



Hrvatska banka za obnovu i razvitak

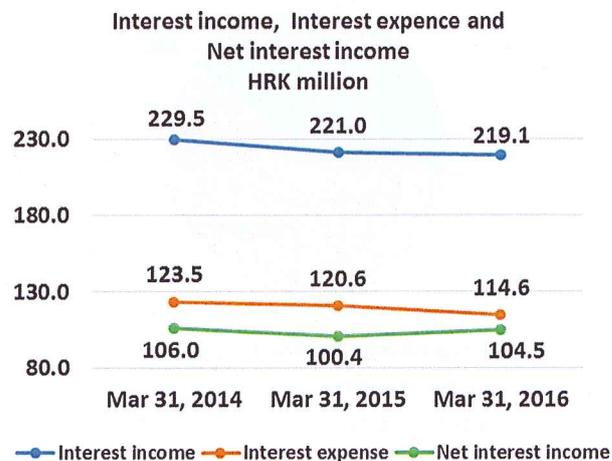
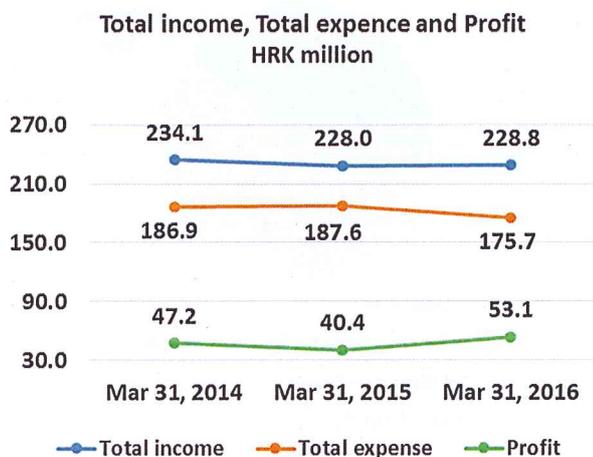
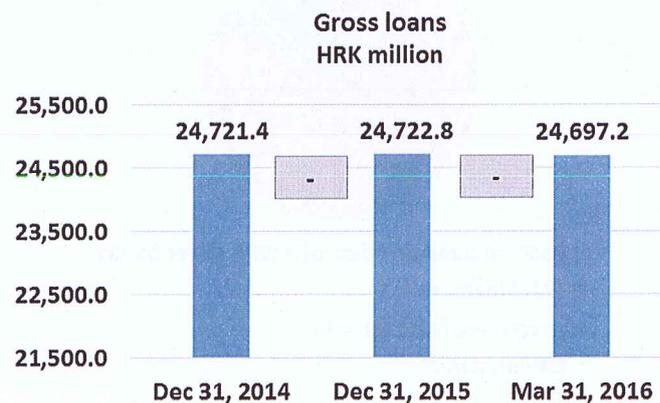
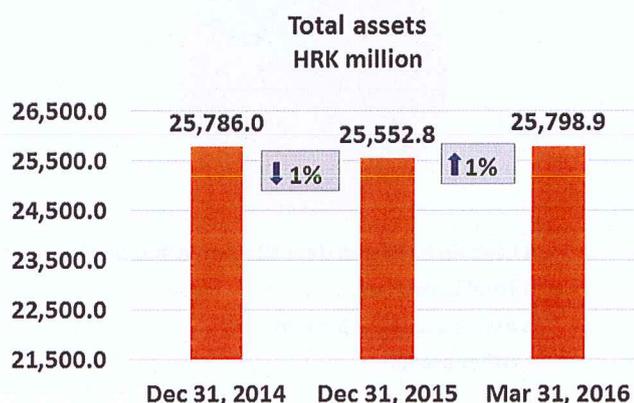
**REPORT ON FINANCIAL PERFORMANCE  
FOR THE PERIOD  
1 JANUARY – 31 MARCH 2016**

**Zagreb, May 2016**

REPORT ON FINANCIAL PERFORMANCE  
FOR THE PERIOD  
**RESULTS OF THE GROUP**

## BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INDICATORS OF THE GROUP:

|                     | HRK million  |              |              |
|---------------------|--------------|--------------|--------------|
|                     | Dec 31, 2014 | Dec 31, 2015 | Mar 31, 2016 |
| Total assets        | 25,786.0     | 25,552.8     | 25,798.9     |
| Gross loans         | 24,721.4     | 24,722.8     | 24,697.2     |
| Total equity        | 9,431.0      | 9,664.6      | 9,731.7      |
|                     |              |              |              |
|                     | Mar 31, 2014 | Mar 31, 2015 | Mar 31, 2016 |
| Total income        | 234.1        | 228.0        | 228.8        |
| Total expense       | (186.9)      | (187.6)      | (175.7)      |
| Profit              | 47.2         | 40.4         | 53.1         |
|                     |              |              |              |
| Interest income     | 229.5        | 221.0        | 219.1        |
| Interest expense    | (123.5)      | (120.6)      | (114.6)      |
| Net interest income | 106.0        | 100.4        | 104.5        |



