory Board

As of 30 June 2022, members of the Supervisory Board were as follows:

- Zdravko Marić, PhD, Deputy Prime Minister of the Republic of Croatia and Minister of Finance
- ex officio President of the Supervisory Board,
- Davor Filipović, PhD, associate professor, Minister of the Economy and Sustainable Development – ex officio Deputy President of the Supervisory Board,
- Nikolina Brnjac, PhD, Minister of Tourism and Sports,
- Nataša Tramišak, Minister of Regional Development and EU Funds,
- Marija Vučković, MSc, Minister of Agriculture,
- Ivan Paladina, Minister of Physical Planning, Construction and State Assets,
- Luka Burilović, PhD, Chairman of the Croatian Chamber of Economy – ex officio Member of the Supervisory Board,
- Žarko Tušek, member of Parliament,
- Predrag Štromar, member of Parliament,
- Siniša Hajdaš Dončić, PhD, member of Parliament.

The Government of the Republic of Croatia, at its meeting held on 18 July 2022, adopted the Decision on the Appointment of Marko Primorac, PhD, associate professor, Minister of Finance as ex officio President of the Supervisory Board of the Croatian Bank for Reconstruction and Development as well as the Decision on the Dismissal of Zdravko Marić, PhD, from the Position of ex officio President of the Supervisory Board of the Croatian Bank for Reconstruction and Development.

Management Board

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

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

As of 30 June 2022, HBOR had 373 employees (30 June 2021: 362 employees).

Audit Committee

As of 30 June 2022, members of the Audit Committee were as follows:

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

1. General information (continued)

1.2. Bank (continued):

1.2.1. Activities of the Bank:

The principal activities of the Bank comprise the following:

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

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

1.3. The impact of the crisis caused by the Russian-Ukrainian war

Following the Russian invasion of Ukraine on 24 February 2022, the European Union imposed a package of sanctions against the Russian Federation and the Republic of Belarus that has economic consequences for the entire EU market, including the Croatian economy.

Entrepreneurs are affected in multiple ways, both directly and indirectly, especially in the form of reduction in demand, termination of existing contracts and projects with the consequent loss of turnover, disruptions in supply chains, particularly of raw materials and semi-finished products, energy prices and other input materials. The crisis is disrupting supply chains, affecting the exporters and the importers of Russian, Ukrainian and Belarusian goods and services. The negative impact of price increases is already being felt throughout the Croatian economy.

Following the above, HBOR has started a programme of support to the Croatian economy affected by the new crisis under:

- HBOR's aid award programme aligned with the Temporary Crisis Framework for State Aid Measures to Support the Economy after Russia's Invasion of Ukraine - sections "2.1 and 2.3", which is currently planned to remain in effect until 31 December 2022,
- Decision on the Adoption of a Temporary Crisis Measure under the Working Capital Loan Programme: Working Capital CRISIS 2022 – Measure, and
- Ordinance on the Processing of Applications for Direct Loans under the loan programme Working Capital CRISIS 2022 – Measure that includes also financing under the risk-sharing model with financial institutions.

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

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

2. Basis of Preparation of the Financial Statements

2.1. Statement of compliance

The Condensed Interim Financial Statements of the Bank and HBOR Group for the period 1 January to 30 June 2022 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Condensed Interim Financial Statements for the period from 1 January to 30 June 2022 do not include all information and disclosures that are required in the annual financial statements and should be read in combination with the annual financial statements of the HBOR Group for the year ended 31 December 2021.

2.2. Measurement

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

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

2.3. Functional and presentation currency

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

3. Use of judgements and estimates

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

Significant accounting judgements and estimates were the same as those described in the last annual financial statements.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies

4.1. Adoption of new and amended International Financial Reporting Standards (“IFRS”) and Interpretations

First application of new and amendments to existing standards in force in the current reporting period

In the current reporting period, the following amendments to existing standards are in force, published by the International Accounting Standards Board (“IASB”) and adopted by the European Union:

- Annual Improvements 2018-2020 cycle – (effective for annual periods beginning on or after 1 January 2022);
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment - Onerous Contracts – Cost of Fulfilling a Contract): amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous (effective for annual periods beginning on or after 1 January 2022);
- IAS 16 Property, Plant and Equipment (amendment – Proceeds before Intended Use): amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss (effective for annual periods beginning on or after 1 January 2022);
- IFRS 3 Business Combinations - Reference to the Conceptual Framework (effective for annual periods beginning on or after 1 January 2022).

The adoption of these amendments to existing standards did not result in significant changes in the Group's financial statements.

Standards and amendments to existing standards published by the IASB and adopted in the European Union, but not yet in force

- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (amendment - Disclosure of Accounting Policies) (effective for annual periods beginning on or after 1 January 2023);
- IAS 8 Accounting Policies – Changes in Accounting Estimates and Errors (amendment – Definition of Accounting Estimates) (effective for annual periods beginning on or after 1 January 2023).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Adoption of new and amended International Financial Reporting Standards (“IFRS”) and Interpretations (continued)

New standards and amendments to existing standards published by the IASB, but not yet adopted in the European Union

IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards, the adoption of which the European Union on 30 June 2022 has not yet decided (the effective dates set out below refer to IFRSs issued by the IASB):

- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023)

HBOR Group is preparing to apply IFRS 17 Insurance Contracts, including amendments to IFRS 17 (effective in the EU from 1 January 2023). Testing of the application is in progress and a simulation of new calculations of technical reserves and recording scheme has been made to be followed by an update of internal documents related to the standard. The impact of the application will be quantified during 2022.

Furthermore, the Group expects that the adoption of the following new standards and amendments to existing standards will not lead to significant changes in the Group's financial statements in the period of first application of the standards:

- IAS 1 Presentation of Financial Statements (amendment - Classification of Liabilities as Current or Non-current);

IAS 12 Income Taxes (amendment – Deferred tax related to assets and liabilities arising from a single transaction).

The above changes are effective for annual periods beginning on or after 1 January 2023.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

5. Interest income calculated using the effective interest method

Interest income by borrowers:

	Group				Bank			
	2022		2021		2022		2021	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Public sector	36,106	71,668	35,675	69,506	35,786	71,018	35,356	68,870
State-owned companies	6,164	12,413	4,993	14,772	6,164	12,413	4,993	14,772
Foreign companies	789	8,005	7,080	14,880	789	8,005	7,080	14,880
Domestic companies	72,770	167,479	76,647	153,671	72,770	167,479	76,647	153,671
Domestic financial institutions	21,289	42,113	34,987	63,977	21,289	42,113	34,987	63,977
Foreign financial institutions	131	342	250	912	131	342	250	912
Penalty interest	3,067	19,545	4,721	11,169	3,067	19,545	4,721	11,169
Other	3,237	7,327	3,582	9,154	3,237	7,327	3,582	9,154
	143,553	328,892	167,935	338,041	143,233	328,242	167,616	337,405

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

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

Interest income by type of facility:

	Group				Bank			
	2022		2021		2022		2021	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Interest on loans								
- financial institutions	21,289	42,114	34,975	63,970	21,289	42,114	34,975	63,970
- other customers	115,913	274,022	124,753	257,256	115,913	274,022	124,753	257,256
	137,202	316,136	159,728	321,226	137,202	316,136	159,728	321,226
Investments in securities	6,221	12,415	7,948	15,894	5,901	11,765	7,629	15,258
- Bonds of the Republic of Croatia	6,135	12,225	7,730	15,396	5,822	11,590	7,419	14,776
- Corporate bonds	1	50	49	97	(6)	35	41	81
- Treasury bills of the Ministry of Finance	85	140	169	401	85	140	169	401
Deposits	130	341	259	921	130	341	259	921
	143,553	328,892	167,935	338,041	143,233	328,242	167,616	337,405

The main difference between interest income and interest received or collected (see Statement of Cash Flows) mostly relates to the income in respect to interest subsidies inflows that are recorded upon payment. The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income and is recognised in profit or loss on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 30 June 2022 amounts to HRK 25,976 thousand (1 January to 30 June 2021: HRK 22,348 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

6. Interest expense

Interest expense by type of payee:

	Group				Bank			
	2022		2021		2022		2021	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Domestic financial institutions	-	1	-	6	-	1	-	6
Foreign financial institutions	35,760	72,592	44,019	90,394	35,760	72,592	44,019	90,394
State units	3,419	6,813	3,424	6,799	3,419	6,813	3,424	6,799
Other	32	39	20	45	29	33	16	36
	39,211	79,445	47,463	97,244	39,208	79,439	47,459	97,235

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

6. Interest expense (continued)

Interest expense by type of facility:

	Group				Bank			
	2022		2021		2022		2021	
	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Borrowings	38,987	79,148	47,230	96,840	38,987	79,148	47,230	96,840
Debt securities	-	-	11	11	-	-	11	11
Deposits	186	233	202	348	186	233	202	348
Leases – interest expenses on long term contracts	32	39	20	45	29	33	16	36
Other	6	25	-	-	6	25	-	-
	39,211	79,445	47,463	97,244	39,208	79,439	47,459	97,235

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

7. Operating expenses

Operating expenses can be shown as follows:

	Group				Bank			
	2022		2021		2022		2021	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
7 a) Employee expenses	26,193	51,750	24,349	48,317	24,982	49,337	23,131	45,860
7 b) Depreciation	2,885	5,797	3,021	5,576	2,796	5,614	2,942	5,418
7 c) Other expenses	22,138	55,444	17,387	38,099	20,934	51,389	15,657	35,482
Of which:								
<i>Administration expenses</i>	4,205	9,151	3,642	6,942	4,018	8,885	3,544	6,775
<i>Material and services</i>	7,927	15,520	7,602	14,221	7,527	14,699	7,229	13,433
<i>Other expenses</i>	10,006	30,773	6,143	16,936	9,389	27,805	4,884	15,274
	51,216	112,991	44,757	91,992	48,712	106,340	41,730	86,760

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

7. Operating expenses (continued)

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

	2022		Group 2021		2022		Bank 2021	
	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Change in the claims provision	(4,286)	(2,115)	842	964	-	-	-	-
Change in the claims provision, reinsurer's share	1,205	910	(286)	(306)	-	-	-	-
Expenses of insurance operations	(3,081)	(1,205)	556	658	-	-	-	-

Loss provisions as at 30 June 2022 consisted of reported and unreported losses in the approximate proportion 33:67. At the end of Q2 2022, total reserves are lower than at the end of 2021 by 20.5%. The Bornhuetter-Ferguson method was used for gross provisions for unreported losses, and for reported losses, the amount was taken according to actual data on loss incurred. The reinsurance share was determined in accordance with the valid terms and conditions of the reinsurance contract.

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

8. Impairment gains and provisions

Impairment gains and provisions on placements may be summarized as follows:

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

	Group				Bank			
	2022		2021		2022		2021	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Impairment losses on cash on hand and due from financial institutions	(128)	(675)	(249)	(562)	(124)	(673)	(250)	(564)
Impairment losses on deposits with other banks	(1)	(2)	2,193	2,203	(1)	(2)	2,193	2,203
Impairment losses on loans to financial institutions	(4,242)	(5,347)	(5,305)	(11,759)	(4,242)	(5,347)	(5,305)	(11,759)
Impairment losses on loans to other customers and interest	(67,458)	(188,458)	(146,739)	(201,284)	(67,458)	(188,458)	(146,739)	(201,284)
Modification loss/(gain) – financial institutions	(795)	(1,125)	2,046	1,419	(795)	(1,125)	2,046	1,419
Modification (gain)/loss – other customers	(5,988)	18,155	(5,032)	(9,248)	(5,988)	18,155	(5,032)	(9,248)
POCI assets – fair value adjustment at initial recognition	2,824	15,864	238	41,273	2,824	15,864	238	41,273
Impairment of financial assets at fair value through other comprehensive income	(256)	72	(342)	(5)	(256)	64	(341)	(5)
Impairment losses on other assets	163	2,275	(565)	(207)	150	2,231	(575)	(258)
Provisions for commitments	13,655	(6,726)	30,286	29,659	13,655	(6,726)	30,286	29,659
Provision for guarantees	1,287	(24,907)	(276)	15,209	1,287	(24,907)	(276)	15,209
Total	(60,939)	(190,874)	(123,745)	(133,302)	(60,948)	(190,924)	(123,755)	(133,355)

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

8. Impairment gains and provisions (continued)

b) Other impairment gains/losses and provisions

	Group				Bank			
	2022		2021		2022		2021	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	
Provision for other liabilities	(1,029)	(1,444)	(3,268)	(3,308)	(1,002)	(1,417)	(3,230)	(3,270)
Total	(1,029)	(1,444)	(3,268)	(3,308)	(1,002)	(1,417)	(3,230)	(3,270)
Total	(61,968)	(192,318)	(127,013)	(136,610)	(61,950)	(192,341)	(126,985)	(136,625)

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

9. Cash on hand and current accounts with banks

	Group		Bank	
	30 June 2022 HRK '000	31 December 2021 HRK '000	30 June 2022 HRK '000	31 December 2021 HRK '000
Account with the Croatian National Bank	1,179,635	1,879,493	1,179,635	1,879,493
Cash on hand	1	1	1	1
Foreign currency account - domestic banks	11	9	-	-
Foreign currency account - foreign banks	65,682	80,938	65,682	80,930
Domestic currency account - domestic banks	4,415	3,354	-	-
	<u>1,249,744</u>	<u>1,963,795</u>	<u>1,245,318</u>	<u>1,960,424</u>
Loss allowances	(1,140)	(1,809)	(1,137)	(1,804)
	<u>1,248,604</u>	<u>1,961,986</u>	<u>1,244,181</u>	<u>1,958,620</u>

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

30 June 2022	Group			Bank				
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000
Gross amount	1,249,743	-	-	1,249,743	1,245,317	-	-	1,245,317
Loss allowances	(1,140)	-	-	(1,140)	(1,137)	-	-	(1,137)
Balance as of 30 June 2022	<u>1,248,603</u>	<u>-</u>	<u>-</u>	<u>1,248,603</u>	<u>1,244,180</u>	<u>-</u>	<u>-</u>	<u>1,244,180</u>

31 December 2021	Group			Bank				
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000
Gross amount	1,963,794	-	-	1,963,794	1,960,423	-	-	1,960,423
Loss allowances	(1,809)	-	-	(1,809)	(1,804)	-	-	(1,804)
Balance as of 31 December 2021	<u>1,961,985</u>	<u>-</u>	<u>-</u>	<u>1,961,985</u>	<u>1,958,619</u>	<u>-</u>	<u>-</u>	<u>1,958,619</u>

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

	Group		Bank	
	Jan 1 – Jun 30, 2022	Jan 1 - Dec 31, 2021	Jan 1 – Jun 30, 2022	Jan 1 - Dec 31, 2021
	HRK '000	HRK' 000	HRK '000	HRK '000
Balance as of 1 January	1,809	1,652	1,804	1,643
Net (decrease)/increase of loss allowances on amounts due from banks	(675)	156	(673)	160
<i>Total recognised through Income Statement (Note 8)</i>	<i>(675)</i>	<i>156</i>	<i>(673)</i>	<i>160</i>
Net foreign exchange gain/loss on loss allowances	6	1	6	1
Balance at the end of the reporting period	1,140	1,809	1,137	1,804

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

10. Deposits with other banks

	Group and Bank	
	30 June 2022 HRK '000	31 December 2021 HRK '000
Deposits with foreign banks	11,889	7,501
Accrued interest	-	-
	11,889	7,501
Loss allowances	(1)	(1)
	11,888	7,500

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

30 June 2022

	Stage 1	Stage 2	Stage 3	Group and Bank Total
	HRK '000	HRK' 000	HRK '000	HRK '000
Gross amount	11,889	-	-	11,889
Loss allowances	(1)	-	-	(1)
Balance as of 30 June 2022	11,888	-	-	11,888

31 December 2021

	Stage 1	Stage 2	Stage 3	Group and Bank Total
	HRK '000	HRK' 000	HRK '000	HRK '000
Gross amount	7,501	-	-	7,501
Loss allowances	(1)	-	-	(1)
Balance as of 31 December 2021	7,500	-	-	7,500

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

10. Deposits with other banks (continued)

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

	Group and Bank	
	Jan 1 - Jun 30, 2022	Jan 1 - Dec 31, 2021
	HRK '000	HRK '000
Balance as of 1 January	1	1
Net (decrease) of loss allowances on deposits with other banks	(2)	(1)
<i>Total recognised through Income Statement (Note 8)</i>	<u>(2)</u>	<u>(1)</u>
Net foreign exchange gain/loss on loss allowances	2	1
Balance at the end of the reporting period	<u>1</u>	<u>1</u>

