



Hrvatska banka za obnovu i razvitak

SEMI-ANNUAL REPORT

FOR THE PERIOD 1 JANUARY – 30 JUNE 2017

Zagreb, August 2017



Hrvatska banka za obnovu i razvitak

STATEMENT OF PERSONS RESPONSIBLE FOR THE PREPARATION OF SEMI-ANNUAL REPORT

To the best of our knowledge the management report for the period 1 January – 30 June 2017 contains a truthful development of events and business results as well as the position of the Croatian Bank for Reconstruction and Development and the Group, and the description of the most significant risks and contingencies the Croatian Bank for Reconstruction and Development and the Group are exposed to.

President of the Management Board

A black ink signature of Tamara Perko, consisting of a series of fluid, connected strokes.

Tamara Perko, MSc

Member of the Management Board

A blue ink signature of Martina Jus, featuring a stylized, cursive script.

Martina Jus

Zagreb, 28 August 2017

**MANAGEMENT REPORT FOR THE PERIOD
1 JANUARY – 30 JUNE 2017**

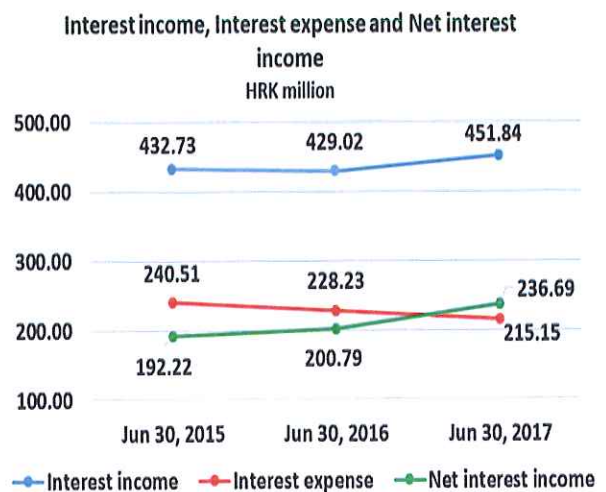
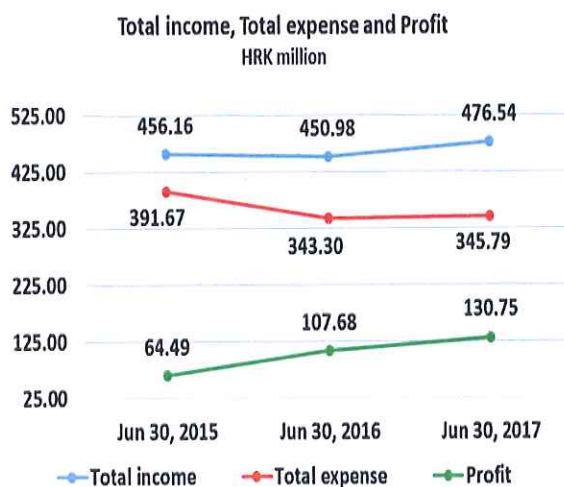
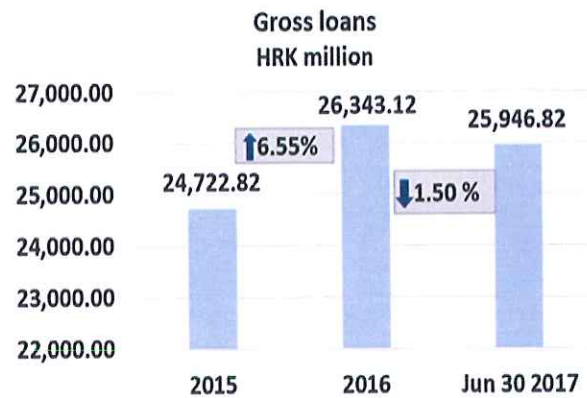
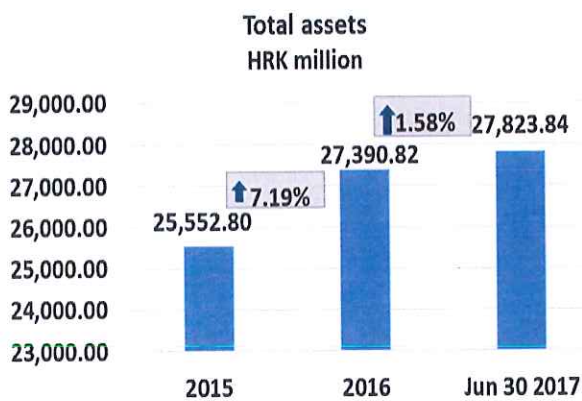
RESULTS OF THE GROUP