## SIGNIFICANT CHANGES IN THE FINANCIAL POSITION:

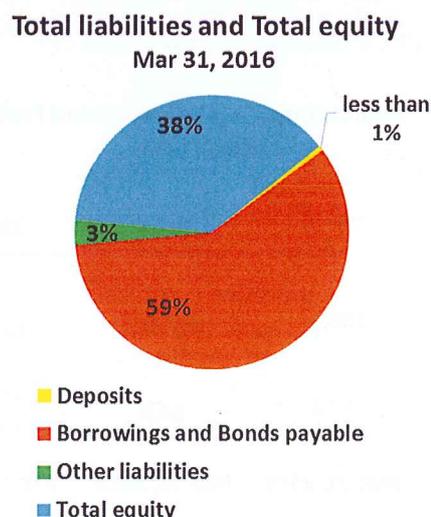
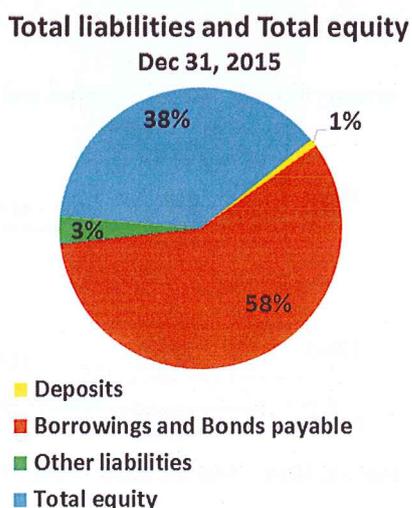
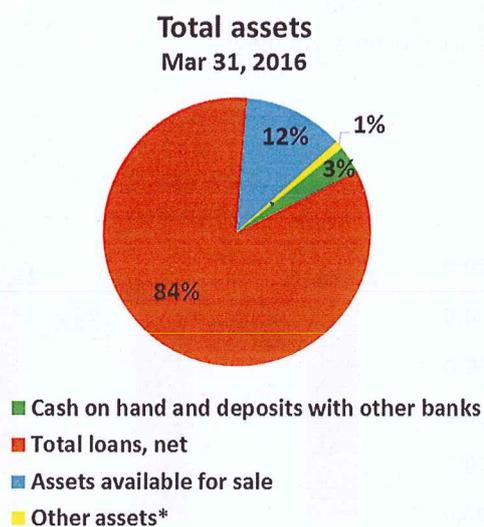
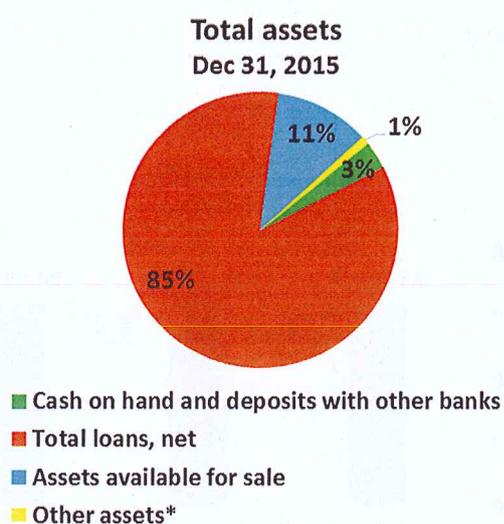
Total assets of the Group on consolidated basis amount to HRK 25,798.9 million, an increase of 1% compared with the beginning of the year. The reasons for such tendency are stated in the description of HBOR's financial performance.

In the structure of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 84% of total assets.

Total liabilities and total equity as of 31 March 2016 amount to HRK 25,798.9 million and out of this amount total liabilities amount to HRK 16,067.2 million, i.e. 62%.

In total liabilities and total equity of the Group, the major portion, i.e. 59% 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 9,731.7 million and accounted for 38% of total liabilities and total equity of the Group.



\*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.

*h*

## **SIGNIFICANT CHANGES IN FINANCIAL PERFORMANCE:**

In the period from 1 January to 31 March 2016, the HBOR Group generated profit after tax in the amount of HRK 53.1 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 from 1 January to 31 March 2016, total income on consolidated basis amounted to HRK 228.8 million, whereas total expenses amounted to HRK 175.7 million.