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions

	Group and Bank	
	30 June 2022	31 December 2021
	HRK '000	HRK '000
Long-term loans under loan programmes	6,733,808	7,043,581
Short-term loans and reverse repo transactions	238,931	83,239
Accrued interest	2,648	3,418
Deferred recognition of loan origination fees	(19,092)	(21,195)
	<u>6,956,295</u>	<u>7,109,043</u>
Loss allowances	(53,589)	(58,900)
	<u>6,902,706</u>	<u>7,050,143</u>

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

30 June 2022	Group and Bank			
	Stage 1	Stage 2	Stage 3	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Gross amount	6,748,408	198,477	9,410	6,956,295
Loss allowances	(25,521)	(21,133)	(6,935)	(53,589)
Balance as of 30 June 2022	<u>6,722,887</u>	<u>177,344</u>	<u>2,475</u>	<u>6,902,706</u>

31 December 2021	Group and Bank			
	Stage 1	Stage 2	Stage 3	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Gross amount	6,895,375	203,944	9,724	7,109,043
Loss allowances	(29,554)	(23,184)	(6,162)	(58,900)
Balance as of 31 December 2021	<u>6,865,821</u>	<u>180,760</u>	<u>3,562</u>	<u>7,050,143</u>

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions (continued)

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

	Jan 1 - Jun 30, 2022 HRK '000	Group and Bank Jan 1 - Dec 31, 2021 HRK '000
Balance as of 1 January	58,900	82,797
Net (decrease) of loss allowances on loans to financial institutions	(5,347)	(23,698)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(5,347)</i>	<i>(23,698)</i>
Net foreign exchange gain/loss on loss allowances	35	(97)
Loss allowances transferred to loans to other customers	-	(16)
Unwinding – changes due to the lapse of time	1	(86)
Balance at the end of the reporting period	53,589	58,900

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions (continued)

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

	30 June 2022 HRK '000	Group and Bank 31 December 2021 HRK '000
EU Projects	218,140	205,630
Financial Restructuring	19,974	23,247
Pre-Export Finance	-	1,013
Public Sector Investment	869,733	826,013
Private Sector Investment	209,382	201,419
Youth, Female, Start-up Entrepreneurship	65,979	57,234
Working Capital	16,104	12,556
Working Capital – COVID 19 measures	66,392	72,067
Loan programme for reconstruction and development of the economy	812,740	926,987
Export financing	1,362,499	1,459,505
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	856,145	968,724
Loan programme for small and medium-sized enterprises	2,233,583	2,285,623
Loan programme for war-torn and demolished housing and business facilities	3,137	3,563
Other	238,931	83,239
Accrued interest	2,648	3,418
Deferred recognition of loan fees	(19,092)	(21,195)
	<u>6,956,295</u>	<u>7,109,043</u>
Loss allowances	(53,589)	(58,900)
	<u>6,902,706</u>	<u>7,050,143</u>

Average interest rates for total loans to financial institutions are stated at 0.30% (1 January – 30 June 2021: 0.45%) and are equal to average interests rates for loans under HBOR loan programmes excluding the liquidity reserve.

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

Item "Other" refers to reverse repo agreements in the total amount of HRK 128,931 thousand (31 December 2021: HRK 8,239 thousand), The above placements are collateralized by securities in the amount of HRK 145.647 thousand (31 December 2021: HRK 8,660 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers

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

	Group and Bank	
	30 June 2022 HRK '000	31 December 2021 HRK '000
Domestic companies	11,615,097	11,570,002
State-owned companies	888,623	917,403
Public sector	5,861,395	5,545,114
Foreign companies	114,888	377,281
Other	483,182	498,027
Accrued interest	340,760	393,345
Deferred recognition of loan origination fees	(76,244)	(80,880)
	19,227,701	19,220,292
Loss allowances	(3,090,854)	(3,255,916)
	16,136,847	15,964,376

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

30 June 2022	Group and Bank				
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Gross amount	13,637,012	1,194,998	3,254,114	1,141,577	19,227,701
Loss allowances	(348,648)	(423,397)	(2,105,550)	(213,259)	(3,090,854)
Balance as of 30 June 2022	13,288,364	771,601	1,148,564	928,318	16,136,847

31 December 2021	Group and Bank				
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Gross amount	13,160,690	1,383,772	3,262,835	1,412,995	19,220,292
Loss allowances	(381,609)	(555,807)	(2,099,064)	(219,436)	(3,255,916)
Balance as of 31 December 2021	12,779,081	827,965	1,163,771	1,193,559	15,964,376

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers (continued)

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

	Jan 1 – Jun 30, 2022, HRK '000	Group and Bank Jan 1 - Dec 31, 2021 HRK '000
Balance as of 1 January	3,255,916	3,475,730
Net (decrease)/increase of loss allowances on loans to other customers and interest	(188,458)	78,124
<i>Total recognised through Income Statement (Note 8)</i>	<u>(188,458)</u>	<u>78,124</u>
Net foreign exchange gain/loss on loss allowances	9,589	10,478
Write-offs	(19,467)	(35,053)
Transfer to off-balance sheet records	-	(271,036)
Derecognition due to the reduction to fair value as a result of the transfer to the portfolio of financial assets at FVPL	-	(48,019)
Derecognition due to sale of receivables	-	(737)
Loss allowances transferred from loans to financial institutions	-	16
Unwinding – changes due to the lapse of time	2,159	25,087
Interest transferred from the off-balance sheet records and other	31,115	21,326
Balance at the end of the reporting period	<u>3,090,854</u>	<u>3,255,916</u>

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

The write-off of receivables in the amount of HRK 19,467 thousand (31 December 2021: HRK 35,053 thousand) relates mostly to the permanent removal from the business records due to the sale of receivables, due to the debtor's bankruptcy proceedings, as well as due to the pre-bankruptcy settlement.

The transfer to the off-balance sheet records in the amount of HRK 0 thousand (31 December 2021: HRK 271,036 thousand) was performed on the basis of the prescribed criteria in the Methodology for the Write-off of Receivables.

The cancellation of provisions due to the reduction to fair value in the amount of HRK 0 thousand (31 December 2021: HRK 48,019 thousand) was carried out after the pre-bankruptcy settlement of the debtor, based on which 50% of the debt was converted into senior debt, and 50% into mezzanine debt. When reducing the mezzanine debt to fair value, the previously formed provisions were cancelled.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers (continued)

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

	Group and Bank	
	30 June 2022	31 December 2021
	HRK '000	HRK '000
EU Projects	353,216	308,294
Financial Restructuring	1,244,943	1,186,514
Pre-Export Finance	88,803	96,193
Public Sector Investment	1,791,071	1,478,380
Private Sector Investment	1,066,686	730,358
Youth, Female, Start-up Entrepreneurship	37,347	31,287
Working Capital	866,201	690,681
Working Capital – COVID 19 measures	1,918,379	1,645,736
Loan programme for reconstruction and development of the economy	2,032,650	2,254,094
Export financing	3,722,281	4,375,411
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	4,479,774	4,713,628
Loan programme for small and medium-sized enterprises	1,042,726	1,140,626
Other	319,108	256,625
Accrued interest	340,760	393,345
Deferred recognition of loan origination fees	(76,244)	(80,880)
	<u>19,227,701</u>	<u>19,220,292</u>
Loss allowances	<u>(3,090,854)</u>	<u>(3,255,916)</u>
	<u>16,136,847</u>	<u>15,964,376</u>

Average interest rates on loans to other customers are stated at 1.97% (1 January – 30 June 2021: 1.82%).

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

Item "Other" refers to reverse repo agreements in the total amount of HRK 28,753 thousand (31 December 2021: HRK 0 thousand). The above placements are collateralized by securities in the amount of HRK 30,898 thousand (31 December 2021: HRK 0 thousand).

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

13. Financial assets at fair value through profit or loss

	Group and Bank	
	30 June 2022 HRK '000	31 December 2021 HRK '000
Loans at FVPL:		
Mezzanine loans	25,087	16,375
	25,087	16,375
Investments in investment funds:		
Investments in investment funds at FVPL	124,352	202,260
	124,352	202,260
Unlisted equity instruments:		
Investments in corporate shares	32	31
Depository receipt - DR	318	318
	350	349
	149,789	218,984

The shares of companies not listed on the stock exchange in the amount of HRK 32 thousand (31 December 2021: HRK 31 thousand) (0.03% portion) relate to the shares of the company Helios Faros d.d., in bankruptcy, acquired by HBOR in substitution for a portion of receivables by accepting the company's bankruptcy restructuring plan.

Non-listed equity securities in the amount of HRK 318 thousand (31 December 2021: HRK 318 thousand) relate to depository receipts (DR) of the Fortenova Group STAK Stichting taken over through the Settlement under the Extraordinary Administration Proceedings against the company Agrokor d.d. et al.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income

	Group		Bank	
	30 June	31 December	30 June	31 December
	2022	2021	2022	2021
	HRK '000	HRK '000	HRK '000	HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	1,573,728	1,358,981	1,525,551	1,304,974
Corporate bonds	2,388	2,393	-	-
Treasury bills of the Ministry of Finance	1,349,101	1,550,344	1,349,101	1,550,344
Accrued interest	18,789	15,620	18,366	15,194
	2,944,006	2,927,338	2,893,018	2,870,512
Unlisted debt instruments:				
Corporate bonds	486	532	486	532
Convertible bonds - CB	1,471	1,397	1,471	1,397
Accrued interest	104	247	104	247
	2,061	2,176	2,061	2,176
Equity instruments:				
Unlisted equity instruments:				
Investments in shares of foreign legal entities - SWIFT	46	45	46	45
Shares of foreign financial institutions – EIF	53,076	42,971	53,075	42,971
	53,122	43,016	53,121	43,016
	2,999,189	2,972,530	2,948,200	2,915,704

Non-listed convertible bonds (CB) of the Fortenova Group TopCo B.V. in the amount of HRK 1,471 thousand (31 December 2021: HRK 1,397 thousand) have been taken over through the Settlement under the Extraordinary Administration Proceedings against the company Agrokor d.d. et al.

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

30 June 2022	Group							
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Gross amount	2,944,596	-	1,471	2,946,067	2,893,608	-	1,471	2,895,079
Balance as of 30 June 2022	2,944,596	-	1,471	2,946,067	2,893,608	-	1,471	2,895,079
31 December 2021	Group							
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Gross amount	2,928,045	-	1,469	2,929,514	2,871,219	-	1,469	2,872,688
Balance as of 31 December 2021	2,928,045	-	1,469	2,929,514	2,871,219	-	1,469	2,872,688

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

	Group		Bank	
	Jan 1 – Jun 30, 2022	Jan 1 – Dec 31, 2021	Jan 1 – Jun 30, 2022	Jan 1 – Dec 31, 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	4,545	4,582	4,455	4,499
Net increase of loss allowances	72	(29)	64	(36)
<i>Total recognised through Income Statement (Note 8)</i>	72	(29)	64	(36)
Net foreign exchange gain/loss on loss allowances	4	(8)	4	(8)
Balance at the end of the reporting period	4,621	4,545	4,523	4,455

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

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

The following text contains investment breakdown

	Date of issue	Date of maturity	Interest rate (%)	30 June 2022 HRK '000	Group 31 December 2021 HRK '000	30 June 2022 HRK '000	Bank 31 December 2021 HRK '000
Debt instruments							
Listed debt instruments							
<i>Bonds of the Republic of Croatia with a currency clause</i>							
RHMF O 227E	22 7 2011	22 7 2022	6 5	366,149	148,536	366,149	148,536
RHMF-O-247E	10 7 2013	10 7 2024	5 75	165,080	48,638	160,326	43,668
RHMF O222E	5 2 2019	5 2 2022	0 5	-	15,032	-	15,032
<i>Bonds of the Republic of Croatia in foreign currency</i>							
XS1117298916	11 3 2015	11 3 2025	3 0	294,181	312,397	294,181	312,397
XS1843434876	19 6 2019	19 10 2029	1 125	12,967	15,301	12,967	15,301
XS1028953989	17 06 2020	17 06 2031	1,500	-	54,241	-	54,241
<i>Bonds of the Republic of Croatia in HRK</i>							
RHMF-O-257A	9 7 2015	9 7 2025	4 5	9,100	9,648	-	-
RHMF O 26CA	14 12 2015	14 12 2026	4 25	40,918	45,344	32,255	35,815
RHMF-O-222A	7 2 2017	7 2 2022	2 25	-	70,165	-	70,165
RHMF-O-282A	7 2 2017	7 2 2028	2 875	11,825	13,583	9,954	11,422
RHMF-O-023BA	27 11 2017	27 11 2023	1 75	564,375	508,648	564,375	508,648
RHMF-O-297A	9 7 2018	9 7 2029	2 38	2,827	3,456	-	-
RHMF O 34BA	27 11 2019	27 11 2034	1 00	14,586	15,743	-	-
RHMF-O 403E	3 3 2020	3 3 2040	1 25	6,376	8,500	-	-
RHMF O 253A	3 3 2020	3 3 2025	0 25	76,011	80,082	76,011	80,082
RHMF-O-24BA	27 11 2019	27 11 2024	0 25	9,333	9,667	9,333	9,667
<i>Corporate bonds in HRK</i>							
JDGL O 24XA	18 12 2019	18 12 2024	1 75	1,010	1,015	-	-
HRATGRO25CA5	11 12 2020	11 12 2025	0 88	1,378	1,378	-	-
Treasury bills in HRK up to 91 days			0 089	49,990	-	49,990	-
Treasury bills in HRK up to 364 days			0 031 0 194	1,299,111	1,400,000	1,299,111	1,400,000
Treasury bills in foreign currency up to 364 days			0 000	-	150,344	-	150,344
Accrued interest				18,789	15,620	18,366	15,194
				2,944,006	2,927,338	2,893,018	2,870,512
Unlisted debt instruments							
<i>Corporate bonds with a currency clause</i>							
LNGU O 31AE	24 7 2015	15 10 2031	4 5	486	532	486	532
<i>Bonds of foreign corporate in foreign currency</i>							
Fortenova Group TopCo B V	1 4 2019	1 4 2029	2 5	1,471	1,397	1,471	1,397
Accrued interest				104	247	104	247
				2,061	2,176	2,061	2,176
Equity instruments.							
<i>Unlisted equity instruments</i>							
Investments in shares of foreign legal entities SWIFT				46	45	46	45
Investments in shares of foreign financial institutions EIF				53,076	42,971	53,075	42,971
				53,122	43,016	53,121	43,016
Total				2 999 189	2,972,530	2,948,200	2,915,704

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

15. Foreclosed assets

	30 June 2022 HRK '000	Group and Bank 31 December 2021 HRK '000
Foreclosed assets	25,336	21,369
	25,336	21,369

In the reporting period 2022, acquisition of property took place with present value in the amount of HRK 3,976 thousand, acquisition value of HRK 3,976 thousand and provisions of HRK 0 thousand, and relates to land plot in the amount of HRK 234 thousand, acquisition value of HRK 234 thousand and provisions of HRK 0 thousand, buildings in the amount of HRK 3,742 thousand, acquisition value of HRK 3,742 thousand and provisions of HRK 0 thousand (in 2021, acquisition of property took place with present value in the amount of HRK 8,185 thousand, acquisition value of HRK 8,508 thousand and provisions of HRK 323 thousand, and relates to land plot in the amount of HRK 1,900 thousand, acquisition value of HRK 2,074 thousand and provisions of HRK 174 thousand, buildings in the amount of HRK 4,717 thousand, acquisition value of HRK 4,866 thousand and provisions of HRK 149 thousand and apartments in the amount of HRK 1,568 thousand, acquisition value of HRK 1,568 thousand and provisions of HRK 0 thousand).

Fair value of acquired property at the end of the second quarter of 2022 amounted to HRK 3,976 thousand.

In the reporting period, sale of foreclosed assets took place with present value in the amount of HRK 9 thousand, acquisition value of HRK 434 thousand and provisions of HRK 425 thousand relates to land plot in the amount of HRK 161 thousand, buildings in the amount of HRK 841 thousand and apartments in the amount of HRK 860 thousand (in 2021, sale of foreclosed assets took place with present value in the amount of HRK 10,156 thousand, acquisition value and provisions of HRK 24,218 thousand and provisions of HRK 14,062 thousand, and relates to land plot in the amount of HRK 486 thousand, buildings in the amount of HRK 2,886 thousand and apartments in the amount of HRK 6,784 thousand).

In the reporting period 2022, foreclosed assets were transferred to lease on the item Investments in property in the amount of HRK 2,684 thousand (2021: HRK 2,757 thousand), which is presented under Other assets due to immaterial significance. In the reporting period, this property was depreciated in the amount of HRK 73 thousand (2021: HRK 133 thousand).

The fair value of foreclosed assets at the beginning of the reporting period stood at HRK 29,951 thousand and the end of the reporting period at HRK 33,763 thousand.