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BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INFORMATION OF HBOR GROUP

-HRK millions-

	2015	2016	30 June 2017
Total assets	25,552.80	27,390.82	27,823.84
Gross loans	24,722.82	26,343.12	25,946.82
Total equity	9,664.54	10,042.70	10,172.67
	30 June 2015	30 June 2016	30 June 2017
Total income	456.16	450.98	476.54
Total expense	(391.67)	(343.30)	(345.79)
Profit	64.49	107.68	130.75
Interest income	432.73	429.02	451.84
Interest expense	(240.51)	(228.23)	(215.15)
Net interest income	192.22	200.79	236.69



Results of the Group

In the period 1 January – 30 June 2017, the HBOR Group generated profit after tax in the amount of HRK 130.75 million.

Pursuant to the provisions of the Act on HBOR, the parent company is exempt from income tax and income tax liabilities arise exclusively from the activities of the other members of the Group.

In the period 1 January – 30 June 2017, total income on consolidated basis amounted to HRK 476.54 million, whereas total expenses amounted to HRK 345.79 million.

The consolidated total income rose by 5.67 percent, whereas total expenses rose by 0.73 percent compared to the same period previous year due to the developments in total income and expenses of the parent company.

In the structure of income of the Group, the largest portion, i.e. 94.82 percent, relates to interest income as a result of operations of the parent company.

The major part of total expenses, i.e. 62.22 percent, relates to interest expenses arising from the operations of the parent company.

The consolidated operating expenses in the period 1 January – 30 June 2017 amounted to HRK 78.03 million and consisted of general and administrative expenses and other operating expenses.

There were 377 employees in the Group on 30 June 2017, whereas there had been 358 employees in the Group on 30 June 2016.

Assets and liabilities of the Group

Total assets of the Group on consolidated basis amount to HRK 27,823.84 million, an increase of 1.58 percent compared with the beginning of the year. The reasons for such tendency are stated in the description of HBOR's financial performance.

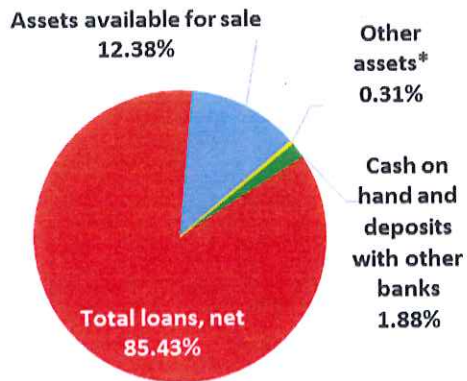
In the structure of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 82.52 percent of total assets.

Total liabilities and total equity as at 30 June 2017 amount to HRK 27,823.84 million, of which amount total liabilities equal HRK 17,651.17 million, i.e. 63.44 percent.

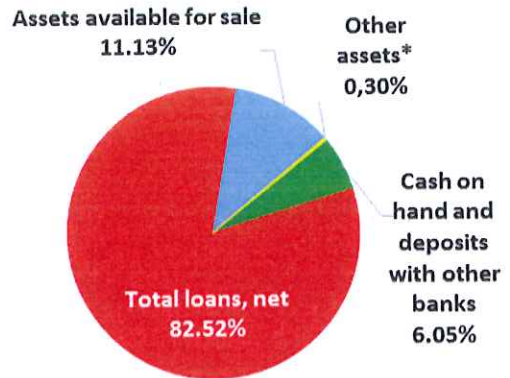
In total liabilities and total equity of the Group, the major portion, i.e. 59.42 percent, consists of borrowings and bonds payable of the parent company.

