



PROACTIVELY SUPPORTING DEVELOPMENT FOR 30 YEARS

SEMI-ANNUAL REPORT

FOR THE PERIOD 1 JANUARY – 30 JUNE 2022

Zagreb, August 2022

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 2022 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 blue ink signature of Tamara Perko, consisting of a series of fluid, overlapping loops and lines.

Tamara Perko, MSc

Member of the Management Board

A blue ink signature of Hrvoje Čuvalo, featuring a large, prominent loop at the beginning followed by several horizontal, overlapping strokes.

Hrvoje Čuvalo, MSc

Zagreb, 26 August 2022

MANAGEMENT REPORT FOR THE PERIOD

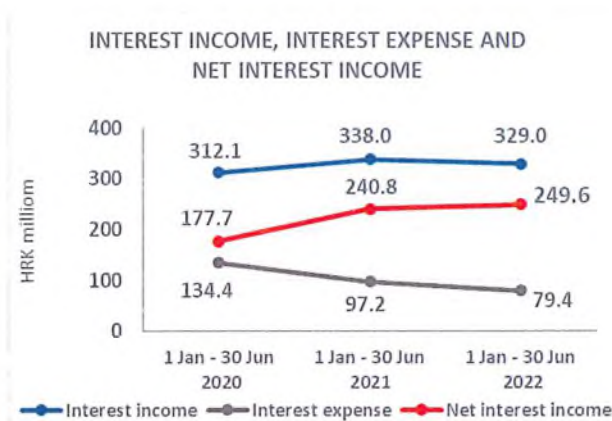
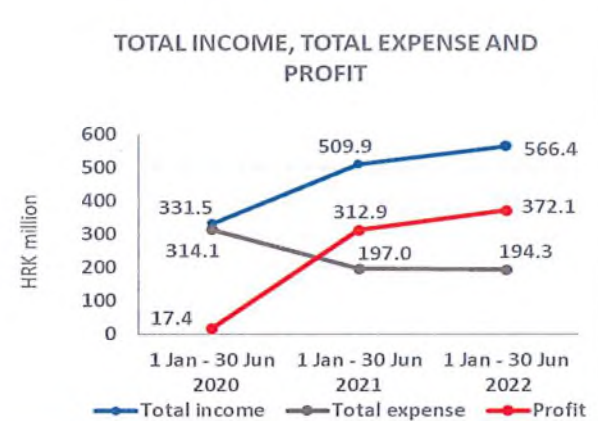
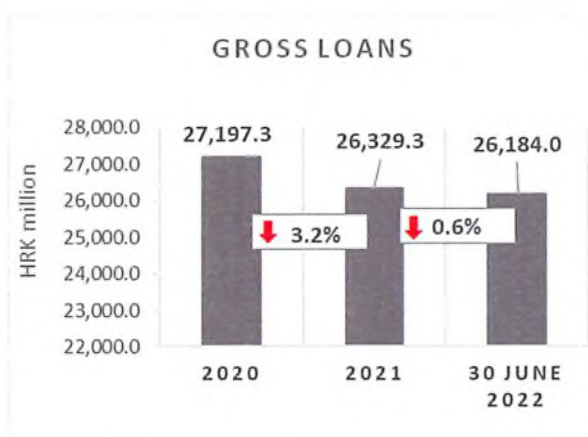
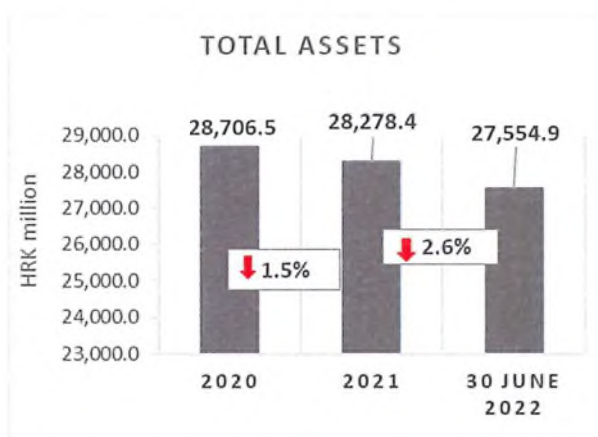
1 JANUARY – 30 JUNE 2022

