



HRVATSKA BANKA ZA OBNOVU I RAZVITAK

REPORT ON FINANCIAL PERFORMANCE
FOR THE PERIOD 1 JANUARY – 30 SEPTEMBER 2021

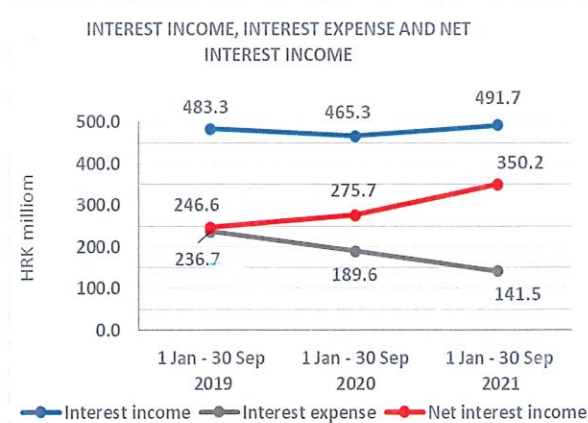
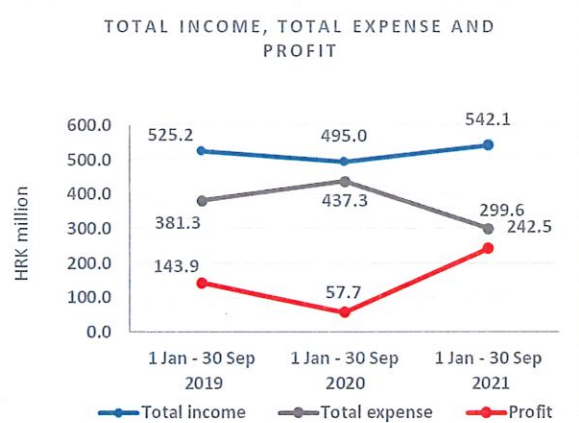
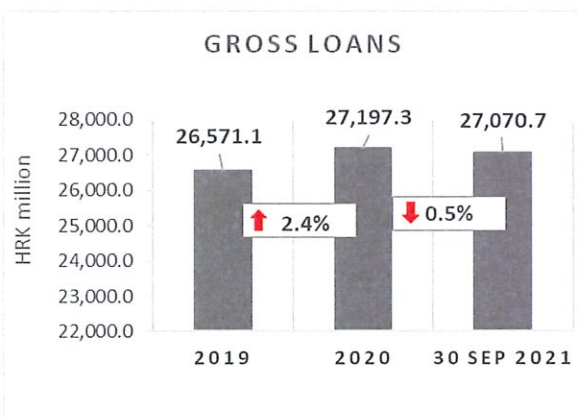
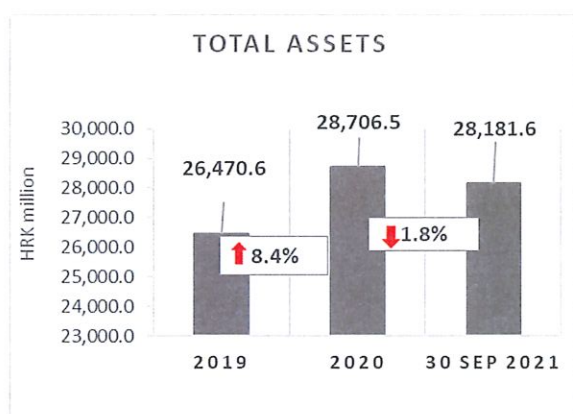
Zagreb, November 2021

RESULTS OF THE GROUP

BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INFORMATION OF HBOR GROUP

-HRK million-

	31 December 2019	31 December 2020	30 September 2021
Total assets	26,470.6	28,706.5	28,181.6
Gross loans	26,571.1	27,197.3	27,070.7
Total equity	10,274.6	10,363.7	10,613.9
	1 January – 30 June 2019	1 January – 30 June 2020	1 January – 30 September 2021
Total income	525.2	495.0	542.1
Total expense	(381.3)	(437.3)	(299.6)
Profit	143.9	57.7	242.5
Interest income	483.3	465.3	491.7
Interest expense	(236.7)	(189.6)	(141.5)
Net interest income	246.6	275.7	350.2



Results of the Group

In the period 1 January – 30 September 2021, the HBOR Group generated profit after tax in the amount of HRK 242.5 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 September 2021, total income on consolidated basis amounted to HRK 542.1 million, whereas total expenses amounted to HRK 299.6 million.