At the end of the reporting period, total equity on consolidated basis amounted to HRK 10,172.67 million and accounted for 36.56 percent of total liabilities and total equity of the Group.

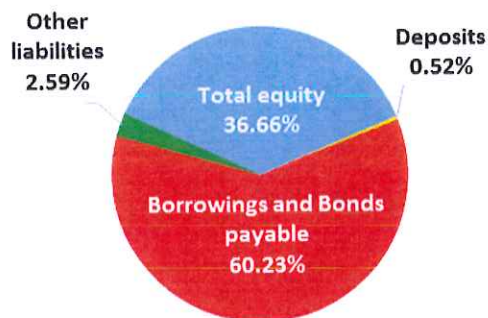
Total assets
Dec 31, 2016



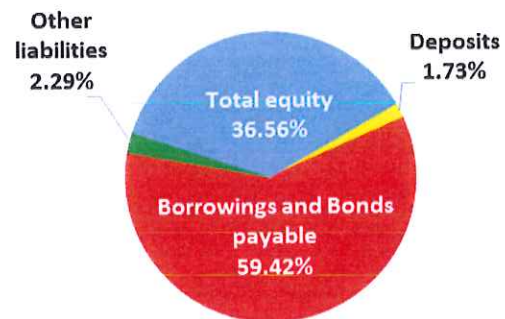
Total assets
Jun 30, 2017



Total liabilities and Total equity
Dec 31, 2016



Total liabilities and Total equity
Jun 30, 2017



*Financial assets at fair value through profit or loss, Assets held to maturity, Property, plant and equipment and intangible assets, Non-current assets held for sale and Other assets.

RESULTS OF HBOR

OVERVIEW OF FINANCIAL PERFORMANCE OF HBOR

The following text gives an overview and explanation of the significant changes in financial position and operating performance in the reporting period.

Financial performance

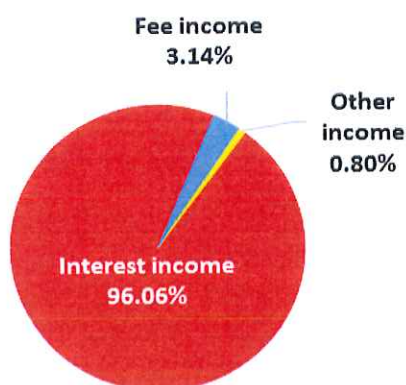
In the period from 1 January to 30 June 2017, HBOR generated total income of HRK 471.04 million, expenses of HRK 341.68 million and profit in the amount of HRK 129.36 million. HBOR's profit generated in the reporting period increased by HRK 22.12 million compared with the profit generated in the same reporting period last year, i.e. by 20.63 percent.

Higher profit in the reporting period compared with the same period last year is a result of a higher increase in income rising by HRK 25.28 million as against expenses rising by HRK 3.16 million. The circumstances that affected the financial result achieved in the semi-annual reporting period 2017 compared to the results generated in the same period in 2016 are:

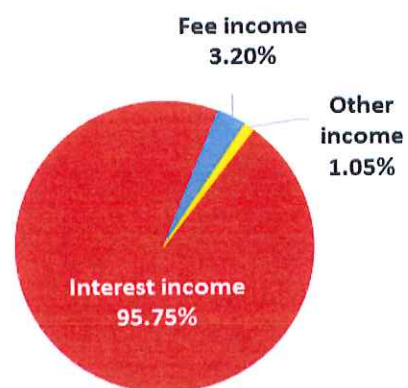
- increase in interest income of HRK 22.82 million,
- decrease in interest expenses of HRK 13.08 million,
- decrease in net losses from financial activities of HRK 3.25 million,
- increase in impairment loss and provisions of HRK 22.15 million,
- decrease in operating expenses of HRK 2.92 million.

A detailed description of trends is given for each category separately in the following text.

