



HRVATSKA BANKA ZA OBNOVU I RAZVITAK

SEMI-ANNUAL REPORT

FOR THE PERIOD 1 JANUARY – 30 JUNE 2021

Zagreb, August 2021



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 2021 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


Tamara Perko, MSc



Member of the Management Board


Hrvoje Čuvalo, MSc

Zagreb, 27 August 2021

MANAGEMENT REPORT FOR THE PERIOD

1 JANUARY – 30 JUNE 2021

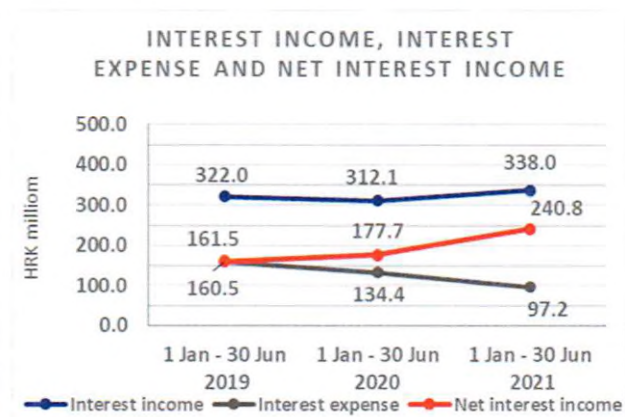
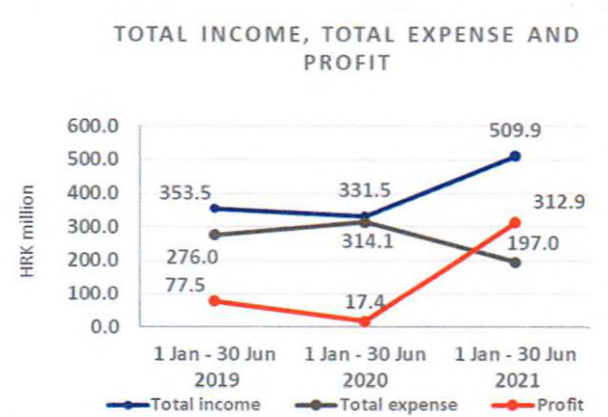
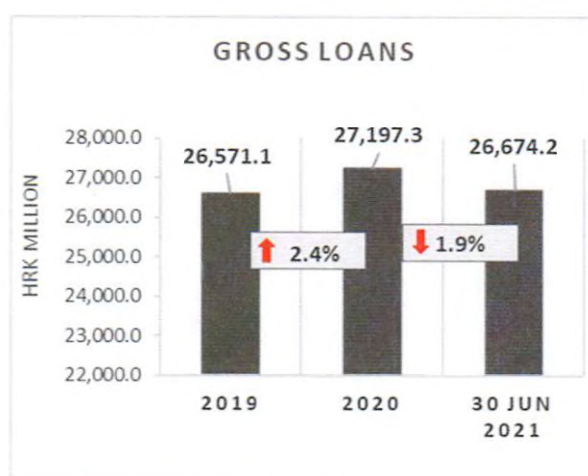
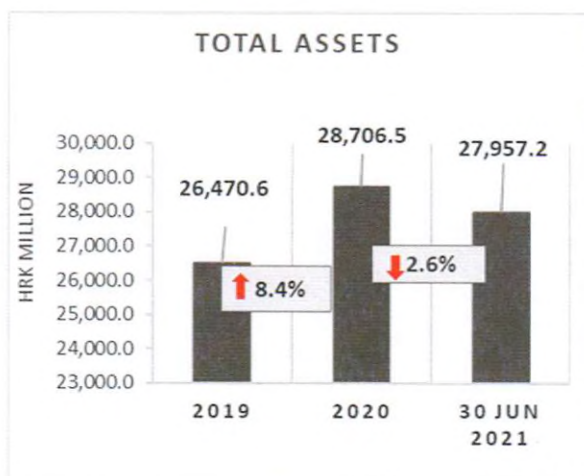
RESULTS OF THE GROUP



BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INFORMATION OF HBOR GROUP

-HRK million-

	31 December 2019	31 December 2020	30 June 2021
Total assets	26,470.6	28,706.5	27,957.2
Gross loans	26,571.1	27,197.3	26,674.2
Total equity	10,274.6	10,363.7	10,665.2
	1 January – 30 June 2019	1 January – 30 June 2020	1 January – 30 June 2021
Total income	353.5	331.5	509.9
Total expense	276.0	314.1	(197.0)
Profit	77.5	17.4	312.9
Interest income	322.0	312.1	338.0
Interest expense	160.5	134.4	(97.2)
Net interest income	161.5	177.7	240.8



Results of the Group

In the period 1 January – 30 June 2021, the HBOR Group generated profit after tax in the amount of HRK 312.9 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 2021, total income on consolidated basis amounted to HRK 509.9 million, whereas total expenses amounted to HRK 197.0 million.

