



HRVATSKA BANKA ZA OBNOVU I RAZVITAK

## **SEMI-ANNUAL REPORT**

**FOR THE PERIOD 1 JANUARY – 30 JUNE 2019**

**Zagreb, August 2019**



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 2019 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

Member of the Management Board

Tamara Perko, MSc



Hrvoje Čuvalo, MSc

Zagreb, 20 August 2019

# **MANAGEMENT REPORT FOR THE PERIOD**

**1 JANUARY – 30 JUNE 2019**

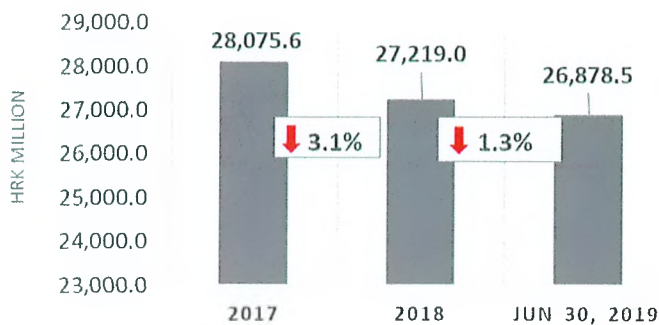
## **RESULTS OF THE GROUP**

## BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INFORMATION OF HBOR GROUP

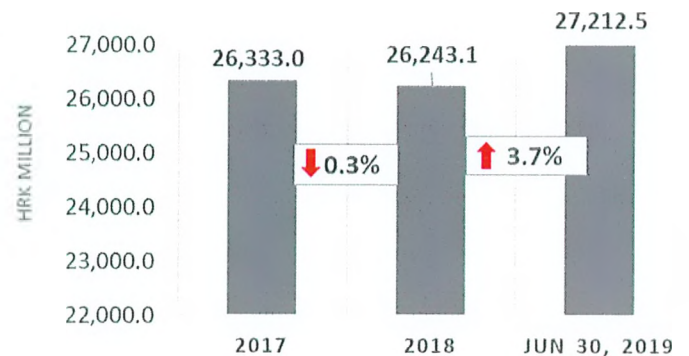
-HRK millions-

	31 December 2017	31 December 2018	30 June 2019
<b>Total assets</b>	28,075.6	27,219.0	26,878.5
<b>Gross loans</b>	26,333.0	26,243.1	27,212.5
<b>Total equity</b>	10,275.8	10,061.1	10,181.0
	1 January – 30 June 2017	1 January – 30 June 2018	1 January – 30 June 2019
<b>Total income</b>	476.5	443.0	353.5
<b>Total expense</b>	345.7	247.0	276.0
<b>Profit</b>	130.8	196.0	77.5
<b>Interest income</b>	451.8	381.0	322.0
<b>Interest expense</b>	215.1	169.3	160.5
<b>Net interest income</b>	236.7	211.7	161.5