RESULTS OF THE GROUP

BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INFORMATION OF HBOR GROUP

-HRK million-

	2020	2021	30 June 2022
Total assets	28,706.5	28,278.4	27,554.9
Gross loans	27,197.3	26,329.3	26,184.0
Total equity	10,363.8	10,576.8	10,902.7
	1 January – 30 June 2020	1 January – 30 June 2021	1 January – 30 June 2022
Total income	331.5	509.9	566.4
Total expense	(314.1)	(197.0)	(194.3)
Profit	17.4	312.9	372.1
Interest income calculated on the basis of effective interest rate method	312.1	338.0	329.0
Interest expense	(134.4)	(97.2)	(79.4)
Net interest income	177.7	240.8	249.6



Results of the Group

In the period 1 January – 30 June 2022, the HBOR Group generated profit after tax in the amount of HRK 372.1 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 2022, total income on consolidated basis amounted to HRK 566.4 million, whereas total expenses amounted to HRK 194.3 million.

The consolidated total income increased by 11.1 percent, whereas total expenses decreased by 1.4 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. 58.1 percent, relates to interest income as a result of operations of the parent company.

The major part of total expenses, i.e. 58.1 percent, relates to operating expenses arising from the operations of the parent company.

The consolidated operating expenses in the period 1 January – 30 June 2022 amounted to HRK 113.0 million and consisted of general and administrative expenses and other operating expenses.

On 30 June 2022, the Group had 392 employees (on 30 June 2021: 382 employees).

Assets and liabilities of the Group

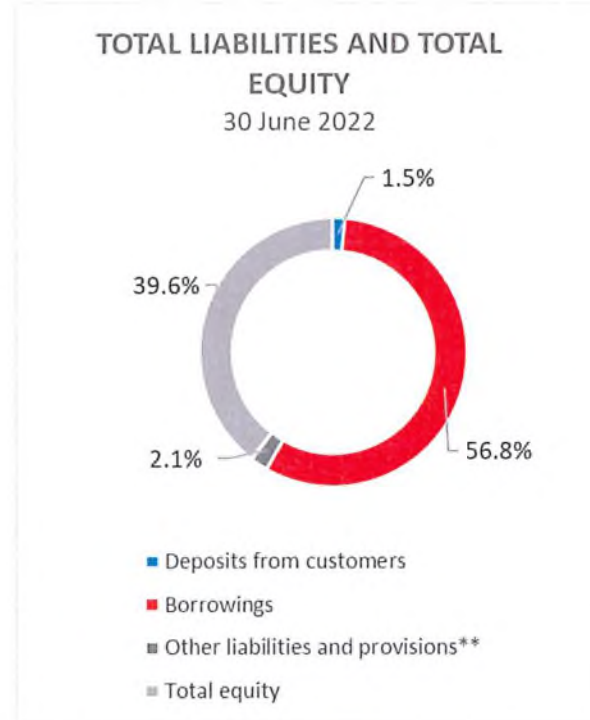
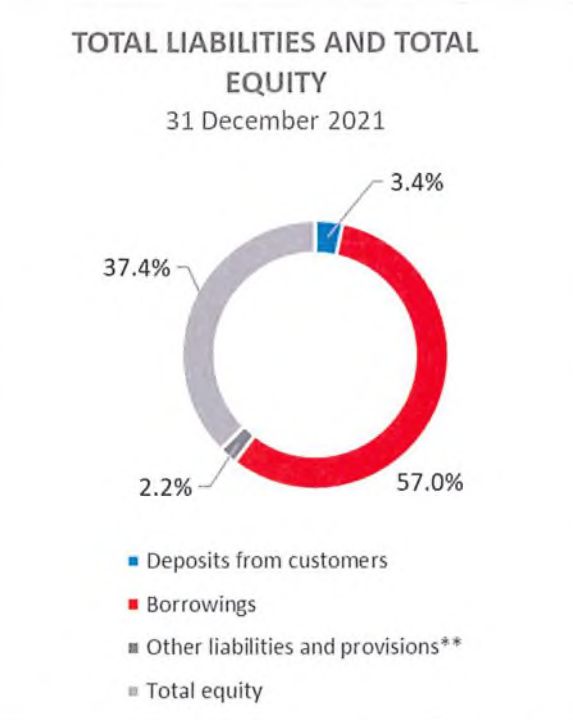
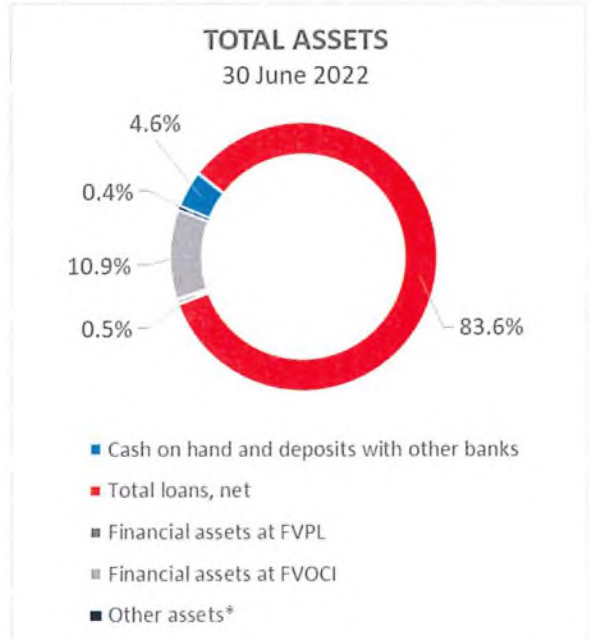
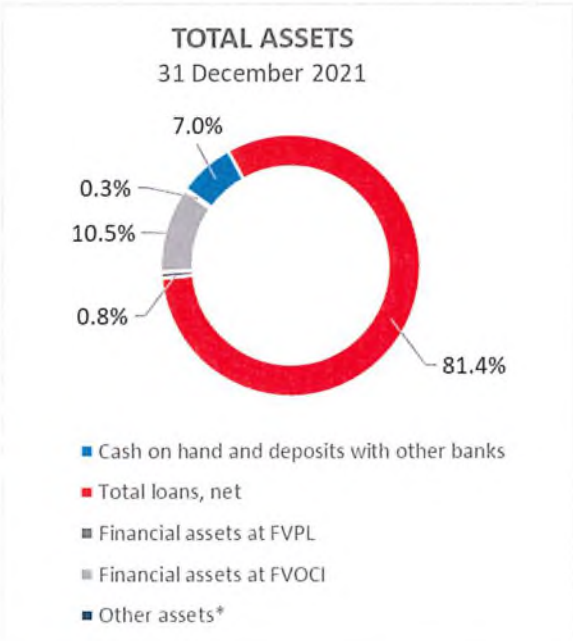
Total assets of the Group on consolidated basis amount to HRK 27,554.9 million, a decrease of 2.6 percent compared with the beginning of the year. The reasons for such tendency are stated in the description of HBOR's financial performance.