The consolidated total income increased by 9.5 percent, whereas total expenses decreased by 31.5 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. 90.7 percent, relates to interest income as a result of operations of the parent company.

The major part of total expenses, i.e. 47.2 percent, relates to interest expenses arising from the operations of the parent company.

The consolidated operating expenses in the period 1 January – 30 September 2021 amounted to HRK 141.70 million and consisted of general and administrative expenses and other operating expenses.

On 30 September 2021, the Group had 386 employees (on 30 September 2020: 389 employees).

Assets and liabilities of the Group

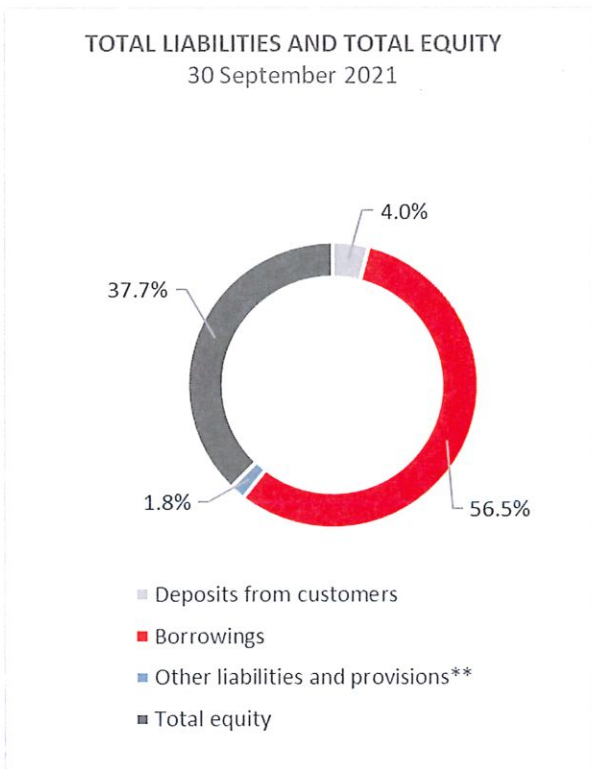
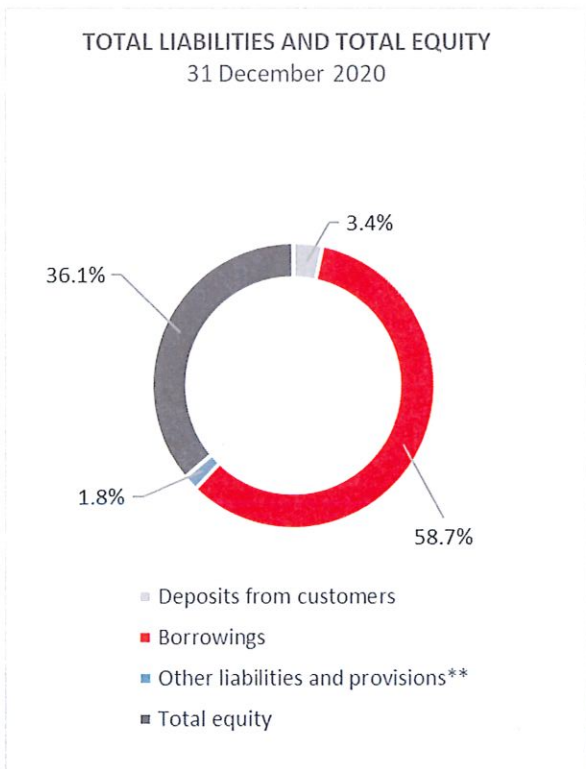
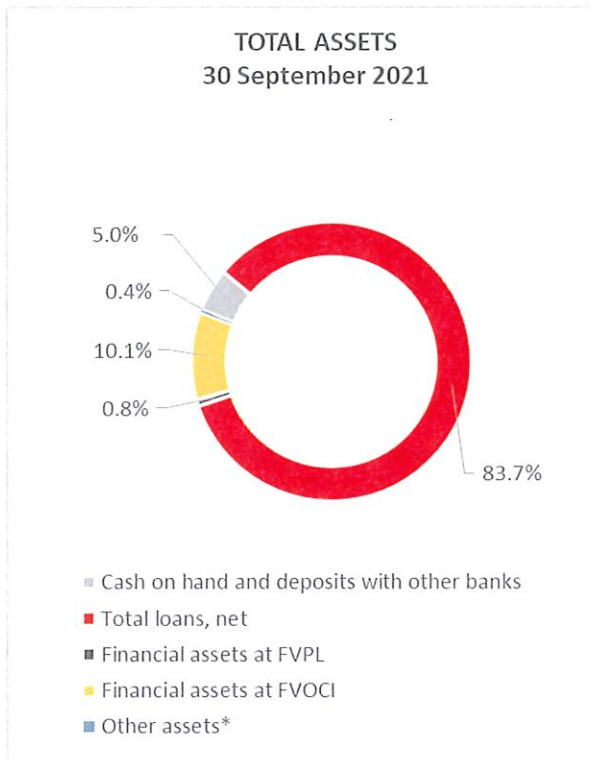
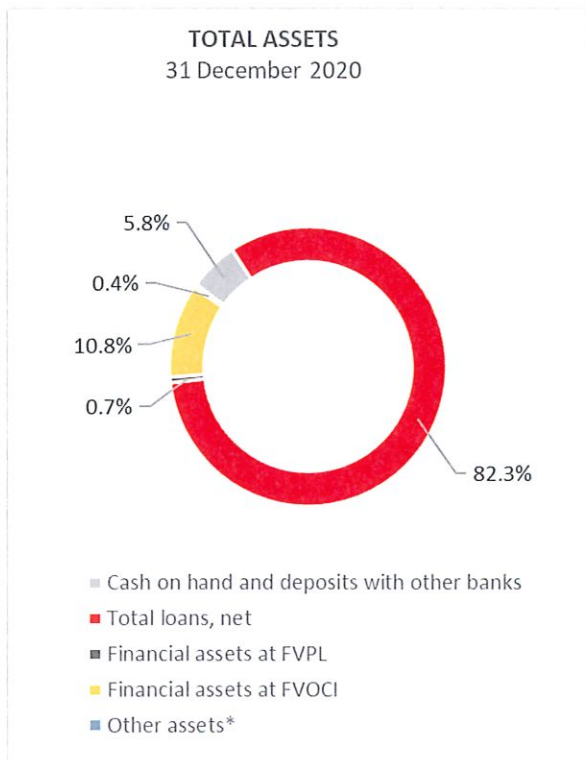
Total assets of the Group on consolidated basis amount to HRK 28,181.6 million, a decrease of 1.8 percent compared with the beginning of the year. The reasons for such tendency are stated in the description of HBOR's financial performance.