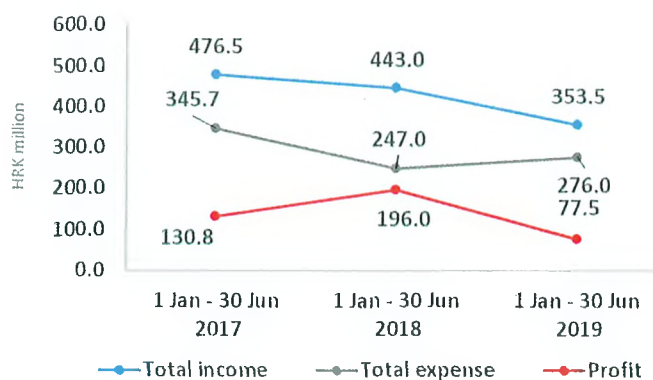
### TOTAL ASSETS



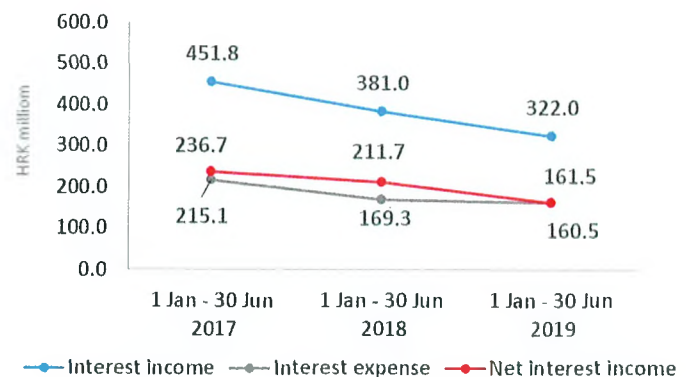
### GROSS LOANS



### TOTAL INCOME, TOTAL EXPENSE AND PROFIT



### INTEREST INCOME, INTEREST EXPENSE AND NET INTEREST INCOME



## **Results of the Group**

In the period 1 January – 30 June 2019, the HBOR Group generated profit after tax in the amount of HRK 77.5 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 2019, total income on consolidated basis amounted to HRK 353.5 million, whereas total expenses amounted to HRK 276.0 million.

The consolidated total income decreased by 20.2 percent, whereas total expenses rose by 11.7 percent compared to the same period previous year due to the developments in total income and expenses of the parent company.

In the breakdown of income of the Group, the largest portion, i.e. 91.1 percent, relates to interest income as a result of operations of the parent company.

The major part of total expenses, i.e. 58.2 percent, relates to interest expenses arising from the operations of the parent company.

The consolidated operating expenses in the period 1 January – 30 June 2019 amounted to HRK 83.3 million and consisted of general and administrative expenses and other operating expenses.

On 30 June 2019, the Group had 385 employees (on 30 June 2018: 391 employees).

## **Assets and liabilities of the Group**

Total assets of the Group on consolidated basis amount to HRK 26,878.5 million, a decrease of 1.3 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 breakdown of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 87.6 percent of total assets.

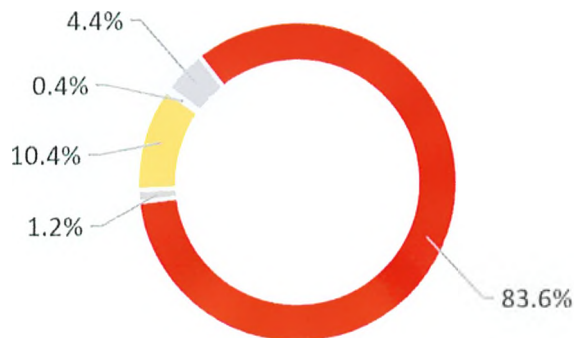
Total liabilities and total equity as at 30 June 2019 amount to HRK 26,878.5 million, of which amount total liabilities equal HRK 16,697.5 million, i.e. 62.1 percent.

In total liabilities and total equity of the Group, the major portion, i.e. 56.5 percent, consists of borrowings and debt securities issued of the parent company.

At the end of the reporting period, total equity on consolidated basis amounted to HRK 10,181.0 million and accounted for 37.9 percent of total liabilities and total equity of the Group.

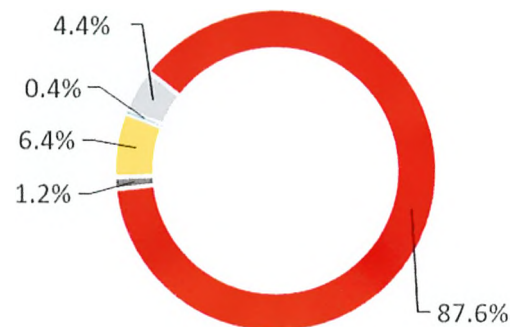
**TOTAL ASSETS**  
31 December 2018

- Cash on hand and deposits with other banks
- Total loans, net
- Financial assets at FVPL
- Financial assets at FVOCI
- Other assets\*



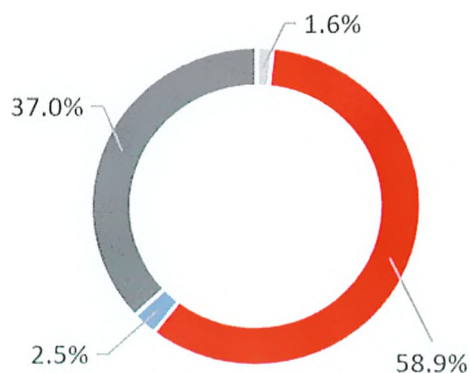
**TOTAL ASSETS**  
30 June 2019

- Cash on hand and deposits with other banks
- Total loans, net
- Financial assets at FVPL
- Financial assets at FVOCI
- Other assets\*