The consolidated total income increased by 53.8 percent, whereas total expenses decreased by 37.3 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. 66.3 percent, relates to interest income as a result of operations of the parent company.

The major part of total expenses, i.e. 49.4 percent, relates to interest expenses arising from the operations of the parent company.

The consolidated operating expenses in the period 1 January – 30 June 2021 amounted to HRK 92.0 million and consisted of general and administrative expenses and other operating expenses.

On 30 June 2021, the Group had 382 employees (on 30 June 2020: 387 employees).

Assets and liabilities of the Group

Total assets of the Group on consolidated basis amount to HRK 27,957.2 million, a decrease of 2.6 percent compared with the beginning of the year. The reasons for such tendency are stated in the description of HBOR's financial performance.

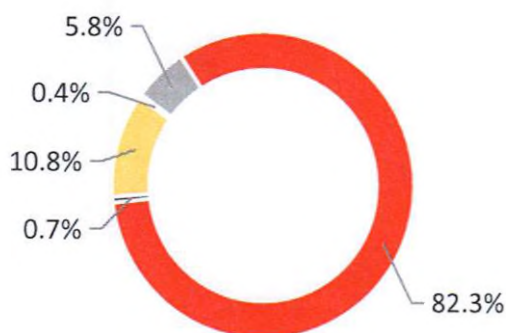
In the structure of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 83.6 percent of total assets.

Total liabilities and total equity as at 30 June 2021 amount to HRK 27,957.2 million, of which amount total liabilities equal HRK 17,292.0 million, i.e. 61.9 percent.

In total liabilities and total equity of the Group, the major portion, i.e. 56.7 percent, consists of borrowings of the parent company.

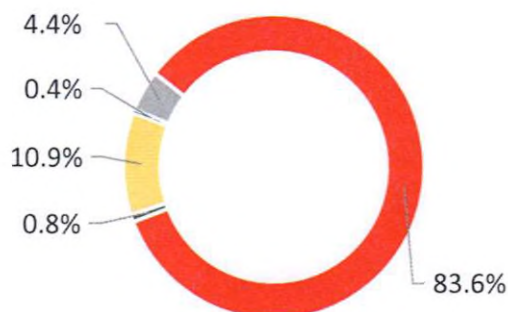
At the end of the reporting period, total equity on consolidated basis amounted to HRK 10,665.2 million and accounted for 38.1 percent of total liabilities and total equity of the Group.

TOTAL ASSETS
31 December 2020



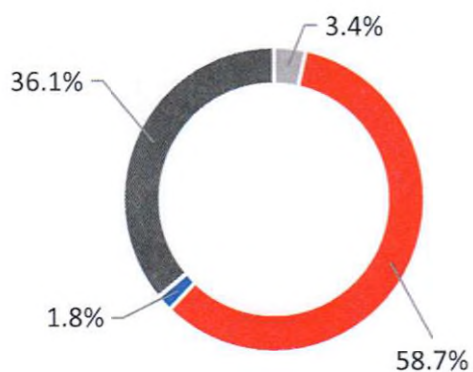
- Cash on hand and deposits with other banks
- Total loans, net
- Financial assets at FVPL
- Financial assets at FVOCI
- Other assets*

TOTAL ASSETS
30 June 2021



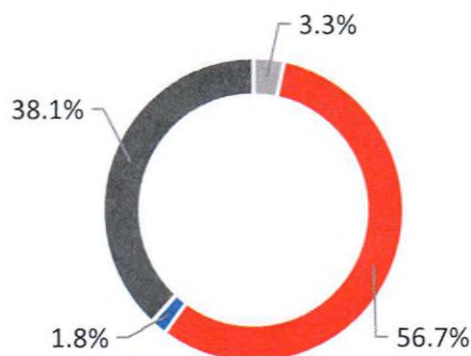
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- Total loans, net
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- Other assets*

TOTAL LIABILITIES AND TOTAL EQUITY
31 December 2020



- Deposits from customers
- Borrowings
- Other liabilities and provisions**
- Total equity

TOTAL LIABILITIES AND TOTAL EQUITY
30 June 2021



- Deposits from customers
- Borrowings
- 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.