The amount of the adjustment for the Group and the Bank that has an effect on the profit or loss stood at HRK 0 thousand in 2022 (2021: increase of HRK 750 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

16. Other assets

	Group		Bank	
	30 June 2022	31 December 2021	30 June 2022	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Fees receivable	26,494	25,787	26,494	25,787
Other receivables	10,135	10,609	10,135	10,609
Prepaid expenses	3,466	3,344	3,042	3,018
Accrued income	17,285	22,923	17,285	22,921
Premium receivables	3,507	1,797	-	-
Receivables for reinsurance commissions	1,717	645	-	-
Receivables for risk assessment fees	401	324	-	-
Deferred tax assets	1,037	-	-	-
Leased assets	4,667	801	4,667	801
Other assets	3,702	3,158	3,528	3,055
	72,411	69,388	65,151	66,191
Loss allowances	(34,120)	(31,851)	(33,850)	(31,697)
	38,291	37,537	31,301	34,494

Lease assets are recognised in accordance with the application of the IFRS 16 and depreciation during the year stood at HRK 935 thousand for the Group and for the Bank.

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

30 June 2022	Group									
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Gross amount	7,003	2	34,948	301	42,254	1,378	2	34,948	301	36,629
Loss allowances	(282)	(1)	(33,580)	(257)	(34,120)	(12)	(1)	(33,580)	(257)	(33,850)
Balance as of 30 June 2022	6,721	1	1,368	44	8,134	1,366	1	1,368	44	2,779

31 December 2021	Group									
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Gross amount	6,117	16	32,728	301	39,162	3,351	16	32,728	301	36,396
Loss allowances	(179)	(4)	(31,418)	(250)	(31,851)	(25)	(4)	(31,418)	(250)	(31,697)
Balance as of 31 December 2021	5,938	12	1,310	51	7,311	3,326	12	1,310	51	4,699

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

16. Other assets (continued)

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

	30 June 2022 HRK '000	Group 31 December 2021 HRK '000	30 June 2022 HRK '000	Bank 31 December 2021 HRK '000
Fees receivable	26,494	25,787	26,494	25,787
Other receivables	10,135	10,609	10,135	10,609
Premium receivables	3,507	1,797	-	-
Receivables for reinsurance	1,717	645	-	-
Receivables for risk assessment fees	401	324	-	-
	<u>42,254</u>	<u>39,162</u>	<u>36,629</u>	<u>36,396</u>
Loss allowance	(34,120)	(31,851)	(33,850)	(31,697)
Subtotal – credit risk	<u>8,134</u>	<u>7,311</u>	<u>2,779</u>	<u>4,699</u>

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

	Jan 1 - Jun 30, 2022 HRK '000	Group Jan 1 - Dec 31, 2021 HRK '000	Jan 1 - Jun 30, 2022 HRK '000	Bank Jan 1 - Dec 31, 2021 HRK '000
Balance as of 1 January	31,851	34,536	31,697	34,396
Net increase/(decrease) of loss allowances on other assets	2,275	(2,542)	2,231	(2,551)
<i>Total recognised through income statement (Note 8)</i>	<u>2,275</u>	<u>(2,542)</u>	<u>2,231</u>	<u>(2,551)</u>
Write-offs	(29)	(14)	(29)	(2)
Net foreign exchange gain/loss on loss allowances	(57)	3	(57)	3
Other adjustments	80	(132)	8	(149)
Balance at the end of the reporting period	<u>34,120</u>	<u>31,851</u>	<u>33,850</u>	<u>31,697</u>

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

17. Deposits from customers

	30 June 2022 HRK '000	Group and Bank 31 December 2021 HRK '000
Bank deposits	22,584	417,163
Foreign currency regular accounts of companies	6	6
Foreign currency account of the Ministry of Finance of the Republic of Croatia	73,377	96,666
Foreign currency special purpose accounts of the companies	45,590	58,567
Foreign currency special accounts of foreign financial institutions	907	3,059
State institutions' deposits	276,463	341,810
Other deposits	29,228	43,270
	448,155	960,541

Bank deposits in 2022 relate to loro deposits of the Bulgarian Development Bank AD.

The foreign currency account of the Ministry of Finance of the Republic of Croatia relates to the Export Insurance Guarantee Fund comprising of reinsurance premiums paid for export insurance operations of HRK 73,377 thousand (31 December 2021: HRK 96,666 thousand).

State institution's demand deposits relate to the Bank's operations carried out for and on behalf of the Ministry of Finance, the Ministry of the Sea, Transport and Infrastructure, the Ministry of Agriculture, the Ministry of Regional Development and EU Funds, the company Vodovod i kanalizacija d.o.o., Split, the Croatian Agency for SMEs, Innovations and Investments ("HAMAG-BICRO") and to the Financial Instrument for HBOR's direct loans exceeding EUR 100,000 for micro, small and medium-sized business entities.

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

Foreign currency special accounts of foreign financial institutions relate to the proceeds of ELENA grant, and it relates to the first tranche of 40% of ELENA grant amount upon signing of the Finance Contract in the amount of EUR 839 thousand, reduced by funds used for the intended purpose and account balance on 30 June 2022 amounted to HRK 907 thousand (31 December 2021: HRK 3,059 thousand).

HBOR does not pay interest on the above deposits.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

18. Borrowings

	Group and Bank	
	30 June 2022	31 December 2021
	HRK '000	HRK '000
Balance as of 1 January	16,104,000	16,852,094
New borrowings	747,367	1,668,482
Repayments	(1,246,685)	(2,391,147)
Net foreign exchange gain/loss	36,707	(25,429)
	15,641,389	16,104,000
Accrued interest	31,176	34,657
Deferred fees	(27,832)	(23,420)
	15,644,733	16,115,237

	Group and Bank	
	30 June	31 December
	2022	2021
	HRK '000	HRK '000
Borrowings from foreign financial institutions	14,141,389	14,604,000
Borrowings from domestic institutions	1,500,000	1,500,000
	15,641,389	16,104,000
Accrued interest	31,176	34,657
Deferred recognition of fees	(27,832)	(23,420)
	15,644,733	16,115,237

(a) Borrowings from foreign financial institutions relate to long-term loans from special financial institutions, mainly the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB).

(b) Borrowings from domestic institutions relate to a loan from the Ministry of Finance of the Republic of Croatia.

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

for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

19. Provisions for guarantees, commitments and other liabilities

	Group		Bank	
	30 June 2022	31 December 2021	30 June 2022	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Provisions for guarantees and commitments	97,879	129,587	97,879	129,587
Provisions for other liabilities	59,529	60,973	59,299	60,716
	157,408	190,560	157,178	190,303

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

	Group		Bank	
	Jan 1 - Jun 30, 2022	Jan 1 - Dec 31, 2021	Jan 1 - Jun 30, 2022	Jan 1 - Dec 31, 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	129,587	45,556	129,587	45,556
Net increase of loss allowances on guarantees	(24,907)	74,799	(24,907)	74,799
<i>Total recognised through Income Statement (Note 8)</i>	<i>(24,907)</i>	<i>74,799</i>	<i>(24,907)</i>	<i>74,799</i>
Net (release)/increase of loss allowances on commitments	(6,726)	7,503	(6,726)	7,503
<i>Total recognised through Income Statement (Note 8)</i>	<i>(6,726)</i>	<i>7,503</i>	<i>(6,726)</i>	<i>7,503</i>
Net foreign exchange on loss allowances	(75)	1,729	(75)	1,729
Balance at the end of the reporting period - Provisions for guarantees and commitments	97,879	129,587	97,879	129,587
Balance as of 1 January	60,973	62,500	60,716	62,240
Net (release) of loss allowances on other liabilities	(1,444)	(2,358)	(1,417)	(2,355)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(1,444)</i>	<i>(2,358)</i>	<i>(1,417)</i>	<i>(2,355)</i>
Unrealised actuarial gains/(losses)	-	831	-	831
Balance at the end of the reporting period - Provisions for other liabilities	59,529	60,973	59,299	60,716

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

Out of the total provisions for guarantees and commitments, the amount of HRK 1,918 thousand relates to financial institutions (31 December 2021: HRK 2,695 thousand), HRK 94,174 thousand relates to domestic companies (31 December 2021: HRK 125,172 thousand), HRK 22 thousand relates to the public sector (31 December 2021: HRK 1,371 thousand), HRK 1,140 thousand relates to non-profit institutions (31 December 2021: HRK 239 thousand), HRK 625 thousand relates to other (31 December 2021: HRK 110 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

20. Other liabilities

	Group		Bank	
	30 June 2022 HRK '000	31 December 2021 HRK '000	30 June 2022 HRK '000	31 December 2021 HRK '000
Liabilities in respect of subsidized interest (a)	182,782	174,027	182,782	174,027
Deferred recognition of interest income (b)	175,396	186,159	175,396	186,159
Accrued salaries	8,284	8,613	8,060	8,397
Liabilities to suppliers	1,706	2,180	1,600	2,065
Liabilities for prepaid receivables	4,744	4,921	4,744	4,921
Deferrable premium	5,643	5,219	-	-
Provisions for claims	5,400	6,815	-	-
Provisions for return premiums	1,676	1,454	-	-
Liabilities to re-insurers	6,559	2,443	-	-
Deferred tax liabilities	419	401	-	-
Corporate income tax-current liability	-	208	-	-
Lease liabilities	4,843	1,148	4,578	800
Other liabilities	4,490	41,651	2,896	39,809
	401,942	435,239	380,056	416,178

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

- HRK 156,619 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2021: HRK 168,750 thousand),
- HRK 244 thousand in respect of the Programme Working Capital COVID-19 Measure for SMEs in tourism industry for micro, small and medium-sized entrepreneurs, Ministry of Tourism and Sports (31 December 2021: HRK 3,468 thousand),
- HRK 419 thousand in respect of the Programme Working Capital COVID-19 Measure for entrepreneurs in wood processing and furniture production industry, Ministry of Agriculture (31 December 2021: HRK 309 thousand),
- Subsidising of interest for the purchase of mobile homes for business entities in the tourism industry in the amount of HRK 1,500 thousand (31 December 2021: HRK 1,500 thousand),
- Financial instrument of the Interest Subsidy Fund for loans to micro, small and medium-sized business entities in the amount of HRK 8,000 thousand (31 December 2021: HRK 0 thousand),
- Financial instrument of the Interest Subsidy Fund for loans to mid-cap entities and large business entities in the amount of HRK 8,000 thousand (31 December 2021: HRK 0 thousand),
- Financial instrument of the Interest Subsidy Fund for loans to public sector entities in the amount of HRK 8,000 thousand (31 December 2021: HRK 0 thousand).

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

20. Other liabilities (continued)

(b) Deferred recognition of interest income of HRK 175,396 thousand (31 December 2021: HRK 186,159 thousand) consists of state subsidies for interest in respect of loans which are provided and drawn down by final borrowers at lower interest rates but are not yet in repayment stage, amounting to HRK 54,209 thousand (31 December 2021: HRK 58,042 thousand), and in respect of those already in repayment stage amounting to HRK 128,117 thousand (31 December 2021: HRK 128,117 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

21. Guarantees and commitments

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

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

Group and Bank

	30 June 2022	31 December 2021
	HRK '000	HRK '000
Guarantees issued in HRK	162,840	170,555
Guarantees issued in foreign currency	224,875	325,103
Undrawn loans	3,126,731	3,492,038
EIF – subscribed, not called up capital	78,292	78,179
EIF CROGIP Contracted Liability	307,673	312,489
EIF FRC2 Contracted Liability	4,150	6,243
	<u>3,904,561</u>	<u>4,384,607</u>
Provisions for guarantees and commitments	(97,879)	(129,587)
	<u>3,806,682</u>	<u>4,255,020</u>

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

30 June 2022	Group and Bank					
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Without stage HRK '000	Total HRK '000
Gross amount	3,124,482	140,906	226,207	22,851	-	3,514,446
Loss allowances	(25,350)	(9,497)	(57,142)	(5,890)	-	(97,879)
Balance as of 30 June 2022	<u>3,099,132</u>	<u>131,409</u>	<u>169,065</u>	<u>16,961</u>	<u>-</u>	<u>3,416,567</u>

31 December 2021	Group and Bank					
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Without stage HRK '000	Total HRK '000
Gross amount	3,311,893	302,747	326,551	46,505	-	3,987,696
Loss allowances	(10,652)	(26,256)	(82,779)	(9,900)	-	(129,587)
Balance as of 31 December 2021	<u>3,301,241</u>	<u>276,491</u>	<u>243,772</u>	<u>36,605</u>	<u>-</u>	<u>3,858,109</u>

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

21. Guarantees and commitments (continued)

Guarantees

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

Bank guarantees are, to the extent of 18%, collateralized by the guarantees, deposits and bank guarantees.

Commitments upon undrawn loans

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

22. Related-party transactions

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

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

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

Assets and liabilities as of 30 June 2022 and 31 December 2021, and income and expense for the period 1 January to 30 June 2022 and for the period 1 January to 30 June 2021 arising from transactions with related parties, including the Bank's key management personnel, include the following

a) Related-party transactions

Group	Assets	Liabilities	Assets	Liabilities
	30 June	30 June	31 December	31 December
	2022	2022	2021	2021
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,482,252	1,819,604	3,348,080	1,853,263
Government funds, executive authorities and agencies	4,952,247	212,665	4,617,620	257,050
State-owned companies	852,412	2,471	914,416	59
Associates	-	-	7	-
Key management personnel	2,106	2,308	3,393	2,701
Total	9,289,017	2,037,048	8,883,516	2,113,073

Group	Income	Expense	Income	Expense
	Jan 1 – Jun 30	Jan 1 – Jun 30	Jan 1 – Jun 30	Jan 1 – Jun 30
	2022	2022	2021	2021
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	23,008	7,773	25,641	11,646
Government funds, executive authorities and agencies	47,567	12,061	42,088	1,663
State-owned companies	20,812	3,385	23,308	16,174
Associates	-	-	26	-
Key management personnel	34	4,301	3,380	4,108
Total	91,421	27,520	94,443	33,591

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

22. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Assets		Liabilities	
	30 June 2022	30 June 2022	31 December 2021	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,482,252	1,819,604	3,348,080	1,853,263
Government funds, executive authorities and agencies	4,903,603	212,616	4,563,167	257,009
State-owned companies	852,408	2,468	914,412	54
Subsidiary companies	36,123	-	36,124	-
Associates	-	-	7	-
Key management personnel	2,106	2,190	3,393	2,585
Total	9,276,492	2,036,878	8,865,183	2,112,911

Bank	Income		Expense	
	Jan 1 – Jun 30 2022	Jan 1 – Jun 30 2022	Jan 1 – Jun 30 2021	Jan 1 – Jun 30 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	23,008	7,773	25,641	11,646
Government funds, executive authorities and agencies	46,931	12,041	41,463	1,642
State-owned companies	20,812	3,350	23,308	16,149
Subsidiary companies	-	-	-	-
Associates	-	-	26	-
Key management personnel	34	3,844	3,380	3,339
Total	90,785	27,008	93,818	32,776

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

22. Related-party transactions (continued)

b) Collateral received

	Group		Bank	
	30 June 2022	31 December 2021	30 June 2022	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
The Republic of Croatia	7,256,622	5,243,064	7,255,979	5,242,142
State agencies	529,464	590,684	529,464	590,684
Total	7,786,086	5,833,748	7,785,443	5,832,826

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

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

c) Salaries of key management personnel

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

Salaries include compensation paid for regular work, annual vacation, national holidays, paid leave, sick leave, benefits payable for past service and payments under contractual agreements. Salaries for the Group in the reporting period amounted to HRK 4,279 thousand (1 January to 30 June 2021: HRK 4,067 thousand), and for the Bank amounted to HRK 3,844 thousand (1 January to 30 June 2021: HRK 3,336 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 22 thousand (1 January to 30 June 2021: HRK 41 thousand) and for the Bank amounted to HRK 0 thousand (1 January to 30 June 2021: HRK 3 thousand) and it relates to the members of supervisory boards at associates and subsidiaries who were appointed by HBOR.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management

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

The most significant risks the Bank is exposed in its day-to-day business are credit risk, liquidity risk, interest rate risk, foreign exchange risk, operational risk and outsourcing risk. These risks are managed daily in accordance with the policies, ordinances, methodologies, instructions and systems of limits, controls and decisions/conclusions of the Supervisory Board, the Management Board and the risk management committees.

The Bank implements sensitivity analyses and scenario analyses, provided that one or several risk factors are changed in regular or stressful circumstances, and HBOR's bodies in charge are informed of the respective results. The systems of pro-active risk management are continuously developed for the purpose of reducing possible future risks.

23.1. Overview of the most important risks

Credit risk

The Bank controls credit risk through its credit policies and the credit risk management ordinance, which prescribe internal control systems with the aim of acting on the risk preventively.