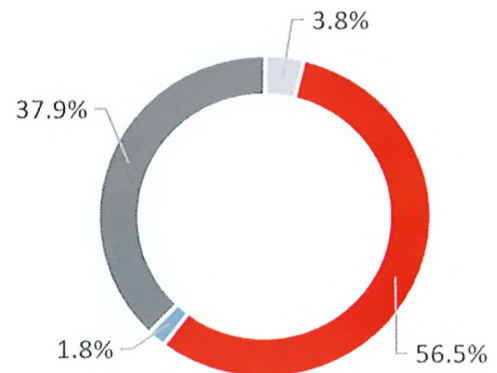
**TOTAL LIABILITIES AND TOTAL EQUITY**  
31 December 2018

- Deposits from customers
- Borrowings and Debt securities issued
- Other liabilities and provisions\*\*
- Total equity



**TOTAL LIABILITIES AND TOTAL EQUITY**  
30 June 2019

- Deposits from customers
- Borrowings and Debt securities issued
- Other liabilities and provisions\*\*
- Total equity



\*Property, plant and equipment and intangible assets, Foreclosed assets, Debt securities at AC and Other assets.

\*\*Provisioning includes provisioning for guarantees, commitments and other liabilities.

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## 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 2019, HBOR generated total income of HRK 348.4 million, expenses of HRK 271.3 million and profit in the amount of HRK 77.1 million. HBOR's profit generated in the reporting period decreased by HRK 117.8 million compared with the profit generated in the same period last year, i.e. by 60.4 percent.

Significantly lower profit in the reporting period compared with the same period last year is a result of decrease in total income by HRK 89.8 million and increase in total expenses by HRK 28.0 million. The circumstances that affected the financial result achieved in the semi-annual reporting period 2019 compared to the results generated in the same period in 2018 are:

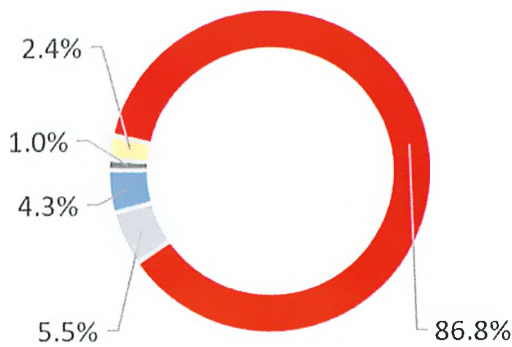
- Decrease in interest income of HRK 59.0 million, i.e. by 15.5 percent,
- Decrease in interest expenses of HRK 8.8 million, i.e. by 5.2 percent,
- Decrease in gains from financial activities of HRK 8.9 million, i.e. by 47.8 percent,
- Increase in losses from impairment and provisions in the amount of HRK 41.2 million,
- Increase in operating expenses of HRK 6.6 million, i.e. by 9.2 percent,
- Decrease in fee and commission income of HRK 10.8 million, i.e. by 45.2 percent.

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



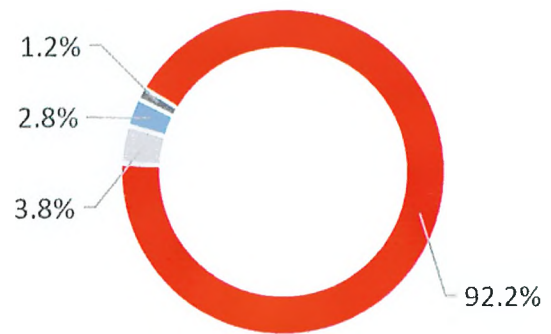
**TOTAL INCOME**  
1 January - 30 June 2018

- Interest income
- Fee and commission income
- Net gains on financial operations
- Other income
- Impairment gain and provisions



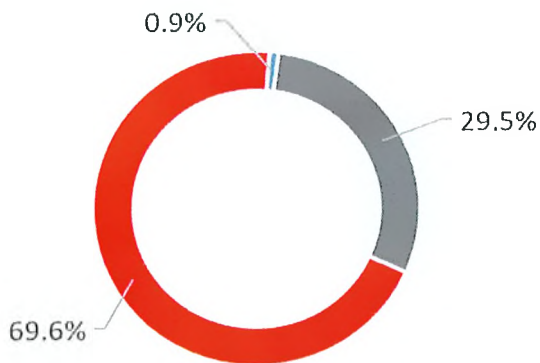
**TOTAL INCOME**  
1 January - 30 June 2019