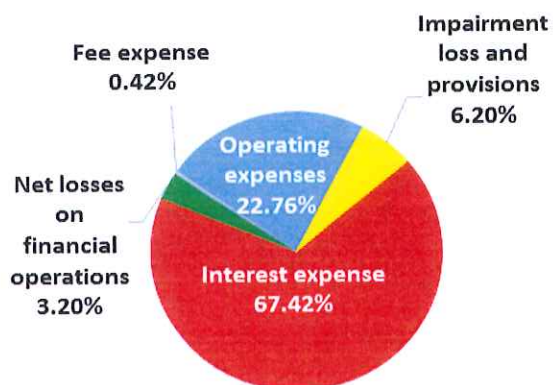
Total income
Jun 30, 2016



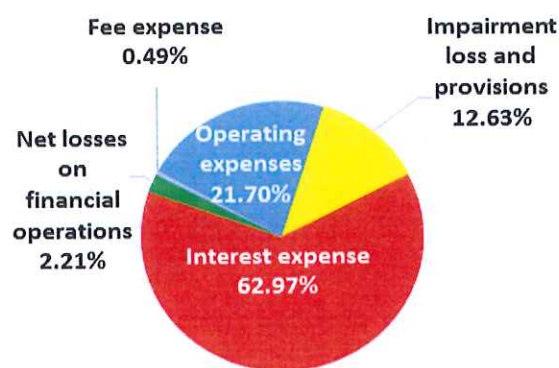
Total income
Jun 30, 2017



Total expense
Jun 30, 2016



Total expense
Jun 30, 2017



Net interest income

Net interest income amounted to HRK 235.86 million, an increase of 17.95 percent on the same reporting period of the previous reporting year.

Interest income amounted to HRK 451.01 million, an increase of 5.33 percent on the same reporting period last year due to increased interest income under long-term loans and considerable collection of interest income under restructured loans.

Interest expenses amounted to HRK 215.15 million, a decrease of 5.73 percent on the same reporting period last year, which was for the major part affected by the following:

- repayment of borrowings agreed upon at higher interest rate, on maturity,
- utilisation of credit lines of special financial institutions at favourable interest rates.

Having in mind the described trends, net interest margin increased compared with the same reporting period last year and stood at 1.71 percent as against 1.55 percent in the same reporting period last year.

Net fee income

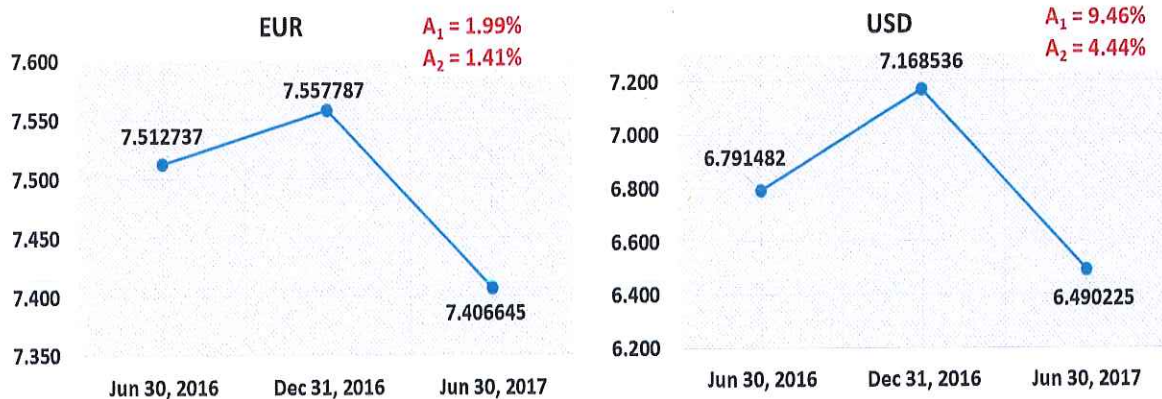
Net fee income amounted to HRK 13.38 million, an increase of 6.19 percent compared with the same reporting period last year as a result of increased fee income from guarantee activities caused by a higher volume of guarantees issued.

Net gains/(losses) from financial activities

Net gains/(losses) from financial activities are comprised of net foreign exchange gains/(losses) on the principal amount of receivables and liabilities, net revenues or expenditures arising out of the loan contracts with embedded call option, gains/(losses) arising out of value adjustment of assets stated at fair value through profit or loss and realised gains/(losses) arising out of assets available for sale.