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 2021, HBOR generated total income of HRK 504.0 million, expenses of HRK 191.6 million and profit in the amount of HRK 312.4 million. HBOR's profit generated in the reporting period increased by HRK 296.4 million compared with the profit generated in the same period last year.

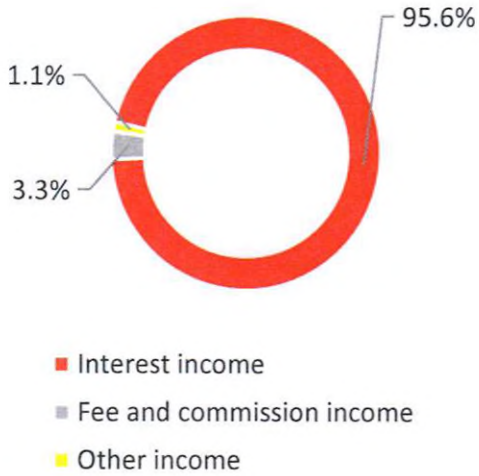
The increase in profit in the period from 1 January to 30 June 2021 compared with the same period last year is a result of an increase in total income by HRK 178.0 million and a decrease in total expenses by HRK 118.4 million.

The circumstances that affected the financial result achieved in the six-month reporting period 2021 compared to the results generated in the same period in 2020 are:

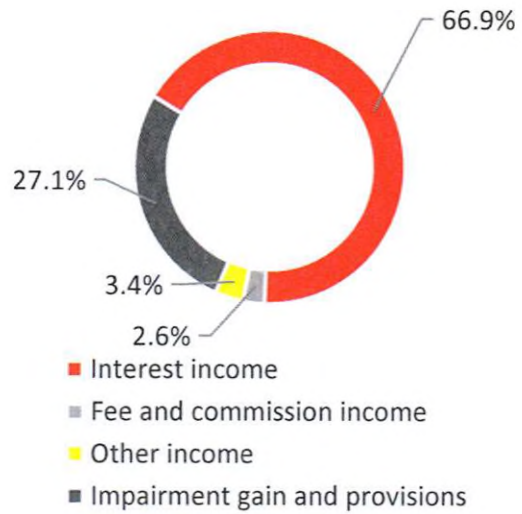
- (+) increase in interest income of HRK 25.9 million, i.e. by 8.3 percent,
- (+) decrease in interest expenses of HRK 37.1 million, i.e. by 27.6 percent,
- (-) decrease in net income from fees and commissions of HRK 0.7 million, i.e. by 6.4 percent,
- (+) decrease in net loss from financial activities in the amount of HRK 7.1 million,
- (+) increase in other income of HRK 13.3 million,
- (+) realised profit from impairment and provisions, i.e. decrease in impairment loss and provisions by HRK 230.0 million compared to the same period in 2020,
- (-) increase in operating expenses of HRK 16.3 million, i.e. by 23.1 percent.