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

Liquidity risk, currency risk and interest rate risk

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

Liquidity risk

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

In order to manage liquidity risk, the Bank has established a system of limits and early warning signals, monitors and controls limit utilisation, maintains the adequate level of liquidity reserve, continuously monitors current and planned liquidity, ensures HRK and foreign currency funds necessary for timely settlement of liabilities and for disbursements of approved loans and planned loan approvals. In terms of liquidity risk management, the maturity matching of existing and planned placements and their sources is

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.1. Overview of the most important risks (continued)

Liquidity risk (continued)

strived to be achieved. 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. Procedures for liquidity crisis indication or occurrence are determined by the Ordinance on Liquidity Risk Management.

Interest rate risk

The basic principles for managing the 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 is used for presenting the sensitivity of the Bank to the changes in interest rates under regular and stress conditions. A detailed breakdown of interest rates is done per currency, type and level of interest rate, and projections of developments in average weighted interest rates for sources and placements are made. Furthermore, in addition to harmonising interest rates on sources and placements, current market conditions and movements in forecasted market indicators are also monitored.

Currency risk

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

For the purposes of measuring exposure to currency risk, the open foreign currency position is monitored. In addition to the daily monitoring of the open foreign currency position and the projections of its developments, for the purposes of assessing and measuring the currency risk, the risk value is calculated, and reports are regularly submitted to the bodies in charge on maximum possible losses on significant currencies. Sensitivity analyses in regular or stressful business conditions are also performed.

Operational risk

HBOR has established a framework for the management of operational risk that is aligned with the regulations prescribed by the Croatian National Bank applicable to the operations of the Bank as the special financial institution and with the good banking practices in the area of risk management, and that was introduced in 2012.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.1. Overview of the most important risks (continued)

Operational risk (continued)

The basic principles of operational risk management were identified in the umbrella act, Operational Risk Management Policies, the structure of management and accountability in the system was set up, the approach for the calculation of capital requirements for operational risk was determined, the reporting system was established as well as the manners of establishing, managing and monitoring the exposure to operational risk. The management system covers the operational risk at business changes, new products included, and operational risk at the outsourcing of activities.

The Committee for IT management was established in order to monitor IT system performance with the purpose of IT resources management by setting the appropriate level of efficiency and security of IT for providing, among other things, appropriate management of risks arising from IT technology utilisation.

The Head of IT System Security function is in charge of monitoring the security of the IT system. Within this function, a system for the management of HBOR's business continuity was established.

In 2022, there is a significant impact of an operational risk event on the Bank's operations - the earthquake in Zagreb. The crisis event was recorded in 2020 in the operational risk base, where its financial effects are continuously updated. Also, in order to ensure business continuity due to the inability to use the earthquake-damaged main office building of the Bank, workers were allowed to continue working partially from home.

In addition, in 2022, HBOR's exposure to operational risk was significantly affected by the Euro introduction project aimed at the timely harmonisation of HBOR with the National Plan for the Changeover from the Croatian Kuna to the Euro, the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia and other legislation to which HBOR is subject. In order to ensure the meeting of deadlines and the continuity and integrity of operations after the changeover to the Euro as the official currency, HBOR focused on the priority and availability of resources for the timely implementation of this project.

Outsourcing risk

The HBOR manages the outsourcing risk on the basis of internal documents that are in compliance with the regulations prescribed by the Croatian National Bank applicable to the HBOR as a special financial institution. The internal documents that determine the management of this risk determine also the procedures for the outsourcing of activities, the rules for the management of relations with the service providers and the obligation to reduce the risk to the lowest level.

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

The EUR introduction project will also have an impact on the risk of outsourcing for outsourced key („core“) activities, given the complexity of the project and the legal deadline, and HBOR, in cooperation with key service providers, implements necessary measures to minimize this risk.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.2. Strategy and risk management systems

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

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

Risk management committees

- **Assets and Liabilities Management Committee (ALCO)** – manages liquidity risk, interest rate risk and currency risk within the framework of the Liquidity Risk Management Ordinance, the Currency Risk Management Ordinance and the Interest Rate Risk Management Procedures, Trading Book Ordinance, the Assets and Liabilities Management Policies as well as other documents of the Bank that regulate this area,
- **Credit Risk Evaluation and Measurement Committee** – manages credit risk within the framework set through accepted Loan Policies, Credit Risk Management Ordinance, methodologies and other internal acts that cover issues related to credit risk,
- **HBOR Information System Management Committee** – manages the resources of the information system and adequately manages the risks that result from the use of information technology.

The Risk Management Division

The Risk Management Division is a permanent risk control function, which is functionally and organisationally independent of the business processes and activities in which the risk occurs or is monitored and supervised. It is responsible for controlling, determining, measuring, assessing and supervising the risks to which HBOR is exposed or could be exposed in its business operations.

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.2. Strategy and risk management systems (continued)

Risk measurement and reporting systems

When assessing or measuring risk, historical data, business plans, current and expected market conditions and the specific characteristics of the Bank as a special financial institution are taken into account.

The results of risk assessments or measurements, analyses carried out and stress test are presented at the meetings of the Risk Management Committee and the Management Board. For the purpose of risk monitoring and control, systems of limits are introduced for the management of credit risk, liquidity risk, interest rate risk and currency risk.

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

23.3. Credit risk

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

The credit risk management system is the crucial part of the Bank's business policy and an important strategic factor of business conduct. Therefore, this area is regulated by the Credit Risk Management Policy and the Credit Risk Management Ordinance that are applied on all phases of the credit process (from development of new bank products to loan applications monitoring of client's business operations and final loan repayments).

In addition to the Policy and Credit Risk Management Ordinance, methodologies have been adopted as separate internal documents intended for the assessment of operations of various client target groups.

In the case of direct financing, the Credit Risk Assessment Methodology (for gross exposures exceeding HRK 3,000 thousand) or the Credit Scoring Methodology (for gross exposures below HRK 3,000 thousand) is used to determine creditworthiness. The Credit Scoring Methodology is used to determine creditworthiness of clients that belong to the "small loan portfolio" and it contains seven scoring models:

- placements up to HRK 300 thousand to companies, crafts businesses and farmers,
- placements up to HRK 300 thousand to start-ups,
- placements from HRK 300 thousand to HRK 1,500 thousand to companies,
- placements from HRK 300 thousand to HRK 1,500 thousand to start-ups,
- placements from HRK 300 thousand to HRK 1,500 thousand to all other entrepreneurs,

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

23. Risk management (continued)

23.3. Credit risk (continued)

- placements from HRK 1,500 thousand to HRK 3,000 thousand to companies and start-ups, and
- placements from HRK 1,500 thousand to HRK 3,000 thousand to all other entrepreneurs.

The Credit Rating Assessment Methodology is used for the assessment of the risk of the clients that have been classified to the portfolio of individually significant clients, i.e. gross exposures exceeding HRK 3,000 thousand. The risk assessment can be contained in the assessment of client creditworthiness, assessment of investment project success and assessment of client creditworthiness containing analysis of future operations.

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

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

Through continuous monitoring and evaluation of clients' business operations, HBOR tries to identify difficulties in their business operations in time. For clients with difficulties, the Bank tries to find appropriate ways to collect receivables by considering the possibilities of alternative repayment terms with a view to continue the production process and employment increase. Special emphasis is placed on identifying and monitoring reasons for bad debts, and procedures for prevention are built in operational procedures with a view to decreasing the share of high risk placements.

In order to mitigate the negative consequences of the coronavirus pandemic, the Bank, with the aim of preserving the level of economic activity and liquidity of economic entities and most importantly, preserving jobs, enabled rescheduling of obligations.

Due to the approval of a larger number of loans in a relatively short period of time in 2020, certain activities in the existing manner and procedure of processing loan applications have been reduced that are prescribed by the Credit Risk Management Ordinance and that are covered by separate Instructions having been implemented on COVID-19 loans and loans for the areas struck by the earthquake in the first half of 2022 as well.

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

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23. Risk management (continued)

23.3. Credit risk (continued)

Implemented moratoriums

In order to assess the impact of the crisis on the portfolio of its clients, the Bank reviewed, in 2021 the operations of its clients, especially those affected by the COVID-19 crisis and those who requested a moratorium or some kind of COVID-measures. The purpose was to assess the impact of the COVID crisis on the operations of the clients who were in moratorium by considering whether the difficulties faced by the clients were only temporary, in which case the approval of a moratorium did not represent a significant increase in credit risk. During 2022, operations of all clients have been regularly monitored, those who were in moratorium and/or to whom crisis-mitigation loans were approved.

23.3.1. Risk related to loan commitments

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

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

23.3.2. Impairment assessment

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

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

- Stage 1 – includes all clients with low credit risk and clients with respect to which no significant increase in credit risk has been established,
- Stage 2 – includes all clients with respect to which a significant increase in credit risk since initial recognition has been established,
- Stage 3 – includes clients in default, i.e. clients with respect to which there is objective evidence of value impairment
- and separate category - Purchased or originated credit impaired asset, POCL.

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

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

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

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

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

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

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

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

23.3.2.1. Definition of default status and exit from default status

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

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

The materiality threshold is HRK 750 for citizens, and HRK 3,750 for other clients, and is calculated at the client level by summing up due liabilities for all client placements.

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

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

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

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

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

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

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

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

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

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

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

Financial instruments of rehabilitated/recovered clients are classified into performing exposures after all conditions of the probation period have been met. All placements of clients after forbearance/restructuring are considered forborne for two years from the moment when classified as performing exposures, and in that period, they are classified as risk level 2.

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

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

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

All clients that were not approved concessions due to financial difficulties, and HBOR's exposure to them ceased to be non-performing, are classified as risk level 1 after the recovery.

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

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

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

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

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

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

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

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

Ratings of external credit rating agencies are used for exposures to foreign financial institutions and, therefore, the appropriate PD value from their matrices is used, and if non-existing,

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

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

the internal rating is used, i.e. the rules are applied that are identical to those applied to domestic financial institutions.

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

23.3.2.3. Exposure at default

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

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

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

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

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

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

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

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

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

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

23.3.2.4. Loss given default

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

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

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

23.3.2.5. Significant increase in credit risk

For the purpose of identifying an increased credit risk, changes for all clients of the Bank are monitored continuously, but at least once a year. All placements to the client, where an increased credit risk has been identified or in case of individually significant clients, whose exposure exceeds HRK 3,000 thousand and are on the client watch list, on the next reporting date, all financial instruments of the client with increased credit risk are classified to stage 2 based on the observed criteria such as:

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

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

Notes to the Financial Statements which include significant accounting policies
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23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

23.3.2.5. Significant increase in credit risk (continued)

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

23.3.2.6. Grouping financial assets measured on a collective basis

Credit risk is evaluated on a collective basis for all clients classified into risk stages 1 and 2 as well as for clients in the risk stage 3 belonging to the small loan portfolio. The clients belonging to the small loan portfolio are clients to which HBOR is exposed in the gross amount that is equal or less than HRK 3,000 thousand.

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

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

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

Notes to the Financial Statements which include significant accounting policies
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23. Risk management (continued)

23.3. Credit risk (continued)

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

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

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

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

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

For the calculation of expected credit losses, the Bank uses a large number of macroeconomic conditions, for one of which (GDP real growth rate) correlations on total PDs have been established for the entire portfolio of direct loans.

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

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23. Risk management (continued)

23.3. Credit risk (continued)

23.3.5. Overview of modified and restructured loans

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

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

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

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

Evidence on concession includes the following:

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

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

23.3.6. Analysis of risk concentration

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

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

As of 30 June 2022, the highest credit exposure of the Group and the Bank to one debtor equalled HRK 1,922,023 thousand (31 December 2021: HRK 2,102,579 thousand for the Group and the Bank) without considering the effect of mitigation through collateral received.

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

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.6. Analysis of risk concentration (continued)

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

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

23.3.7. Risk-Sharing Model

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

Loans according to the risk-sharing models under HBOR loan programmes (primarily loans for investments and restructuring, and to a lesser extent for liquidity) are implemented in such a way that commercial banks involved in such transactions are still agents (administrative, payment and collateral agents), but HBOR conducts the usual procedure as for any other direct loan and enters, both exposures and collateral, into the business records after contracting or implementing the collateral for placements.

As part of measures to help the economy due to the coronavirus pandemic, it was possible to approve new liquidity loans to entrepreneurs severely affected by the crisis caused by the coronavirus pandemic under the risk-sharing model with commercial banks. Due to the short deadline for processing large number of loan applications, the current loan process prescribed by the Credit Risk Management Ordinance has been accelerated and shortened for this purpose.

HBOR monitors its clients to which it has a gross exposure of more than HRK 3,000 thousand under the procedure for direct loans, however, taking into account that very often HBOR does not have a direct contact with its clients, HBOR uses quarterly reports or obtain necessary information from commercial banks.

Notes to the Financial Statements which include significant accounting policies
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23. Risk management (continued)

23.3. Credit risk (continued)

23.3.8. Collaterals and other credit quality (creditworthiness) improvement

Collateral for the Bank's placements are:

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

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

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

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

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

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

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

23. Risk management (continued)

23.3. Credit risk (continued)

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

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

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

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

All direct placements are mainly secured with a transfer of ownership or with a mortgage over real estate and, if is possible, the Bank obtains as security against credit risk a guarantee from HAMAG-BICRO, a guarantee from EIF (European Investment Fund), a guarantee from the local and regional authority, a guarantee from the Republic of Croatia, etc.

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

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

In case of the real estate, the necessary ratio of placement and estimated market value of the real estate should be 1:1.3, except in case of investments on the islands, supported areas where such ratio is 1:1.2. In case of moveable property, the necessary ratio of placement and estimated market value of moveable property should be 1:2. If a lower ratio of the collateral value than those prescribed is proposed, reasons and justifications of deviations from the prescribed ratio are explained. For direct financing of entrepreneurs' liquidity through COVID-19 loans or loans for earthquake-affected areas of Sisak-Moslavina County or liquidity loans under the new WC CRISIS 2022 measure, security is provided through the coverage of loans by collateral of at least 70%.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

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

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

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

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

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

- in accordance with their own internal documents and good banking practices, and, consequently, HBOR's documents and collateral ratios prescribed in them do not apply,
- or collateral is created by commercial banks and HBOR for their respective shares in the loan in accordance with their own documents, decisions and/or procedures,
- for liquidity loans to entrepreneurs that have been strongly affected by the crisis caused by the coronavirus pandemic, the same instruments taken by the bank have been accepted as collateral provided that the collateral covers at least 50% of the loan.

Write-offs

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

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

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure

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

	Group		Bank	
	Highest exposure 30 June 2022 HRK '000	Highest exposure 31 December 2021 HRK '000	Highest exposure 30 June 2022 HRK '000	Highest exposure 31 December 2021 HRK '000
Assets				
Cash on hand and current accounts with banks	1,248,603	1,961,985	1,244,180	1,958,619
Deposits with other banks	11,888	7,500	11,888	7,500
Loans to financial institutions	6,902,706	7,050,143	6,902,706	7,050,143
Loans to other customers	16,136,847	15,964,376	16,136,847	15,964,376
Financial assets at fair value through profit or loss	25,087	16,375	25,087	16,375
Financial assets at fair value through other comprehensive income	2,946,067	2,929,514	2,895,079	2,872,688
Other assets	8,134	7,311	2,779	4,699
Total	27,279,332	27,937,204	27,218,566	27,874,400
Guarantees and commitments				
Guarantees issued in HRK	131,335	140,113	131,335	140,113
Issued guarantees in foreign currency	186,678	260,705	186,678	260,705
Undrawn loans	3,098,554	3,457,291	3,098,554	3,457,291
Total	3,416,567	3,858,109	3,416,567	3,858,109
Total credit risk exposure	30,695,899	31,795,313	30,635,133	31,732,509

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Republic of Croatia	EU countries	Other countries	Total
30 June 2022	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,182,944	59,758	5,901	1,248,603
Deposits with other banks	-	11,888	-	11,888
Loans to financial institutions	6,902,706	-	-	6,902,706
Loans to other customers	16,037,440	-	99,407	16,136,847
Financial assets at fair value through profit or loss	25,087	-	-	25,087
Financial assets at fair value through other comprehensive income	2,944,596	1,471	-	2,946,067
Other assets	4,438	1,369	2,327	8,134
Total	27,097,211	74,486	107,635	27,279,332
Guarantees and commitments				
Guarantees issued in HRK	131,335	-	-	131,335
Issued guarantees in foreign currency	186,678	-	-	186,678
Undrawn loans	3,096,852	-	1,702	3,098,554
Total	3,414,865	-	1,702	3,416,567
Total credit risk exposure	30,512,076	74,486	109,337	30,695,899

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Republic of Croatia	EU countries	Other countries	Total
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,881,083	25,319	55,583	1,961,985
Deposits with other banks	-	7,500	-	7,500
Loans to financial institutions	7,050,143	-	-	7,050,143
Loans to other customers	15,681,740	-	282,636	15,964,376
Financial assets at fair value through profit or loss	16,375	-	-	16,375
Financial assets at fair value through other comprehensive income	2,928,045	1,469	-	2,929,514
Other assets	6,430	254	627	7,311
Total	27,563,816	34,542	338,846	27,937,204
Guarantees and commitments				
Guarantees issued in HRK	140,113	-	-	140,113
issued guarantees in foreign currency	260,705	-	-	260,705
Undrawn loans	3,454,685	-	2,606	3,457,291
Total	3,855,503	-	2,606	3,858,109
Total credit risk exposure	31,419,319	34,542	341,452	31,795,313