In the reporting period, net losses from financial activities amounted to HRK 7.57 million, whereas, in the same reporting period previous year, net losses amounted to HRK 10.82 million.

A breakdown of changes in the exchange rate of HRK against the EUR and the USD:



Note:

A_1 = HRK appreciation 30.6.2017/31.12.2016

A_2 = HRK appreciation 30.6.2017/30.6.2016

A_1 = HRK appreciation 30.6.2017/31.12.2016

A_2 = HRK appreciation 30.6.2017/30.6.2016

Foreign currency and foreign currency indexed assets and sources of funds are converted by HBOR into HRK equivalent value by applying the exchange rate of the Croatian National Bank valid at the reporting date.

Foreign currency revenues and expenditures are converted in accordance with the exchange rate at the transaction date. The resulting foreign exchange gains or losses are recorded in the Statement of Profit or Loss and Other Comprehensive Income in net figures.

Operating expenses

Operating expenses that include general and administrative expenses and other operating expenses stood at HRK 74.13 million, a decrease of 3.79 percent compared with the same period previous year.

This development is mostly affected by other expenses decreasing by HRK 7.33 million compared with the same period previous year.

This decrease is a result of a one-off business event in the first half-year 2016, i.e. a recalculation arising from partial assumption of a placement by another debtor resulting in the expenses of HRK 5.88 million.

Excluding the above mentioned one-off impact reducing the expenses in the reporting period, the operating expenses would increase by 6.33 percent in the first half-year 2017 compared with the same reporting period previous year.

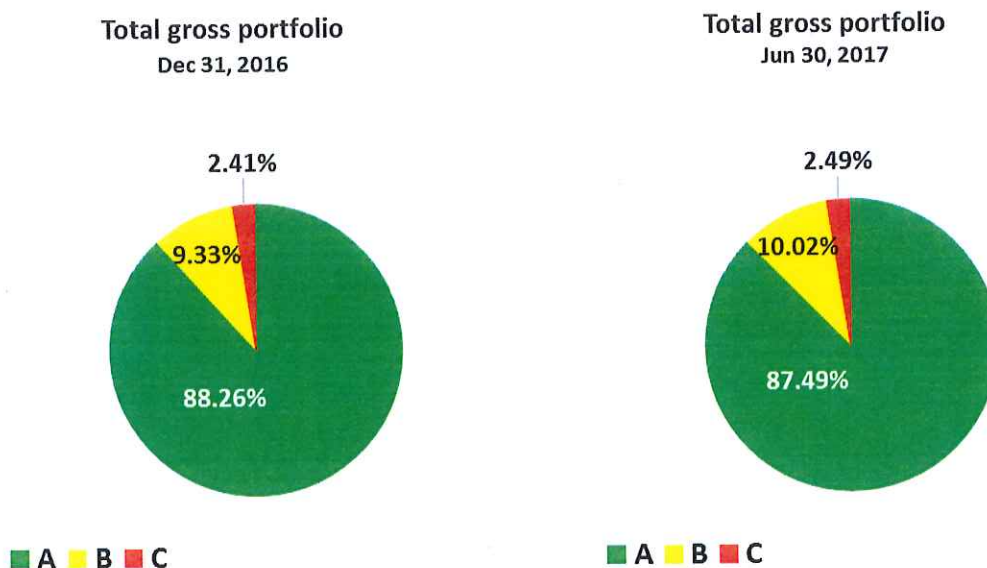
There were 361 employees as at 30 June 2017, whereas there were 345 employees as at 30 June 2016.

Impairment loss and provisions

In accordance with the regulations and internal acts, HBOR determines the amount of impairment loss and provisions and maintains it at the level it considers adequate for the coverage of possible future risks.

In the reporting period, net impairment loss stood at HRK 43.15 million.