In the structure of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 83.7 percent of total assets.

Total liabilities and total equity as at 30 September 2021 amount to HRK 28,181.6 million, of which amount total liabilities equal HRK 17,567.7 million, i.e. 62.3 percent.

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

At the end of the reporting period, total equity on consolidated basis amounted to HRK 10,613.9 million and accounted for 37.7 percent of total liabilities and total equity of the Group.



*Property, plant and equipment and intangible assets, Foreclosed assets and Other assets.

**Other liabilities and Provisions 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 September 2021, HBOR generated total income of HRK 533.0 million, expenses of HRK 292.2 million and profit in the amount of HRK 240.8 million. HBOR's profit generated in the reporting period increased by HRK 185.5 million compared with the profit generated in the same period last year.

The increase in profit in the period from 1 January to 30 September 2021 compared with the same period last year is a result of an increase in total income by HRK 46.4 million and a decrease in total expenses by HRK 139.1 million.

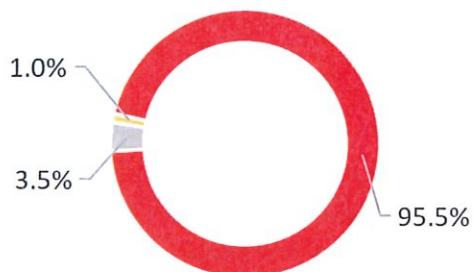
The circumstances that affected the financial result achieved in the nine-month reporting period 2021 compared to the results generated in the same period in 2020 are:

- (+) increase in interest income of HRK 26.2 million, i.e. by 5.6 percent,
- (+) decrease in interest expenses of HRK 48.2 million, i.e. by 25.4 percent,
- (+) increase in net income from fees and commissions of HRK 1.4 million, i.e. by 9.1 percent,
- (-) increase in net loss from financial activities in the amount of HRK 2.9 million,
- (+) increase in other income of HRK 15.5 million,
- (+) decrease in net impairment loss and provisions by HRK 125.6 million compared to the same period in 2020,
- (-) increase in operating expenses of HRK 28.5 million, i.e. by 26.9 percent.

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

TOTAL INCOME

1 January - 30 September 2020



- Interest income
- Fee and commission income
- Other income

TOTAL INCOME

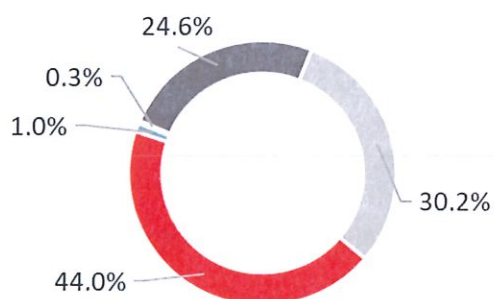
1 January - 30 September 2021



- Interest income
- Fee and commission income
- Other income

TOTAL EXPENSE

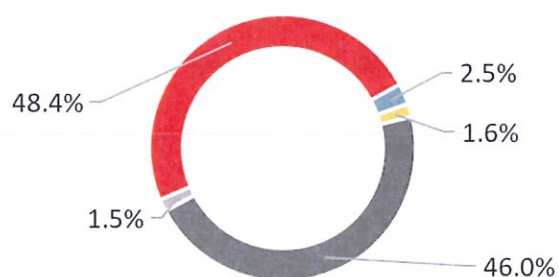
1 January - 30 September 2020



- Interest expense
- Net losses on financial operations
- Fee and commission expense
- Operating expenses
- Impairment loss and provisions

TOTAL EXPENSE

1 January - 30 September 2021



- Interest expense
- Net losses on financial operations
- Fee and commission expense
- Operating expenses
- Impairment loss and provisions

Net interest income

Net interest income amounted to HRK 340.3 million, an increase of 27.1 percent on the same period of the previous reporting year.

Interest income amounted to HRK 490.7 million, an increase of 5.6 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 141.4 million, a decrease of 25.4 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 1.6 percent, while in the same period of the previous year it amounted to 1.3 percent.

Net fee income and commission income

Net fee and commission income amounted to HRK 16.8 million and is higher by 9.1 percent compared with the same reporting period previous year, which is the result of an increase in fee and commission income on the basis of transactions on behalf or for the account and on the basis of guarantees issued.

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 7.4 million, whereas, in the same reporting period previous year, net losses amounted to HRK 4.5 million.



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



Note:

A_1 = HRK appreciation 30.9.2021/31.12.2020
 A_2 = HRK appreciation 30.9.2021/30.9.2020

D_1 = HRK depreciation 30.9.2021/31.12.2020
 A_2 = HRK appreciation 30.9.2021/30.9.2020

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.

Other income

Other income amounted to HRK 20.8 million and was by 292.5% higher compared to the same period previous year (in the period from 1 January to 30 September 2020 = HRK 5.3 million), which is mostly the result of pre-invoiced costs paid.