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank 30 June 2022	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
Assets				
Cash on hand and current accounts with banks	1,178,521	59,758	5,901	1,244,180
Deposits with other banks	-	11,888	-	11,888
Loans to financial institutions	6,902,706	-	-	6,902,706
Loans to other customers	16,037,440	-	99,407	16,136,847
Financial assets at fair value through profit or loss	25,087	-	-	25,087
Financial assets at fair value through other comprehensive income	2,893,608	1,471	-	2,895,079
Other assets	2,779	-	-	2,779
Total	27,040,141	73,117	105,308	27,218,566
Guarantees and commitments				
Guarantees issued in HRK	131,335	-	-	131,335
Issued guarantees in foreign currency	186,678	-	-	186,678
Undrawn loans	3,096,852	-	1,702	3,098,554
Total	3,414,865	-	1,702	3,416,567
Total credit risk exposure	30,455,006	73,117	107,010	30,635,133

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank	Republic of Croatia	EU countries	Other countries	Total
31. December 2021	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,877,717	25,319	55,583	1,958,619
Deposits with other banks	-	7,500	-	7,500
Loans to financial institutions	7,050,143	-	-	7,050,143
Loans to other customers	15,681,740	-	282,636	15,964,376
Financial assets at fair value through profit or loss	16,375	-	-	16,375
Financial assets at fair value through other comprehensive income	2,871,219	1,469	-	2,872,688
Other assets	4,699	-	-	4,699
Total	27,501,893	34,288	338,219	27,874,400
Guarantees and commitments				
Guarantees issued in HRK	140,113	-	-	140,113
Issued guarantees in foreign currency	260,705	-	-	260,705
Undrawn loans	3,454,685	-	2,606	3,457,291
Total	3,855,503	-	2,606	3,858,109
Total credit risk exposure	31,357,396	34,288	340,825	31,732,509

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Highest exposure		Highest exposure after the effect of mitigation through collateral received	
	30 June	30 June	31 December	31 December
	2022	2022	2021	2021
	HRK '000	HRK '000	HRK '000	HRK '000
Financial intermediation and insurance	9,257,885	-	10,805,364	-
Water and electric supply and other infrastructure	1,854,790	936,869	1,925,271	973,895
Tourism	3,754,763	739,670	3,648,347	657,484
Transport, warehousing and connections	2,912,750	508,318	2,496,070	481,157
Shipbuilding	1,219,263	52,531	1,481,871	88,546
Agriculture and fishery	650,939	167,281	596,042	164,847
Food industry	1,004,742	184,028	966,929	192,536
Construction industry	2,808,587	124,317	2,836,586	124,601
Other industry	997,928	419,257	730,574	240,299
Public administration	3,070,928	3,067,764	2,918,243	2,914,897
Education	32,265	29,419	32,142	29,789
Manufacture of basic metals and fabricated metal products, except machinery and equipment	368,763	74,017	281,395	46,890
Manufacture of chemicals and chemical products	79,447	2,026	86,151	22,533
Manufacture of other non-metallic mineral products	167,158	128,561	171,322	126,355
Pharmaceutical industry	500,927	491,272	416,205	379,399
Manufacture of motor vehicles, trailers and semi-trailers	178,686	10,254	266,004	17,411
Other	1,836,078	196,562	2,136,797	291,527
Total credit risk exposure	30,695,899	7,132,146	31,795,313	6,752,166

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank	Highest exposure	Highest exposure after the effect of mitigation through collateral received	Highest exposure	Highest exposure after the effect of mitigation through collateral received
	30 June 2022 HRK '000	30 June 2022 HRK '000	31 December 2021 HRK '000	31 December 2021 HRK '000
Financial intermediation and insurance	9,249,766	-	10,801,196	-
Water and electric supply and other infrastructure	1,854,790	936,869	1,925,271	973,895
Tourism	3,754,763	739,670	3,648,347	657,484
Transport, warehousing and connections	2,912,683	508,248	2,495,987	481,074
Shipbuilding	1,219,263	52,531	1,481,871	88,546
Agriculture and fishery	650,854	167,196	595,896	164,701
Food industry	1,004,639	183,926	966,803	192,409
Construction industry	2,808,264	123,994	2,836,306	124,321
Other industry	997,574	418,904	730,311	240,036
Public administration	3,022,204	3,019,041	2,863,812	2,860,466
Education	32,265	29,419	32,142	29,789
Manufacture of basic metals and fabricated metal products, except machinery and equipment	368,658	73,913	281,312	46,808
Manufacture of chemicals and chemical products	79,447	2,026	86,151	22,533
Manufacture of other non-metallic mineral products	167,158	128,561	171,322	126,355
Pharmaceutical industry	499,766	490,109	414,615	377,809
Manufacture of motor vehicles, trailers and semi-trailers	178,686	10,254	266,004	17,411
Other	1,834,353	194,837	2,135,163	289,893
Total credit risk exposure	30,635,133	7,079,498	31,732,509	6,693,530

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

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group as of 30 June 2022 amounted to HRK 23,563,753 thousand (31 December 2021: HRK 25,043,147 thousand) and for the Bank HRK 23,555,635 thousand (31 December 2021: HRK 25,038,979 thousand).

Net highest exposure as at 30 June 2022 for the Group amounted to HRK 7,132,146 thousand (31 December 2021: HRK 6,752,166 thousand) and for the Bank HRK 7,079,498 thousand (31 December 2021: HRK 6,693,530 thousand).

In the total net highest exposure after the effect of mitigation through collateral received as of 30 June 2022, the credit risk of HRK 4,365,292 thousand for the Group (31 December 2021: HRK 4,361,928 thousand) and HRK 4,316,693 thousand for the Bank (31 December 2021: HRK 4,307,497 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia for the Group and the Bank of HRK 586,499 thousand (31 December 2021: HRK 478,914 thousand), from local (regional) authorities of HRK 669,046 thousand (31 December 2021: HRK 777,947 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 168,102 thousand (31 December 2021: HRK 180,112 thousand), government funds of HRK 28 thousand (31 December 2021: HRK 12 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,941,617 thousand for the Group and HRK 2,893,018 thousand for the Bank (31 December 2021: HRK 2,924,943 thousand for the Group and HRK 2,870,512 thousand for the Bank).

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

Financial intermediation includes mainly commercial bank.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Credit risk quality according to type of financial assets

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

Group 30 June 2022	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
Assets												
Cash on hand and current accounts with banks	1,248,603	-	-	-	-	1,248,603	-	-	-	-	-	-
Deposits with other banks	11,888	-	-	-	-	11,888	-	-	-	-	-	-
Loans to financial institutions	6,722,887	177,344	2,475	-	-	6,902,706	-	-	-	-	-	-
Loans to other customers	13,288,364	771,601	1,148,564	928,318	-	16,136,847	2,956,717	79,964	265,095	61,243	-	3,363,019
Financial assets at fair value through profit or loss	-	-	-	-	25,087	25,087	-	-	-	-	24,809	24,809
Financial assets at fair value through other comprehensive income	2,944,596	-	1,471	-	-	2,946,067	2,944,596	-	1,471	-	-	2,946,067
Other assets	6,721	1	1,368	44	-	8,134	2,082	1	673	44	-	2,800
Total	24,223,059	948,946	1,153,878	928,362	25,087	27,279,332	5,903,395	79,965	267,239	61,287	24,809	6,336,695
Guarantees and commitments												
Guarantees issued in HRK	62,334	21,598	47,403	-	-	131,335	19,387	19,032	22,727	-	-	61,146
Issued guarantees in foreign currency	60,779	4,237	121,662	-	-	186,678	59,347	502	54,896	-	-	114,745
Undrawn loans	2,976,019	105,574	-	16,961	-	3,098,554	617,677	1,103	-	780	-	619,560
Total	3,099,132	131,409	169,065	16,961	-	3,416,567	696,411	20,637	77,623	780	-	795,451
Total credit risk exposure	27,322,191	1,080,355	1,322,943	945,323	25,087	30,695,899	6,599,806	100,602	344,862	62,067	24,809	7,132,146

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

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

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

Group 31 December 2021	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
Assets												
Cash on hand and current accounts with banks	1,961,985	-	-	-	-	1,961,985	-	-	-	-	-	-
Deposits with other banks	7,500	-	-	-	-	7,500	-	-	-	-	-	-
Loans to financial institutions	6,865,821	180,760	3,562	-	-	7,050,143	-	-	-	-	-	-
Loans to other customers	12,779,081	827,965	1,163,771	1,193,559	-	15,964,376	2,855,314	92,792	205,605	34,769	-	3,188,480
Financial assets at fair value through profit or loss	-	-	-	-	16,375	16,375	-	-	-	-	16,375	16,375
Financial assets at fair value through other comprehensive income	2,928,045	-	1,469	-	-	2,929,514	2,928,045	-	1,469	-	-	2,929,514
Other assets	5,938	12	1,310	51	-	7,311	2,398	12	749	51	-	3,210
Total	24,548,370	1,008,737	1,170,112	1,193,610	16,375	27,937,204	5,785,757	92,804	207,823	34,820	16,375	6,137,579
Guarantees and commitments												
Guarantees issued in HRK	71,262	22,713	46,138	-	-	140,113	30,516	18,957	20,938	-	-	70,411
Issued guarantees in foreign currency	62,694	377	197,634	-	-	260,705	49,764	-	71,433	-	-	121,197
Undrawn loans	3,167,285	253,401	-	36,605	-	3,457,291	282,102	140,095	-	782	-	422,979
Total	3,301,241	276,491	243,772	36,605	-	3,858,109	362,382	159,052	92,371	782	-	614,587
Total credit risk exposure	27,849,611	1,285,228	1,413,884	1,230,215	16,375	31,795,313	6,148,139	251,856	300,194	35,602	16,375	6,752,166

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

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

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

Bank							Net exposure of portfolio after the effect of mitigation through collateral received Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
30 June 2022	Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI	Not subject to IFRS 9	Net exposure of total portfolio	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets												
Cash on hand and current accounts with banks	1,244,180	-	-	-	-	1,244,180	-	-	-	-	-	-
Deposits with other banks	11,888	-	-	-	-	11,888	-	-	-	-	-	-
Loans to financial institutions	6,722,887	177,344	2,475	-	-	6,902,706	-	-	-	-	-	-
Loans to other customers	13,288,364	771,601	1,148,564	928,318	-	16,136,847	2,956,717	79,964	265,095	61,243	-	3,363,019
Financial assets at fair value through profit or loss	-	-	-	-	25,087	25,087	-	-	-	-	24,809	24,809
Financial assets at fair value through other comprehensive income	2,893,608	-	1,471	-	-	2,895,079	2,893,608	-	1,471	-	-	2,895,079
Other assets	1,366	1	1,368	44	-	2,779	422	1	673	44	-	1,140
Total	24,162,293	948,946	1,153,878	928,362	25,087	27,218,566	5,850,747	79,965	267,239	61,287	24,809	6,284,047
Guarantees and commitments												
Guarantees issued in HRK	62,334	21,598	47,403	-	-	131,335	19,387	19,032	22,727	-	-	61,146
Issued guarantees in foreign currency	60,779	4,237	121,662	-	-	186,678	59,347	502	54,896	-	-	114,745
Undrawn loans	2,975,019	105,574	-	16,961	-	3,098,554	617,677	1,103	-	780	-	619,560
Total	3,099,132	131,409	169,065	16,961	-	3,416,567	696,411	20,637	77,623	780	-	795,451
Total credit risk exposure	27,261,425	1,080,355	1,322,943	945,323	25,087	30,635,133	6,547,158	100,602	344,862	62,067	24,809	7,079,498

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

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

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

Bank							Net exposure of portfolio after the effect of mitigation through collateral received Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
	Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI	Not subject to IFRS 9	Net exposure of total portfolio	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31 December 2021												
Assets												
Cash on hand and current accounts with banks	1,958,619	-	-	-	-	1,958,619	-	-	-	-	-	-
Deposits with other banks	7,500	-	-	-	-	7,500	-	-	-	-	-	-
Loans to financial institutions	6,865,821	180,760	3,552	-	-	7,050,143	-	-	-	-	-	-
Loans to other customers	12,779,081	827,965	1,163,771	1,193,559	-	15,964,376	2,855,314	92,792	205,605	34,759	-	3,188,480
Financial assets at fair value through profit or loss	-	-	-	-	16,375	16,375	-	-	-	-	16,375	16,375
Financial assets at fair value through other comprehensive income	2,871,219	-	1,469	-	-	2,872,688	2,871,219	-	1,469	-	-	2,872,688
Other assets	3,326	12	1,310	51	-	4,699	588	12	749	51	-	1,400
Total	24,485,566	1,008,737	1,170,112	1,193,610	16,375	27,874,400	5,727,121	92,804	207,823	34,820	16,375	6,078,943
Guarantees and commitments												
Guarantees issued in HRK	71,262	22,713	46,138	-	-	140,113	30,516	18,957	20,938	-	-	70,411
Issued guarantees in foreign currency	62,694	377	197,634	-	-	260,705	49,764	-	71,433	-	-	121,197
Undrawn loans	3,167,285	253,401	-	36,605	-	3,457,291	282,102	140,095	-	782	-	422,979
Total	3,301,241	276,491	243,772	36,605	-	3,858,109	362,382	159,052	92,371	782	-	614,587
Total credit risk exposure	27,786,807	1,285,228	1,413,884	1,230,215	16,375	31,732,509	6,089,503	251,856	300,194	35,602	16,375	6,693,530

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

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

As at 30 June 2022 in the total net highest exposure of the Group and the Bank after the effect of mitigation through collateral received, the amount of loans to other customers of HRK 1,423,503 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 586,355 thousand, local and regional authorities of HRK 669,046 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 168,102 thousand.

As at 30 June 2022 the amount of financial assets at fair value through other comprehensive income is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,941,617 thousand for the Group and HRK 2,893,018 thousand for the Bank.

As at 30 June 2022 other assets of HRK 172 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

As at 31 December 2021 in the total net highest exposure of the Group and the Bank after the effect of mitigation through collateral received, the amount of loans to other customers of HRK 1,436,818 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 478,759 thousand, local and regional authorities of HRK 777,947 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 180,112 thousand.

As at 31 December 2021 the amount of financial assets at fair value through other comprehensive income is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,924,943 thousand for the Group and HRK 2,870,512 thousand for the Bank.