The following text contains a breakdown of the quality of portfolio:



	31 December 2016		30 June 2017	
	HRK million	Structure (%)	HRK million	Structure (%)
Total gross portfolio	36,481.66	100.00	36,468.51	100.00
Of which:				
- financial institutions	15,888.50	43.55	16,497.69	45.24
- direct	20,593.16	56.45	19,970.82	54.76
Total provisions	3,042.51	100.00	3,076.29	100.00
Of which:				
- financial institutions	395.46	13.00	332.94	10.82
- direct	2,647.05	87.00	2,743.35	89.18
Provisions/gross portfolio	8.34 percent	-	8.44 percent	-

Significant changes in the financial position

Total assets of HBOR as at 30 June 2017 amounted to HRK 27,805.97 million, an increase of 1.57 percent compared with the beginning of the year. The slight increase in the total assets and the decrease compared with 31 March 2017 are the result of the one-off payment under the long-term bonds in the amount of HRK 1,852.05 million together with interest of HRK 92.60 million made by HBOR on 13 June 2017.

Cash on hand and deposits with other banks

As at 30 June 2017, cash on hand and deposits with other banks amounted to HRK 1,681.58 million representing 6.05 percent of total assets, an increase of 226.79 percent compared with the beginning of the year as a result of the redistribution of liquidity reserve funds.

Loans to financial institutions and other customers

Total net loans as at 30 June 2017 amounted to HRK 22,960.61 million representing 82.57 percent of total assets, a decrease of 1.88 percent compared with the beginning of the year.

Total gross loans amounted to HRK 25,946.82 million, a decrease of 1.50 percent compared with the beginning of the year. Gross loans to other customers increased by 1.70 percent compared with the beginning of the year, whereas gross loans to financial institutions decreased by 5.19 percent as a result of significant premature repayments of loans.

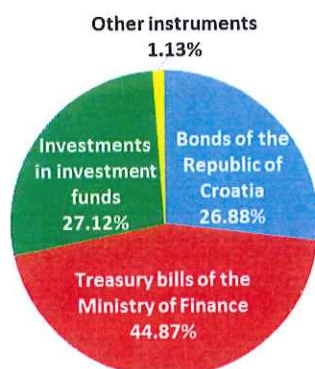
Assets available for sale

Assets available for sale were comprised primarily of liquidity reserve funds, further to which assets available for sale were comprised primarily of debt instruments and, to a minor extent, of investments into investment funds and equity instruments. This item amounted to HRK 3,047.93 million, a decrease of 8.84 percent due to the fact that maturities in the reporting period exceeded the amounts of investment in those financial instruments.

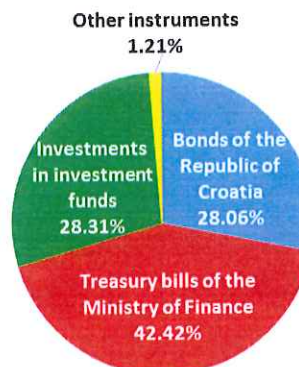
In the reporting period, the total amount of due bonds and treasury bills stood at HRK 1,153.68 million, whereas the amount of HRK 934.83 million was invested in the following instruments of assets available for sale:

	HRK million
Treasury bills of the Ministry of Finance	836.21
Bonds of the Republic of Croatia	79.67
Investment funds of the Republic of Croatia	18.95
Total	934.83

Assets available for sale
Dec 31, 2016



Assets available for sale
Jun 30, 2017



Total liabilities

As at 30 June 2017, total liabilities amounted to HRK 17,639.54 million, which represents 63.44 percent of total liabilities and total equity. The major part of total liabilities consists of HBOR's foreign borrowings and bonds payable in the total amount of HRK 16,533.34 million.

Borrowings and bonds payable increased compared with the beginning of the year by 0.22 percent, i.e. by HRK 36.03 million net, and relate to the following changes:

	(HRK million)
- drawdowns of borrowed funds previously agreed with special financial institutions	3,154.49
- repayments of borrowings	(2,675.22)
- other calculations*	(443.24)
Total changes	36.03

*Other calculations relate to foreign-exchange gains and losses, changes in discount, changes in the amount of interest not due, and deferred fees.

On 24 March 2017, HBOR entered into a EUR 44.00 million Finance Contract with the European Investment Bank for the financing of a development project in tourism.