Operating expenses

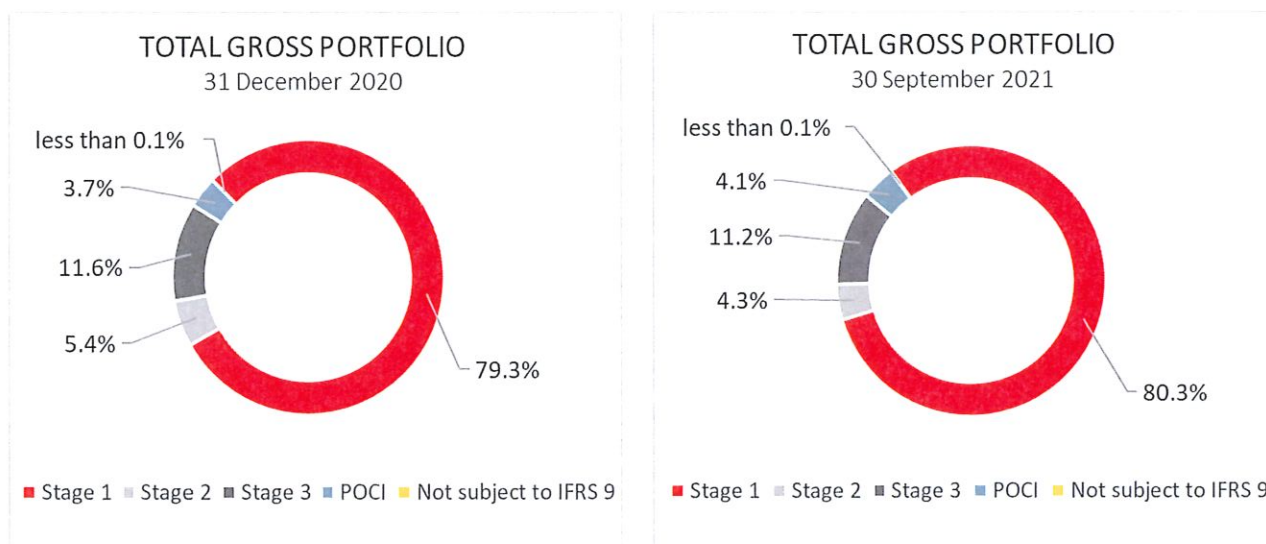
Operating expenses that include general and administrative expenses and other operating expenses stood at HRK 134.4 million, an increase of 26.9 percent compared with the same reporting period last year, mainly due to an increase in other expenses by HRK 11.1 million as a result of recalculation and administration expenses by HRK 9.9 million.

On 30 September 2021, HBOR had 366 employees (on 30 September 2020: 368 employees).

Impairment gain/(loss) and provisions

In the reporting period, a net loss from impairment of placements in the amount of HRK 4.3 million was recorded (in the period 1 January – 30 September 2020: net loss in the amount of HRK 129.9 million).

The text to follow contains a breakdown of portfolio quality:



	31 December 2020		30 September 2021	
	In HRK millions	Breakdown (percent)	In HRK millions	Breakdown (percent)
Total gross portfolio	37,401.3	100.0	36,271.7	100.0
Of which:				
- financial institutions	13,728.6	36.7	11,201.2	30.9
- direct	23,672.7	63.3	25,070.5	69.1
Total provisions	3,640.1	100.0	3,580.7	100.0
Of which:				
- financial institutions	92.9	2.6	70.6	2.0
- direct	3,547.2	97.4	3,510.1	98.0
Provisions/gross portfolio	9.7 percent	-	9.9 percent	-

Significant changes in financial position

Total assets of HBOR as at 30 September 2021 amounted to HRK 28,150.5 million, a decrease of 1.8 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 September 2021, cash on hand and deposits with other banks amounted to HRK 1,400.7 million representing 5.0 percent of total assets, a decrease of 15.6 percent compared with 31 December 2020 as a result of repayment of borrowings and disbursements under lending activities.

Loans to financial institutions and other customers

As at 30 September 2021, total net loans amounted to HRK 23,586.4 million representing 83.8 percent of total assets and were retained at the level of realisation for 2020.

Total gross loans amounted to HRK 27,070.7 million, a decrease of 0.5 percent compared with 31 December 2020. Gross loans to other customers increased by 6.7 percent compared with the end of 2020. Gross loans to financial institutions decreased by 15.1 percent compared with the end of 2020.

As at 30 September 2021, the proportion between gross loans on-lent through financial institutions and direct placements stood at 28 percent : 72 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 September 2021, the total amount of these assets was HRK 224.0 million representing 0.8 percent of total assets.