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

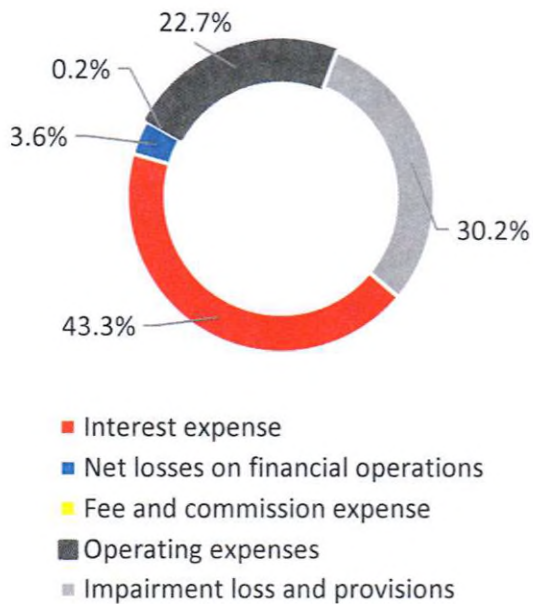
TOTAL INCOME
1 January - 30 June 2020



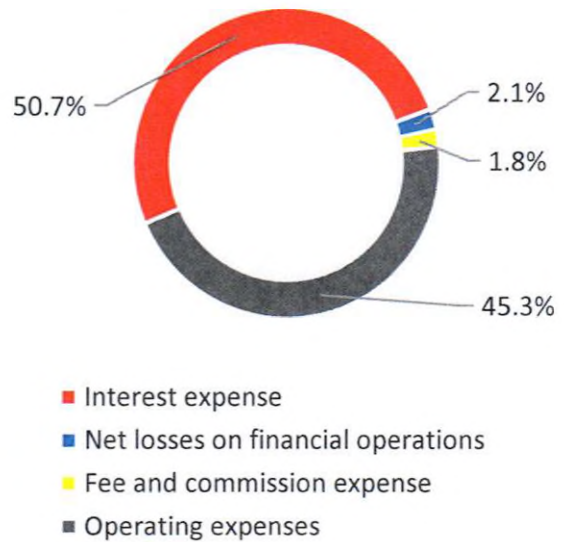
TOTAL INCOME
1 January - 30 June 2021



TOTAL EXPENSE
1 January - 30 June 2020



TOTAL EXPENSE
1 January - 30 June 2021



Net interest income

Net interest income amounted to HRK 240.2 million, an increase of 35.5 percent on the same period of the previous reporting year.

Interest income amounted to HRK 337.4 million, an increase of 8.3 percent on the same reporting period last year due to the one-time effect of the implementation of the debtor's pre-bankruptcy settlement and significant amount of premature loan repayments.

Interest expenses amounted to HRK 97.2 million, a decrease of 27.6 percent on the same reporting period last year, due to the repayment of loans and bonds payable (payment of bonds in May 2020).

Given the described trends, the decrease in interest expenses and the increase in interest income affected the increase in net interest margin compared to the same reporting period of the previous year that amounts to 1.70 percent, while in the same period of the previous year it amounted to 1.32 percent.

Net fee income and commission income

Net fee and commission income amounted to HRK 9.4 million, a decrease of 6.4 percent compared with the same reporting period last year due to a larger increase in fee and commission expenses (by HRK 2.9 million) compared to the increase in fee and commission income (by HRK 2.2 million).

Net gains/(losses) on financial operations

Net gains/(losses) on financial operations 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 losses from financial activities amounted to HRK 4.1 million, whereas, in the same reporting period previous year, net losses amounted to HRK 11.2 million.



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



Note:

A_1 = HRK appreciation 30.6.2021/31.12.2020

A_2 = HRK appreciation 30.6.2021/30.6.2020

D_1 = HRK depreciation 30.6.2021/31.12.2020

A_2 = HRK appreciation 30.6.2021/30.6.2020

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 Profit or Loss Account in net figures.

Operating expenses

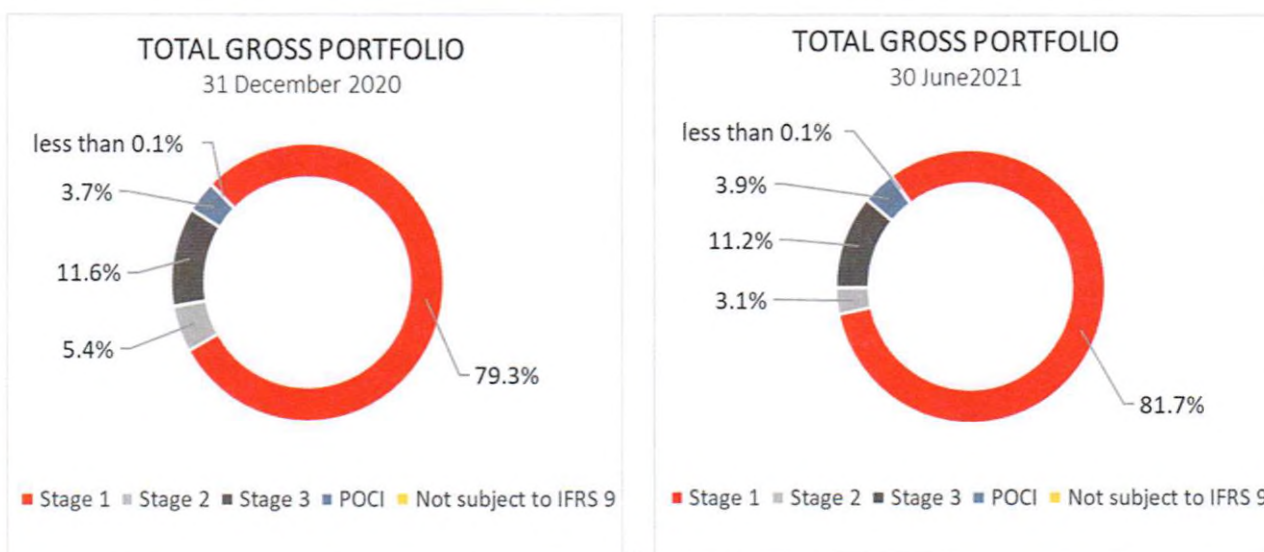
Operating expenses that include general and administrative expenses and other operating expenses stood at HRK 86.8 million, an increase of 23.1 percent compared with the same reporting period last year, mainly due to an increase in other expenses in the amount of HRK 12.0 million as a result of recalculation and write-offs under financial instruments.