Of the total amount of repaid borrowings, the most significant amount relates to a one-off payment under the long-term bonds in the amount of HRK 1,852.05 million together with interest of HRK 92.60 million made by HBOR on 13 June 2017. The Bonds had been issued on 14 June 2007 on the basis of the agreement between HBOR and UBS Investment Bank and Deutsche Bank AG London (as joint lead managers) in the amount of EUR 250.00 million with maturity period of 10 years and fixed interest rate of 5.00%.

Liabilities upon deposits increased by 236.73 percent compared with the beginning of the year, and the increase was most significantly affected by the unused funds under the activities performed by HBOR for and on behalf of third parties and by the deposit received.

Total equity

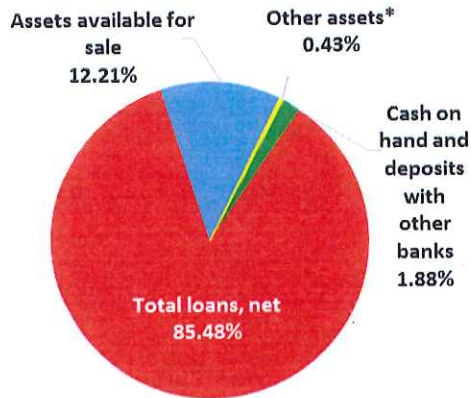
Total equity amounted to HRK 10,166.43 million representing 36.56 percent of total liabilities and total equity.

Total equity of HBOR is comprised of the capital and the guarantee fund. HBOR's capital is comprised of founder's capital contributed from the budget of the Republic of Croatia, retained earnings from the profits generated in the previous years, other reserves and profits for the current year.

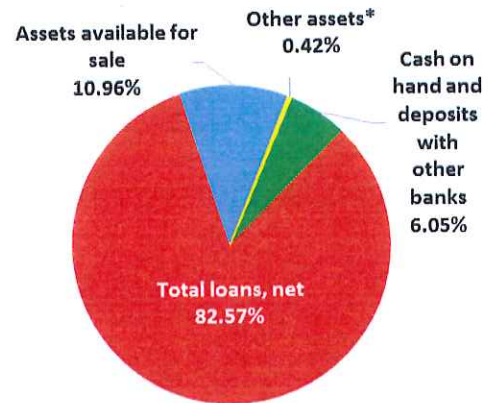
By the end of the reporting period, the total amount of capital contributed from the budget of the Republic of Croatia amounted to HRK 6,533.00 million, and the remaining amount to be contributed to the founder's capital up to the total amount of HRK 7,000.00 million set by the HBOR Act is HRK 467.00 million.

After the reporting period date, the amount of HRK 25.00 million was contributed from the budget of the Republic of Croatia into the founder's capital of HBOR on 27 July 2017.

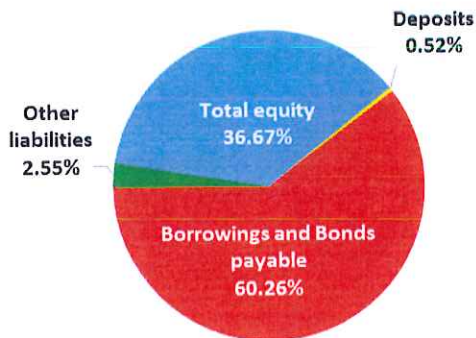
Total assets
Dec 31, 2016



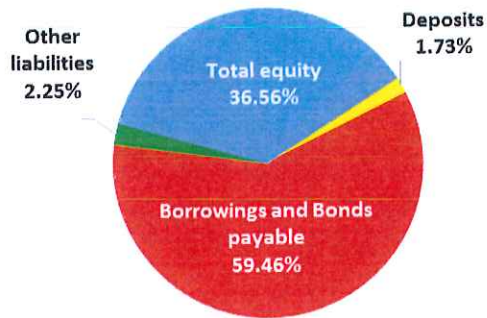
Total assets
Jun 30, 2017



Total liabilities and Total equity
Dec 31, 2016



Total liabilities and Total equity
Jun 30, 2017



*Investments in subsidiaries, Property, plant and equipment and intangible assets, Non-current assets held for sale and Other assets.