- Interest income
- Fee and commission income
- Net gains on financial operations
- Other income



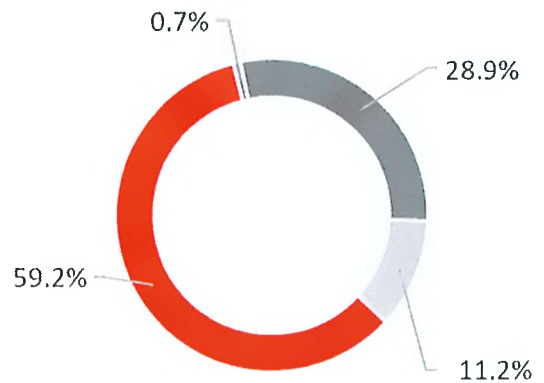
**TOTAL EXPENSE**  
1 January - 30 June 2018

- Interest expense
- Fee and commission expense
- Operating expenses



**TOTAL EXPENSE**  
1 January - 30 June 2019

- Interest expense
- Fee and commission expense
- Operating expenses
- Impairment loss and provisions



### ***Net interest income***

Net interest income amounted to HRK 160.8 million, a decrease of 23.8 percent on the same period of the previous reporting year.

Interest income amounted to HRK 321.3 million, a decrease of 15.5 percent on the same reporting period last year due to decreased interest income from long-term loans as a result of the long-term implementation of measures of interest rate reduction, reduction of interest income from interest rate subsidies, significant amounts of premature loan repayments in 2018 and the manner of recording of interest income from exposures classified to stage 3 and POCI assets (unwinding).

On this basis, from 1 January to 30 June 2019, interest income was reduced by HRK 17.7 million.

Interest expenses amounted to HRK 160.5 million, a decrease of 5.2 percent on the same reporting period last year.

Having in mind the described trends in interest income and interest expenses, net interest margin decreased compared with the same reporting period last year and stood at 1.2 percent as against 1.5 percent in the same reporting period last year.

### ***Net fee and commission income***

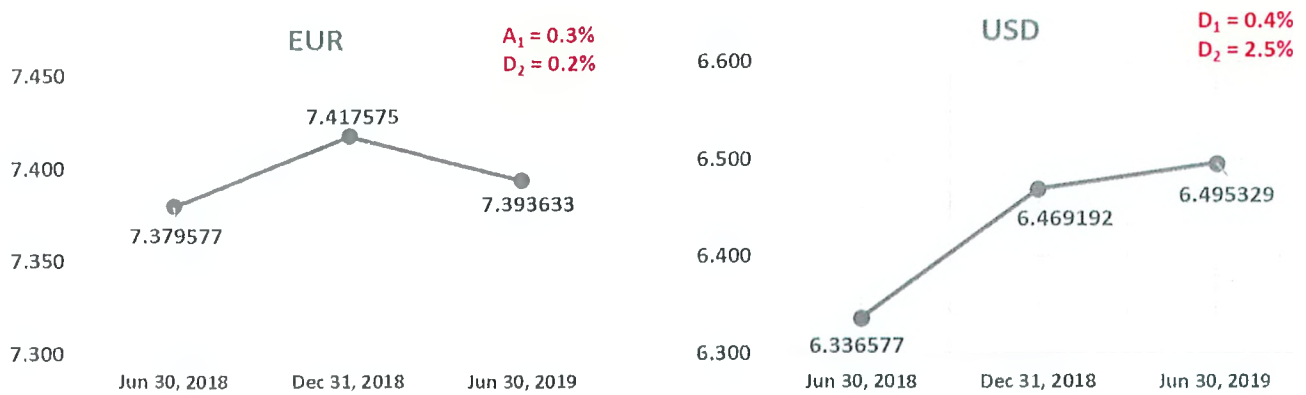
Net fee and commission income amounted to HRK 11.2 million, a decrease of 48.4 percent compared with the same reporting period last year due to calls for payments under guarantees issued, thus decreasing the exposure under guarantees issued.