On 30 June 2021, HBOR had 362 employees (on 30 June 2020: 366 employees).

Impairment gain/(loss) and provisions

In the reporting period, a net gain from impairment of placements in the amount of HRK 136.6 million was recorded (in the period 1 January – 30 June 2020: net loss in the amount of HRK 93.4 million), being the result of premature loan repayment.

The text to follow contains a breakdown of portfolio quality:



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	31 December 2020		30 June 2021	
	In HRK millions	Breakdown (percent)	In HRK millions	Breakdown (percent)
Total gross portfolio	37,401.3	100.0	36,611.8	100.0
Of which:				
- financial institutions	13,728.6	36.7	11,623.0	31.7
- direct	23,672.7	63.3	24,988.8	68.3
Total provisions	3,640.1	100.0	3,437.6	100.0
Of which:				
- financial institutions	92.9	2.6	77.1	2.2
- direct	3,547.2	97.4	3,360.5	97.8
Provisions/gross portfolio	9.7 percent	-	9.4 percent	-

Significant changes in financial position

Total assets of HBOR as at 30 June 2021 amounted to HRK 27,929.8 million, a decrease of 2.6 percent compared with 31 December 2020 due to deleveraging on loan obligations and premature loan repayments.

Cash on hand and deposits with other banks

As at 30 June 2021, cash on hand and deposits with other banks amounted to HRK 1,218.0 million representing 4.4 percent of total assets, a decrease of 26.6 percent compared with 31 December 2020 as a result of spending liquidity reserve funds for debt repayments.

Loans to financial institutions and other customers

As at 30 June 2021, total net loans amounted to HRK 23,364.5 million representing 83.7 percent of total assets, a decrease 1.2 percent on the beginning of the year.

Total gross loans amounted to HRK 26,674.2 million, a decrease of 1.9 percent compared with 31 December 2020. Gross loans to other customers increased by 3.6 percent compared with the end of 2020. Gross loans to financial institutions decreased by 13.3 percent compared with the end of 2020.

As at 30 June 2021, the proportion between gross loans on-lent through financial institutions and direct placements stood at 29 percent : 71 percent (31 December 2020: 33 percent : 67 percent).

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 and a part of equity instruments are classified to these assets. As at 30 June 2021, the total amount of these assets was HRK 219.2 million representing 0.8 percent of total assets.