Financial assets at fair value through other comprehensive income

a) Debt instruments

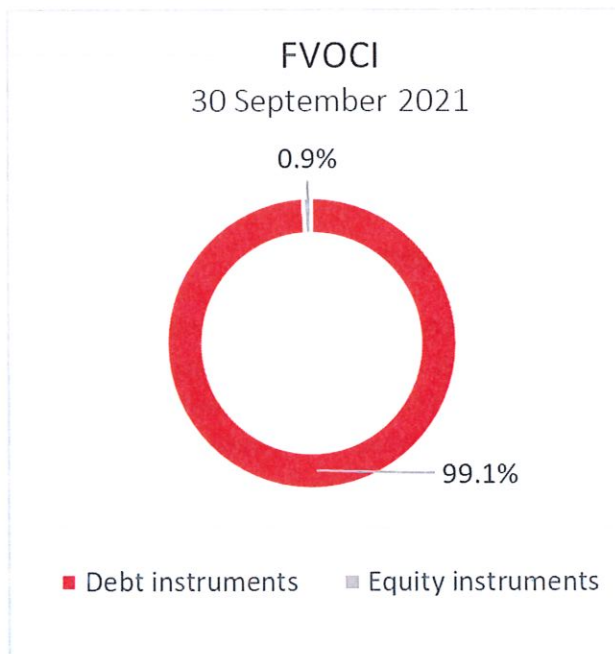
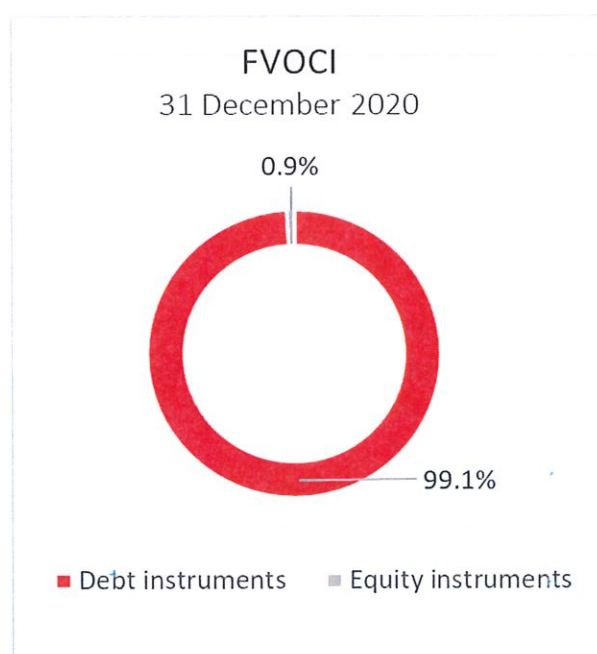
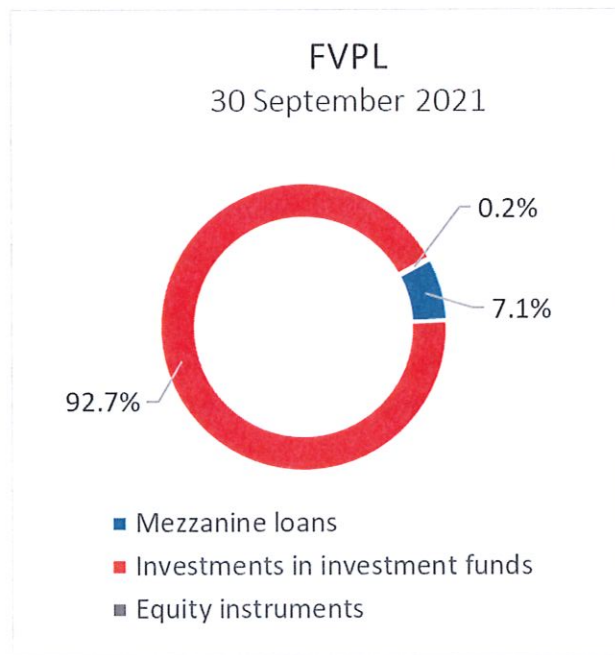
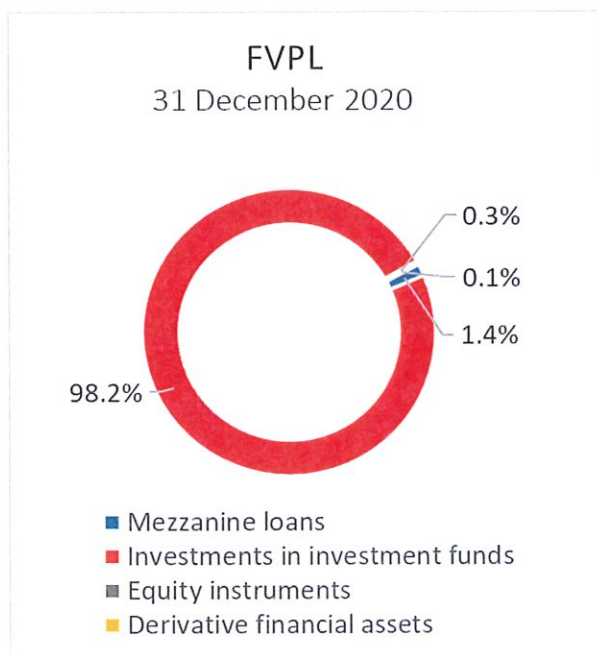
Bonds of the Republic of Croatia and treasury bills of the Ministry of Finance as part of liquidity reserve as well as bonds of a company are classified to these assets. On the reporting date, they amounted to HRK 2,775.5 million, representing 9.9 percent of total assets and recorded a decrease compared to the beginning of the year by 8.3 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 4.3 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.