As at 31 December 2021 other assets of HRK 167 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

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

Cash on hand and current accounts with banks

Group					
30 June 2022	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2022	1,809	-	-	-	1,809
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(675)	-	-	-	(675)
Net foreign exchange gain/loss on loss allowances	6	-	-	-	6
Balance at 30 June 2022	1,140	-	-	-	1,140

Group					
31 December 2021	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2021	1,652	-	-	-	1,652
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	156	-	-	-	156
Net foreign exchange gain/loss on loss allowances	1	-	-	-	1
Balance at 31 December 2021	1,809	-	-	-	1,809

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Cash on hand and current accounts with banks (continued)

Bank					
30 June 2022	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2022	1,804	-	-	-	1,804
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(673)	-	-	-	(673)
Net foreign exchange gain/loss on loss allowances	6	-	-	-	6
Balance at 30 June 2022	1,137	-	-	-	1,137

Bank					
31 December 2021	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2021	1,643	-	-	-	1,643
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	160	-	-	-	160
Net foreign exchange gain/loss on loss allowances	1	-	-	-	1
Balance at 31 December 2021	1,804	-	-	-	1,804

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Deposits with other banks

Group and Bank

30 June 2022	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	1	-	-	-	1
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(2)	-	-	-	(2)
Net foreign exchange gain/loss on loss allowances	2	-	-	-	2
Balance at 30 June 2022	1	-	-	-	1

Group and Bank

31 December 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	1	-	-	-	1
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(1)	-	-	-	(1)
Net foreign exchange gain/loss on loss allowances	1	-	-	-	1
Balance at 31 December 2021	1	-	-	-	1

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Loans to financial institutions

Group and Bank

30 June 2022

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	29,554	23,184	6,162	-	58,900
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release)/increase of loss allowance	(4,052)	(2,065)	770	-	(5,347)
Unwind – changes due to the lapse of time	-	-	1	-	1
Loss allowances transferred from/to loans to other customers	-	-	-	-	-
Net foreign exchange gain/loss on loss allowances	19	14	2	-	35
Balance at 30 June 2022	25,521	21,133	6,935	-	53,589

Group and Bank

31 December 2021

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	36,795	35,435	10,567	-	82,797
Transfer to Stage 1	1,730	(17)	(1,713)	-	-
Transfer to Stage 2	(64)	64	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(8,809)	(12,240)	(2,649)	-	(23,698)
Unwind – changes due to the lapse of time	(45)	-	(41)	-	(86)
Loss allowances transferred to loans to other customers	-	(16)	-	-	(16)
Net foreign exchange gain/loss on loss allowances	(53)	(42)	(2)	-	(97)
Balance at 31 December 2021	29,554	23,184	6,162	-	58,900

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Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Loans to other customers

Group and Bank 30 June 2022	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	381,609	555,807	2,099,064	219,436	3,255,916
Transfer to Stage 1	186,969	(29,780)	(157,189)	-	-
Transfer to Stage 2	(16,104)	20,297	(4,193)	-	-
Transfer to Stage 3	(13)	(205,646)	188,350	17,309	-
Net (release)/increase of loss allowance	(197,140)	82,223	(10,877)	(62,664)	(188,458)
Write-offs	-	-	(19,467)	-	(19,467)
Unwind – changes due to the lapse of time	(9,480)	(59)	2,989	8,709	2,159
Loss allowances transferred to/from loans to financial institutions	-	-	-	-	-
Acquisition of immovable property	-	-	-	-	-
Derecognition due to reduction to fair value	-	-	-	-	-
Other	-	-	-	31,115	31,115
Net foreign exchange gain/loss on loss allowances	2,807	555	6,873	(646)	9,589
Balance at 30 June 2022	348,648	423,397	2,105,550	213,259	3,090,854

Group and Bank 31 December 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	353,077	517,219	2,422,493	182,941	3,475,730
Transfer to Stage 1	379,435	(310,274)	(69,161)	-	-
Transfer to Stage 2	(38,794)	46,782	(7,988)	-	-
Transfer to Stage 3	(268)	(50,314)	40,135	10,447	-
Net increase/(release) of loss allowance	(276,372)	353,926	53,002	(52,432)	78,124
Write-offs	(33,698)	-	(272,492)	-	(306,190)
Unwind – changes due to the lapse of time	(1,574)	(1,131)	7,575	20,217	25,087
Loss allowances transferred from loans to financial institutions	-	16	-	-	16
Acquisition of immovable property	-	-	(737)	-	(737)
Derecognition due to reduction to fair value	-	-	(84,977)	36,958	(48,019)
Other	-	-	-	21,427	21,427
Net foreign exchange gain/loss on loss allowances	(197)	(417)	11,214	(122)	10,478
Balance at 31 December 2021	381,609	555,807	2,099,064	219,436	3,255,916

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Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Financial assets at fair value through other comprehensive income

Group 30 June 2022	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	2,814	-	1,731	-	4,545
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	69	-	3	-	72
Net foreign exchange gain/loss on loss allowances	-	-	4	-	4
Balance at 30 June 2022	2,883	-	1,738	-	4,621

Group 31 December 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	2,935	-	1,647	-	4,582
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	(118)	-	89	-	(29)
Net foreign exchange gain/loss on loss allowances	(3)	-	(5)	-	(8)
Balance at 31 December 2021	2,814	-	1,731	-	4,545

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Financial assets at fair value through other comprehensive income

Bank					
30 June 2022	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2022	2,724	-	1,731	-	4,455
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	61	-	3	-	64
Net foreign exchange gain/loss on loss allowances	-	-	4	-	4
Balance at 30 June 2022	2,785	-	1,738	-	4,523

Bank					
31 December 2021	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2021	2,852	-	1,647	-	4,499
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release)/increase of loss allowance	(125)	-	89	-	(36)
Net foreign exchange gain/loss on loss allowances	(3)	-	(5)	-	(8)
Balance at 31 December 2021	2,724	-	1,731	-	4,455

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Other assets

Group 30 June 2022	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	179	4	31,418	250	31,851
Transfer to Stage 1	11	(1)	(10)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	20	(2)	2,258	(1)	2,275
Write-offs	-	-	(29)	-	(29)
Foreclosed assets	-	-	-	-	-
Net foreign exchange gain/loss on loss allowances	-	-	(57)	-	(57)
Other adjustments	72	-	-	8	80
Balance at 30 June 2022	282	1	33,580	257	34,120

Group 31 December 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	171	1	34,359	5	34,536
Transfer to Stage 1	10	(2)	(8)	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net (release)/increase of loss allowance	(3)	2	(2,786)	245	(2,542)
Write-offs	(12)	-	(151)	-	(163)
Net foreign exchange gain/loss on loss allowances	-	-	3	-	3
Other adjustments	17	-	-	-	17
Balance at 31 December 2021	179	4	31,418	250	31,851

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Other assets

Bank					
30 June 2022	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2022	25	4	31,418	250	31,697
Transfer to Stage 1	11	(1)	(10)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release)/increase of loss allowance	(24)	(2)	2,258	(1)	2,231
Write-offs	-	-	(29)	-	(29)
Foreclosed assets	-	-	-	-	-
Net foreign exchange gain/loss on loss allowances	-	-	(57)	-	(57)
Other adjustments	-	-	-	8	8
Balance at 30 June 2022	12	1	33,580	257	33,850

Bank					
31 December 2021	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2021	31	1	34,359	5	34,396
Transfer to Stage 1	10	(2)	(8)	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net (release)/increase of loss allowance	(12)	2	(2,786)	245	(2,551)
Write-offs	-	-	(151)	-	(151)
Net foreign exchange gain/loss on loss allowances	-	-	3	-	3
Balance at 31 December 2021	25	4	31,418	250	31,697

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

Guarantees and commitments

Group and Bank 30 June 2022	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	10,652	26,256	82,779	9,900	129,587
Transfer to Stage 1	1,144	(1,144)	-	-	-
Transfer to Stage 2	(466)	466	-	-	-
Transfer to Stage 3	-	69	(69)	-	-
Net (release)/increase of loss allowance	14,012	(16,204)	(25,409)	(4,032)	(31,633)
Net foreign exchange gain/loss on loss allowances	8	54	(159)	22	(75)
Balance at 30 June 2022	25,350	9,497	57,142	5,890	97,879

Group and Bank 31 December 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	8,659	11,523	17,525	7,849	45,556
Transfer to Stage 1	5,309	(5,309)	-	-	-
Transfer to Stage 2	(261)	261	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net (release)/increase of loss allowance	(2,968)	19,778	63,447	2,045	82,302
Net foreign exchange gain/loss on loss allowances	(87)	4	1,806	6	1,729
Balance at 31 December 2021	10,652	26,256	82,779	9,900	129,587

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. Liquidity risk

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 30 June 2022 and 31 December 2021 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Group 30 June 2022	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Assets						
Cash on hand and current accounts with banks	1,248,604	-	-	-	-	1,248,604
Deposits with other banks	-	-	-	-	11,888	11,888
Loans to financial institutions*	302,920	209,999	761,011	1,832,935	3,795,841	6,902,706
Loans to other customers**	1,476,432	391,724	1,287,465	3,791,383	9,189,843	16,136,847
Financial assets at fair value through profit or loss	124,702	-	-	25,087	-	149,789
Financial assets at fair value through other comprehensive income	2,980,627	18,529	33	-	-	2,999,189
Property, plant and equipment and intangible assets	-	-	-	-	42,270	42,270
Foreclosed assets	156	78	-	11,557	13,545	25,336
Other assets	9,754	12,957	7,099	5,999	2,482	38,291
Total assets	6,143,195	633,287	2,055,608	5,666,961	13,055,869	27,554,920
Liabilities						
Deposits from customers	175,686	27,800	73,671	142,737	28,261	448,155
Borrowings	248,292	338,871	1,737,267	5,672,422	7,647,881	15,644,733
Provisions for guarantees, commitments and other liabilities	86,652	4,226	14,613	27,970	23,947	157,408
Other liabilities	203,216	17,215	44,561	78,286	58,664	401,942
Total liabilities	713,846	388,112	1,870,112	5,921,415	7,758,753	16,652,238
Liquidity gap	5,429,349	245,175	185,496	(254,454)	5,297,116	10,902,682
Guarantees and commitments						
Guarantees issued in HRK	162,840	-	-	-	-	162,840
Issued guarantees in foreign currency	224,875	-	-	-	-	224,875
Undrawn loans	3,126,731	-	-	-	-	3,126,731
EIF – subscribed, not called up capital	78,292	-	-	-	-	78,292
EIF CROGIP Contracted Liability	6,000	15,000	75,523	101,676	109,474	307,673
EIF FRC2 Contracted Liability	-	600	1,604	919	1,027	4,150
Total guarantees and commitments	3,598,738	15,600	77,127	102,595	110,501	3,904,561

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

* Receivables of HRK 128,931 thousand relate to reverse REPO agreements.

**Receivables of HRK 28,752 thousand relate to reverse REPO agreements.

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. Liquidity risk (continued)

Group 31 December 2021	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Assets						
Cash on hand and current accounts with banks	1,961,986	-	-	-	-	1,961,986
Deposits with other banks	-	-	-	-	7,500	7,500
Loans to financial institutions*	140,979	188,898	817,773	1,870,557	4,031,936	7,050,143
Loans to other customers	1,903,430	341,173	1,109,842	3,254,643	9,355,288	15,964,376
Financial assets at fair value through profit or loss	202,609	-	-	-	16,375	218,984
Financial assets at fair value through other comprehensive income	2,956,994	15,501	35	-	-	2,972,530
Property, plant and equipment and intangible assets	-	-	-	-	43,937	43,937
Foreclosed assets	9	-	156	11,272	9,932	21,369
Other assets	7,632	1,838	24,649	1,734	1,684	37,537
Total assets	7,173,639	547,410	1,952,455	5,138,206	13,466,652	28,278,362
Liabilities						
Deposits from customers	622,284	22,169	105,183	95,453	115,452	960,541
Borrowings	244,301	333,934**	1,807,992	5,777,582	7,951,428	16,115,237
Provisions for guarantees, commitments and other liabilities	105,893	5,962	20,072	30,577	28,056	190,560
Other liabilities	232,641	15,695	51,058	75,994	59,851	435,239
Total liabilities	1,205,119	377,760	1,984,305	5,979,606	8,154,787	17,701,577
Liquidity gap	5,968,520	169,650	(31,850)	(841,400)	5,311,865	10,576,785
Guarantees and commitments						
Guarantees issued in HRK	170,555	-	-	-	-	170,555
Issued guarantees in foreign currency	325,103	-	-	-	-	325,103
Undrawn loans	3,492,038	-	-	-	-	3,492,038
EIF – subscribed, not called up capital	78,179	-	-	-	-	78,179
EIF CROGIP Contracted Liability	-	12,616	56,771	112,664	130,438	312,489
EIF FRC2 Contracted Liability	678	532	2,393	2,171	469	6,243
Total guarantees and commitments	4,066,553	13,148	59,164	114,835	130,907	4,384,607

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

* *Receivables of HRK 8,239 thousand relate to reverse REPO agreements.*

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. Liquidity risk (continued)

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 30 June 2022 and 31 December 2021 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Bank 30 June 2022	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Assets						
Cash on hand and current accounts with banks	1,244,181	-	-	-	-	1,244,181
Deposits with other banks	-	-	-	-	11,888	11,888
Loans to financial institutions*	302,920	209,999	761,011	1,832,935	3,795,841	6,902,706
Loans to other customers**	1,476,432	391,724	1,287,465	3,791,383	9,189,843	16,136,847
Financial assets at fair value through profit	124,702	-	-	25,087	-	149,789
Financial assets at fair value through other	2,929,730	18,470	-	-	-	2,948,200
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	41,137	41,137
Foreclosed assets	156	78	-	11,557	13,545	25,336
Other assets	7,824	9,261	6,772	5,999	1,445	31,301
Total assets	6,085,945	629,532	2,055,248	5,666,961	13,089,823	27,527,509
Liabilities						
Deposits from customers	175,686	27,800	73,671	142,737	28,261	448,155
Borrowings	248,292	338,871	1,737,267	5,672,422	7,647,881	15,644,733
Provisions for guarantees, commitments and other liabilities	86,652	4,226	14,383	27,970	23,947	157,178
Other liabilities	202,345	10,650	36,241	70,478	60,342	380,056
Total liabilities	712,975	381,547	1,861,562	5,913,607	7,760,431	16,630,122
Liquidity gap	5,372,970	247,985	193,686	(246,646)	5,329,392	10,897,387
Guarantees and commitments						
Guarantees issued in HRK	162,840	-	-	-	-	162,840
Issued guarantees in foreign currency	224,875	-	-	-	-	224,875
Undrawn loans	3,126,731	-	-	-	-	3,126,731
EIF – subscribed, not called up capital	78,292	-	-	-	-	78,292
EIF CROGIP Contracted Liability	6,000	15,000	75,523	101,676	109,474	307,673
EIF FRC2 Contracted Liability	-	600	1,604	919	1,027	4,150
Total guarantees and commitments	3,598,738	15,600	77,127	102,595	110,501	3,904,561

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

* Receivables of HRK 128,931 thousand relate to reverse REPO agreements.

** Receivables of HRK 28,752 thousand relate to reverse REPO agreements.

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

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. Liquidity risk (continued)

Bank 31 December 2021	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	1,958,620	-	-	-	-	1,958,620
Deposits with other banks	-	-	-	-	7,500	7,500
Loans to financial institutions*	140,979	188,898	817,773	1,870,557	4,031,936	7,050,143
Loans to other customers	1,903,430	341,173	1,109,842	3,254,643	9,355,288	15,964,376
Financial assets at fair value through profit	202,609	-	-	-	16,375	218,984
Financial assets at fair value through other	2,900,262	15,442	-	-	-	2,915,704
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	42,674	42,674
Foreclosed assets	9	-	156	11,272	9,932	21,369
Other assets	5,749	947	24,380	1,734	1,684	34,494
Total assets	7,111,658	546,460	1,952,151	5,138,206	13,501,513	28,249,988
Liabilities						
Deposits from customers	622,284	22,169	105,183	95,453	115,452	960,541
Borrowings	244,301	333,934**	1,807,992	5,777,582	7,951,428	16,115,237
Provisions for guarantees, commitments and other liabilities	105,893	5,962	19,815	30,577	28,056	190,303
Other liabilities	231,580	13,038	43,334	66,870	61,356	416,178
Total liabilities	1,204,058	375,103	1,976,324	5,970,482	8,156,292	17,682,259
Liquidity gap	5,907,600	171,357	(24,173)	(832,276)	5,345,221	10,567,729
Guarantees and commitments						
Guarantees issued in HRK	170,555	-	-	-	-	170,555
Issued guarantees in foreign currency	325,103	-	-	-	-	325,103
Undrawn loans	3,492,038	-	-	-	-	3,492,038
EIF – subscribed, not called up capital	78,179	-	-	-	-	78,179
EIF CROGIP Contracted Liability	-	12,616	56,771	112,664	130,438	312,489
EIF FRC2 Contracted Liability	678	532	2,393	2,171	469	6,243
Total guarantees and commitments	4,066,553	13,148	59,164	114,835	130,907	4,384,607

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

* Receivables of HRK 8,239 thousand relate to reverse REPO agreements.