### ***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 financial assets stated at fair value through profit or loss and realised gains/(losses) arising out of financial assets at fair value through other comprehensive income.

In the reporting period, net gains from financial activities amounted to HRK 9.8 million, which is by 47.8 percent less than the generated net gains from financial activities in the same period previous year.

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



Note:

$A_1$  = HRK appreciation 30.6.2019/31.12.2018  
 $D_2$  = HRK depreciation 30.6.2019/30.6.2018

$D_1$  = HRK depreciation 30.6.2019/31.12.2018  
 $D_2$  = HRK depreciation 30.6.2019/30.6.2018

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 Income Statement in net figures.

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### Operating expenses

Operating expenses that include general and administrative expenses and other operating expenses stood at HRK 78.4 million, an increase of 9.2 percent compared with the same reporting period last year, mostly due to an increase in general and administrative expenses of HRK 6.4 million.

On 30 June 2019, HBOR had 365 employees (on 30 June 2018: 372 employees).

### Impairment gain/(loss) and provisions

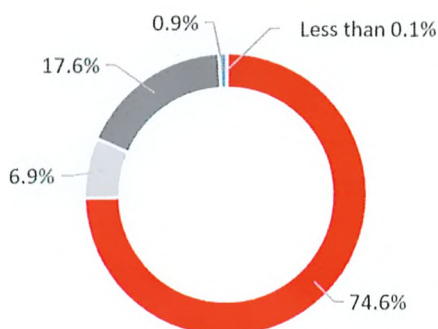
In the reporting period, net impairment loss stood at HRK 30.5 million.

The text to follow contains a breakdown of portfolio quality:

TOTAL GROSS PORTFOLIO

31 December 2018

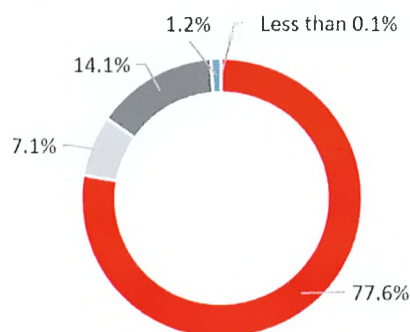
■ Stage 1 ■ Stage 2 ■ Stage 3 ■ POCI ■ Not subject to IFRS 9



TOTAL GROSS PORTFOLIO

30 June 2019

■ Stage 1 ■ Stage 2 ■ Stage 3 ■ POCI ■ Not subject to IFRS 9



2

	31 December 2018		30 June 2019	
	In HRK millions	Breakdown (percent)	In HRK millions	Breakdown (percent)
<b>Total gross portfolio</b>	<b>35,808.1</b>	<b>100.0</b>	<b>34,665.4</b>	<b>100.0</b>
Of which:				
- financial institutions	13,194.5	36.8	13,775.7	39.7
- direct	22,613.6	63.2	20,889.7	60.3
<b>Total provisions</b>	<b>3,795.6</b>	<b>100.0</b>	<b>3,793.8</b>	<b>100.0</b>
Of which:				
- financial institutions	122.6	3.2	81.0	2.1
- direct	3,673.0	96.8	3,712.8	97.9
<b>Provisions/gross portfolio</b>	<b>10.6 percent</b>	<b>-</b>	<b>10.9 percent</b>	<b>-</b>

## **Significant changes in financial position**

Total assets of HBOR as at 30 June 2019 amounted to HRK 26,854.8 million, a decrease of 1.3 percent compared with 31 December 2018, mostly due to repayment of obligations.

### ***Cash on hand and deposits with other banks***

As at 30 June 2019, cash on hand and deposits with other banks amounted to HRK 1,177.3 million representing 4.4 percent of total assets, a decrease of 2.1 percent compared with 31 December 2018.

### ***Loans to financial institutions and other customers***

As at 30 June 2019, total net loans amounted to HRK 23,538.8 million representing 87.7 percent of total assets, an increase 3.5 percent on the beginning of the year.

Total gross loans amounted to HRK 27,212.5 million, an increase of 3.7 percent compared with 31 December 2018. Gross loans to other customers increased by 5.7 percent compared with the end of 2018. Gross loans to financial institutions were retained at the level generated in 2018.