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 2022 amount to HRK 27,554.9 million, of which amount total liabilities equal HRK 16,652.2 million, i.e. 60.4 percent.

In total liabilities and total equity of the Group, the major portion, i.e. 56.8 percent, consists of borrowings of the parent company.

At the end of the reporting period, total equity on consolidated basis amounted to HRK 10,902.7 million and accounted for 39.6 percent of total liabilities and total equity of the Group.



*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 2022, HBOR generated total income of HRK 558.6 million, expenses of HRK 187.6 million and profit in the amount of HRK 371.0 million. HBOR's profit generated in the reporting period increased by HRK 58.6 million compared with the profit generated in the same period last year.

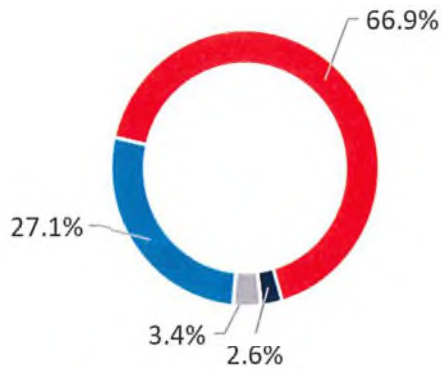
The increase in profit in the period from 1 January to 30 June 2022 compared with the same period last year is a result of an increase in total income by HRK 54.6 million and a decrease in total expenses by HRK 4.0 million.

The circumstances that affected the financial result achieved in the six-month reporting period 2022 compared to the results generated in the same period in 2021 are:

- (-) decrease in interest income of HRK 9.2 million, i.e. by 2.7 percent,
- (+) decrease in interest expenses of HRK 17.8 million, i.e. by 18.3 percent,
- (+) increase in net income from fees and commissions of HRK 1.1 million, i.e. by 11.7 percent,
- (+) increase in net gains from financial activities in the amount of HRK 22.1 million,
- (-) decrease in other income of HRK 9.4 million,
- (+) increase in impairment gain and provisions by HRK 55.7 million compared to the same period in 2021,
- (-) increase in operating expenses of HRK 19.5 million, i.e. by 22.5 percent.