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

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. Liquidity risk (continued)

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

Group 30 June 2022	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	175,686	27,800	73,671	142,737	28,261	448,155
Borrowings	260,394	323,952	1,852,750	5,897,696	8,551,882	16,886,674
Provisions for guarantees, commitments and other liabilities	86,652	4,226	14,613	27,970	23,947	157,408
Other liabilities	203,216	17,215	44,561	78,286	58,664	401,942
Total	725,948	373,193	1,985,595	6,146,689	8,662,754	17,894,179
Guarantees and commitments						
Guarantees issued in HRK	162,840	-	-	-	-	162,840
Issued guarantees in foreign currency	224,875	-	-	-	-	224,875
Undrawn loans	3,126,731	-	-	-	-	3,126,731
EIF – subscribed, not called up capital	78,292	-	-	-	-	78,292
EIF CROGIP Contracted Liability	6,000	15,000	75,523	101,676	109,474	307,673
EIF FRC2 Contracted Liability	-	600	1,604	919	1,027	4,150
Total guarantees and commitments	3,598,738	15,600	77,127	102,595	110,501	3,904,561
Group 31 December 2021						
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	622,284	22,169	105,183	95,453	115,452	960,541
Borrowings	258,366	315,326	1,927,599	5,992,204	8,623,885	17,117,380
Provisions for guarantees, commitments and other liabilities	105,893	5,962	20,072	30,577	28,056	190,560
Other liabilities	232,641	15,695	51,058	75,994	59,851	435,239
Total	1,219,184	359,152	2,103,912	6,194,228	8,827,244	18,703,720
Guarantees and commitments						
Guarantees issued in HRK	170,555	-	-	-	-	170,555
Issued guarantees in foreign currency	325,103	-	-	-	-	325,103
Undrawn loans	3,492,038	-	-	-	-	3,492,038
EIF – subscribed, not called up capital	78,179	-	-	-	-	78,179
EIF CROGIP Contracted Liability	-	12,616	56,771	112,664	130,438	312,489
EIF FRC2 Contracted Liability	678	532	2,393	2,171	469	6,243
Total guarantees and commitments	4,066,553	13,148	59,164	114,835	130,907	4,384,607

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

23. Risk management (continued)

23.4. Liquidity risk (continued)

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

Bank 30 June 2022	Up to 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Financial liabilities						
Deposits from customers	175,686	27,800	73,671	142,737	28,261	448,155
Borrowings	260,394	323,952	1,852,750	5,897,696	8,551,882	16,886,674
Provisions for guarantees, commitments and other liabilities	86,652	4,226	14,383	27,970	23,947	157,178
Other liabilities	202,345	10,650	36,241	70,478	60,342	380,056
Total	725,077	366,628	1,977,045	6,138,881	8,664,432	17,872,063
Guarantees and commitments						
Guarantees issued in HRK	162,840	-	-	-	-	162,840
Issued guarantees in foreign currency	224,875	-	-	-	-	224,875
Undrawn loans	3,126,731	-	-	-	-	3,126,731
EIF – subscribed, not called up capital	78,292	-	-	-	-	78,292
EIF CROGIP Contracted Liability	6,000	15,000	75,523	101,676	109,474	307,673
EIF FRC2 Contracted Liability	-	600	1,604	919	1,027	4,150
Total guarantees and commitments	3,598,738	15,600	77,127	102,595	110,501	3,904,561
Bank 31 December 2021	Up to 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Financial liabilities						
Deposits from customers	622,284	22,169	105,183	95,453	115,452	960,541
Borrowings	258,366	315,326	1,927,599	5,992,204	8,623,885	17,117,380
Provisions for guarantees, commitments and other liabilities	105,893	5,962	19,815	30,577	28,056	190,303
Other liabilities	231,580	13,038	43,334	66,870	61,356	416,178
Total	1,218,123	356,495	2,095,931	6,185,104	8,828,749	18,684,402
Guarantees and commitments						
Guarantees issued in HRK	170,555	-	-	-	-	170,555
Issued guarantees in foreign currency	325,103	-	-	-	-	325,103
Undrawn loans	3,492,038	-	-	-	-	3,492,038
EIF – subscribed, not called up capital	78,179	-	-	-	-	78,179
EIF CROGIP Contracted Liability	-	12,616	56,771	112,664	130,438	312,489
EIF FRC2 Contracted Liability	678	532	2,393	2,171	469	6,243
Total guarantees and commitments	4,066,553	13,148	59,164	114,835	130,907	4,384,607

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

23. Risk management (continued)

23.5. Market risk

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

23.5.1. Interest rate risk

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 30 June 2022 and 31 December 2021 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of Group's interest rate risk exposure as of 30 June 2022 and 31 December 2021 which may not be indicative for the positions in other periods.

Group	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
30 June 2022	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets								
Cash on hand and current accounts with banks	70,083	-	-	-	-	1,178,521	1,248,604	70,083
Deposits with other banks	-	-	-	-	-	11,888	11,888	-
Loans to financial institutions	299,394	304,826	740,410	1,792,110	3,763,432	2,534	6,902,706	6,796,249
Loans to other customers	1,332,859	716,790	1,469,321	3,646,932	8,819,225	151,720	16,136,847	15,311,894
Financial assets at fair value through profit or loss	-	-	-	25,087	-	124,702	149,789	25,087
Financial assets at fair value through other comprehensive income	2,927,175	-	-	-	-	72,014	2,999,189	2,927,175
Other assets	-	-	-	-	-	38,291	38,291	-
Total assets	4,629,511	1,021,616	2,209,731	5,464,129	12,582,657	1,579,670	27,487,314	25,130,488
Liabilities								
Deposits from customers	22,584	-	-	-	-	425,571	448,155	22,584
Borrowings	248,292	318,987	1,737,267	5,670,027	7,638,984	31,176	15,644,733	15,602,265
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	157,408	157,408	-
Other liabilities	-	-	-	-	-	401,942	401,942	-
Total liabilities	270,876	318,987	1,737,267	5,670,027	7,638,984	1,016,097	16,652,238	15,624,849
Interest rate gap	4,358,635	702,629	472,464	(205,898)	4,943,673	563,573	10,835,076	9,505,639

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

Group	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets								
Cash on hand and current accounts with banks	84,268	-	-	-	-	1,877,718	1,961,986	84,268
Deposits with other banks	-	-	-	-	-	7,500	7,500	-
Loans to financial institutions	136,649	300,681	794,823	1,825,594	3,989,089	3,307	7,050,143	6,925,020
Loans to other customers	1,721,753	643,354	1,294,971	3,130,097	8,977,083	197,118	15,964,376	14,941,579
Financial assets at fair value through profit or loss	-	-	-	-	16,375	202,609	218,984	16,375
Financial assets at fair value through other comprehensive income	2,913,647	-	-	-	-	58,883	2,972,530	2,913,647
Other assets	-	-	-	-	-	37,537	37,537	-
Total assets	4,856,317	944,035	2,089,794	4,955,691	12,982,547	2,384,672	28,213,056	24,880,889
Liabilities								
Deposits from customers	417,163	-	-	-	-	543,378	960,541	417,163
Borrowings	244,301	310,552	1,807,992	5,775,874	7,941,861	34,657	16,115,237	16,069,304
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	190,560	190,560	-
Other liabilities	-	-	-	-	-	435,239	435,239	-
Total liabilities	661,464	310,552	1,807,992	5,775,874	7,941,861	1,203,834	17,701,577	16,486,467
Interest rate gap	4,194,853	633,483	281,802	(820,183)	5,040,686	1,180,838	10,511,479	8,394,422

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

The following tables demonstrate the sensitivity of the HBOR to the interest rate risk as of 30 June 2022 and 31 December 2021 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of HBORS's interest rate risk exposure as of 30 June 2022 and 31 December 2021 which may not be indicative for the positions in other periods.

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non-Interest bearing	Total	Fixed interest rate
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
30 June 2022								
Assets								
Cash on hand and current accounts with banks	65,660	-	-	-	-	1,178,521	1,244,181	65,660
Deposits with other banks	-	-	-	-	-	11,888	11,888	-
Loans to financial institutions	299,394	304,826	740,410	1,792,110	3,763,432	2,534	6,902,706	6,796,249
Loans to other customers	1,332,859	716,790	1,469,321	3,646,932	8,819,225	151,720	16,136,847	15,311,894
Financial assets at fair value through profit or loss	-	-	-	25,087	-	124,702	149,789	25,087
Financial assets at fair value through other comprehensive income	2,876,609	-	-	-	-	71,591	2,948,200	2,876,609
Other assets	-	-	-	-	-	31,301	31,301	-
Total assets	4,574,522	1,021,616	2,209,731	5,464,129	12,582,657	1,572,257	27,424,912	25,075,499
Liabilities								
Deposits from customers	22,584	-	-	-	-	425,571	448,155	22,584
Borrowings	248,292	318,987	1,737,267	5,670,027	7,638,984	31,176	15,644,733	15,602,265
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	157,178	157,178	-
Other liabilities	-	-	-	-	-	380,056	380,056	-
Total liabilities	270,876	318,987	1,737,267	5,670,027	7,638,984	993,981	16,630,122	15,624,849
Interest rate gap	4,303,646	702,629	472,464	(205,898)	4,943,673	578,276	10,794,790	9,450,650

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets								
Cash on hand and current accounts with banks	80,902	-	-	-	-	1,877,718	1,958,620	80,902
Deposits with other banks	-	-	-	-	-	7,500	7,500	-
Loans to financial institutions	136,649	300,681	794,823	1,825,594	3,989,089	3,307	7,050,143	6,925,020
Loans to other customers	1,721,753	643,354	1,294,971	3,130,097	8,977,083	197,118	15,964,376	14,941,579
Financial assets at fair value through profit or loss	-	-	-	-	16,375	202,609	218,984	16,375
Financial assets at fair value through other comprehensive income	2,857,247	-	-	-	-	58,457	2,915,704	2,857,247
Other assets	-	-	-	-	-	34,494	34,494	-
Total assets	4,796,551	944,035	2,089,794	4,955,691	12,982,547	2,381,203	28,149,821	24,821,123
Liabilities								
Deposits from customers	417,163	-	-	-	-	543,378	960,541	417,163
Borrowings	244,301	310,552	1,807,992	5,775,874	7,941,861	34,657	16,115,237	16,069,304
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	190,303	190,303	-
Other liabilities	-	-	-	-	-	416,178	416,178	-
Total liabilities	661,464	310,552	1,807,992	5,775,874	7,941,861	1,184,516	17,682,259	16,486,467
Interest rate gap	4,135,087	633,483	281,802	(820,183)	5,040,686	1,196,687	10,467,562	8,334,656

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

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

	Group		Bank	
	30 June 2022	31 December 2021	30 June 2022	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Fixed interest rate assets	25,130,488	24,880,889	25,075,499	24,821,123
Variable interest rate assets	777,156	947,495	777,156	947,495
Non-interest bearing	1,579,670	2,384,672	1,572,257	2,381,203
Total	27,487,314	28,213,056	27,424,912	28,149,821
Liabilities				
Fixed interest rate liabilities	15,624,849	16,486,467	15,624,849	16,486,467
Variable interest rate liabilities	11,292	11,276	11,292	11,276
Non-interest bearing	1,016,097	1,203,834	993,981	1,184,516
Total liabilities	16,652,238	17,701,577	16,630,122	17,682,259

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

Sensitivity analysis

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

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

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

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

Currency	Increase in b. p. Jun 30, 2022	Effect on profit Juna 30, 2022	Increase in b. p. Dec 31, 2021	Effect on profit Dec 31, 2021
		HRK '000		HRK '000
EUR	+9	-	+6	¹
USD	+122	-	+10	174
Currency	Decrease in b. p. Jun 30, 2022	Effect on profit Juna 30, 2022	Decrease in b. p. Dec 31, 2021	Effect on profit Dec 31, 2021
		HRK '000		HRK '000
EUR	-9	-	-6	²
USD	-122	-	-10	(174)

^{1 2} There is no impact due to the application of zero floor

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk

Total assets and total liabilities as of 30 June 2022 and 31 December 2021 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
30 June 2022						
Assets						
Cash on hand and current accounts with banks	5,901	59,769	-	65,670	1,182,934	1,248,604
Deposits with other banks	-	11,888	-	11,888	-	11,888
Loans to financial institutions	121,293	3,190,762	-	3,312,055	3,590,651	6,902,706
Loans to other customers	49,015	9,549,163	-	9,598,178	6,538,669	16,136,847
Financial assets at fair value through profit or loss	25,087	69,592	-	94,679	55,110	149,789
Financial assets at fair value through other comprehensive income	-	931,885	-	931,885	2,067,304	2,999,189
Property, plant and equipment and intangible assets	-	-	-	-	42,270	42,270
Foreclosed assets	-	-	-	-	25,336	25,336
Other assets	-	5,995	-	5,995	32,296	38,291
Total assets	201,296	13,819,054	-	14,020,350	13,534,570*	27,554,920
Liabilities						
Deposits from customers	6,385	143,521	-	149,906	298,249	448,155
Borrowings	193,766	13,950,404	-	14,144,170	1,500,563	15,644,733
Provisions for guarantees, commitments and other liabilities	-	19,692	19,728	39,420	117,988	157,408
Other liabilities	151	17,981	43	18,175	383,767	401,942
Total liabilities	200,302	14,131,598	19,771	14,351,671	2,300,567	16,652,238
Currency gap	994	(312,544)	(19,771)	(331,321)	11,234,003	10,902,682

*Amounts linked to a one-way currency clause represent HRK 28,143 thousand.

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Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk (continued)

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	55,583	25,337	-	80,920	1,881,066	1,961,986
Deposits with other banks	-	7,500	-	7,500	-	7,500
Loans to financial institutions	-	3,336,385	-	3,336,385	3,713,758	7,050,143
Loans to other customers	225,452	9,745,523	-	9,970,975	5,993,401	15,964,376
Financial assets at fair value through profit or loss	16,044	100,103	-	116,147	102,837	218,984
Financial assets at fair value through other comprehensive income	-	827,581	-	827,581	2,144,949	2,972,530
Property, plant and equipment and intangible assets	-	-	-	-	43,937	43,937
Foreclosed assets	-	-	-	-	21,369	21,369
Other assets	-	1,372	-	1,372	36,165	37,537
Total assets	297,079	14,043,801	-	14,340,880	13,937,482*	28,278,362
Liabilities						
Deposits from customers	106,027	471,389	-	577,416	383,125	960,541
Borrowings	189,999	14,424,638	-	14,614,637	1,500,600	16,115,237
Provisions for guarantees, commitments and other liabilities	23,613	25,674	15,098	64,385	126,175	190,560
Other liabilities	125	12,493	55	12,673	422,566	435,239
Total liabilities	319,764	14,934,194	15,153	15,269,111	2,432,466	17,701,577
Currency gap	(22,685)	(890,393)	(15,153)	(928,231)	11,505,016	10,576,785

*Amounts linked to a one-way currency clause represent HRK 28,554 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk (continued)

Total assets and total liabilities as of 30 June 2022 and 31 December 2021 in HRK and foreign currencies can be shown as follows:

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
30 June 2022						
Assets						
Cash on hand and current accounts with banks	5,901	59,758	-	65,659	1,178,522	1,244,181
Deposits with other banks	-	11,888	-	11,888	-	11,888
Loans to financial institutions	121,293	3,190,762	-	3,312,055	3,590,651	6,902,706
Loans to other customers	49,015	9,549,163	-	9,598,178	6,538,669	16,136,847
Financial assets at fair value through profit or loss	25,087	69,592	-	94,679	55,110	149,789
Financial assets at fair value through other comprehensive income	-	905,995	-	905,995	2,042,205	2,948,200
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	41,137	41,137
Foreclosed assets	-	-	-	-	25,336	25,336
Other assets	-	2,299	-	2,299	29,002	31,301
Total assets	201,296	13,789,457	-	13,990,753	13,536,756*	27,527,509
Liabilities						
Deposits from customers	6,385	143,521	-	149,906	298,249	448,155
Borrowings	193,766	13,950,404	-	14,144,170	1,500,563	15,644,733
Provisions for guarantees, commitments and other liabilities	-	19,692	19,728	39,420	117,758	157,178
Other liabilities	-	3,352	-	3,352	376,704	380,056
Total liabilities	200,151	14,116,969	19,728	14,336,848	2,293,274	16,630,122
Currency gap	1,145	(327,512)	(19,728)	(346,095)	11,243,482	10,897,387

* Amounts linked to a one-way currency clause represent HRK 28,143 thousand.

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Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk (continued)

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	55,583	25,319	-	80,902	1,877,718	1,958,620
Deposits with other banks	-	7,500	-	7,500	-	7,500
Loans to financial institutions	-	3,336,385	-	3,336,385	3,713,758	7,050,143
Loans to other customers	225,452	9,745,523	-	9,970,975	5,993,401	15,964,376
Financial assets at fair value through profit or loss	16,044	100,103	-	116,147	102,837	218,984
Financial assets at fair value through other comprehensive income	-	798,195	-	798,195	2,117,509	2,915,704
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	42,674	42,674
Foreclosed assets	-	-	-	-	21,369	21,369
Other assets	-	491	-	491	34,003	34,494
Total assets	297,079	14,013,516	-	14,310,595	13,939,393*	28,249,988
Liabilities						
Deposits from customers	106,027	471,389	-	577,416	383,125	960,541
Borrowings	189,999	14,424,638	-	14,614,637	1,500,600	16,115,237
Provisions for guarantees, commitments and other liabilities	23,613	25,674	15,098	64,385	125,918	190,303
Other liabilities	-	3,597	-	3,597	412,581	416,178
Total liabilities	319,639	14,925,298	15,098	15,260,035	2,422,224	17,682,259
Currency gap	{22,560}	{911,782}	{15,098}	{949,440}	11,517,169	10,567,729

* Amounts linked to a one-way currency clause represent HRK 28,554 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk (continued)

Sensitivity analysis

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

An assumption of reasonably possible fluctuations in EUR exchange rates against HRK was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR's profit as of 30 June 2022.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.17% in the previous 12 months (2021: 1.49%).

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

	Change in currency rate Jun 30, 2022 %	Effect on profit Jun 30, 2022 HRK' 000	Change in currency rate Dec 31, 2021 %	Effect on profit Dec 31, 2021 HRK' 000
EUR	+1.17	(1,576)	+1.49	(11,246)
EUR	-1.17	1,581	-1.49	10,779

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

24. Fair value of financial assets and financial liabilities

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

Below is a breakdown of the financial assets at fair value based on IFRS 9 classification on 30 June 2022 and 31 December 2021.