Financial assets at fair value through other comprehensive income

a) Debt instruments

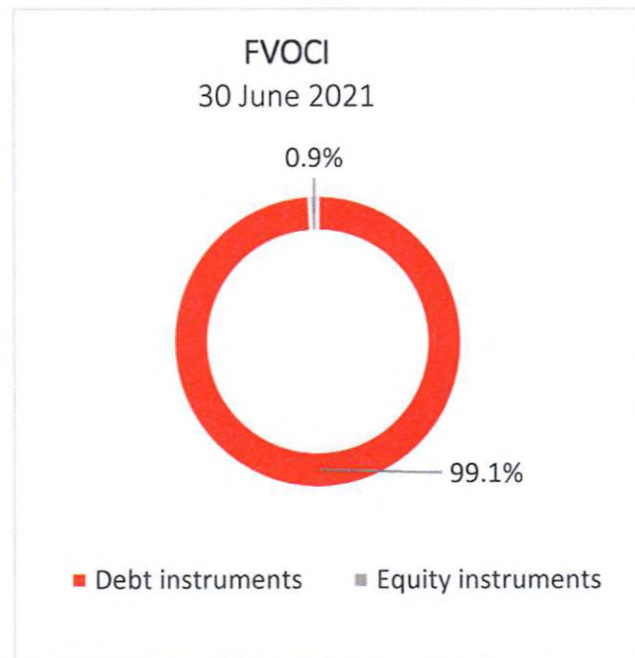
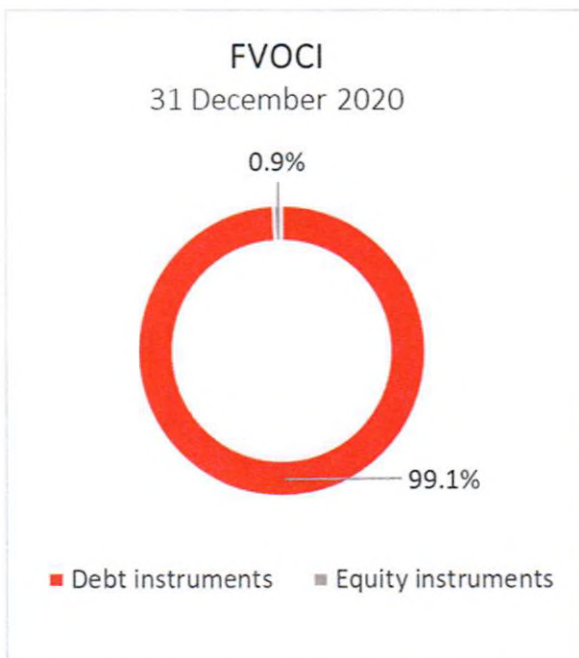
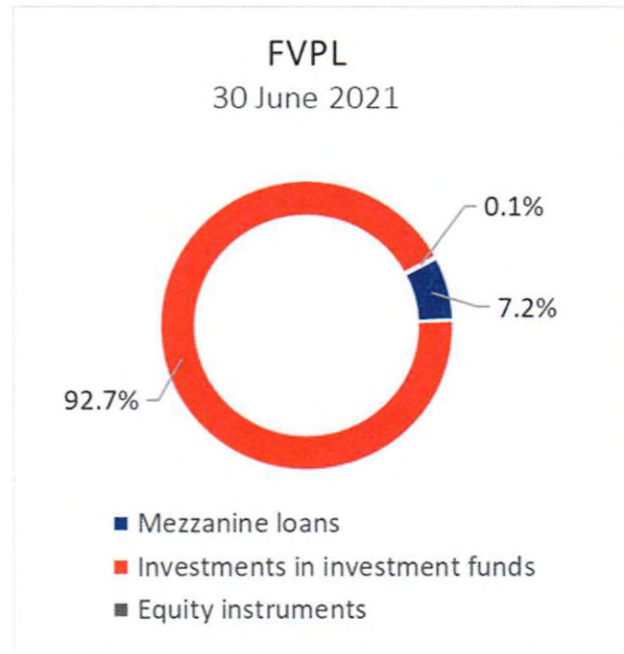
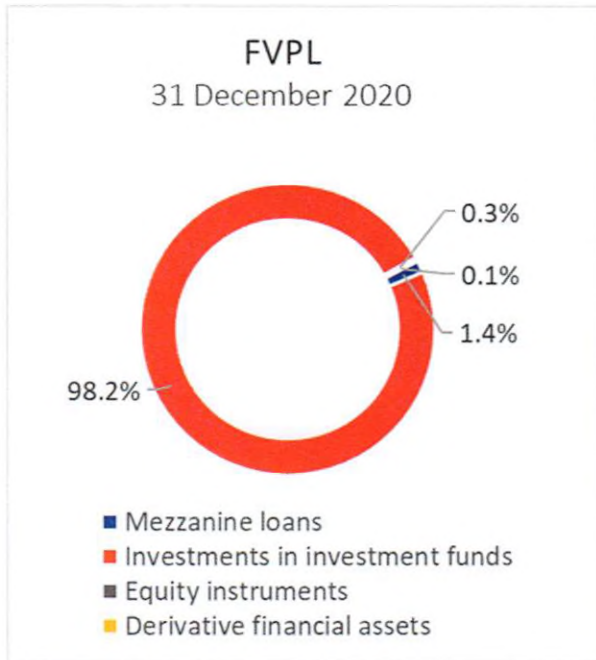
Bonds of the Republic of Croatia and treasury bills of the Ministry of Finance as part of liquidity reserve as well as bonds of a company are classified to these assets. On the reporting date, they amounted to HRK 2,967.2 million, representing 10.6 percent of total assets and recorded a decrease compared to the beginning of the year by 2.0 percent.