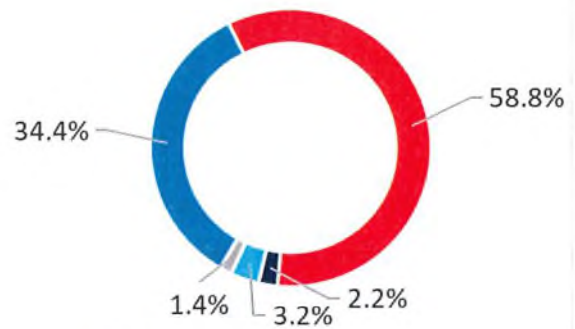
A detailed description of trends is given for each category separately in the following text.

TOTAL INCOME
1 January - 30 June 2021



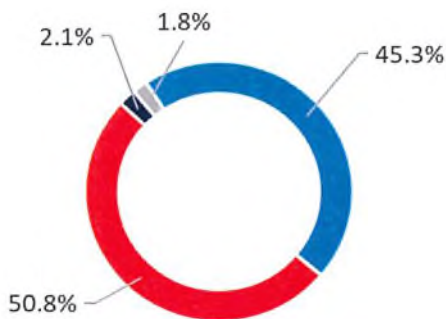
- Interest income
- Fee and commission income
- Other income
- Impairment gain and provisions

TOTAL INCOME
1 January - 30 June 2022



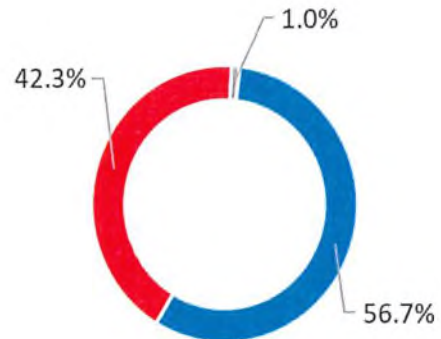
- Interest income
- Fee and commission income
- Net gains on financial operations
- Other income
- Impairment gain and provisions

TOTAL EXPENSE
1 January - 30 June 2021



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

TOTAL EXPENSE
1 January - 30 June 2022



- Interest expense
- Fee and commission expense
- Operating expenses

Net interest income

Net interest income amounted to HRK 248.8 million, an increase of 3.6 percent on the same period of the previous reporting year.

Interest income amounted to HRK 328.2 million, a decrease of 2.7 percent on the same reporting period last year.

Interest expenses amounted to HRK 79.4 million, an decrease of 18.3 percent on the same reporting period last year, due to the repayment of loans.

Given the described trends, a larger decrease in interest expenses than a decrease in interest income affected the increase in net interest margin compared to the same reporting period of the previous year that amounts to 1.8 percent, while in the same period of the previous year it amounted to 1.7 percent.

Net fee income and commission income

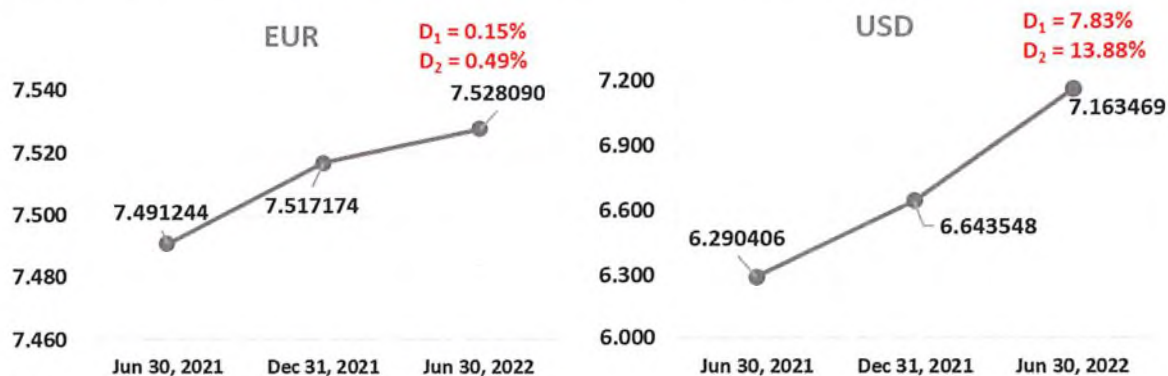
Net fee and commission income amounted to HRK 10.5 million, an increase of 11.7 percent compared with the same reporting period last year due to a larger decrease in fee and commission expenses (by HRK 1.6 million) compared to the decrease in fee and commission income (by HRK 0.5 million).