Group	30 June 2022		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	25,087
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	124,352	-	-
Equity instruments:			
<i>Unlisted equity instruments:</i>			
Investments in corporate shares	-	-	32
Depository receipt - DR	-	-	318
Total financial assets at fair value through profit or loss	124,352	-	25,437
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,573,728	-	-
Corporate bonds	2,388	-	-
Treasury bills of the Ministry of Finance	-	1,349,101	-
Accrued interest	18,789	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	486
Convertible bonds - CB	-	-	1,471
Accrued interest	-	-	104
Total debt instruments	1,594,905	1,349,101	2,061
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	46	-
Shares of foreign financial institutions – EIF	-	53,075	-
Total equity instruments	-	53,121	-
Total financial assets at fair value through other comprehensive income	1,594,905	1,402,222	2,061

Treasury bills of the Ministry of Finance are presented at level 2 of the fair value hierarchy. To calculate fair value, the discounted cash flow method was used at a discount rate that corresponded to the yields realised at the last auction of the Ministry of Finance before the valuation date.

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

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

Group	31 December 2021		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	16,375
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	202,260	-	-
<i>Equity instruments:</i>			
<i>Listed equity instruments:</i>			
Investments in corporate shares	-	-	-
<i>Unlisted equity instruments:</i>			
Investments in corporate shares	-	-	31
Depository receipt - DR	-	-	318
Total financial assets at fair value through profit or loss	202,260	-	16,724
Financial assets at fair value through other comprehensive income:			
<i>Debt instruments:</i>			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,358,981	-	-
Corporate bonds	2,393	-	-
Treasury bills of the Ministry of Finance	-	1,550,344	-
Accrued interest	15,620	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	532
Convertible bonds - CB	-	-	1,397
Accrued interest	-	-	247
Total debt instruments	1,376,994	1,550,344	2,176
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	45	-
Shares of foreign financial institutions – EIF	-	42,971	-
Total equity instruments	-	43,016	-
Total financial assets at fair value through other comprehensive income	1,376,994	1,593,360	2,176

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

Bank	30 June 2022		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	25,087
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	124,352	-	-
Equity instruments:			
<i>Unlisted equity instruments:</i>			
Investments in companies' shares	-	-	32
Depository receipt - DR	-	-	318
Total financial assets at fair value through profit or loss	124,352	-	25,437
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,525,551	-	-
Treasury bills of the Ministry of Finance	-	1,349,101	-
Accrued interest	18,366	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	486
Convertible bonds - CB	-	-	1,471
Accrued interest	-	-	104
Total debt instruments	1,543,917	1,349,101	2,061
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	46	-
Shares of foreign financial institutions – EIF	-	53,075	-
Total equity instruments	-	53,121	-
Total financial assets at fair value through other comprehensive income	1,543,917	1,402,222	2,061

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

Bank	31 December 2021		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	16,375
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	202,260	-	-
Equity instruments:			
<i>Listed equity instruments:</i>			
Investments in companies' shares	-	-	-
<i>Unlisted equity instruments:</i>			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	-	318
Total financial assets at fair value through profit or loss	202,260	-	16,724
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,304,974	-	-
Treasury bills of the Ministry of Finance	-	1,550,344	-
Accrued interest	15,194	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	532
Convertible bonds - CB	-	-	1,397
Accrued interest	-	-	247
Total debt instruments	1,320,168	1,550,344	2,176
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	45	-
Shares of foreign financial institutions – EIF	-	42,971	-
Total equity instruments	-	43,016	-
Total financial assets at fair value through other comprehensive income	1,320,168	1,593,360	2,176

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

24.1.1. Level 3 - fair value

a) Mezzanine loans

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

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

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

Due to the above-mentioned characteristics of the mezzanine loan, the assessment of fair value of these loans was carried out in accordance with the precautionary principle, according to which income is recognised only when it is actually incurred, and expenses also when they are possible. Accordingly, a less favourable option for HBOR is used to estimate the fair value of mezzanine loans, assuming that the debtor will continue to operate on a regular basis in the future.

During 2021, based on a Decision in pre-bankruptcy proceedings, HBOR took over 50% of the debtor's receivables as senior debt and 50% of receivables as mezzanine debt. A less favourable option for HBOR is the possibility in which HBOR would convert the amount of its current receivables under mezzanine loans into the share capital of the debtor, and the fair value of mezzanine loans as at 30 June 2022 was estimated at HRK 25,087 thousand.

In 2022, HBOR sold one mezzanine loan at the fair value of HRK 2,702 thousand (31 December 2021: HRK 439 thousand).

b) Corporate bonds that are allocated to Stage 3

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

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

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

24.1.1. Level 3 - fair value (continued)

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

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

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

(ii) Sensitivity analysis of corporate bond with the stated potential effect on profit/loss as at 30 June 2022, under the assumption of a change in discount rate (yield) of 2% and 10%

Under the assumption that the market interest rates change by 2% compared with those in effect as at 30 June 2022, the impacts would be as follows:

- a) In the case of a decrease in market yield on no-risk investment (linearly interpolated/extrapolated yield on bonds of the Republic of Croatia of the same duration and the same currency as the respective bond) by 2%, the discount rate would equal 15.18%, the bond price would be 32.38%, which would result in an increase in HBOR's generated profits of HRK 9 thousand.
- b) In the case of an increase in market yield on no-risk investment (linearly interpolated/extrapolated yield on bonds of the Republic of Croatia of the same duration and the same currency as the corporate bond) by 2%, the discount rate would equal 19.18%, the bond price would be 31.19%, which would result in a decrease in HBOR's generated profits of HRK 9 thousand.

The change in interest rates defined in the "Decision on the Management of Interest Rate Risk in the Bank Book", which is applied when calculating standard interest rate shock, is used as the basis for the change in the market interest rate of 2% compared with the market terms and conditions in effect as at 30 June 2022. "Standard interest rate shock is a parallel positive or negative change in interest rates on a reference yield curve of 200 basis points by applying the lower limit rate of 0%, except for the cases in which negative interest rate can be achieved."

In the case of a decrease in expected cash flows on corporate bonds of 10%, the generated profit of HBOR would decrease by HRK 49 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

24.1.1. Level 3 - fair value (continued)

c) Adjustment of fair value of Level 3:

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

Group and Bank	Jun 30, 2022 HRK '000	Jun 30, 2021 HRK '000
Balance as at 1 January	16,375	2,658
Increase/(decrease) in fair value through profit or loss	11,414	(2,128)
Sale of mezzanine loans	(2,702)	-
Other	-	15,192
Balance as of 30 June	25,087	15,722

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

Group and Bank	Jun 30, 2022 HRK '000	Jun 30, 2021 HRK '000
Balance as at 1 January	2,176	2,262
Decrease in fair value through other comprehensive income	(48)	(1)
Net foreign exchange	4	(33)
Accrued interest	(71)	(26)
Balance as of 30 June	2,061	2,202

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Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

25. Reporting by segments

General information on segments is given in relation to business segments of the Group. Since the Group does not allocate administrative costs and interest by segments, the profitability of segments is not presented.

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

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

Business segments:

The Group has following business segments:

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

25. Reporting by segments (continued)

	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
Jan 1 – Jun 30, 2022					
Net interest income	248,803	644	-	-	249,447
Net fee income	10,536	892	993	-	12,421
Net income/(expenses) from financial operations	17,969	57	-	-	18,026
Impairment gain and provisions	192,341	-	35	-	192,376
Net premiums earned	-	5,113	-	-	5,113
Other income	7,695	34	144	(149)	7,724
Income from operating activities	477,344	6,740	1,172	(149)	485,107
Operating costs	(106,340)	(3,385)	(874)	149	(110,450)
Impairment loss and provisions	-	(58)	-	-	(58)
Expenses for insured cases	-	(3,368)	-	-	(3,368)
Net change in provisions	-	1,205	-	-	1,205
Other expenses	-	(378)	-	-	(378)
Operating expenses	(106,340)	(5,984)	(874)	149	(113,049)
Profit before income tax	371,004	756	298	-	372,058
Income tax	-	-	-	-	-
Profit for the year	371,004	756	298	-	372,058
30 June 2022					
Assets of segment	27,527,509	62,678	1,387	(36,654)	27,554,920
Total assets	27,527,509	62,678	1,387	(36,654)	27,554,920
Liabilities of segment	16,630,122	22,006	138	(28)	16,652,238
Total equity	10,897,387	3,149	972	1,174	10,902,682
Total liabilities and total equity	27,527,509	25,155	1,110	1,146	27,554,920

Intra-group transactions are presented under "Unallocated".

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

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Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

25. Reporting by segments (continued)

	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
Jan 1 – Jun 30, 2021					
Net interest income	240,170	627	-	-	240,797
Net fee income	9,477	639	951	-	11,067
Net income/(expenses) from financial operations	(4,160)	(125)	-	-	(4,285)
Net premiums earned	-	3,611	-	-	3,611
Other income	17,064	9	131	(135)	17,069
Income from operating activities	262,551	4,761	1,082	(135)	268,259
Operating costs	(86,760)	(2,945)	(911)	135	(90,481)
Impairment loss and provisions	136,625	(63)	48	-	136,610
Expenses for insured cases	-	(660)	-	-	(660)
Net change in provisions	-	(659)	-	-	(659)
Other expenses	-	(192)	-	-	(192)
Operating expenses	49,865	(4,519)	(863)	135	44,618
Profit before income tax	312,416	242	219	-	312,877
Income tax	-	-	-	-	-
Profit for the period	312,416	242	219	-	312,877
31 December 2021					
Assets of segment	28,249,988	63,867	1,162	(36,655)	28,278,362
Total assets	28,249,988	63,867	1,162	(36,655)	28,278,362
Liabilities of segment	17,682,259	19,187	160	(29)	17,701,577
Total equity	10,567,729	6,567	718	1,771	10,576,785
Total liabilities and total equity	28,249,988	25,754	878	1,742	28,278,362

Intra-group transactions are presented under "Unallocated".

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 June 2022 (continued)

(All amounts are expressed in HRK thousand)

26. Capital management

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

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

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

Regulatory capital is comprised of core capital minus debit items.

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

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

The Group calculates regulatory capital and capital requirements in accordance with Basel II requirements, and below is a breakdown of capital adequacy ratio as at 30 June 2022 and 31 December 2021.

	Group		Bank	
	30 June 2022 HRK '000	31 December 2021 HRK '000	30 June 2022 HRK '000	31 December 2021 HRK '000
Total regulatory capital	10,864,336	10,310,733	10,863,720	10,310,068
Credit risk weighted exposure amount	13,974,956	14,243,551	13,965,059	14,237,375
Capital requirements for operating risk	849,134	849,144	827,466	827,476
Capital requirements for currency risk	-	749,598	-	719,956
Total capital requirements	14,824,090	15,842,293	14,792,525	15,784,807
	%	%	%	%
Capital adequacy ratio	73.29	65.08	73.44	65.32
	HRK '000	HRK '000	HRK '000	HRK '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	1,778,891	1,901,075	1,775,103	1,894,177

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

(All amounts are expressed in HRK thousand)

	Jun 30, 2022 HRK '000	Jun 30, 2021 HRK '000
Premium earned		
Gross premium written	9,741	7,793
Premium impairment allowance originated and reserved on collection	(72)	(32)
Gross outward reinsurance premium	(4,132)	(3,530)
Net premium written	5,537	4,231
Changes in the gross unearned premium reserve	(313)	(1,122)
Changes in the gross unearned premium reserve, reinsurer's share	(111)	502
Net premium earned	5,113	3,611
Fee and commission income	1,885	1,590
Net investment income	694	496
Other operating income	29	5
Net income	7,721	5,702
Gross expense for returned premiums	(659)	(383)
Reinsurer's share	281	191
Gross reserve for returned premiums	(178)	(191)
Reinsurer's share	(44)	(4)
Net expense and reserve for returned premiums	(600)	(387)
Claims incurred	(5,124)	(1,482)
Claims incurred, reinsurer's share	1,756	821
Change in the claims provision	2,293	(773)
Change in the claims provision, reinsurer's share	(866)	310
Net claims incurred	(1,941)	(1,124)
Marketing and provision expenses	(365)	(121)
Administrative expenses	(3,729)	(3,592)
Other operating expenses	(38)	(22)
Net exchange differences other than those on financial instruments	6	5
Profit before income tax	1,054	461
Income tax	-	-
Profit for the period	1,054	461
Other comprehensive income		
Items that are not transferred subsequently to profit or loss:		
Deferred tax – adjustment for previous period	-	-
Total items that are not transferred subsequently to profit or loss	-	-
Items that may be reclassified subsequently to profit or loss:		
Gains on revaluation of financial assets available for sale	9	438
Decrease in the fair value of financial assets available for sale	(5,844)	(1,104)
Deferred tax	1,020	102
Total items that may be reclassified subsequently to profit or loss:	(4,815)	(564)
Other comprehensive income/loss after income tax	(4,815)	(564)
Total comprehensive income/loss after income tax	(3,761)	(103)
Attributable to:		
Equity holder of the parent	(3,761)	(103)

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

Appendix - Financial Performance of the HKO Group
Statement of Financial Position as of
as of

(All amounts are expressed in HRK thousand)

	Jun 30, 2022 HRK '000	Dec 31, 2021 HRK '000
Assets		
Non-current assets		
Property and equipment	661	825
Intangible assets	472	439
Deferred tax	1,037	-
Total non-current assets	2,170	1,264
Current assets		
Investments available for sale	50,988	56,826
Receivables from insurance operations	5,071	2,361
Other receivables	884	683
Cash and cash equivalents	4,424	3,366
Total current assets	61,367	63,236
Total assets	63,537	64,500
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Retained earnings and reserves	5,044	3,941
Other reserves	(2,177)	2,638
Profit for the period	1,054	1,103
Total equity	41,421	45,182
Technical provisions		
Gross technical provisions	22,059	23,861
Technical provisions, reinsurer's share	(9,296)	(10,317)
	12,763	13,544
Current liabilities		
Liabilities from insurance operations	6,686	2,568
Other liabilities	2,667	3,206
Total liabilities	9,353	5,774
Total equity and liabilities	63,537	64,500

Appendix - Financial Performance of the HKO Group

Statement of Cash Flows

for the period 1 January – 30 June

(All amounts are expressed in HRK thousand)

	Jun 30, 2022 HRK '000	Jun 30, 2021 HRK '000
Operating activities		
Profit before income tax	1,054	461
<i>Adjustments to reconcile to net cash from and used in operating activities</i>		
Depreciation	182	158
impairment gain/loss and provisions	94	47
Income tax	-	-
Accrued interest	2	3
Write-offs of tangible and intangible assets and other adjustments	-	(3)
<i>Operating profit before working capital changes</i>	<i>1,332</i>	<i>666</i>
Changes in operating assets and liabilities:		
Decrease of discount in assets available for sale and assets held to maturity	45	45
Premium receivables	(2,781)	(1,050)
Net decrease/(increase) in other assets	(245)	(52)
Net decrease of assets and liabilities from insurance operations	4,118	243
Net increase in technical provisions	(781)	1,279
Net increase in other liabilities	(524)	(190)
Net cash provided from operating activities	1,164	941
Investment activities		
Net purchase of assets available for sale	-	-
Net sale of assets available for sale	-	-
Net purchase of property, plant and equipment and intangible assets	(52)	(27)
Net cash (used in)/provided from investment activities	(52)	(27)
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	(58)	125
Net effect	(58)	125
Other adjustments	-	-
Net increase in cash and cash equivalents	1,054	1,039
Balance as of 1 January	3,371	5,964
Net increase in cash	1,054	1,039
Balance as of 30 June	4,425	7,003

Appendix - Financial Performance of the HKO Group
Statement of Changes in Equity
for the period 1 January – 30 June

(All amounts are expressed in HRK thousand)

	Share capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Profit/(loss) for the period HRK '000	Total equity attributable to the equity holders of the Company HRK '000	Total equity HRK '000
Balance as of 1 January 2021	37,500	1,749	3,825	2,192	45,266	45,266
Profit for the period	-	-	-	461	461	461
Other comprehensive income/loss	-	-	(564)	-	(564)	(564)
Total comprehensive income/loss	-	-	(564)	461	(103)	(103)
Transfer of profit 2020 to retained earnings	-	2,192	-	(2,192)	-	-
Balance as of 30 June 2021	37,500	3,941	3,261	461	45,163	45,163
Balance as of 1 January 2022	37,500	3,941	2,638	1,103	45,182	45,182
Profit for the period	-	-	-	1,054	1,054	1,054
Other comprehensive income	-	-	(4,815)	-	(4,815)	(4,815)
Total comprehensive income	-	-	(4,815)	1,054	(3,761)	(3,761)
Transfer of profit 2021 to retained earnings	-	1,103	-	(1,103)	-	-
Balance as of 30 June 2021	37,500	5,044	(2,177)	1,054	41,421	41,421

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