### ***Financial assets at fair value through profit or loss***

Loans at fair value (HBOR has determined that mezzanine loans are classified here), investments in investment funds (obligatory pursuant to IFRS) and a part of equity instruments are classified to these assets. As at 30 June 2019, the total amount of these assets equalled HRK 332.4 million representing 1.2 percent of total assets.

### ***Financial assets at fair value through other comprehensive income***

#### ***a) Debt instruments***

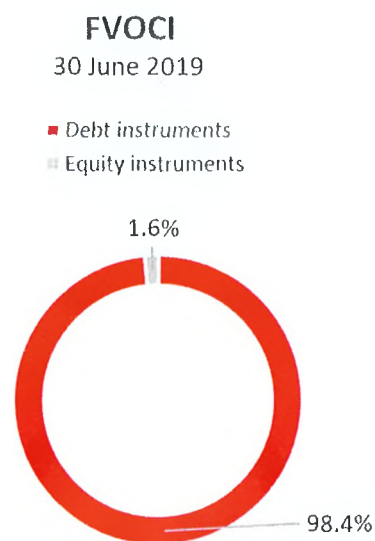
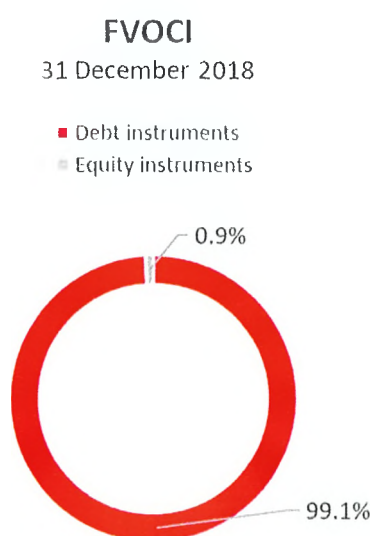
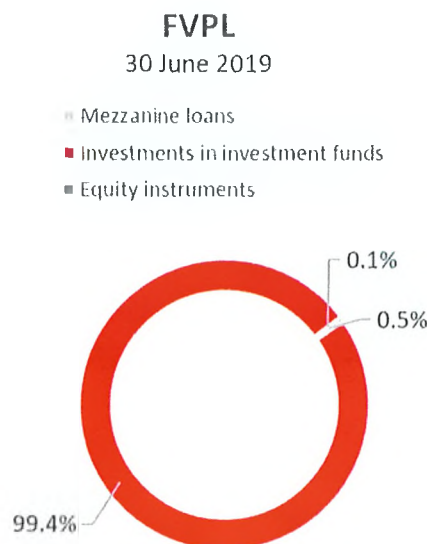
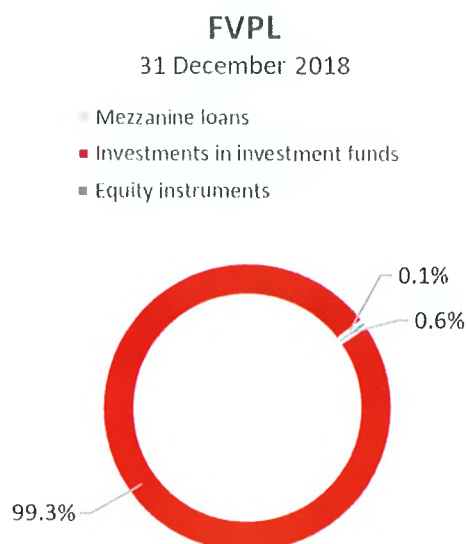
Bonds of the Republic of Croatia and treasury bills of the Ministry of Finance as part of liquidity reserve as well as bonds of a company are classified to these assets. On the reporting date, they amounted to HRK 1,652.0 million, representing 6.1 percent of total assets, a decrease of 40.3 percent on the beginning of the year. This is a result of a significant outflow of liquidity reserve funds for the purpose of settling borrowing liabilities and loan disbursements.

The impairment of these financial assets is calculated through the application of the model of expected credit losses in the manner that provisions are recognised in the accounts of other comprehensive income, thus not reducing the carrying amount of these financial assets in the statement on financial position. On the reporting date, they amounted to HRK 3.2 million.