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 gains from financial activities amounted to HRK 18.0 million, whereas in the same reporting period previous year, net losses amounted to HRK 4.1 million.

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



Note:

D₁ = HRK depreciation 30.6.2022/31.12.2021

D₂ = HRK depreciation 30.6.2022/30.6.2021

D₁ = HRK depreciation 30.6.2022/31.12.2021

D₂ = HRK depreciation 30.6.2022/30.6.2021

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

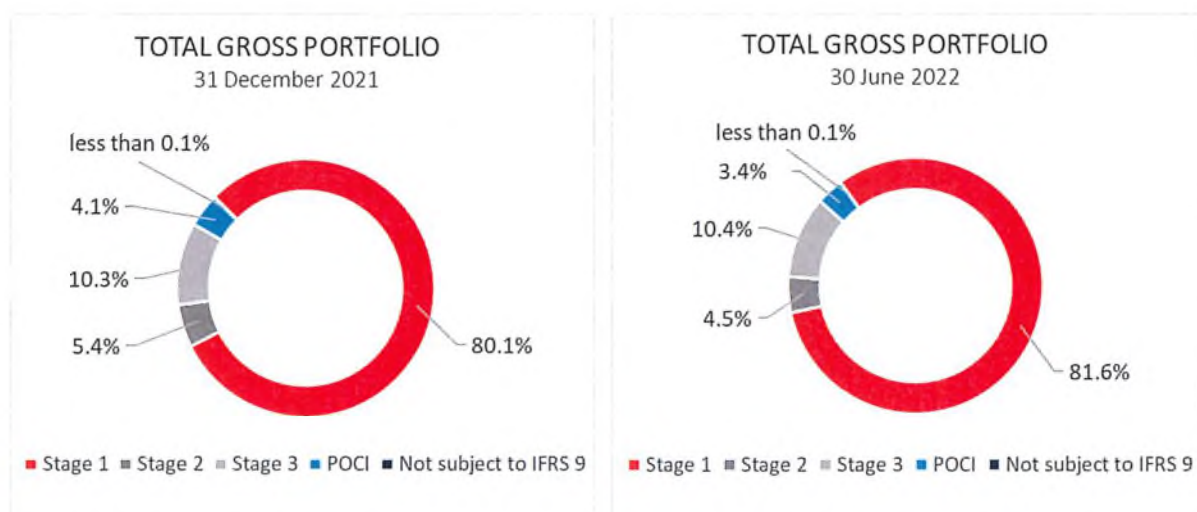
Operating expenses that include general and administrative expenses and other operating expenses stood at HRK 106.3 million, an increase of 22.5 percent compared with the same reporting period last year, mainly due to an increase in other expenses in the amount of HRK 12.5 million as a result of recalculation and write-offs under financial instruments.

On 30 June 2022, HBOR had 373 employees (on 30 June 2021: 362 employees).

Impairment gain/(loss) and provisions

In the reporting period, a net gain from impairment of placements in the amount of HRK 192.3 million was recorded (in the period 1 January – 30 June 2021: net gain in the amount of HRK 136.6 million).

The text to follow contains a breakdown of portfolio quality:



Overview of total gross portfolio and provisions by structure – financial institutions and direct

	2021		30 June 2022	
	In HRK millions	Breakdown (percent)	In HRK millions	Breakdown (percent)
Total gross portfolio	35,412.7	100.0	34,126.0	100.0
Of which:				
- financial institutions	10,899.0	30.8	9,337.6	27.4
- direct	24,513.7	69.2	24,788.4	72.6
Total provisions	3,477.9	100.0	3,277.3	100.0
Of which:				
- financial institutions	63.4	1.8	56.6	1.7
- direct	3,414.5	98.2	3,220.7	98.3
Provisions/gross portfolio	9.8 percent	-	9.6 percent	-

Significant changes in financial position

Total assets of HBOR as at 30 June 2022 amounted to HRK 27,527.5 million, a decrease of 2.6 percent compared with 31 December 2021 due to the reduction of liabilities on deposits and deleveraging on loan obligations.