Total liabilities

As at 30 September 2021, total liabilities amounted to HRK 17,546.8 million, which represents 62.3 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 15,930.5 million.

Borrowings decreased by 5.5 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	939.7
- Repayments of borrowings and bonds payable	(1,811.3)
- Foreign exchange gains or losses	(71.3)
- Other calculations *	9.4
Total changes	933.5

* Other calculations relate to the amount of interest not due and deferred fees.

In 2021, HBOR continued to raise funds, and on 7 September 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.

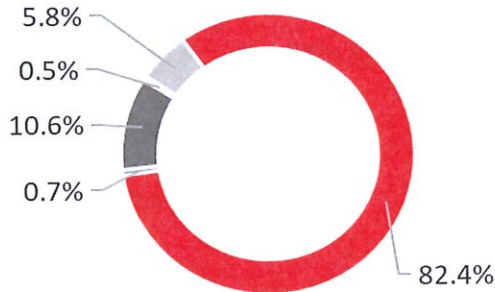
Total equity

Total equity amounted to HRK 10,603.7 million, representing 37.7 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.

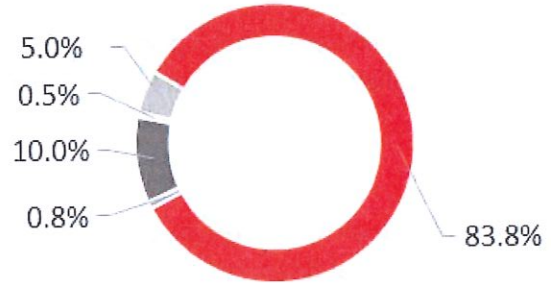
In the reporting period the amount of HRK 25.0 million was contributed into the founder's capital from the budget of the Republic of Croatia. The total amount of capital contributed from the budget of the Republic of Croatia stood at HRK 6,733.0 million, and the remaining amount to be contributed to the founder's capital up to the total amount of HRK 7,000.0 million set by the HBOR Act is HRK 267.0 million.

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*

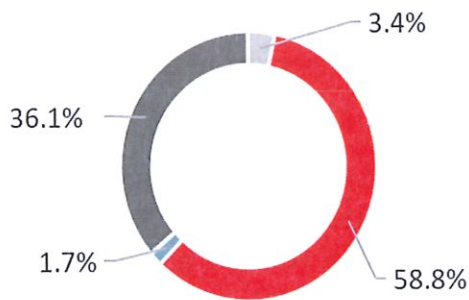
TOTAL ASSETS
30 September 2021



- 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

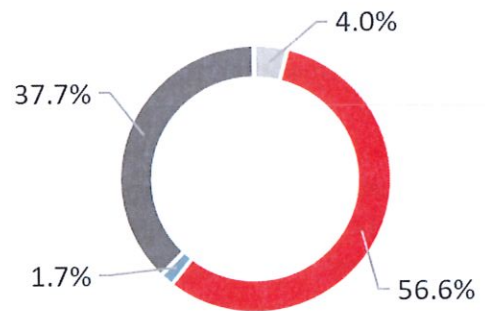
31 December 2020



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

TOTAL LIABILITIES AND TOTAL EQUITY

30 September 2021



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

*Investments in subsidiaries, Property, plant and equipment and intangible assets, Foreclosed assets and Other assets.

** Other liabilities and Provisions for guarantees, commitments and other liabilities