#### ***b) Equity instruments***

Equity instruments (shares of companies) that HBOR does not intend to sell and to which irrevocable option of subsequent measurement of fair value through other comprehensive income without recycling is applied are classified to these assets, i.e. reserves recognised under other comprehensive income will never be transferred to the statement on profit or loss.

On the reporting date, these assets amounted to HRK 26.1 million, representing 0.1 percent of total assets.



### **Total liabilities**

As at 30 June 2019, total liabilities amounted to HRK 16,682.2 million, which represents 62.1 percent of total liabilities and total equity. The major part of total liabilities consists of HBOR's foreign borrowings and debt securities issued in the total amount of HRK 15,194.5 million.

Borrowings and debt securities issued decreased by 5.2 percent compared with the beginning of the year, whereas changes in these liabilities are shown in the following table:

	(HRK millions)
- Draw-down of funds borrowed under previously contracted funds of special financial institutions	1,576.1
- Repayments of borrowings	(2,336.5)
- Foreign exchange gains or losses	(44.3)
- Other calculations*	(29.4)
<b>Total changes</b>	<b>(834.1)</b>

\*Other calculations relate to the changes in discount, amount of interest not due and deferred fees.

### ***Total equity***

Total equity amounted to HRK 10,172.6 million, representing 37.9 percent of total liabilities and total equity.

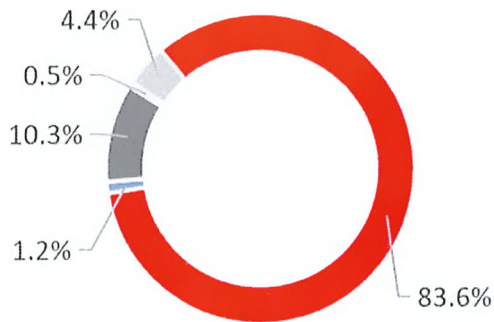
Total equity of HBOR is comprised of the capital and the guarantee fund. HBOR's capital is comprised of founder's capital contributed from the budget of the Republic of Croatia, retained earnings from the profits generated in the previous years, other reserves and profits for the current period.

In the reporting period, the amount of HRK 25.0 million was contributed from the budget of the Republic of Croatia into the founder's capital. The total amount of capital contributed from the budget of the Republic of Croatia stood at HRK 6,658.0 million, and the remaining amount to be contributed to the founder's capital up to the total amount of HRK 7,000.0 million set by the HBOR Act is HRK 342.0 million.



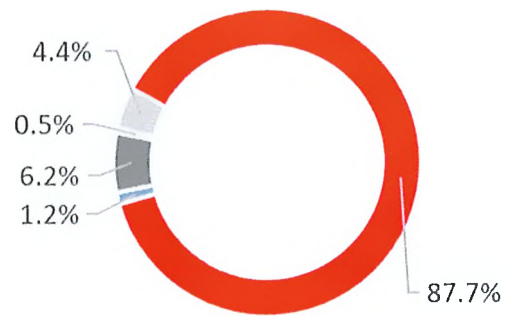
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31 December 2018

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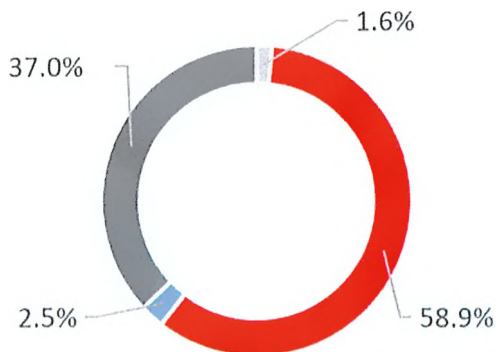
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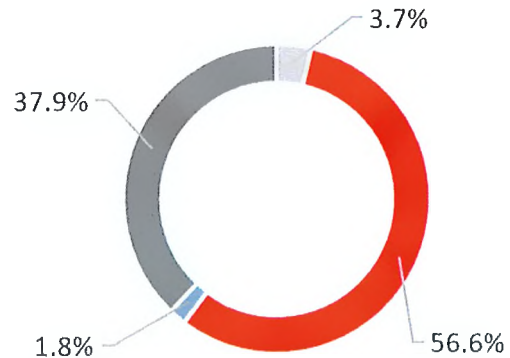
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31 December 2018

- Deposits from customers
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30 June 2019

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