Cash on hand and deposits with other banks

As at 30 June 2022, cash on hand and deposits with other banks amounted to HRK 1,256.1 million representing 4.6 percent of total assets, a decrease of 36.1 percent compared with 31 December 2021 as a result of the reduction of liabilities on deposits and debt repayments.

Loans to financial institutions and other customers

As at 30 June 2022, total net loans amounted to HRK 23,039.6 million representing 83.7 percent of total assets, an increase 0.1 percent on the beginning of the year.

Total gross loans amounted to HRK 26,184.0 million, a decrease of 0.6 percent compared with 31 December 2021. Gross loans to other customers stood at the same level compared with the beginning of the year. Gross loans to financial institutions decreased by 2.1 percent compared with the end of 2021.

As at 30 June 2022, the proportion between gross loans on-lent through financial institutions and direct placements stood at 27 percent : 73 percent (31 December 2021: 27 percent : 73 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 2022, the total amount of these assets was HRK 149.8 million representing 0.5 percent of total assets.

Financial assets at fair value through other comprehensive income

a) Debt instruments

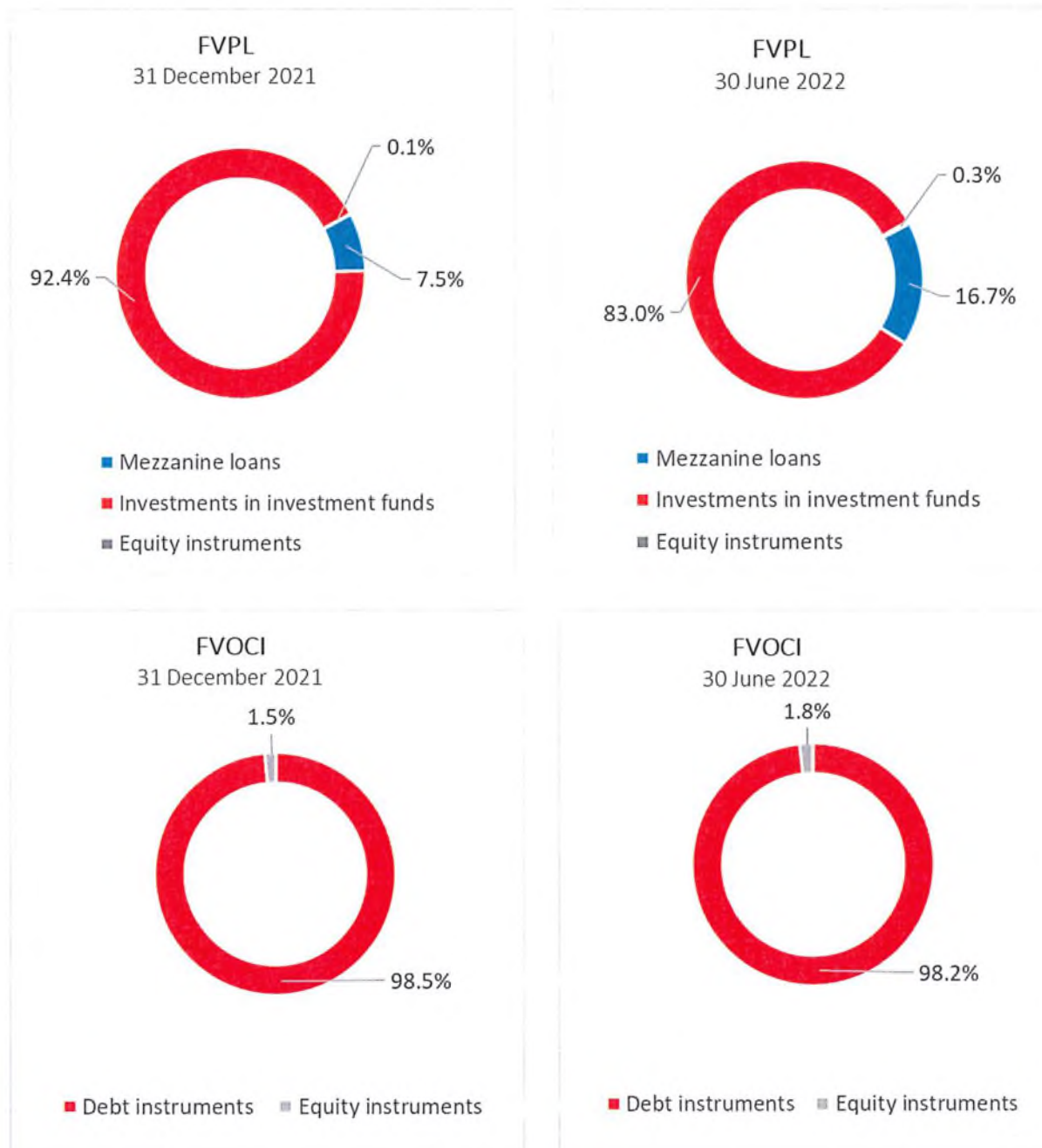
Bonds of the Republic of Croatia and treasury bills of the Ministry of Finance as part of liquidity reserve as well as bonds of a company are classified to these assets. On the reporting date, they amounted to HRK 2,895.1 million, representing 10.5 percent of total assets and recorded an increase compared to the beginning of the year by 0.8 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 53.1 million, representing 0.2 percent of total assets.