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 4.5 million in other reserves.

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 26.4 million, representing 0.1 percent of total assets.



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Total liabilities

As at 30 June 2021, total liabilities amounted to HRK 17,273.6 million, which represents 61.9 percent of total liabilities and total equity. The major part of total liabilities consists of HBOR's foreign borrowings in the total amount of HRK 15,860.0 million.

Borrowings decreased by 6.0 percent compared with the beginning of the year, whereas changes in these liabilities are shown in the following table:

	(in HRK millions)
- Draw-down of funds borrowed under previously contracted funds of special financial institutions	346.4
- Repayments of borrowings and bonds payable	(1,266.9)
- Foreign exchange gains or losses	(82.9)
- Other calculations *	(0.5)
Total changes	1,003.9

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

In 2021, HBOR continued to raise funds, and on 7 June 2021, a loan agreement was concluded with the World Bank for the HEAL Croatia Project (Helping Enterprises Access Liquidity) in the amount of EUR 200.0 million. The funds will be used to provide liquidity and financial restructuring to firms that have been hit by the COVID-19 pandemic.

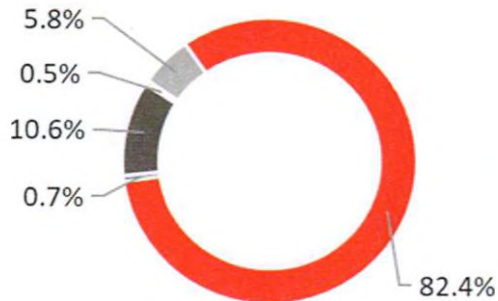
Total equity

Total equity amounted to HRK 10,656.2 million, representing 38.2 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.

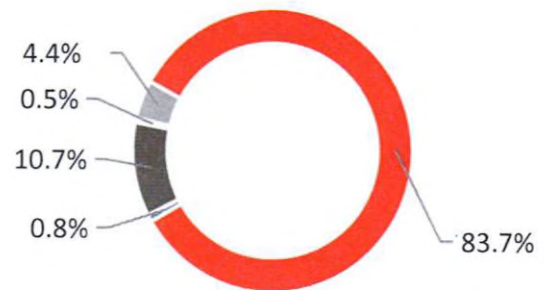
In the period from 1 January to 30 June 2021 there were no payments from the State Budget of the Republic of Croatia to the founder's capital of HBOR. The total amount of capital contributed from the budget of the Republic of Croatia stood at HRK 6,708.0 million, and the remaining amount to be contributed to the founder's capital up to the total amount of HRK 7,000.0 million set by the HBOR Act is HRK 292.0 million.

TOTAL ASSETS
31 December 2020



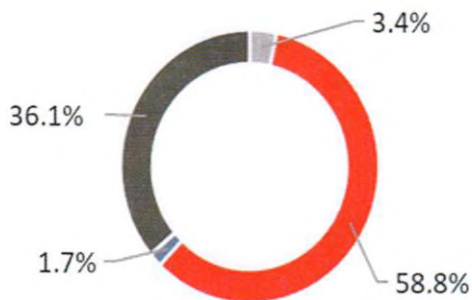
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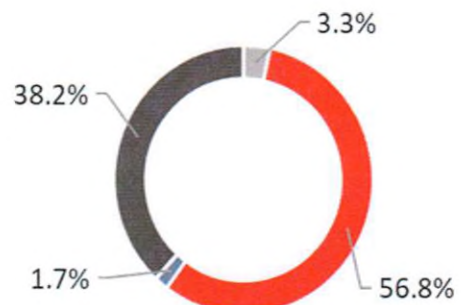
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TOTAL LIABILITIES AND TOTAL EQUITY
31 December 2020



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TOTAL LIABILITIES AND TOTAL EQUITY
30 June 2021



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