Total liabilities

As at 30 June 2022, total liabilities amounted to HRK 16,630.2 million, which represents 60.4 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 15,644.7 million.

Borrowings decreased by 2.9 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	747.4
- Repayments of borrowings	(1,246.7)
- Foreign exchange gains or losses	36.7
- Other calculations *	(7.9)
Total changes	(470.5)

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

In 2022, HBOR continued to raise funds, and on 17 May 2022, signed a loan agreement in the amount of EUR 200 million with the Council of Europe Development Bank (CEB) for the promotion of economic growth and assistance for recovery and reconstruction after the earthquakes in Croatia. The proceeds of this loan will be used for financing under existing finance programmes, but also for projects that will be financed within the National Recovery and Resilience Plan (NRRP).

Through HBOR, the CEB loan will be placed directly to the end users for partial financing of the development and upgrading of local and regional infrastructure, such as water supply, sewerage and wastewater treatment networks, local roads, educational, cultural and other communal facilities.

In addition, the loan will enable HBOR to support micro, small and medium-sized enterprises (MSMEs), create new and preserve existing jobs, and finance the reconstruction of and equipment for infrastructure and buildings damaged in the earthquake.

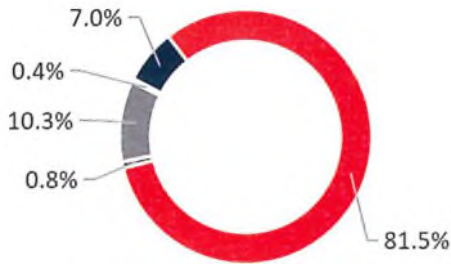
Total equity

Total equity amounted to HRK 10,897.3 million, representing 39.6 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 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 6,758.0 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 242.0 million.

TOTAL ASSETS
31 December 2021



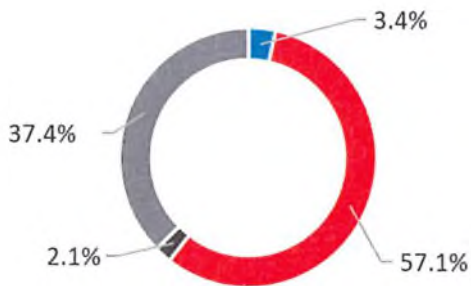
- Cash on hand and deposits with other banks
- Total loans, net
- Financial assets at FVPL
- Financial assets at FVOCI
- Other assets*

TOTAL ASSETS
30 June 2022



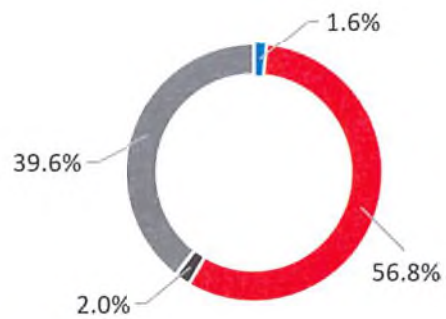
- Cash on hand and deposits with other banks
- Total loans, net
- Financial assets at FVPL
- Financial assets at FVOCI
- Other assets*

TOTAL LIABILITIES AND TOTAL EQUITY
31 December 2021



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

TOTAL LIABILITIES AND TOTAL EQUITY
30 June 2022



- 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.

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