Total income on consolidated basis was generated at the level of the same period of the previous year, whereas total expenses were lower by 6% as compared to the same period of the previous year due to the trends in total income and expenses of the parent company.

In the structure of income of the Group, the largest portion, i.e. 96%, relates to interest income as a result of operation of the parent company.

The major part of total expenses, i.e. 65%, relates to interest expenses arising from the operations of the parent company.

The consolidated operating expenses in the period from 1 January to 31 March 2016 amounted to HRK 41.8 million and consisted of general and administrative expenses and other operating expenses.

There were 360 employees in the Group on 31 March 2016, whereas there had been 334 employees on 31 March 2015.



The results of the HBOR are as follows:

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## RESULTS OF HBOR

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## **SIGNIFICANT CHANGES IN THE FINANCIAL POSITION:**

Total assets of HBOR as of 31 March 2016 amounted to HRK 25,786.0 million, an increase of 1% compared with the beginning of the year. The increase in assets is mostly due to the withdrawal of loan funds borrowed.

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

As of 31 March 2016, cash on hand and deposits with other banks amounted to HRK 867.0 million representing 3% of total assets. This item increased by 3% compared with the previous year as a result of increase of liquidity reserve funds.

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

Total net loans were retained at the previous year's level and stood at HRK 21,729.2 million as of 31 March 2016, representing 84% of total assets.

Total balance of the gross loans amounts to HRK 24,697.2 million and stood at the previous year's level. It has to be emphasized that retaining of gross loans amount at the level of 2015 was due to the increase in investment loans' share in the total loans approved, which has an influence on the slower dynamics of loan utilisation and the significant amount of early loan repayments.

In 2015, HBOR's total lending activity amounted to HRK 7.8 billion, of which investment loans accounted for 82% of total loans approved, which affects the slower and longer dynamics of loan utilisation and consequently the changes in the amount of total gross loans.

Lending activity in terms of approved loans in 3 months of 2016 amounted to HRK 1.4 billion, that is 26% more than the lending activity in the same period of the previous year.

Gross loans to other customers increased by 3% due to the disbursements of the approved loans within the loan programmes for infrastructure investments and tourism. Loans to financial institutions decreased by 3% compared with the beginning of the year due to loan collection and reallocation of liquidity reserve into other financial instruments.

### ***Assets available for sale***

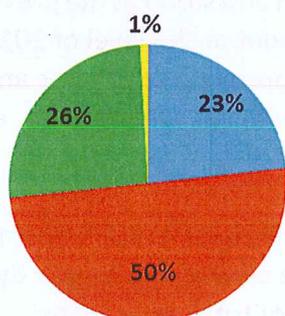
Assets available for sale were comprised primarily of liquidity reserve funds, further to which assets available for sale were comprised primarily of debt instruments and, to a minor extent, of investments into investment funds and equity instruments.

This item amounted to HRK 3,066.3 million, an increase of 8% compared with the beginning of the year due to the investments of available funds in treasury bills of the Ministry of Finance, bonds of the Republic of Croatia and investment funds as a part of liquidity reserve instruments.

In the reporting period, investment in the following instruments of assets available for sale was made:

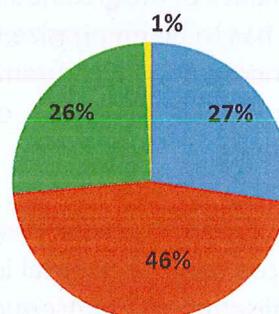
|   | HRK million  |
|---|--------------|
| Treasury bills of the Ministry of Finance | 544.0        |
| Bonds of the Republic of Croatia          | 188.0        |
| Investments in investment funds           | 60.2         |
| <b>Total</b>                              | <b>792.2</b> |

**Assets available for sale**  
Dec 31, 2015



- Bonds of the Republic of Croatia
- Treasury bills of the Ministry of Finance
- Investments in investment funds
- Other unlisted instruments - Equity instruments

**Assets available for sale**  
Mar 31, 2016



- Bonds of the Republic of Croatia
- Treasury bills of the Ministry of Finance
- Investments in investment funds
- Other unlisted instruments - Equity instruments

*h*

### ***Total liabilities***

As of 31 March 2016, total liabilities amounted to HRK 16,057.0 million, which represents 62% of total liabilities and total equity. The major part of total liabilities consists of HBOR's borrowings and bonds payable in the total amount of HRK 15,126.3 million.

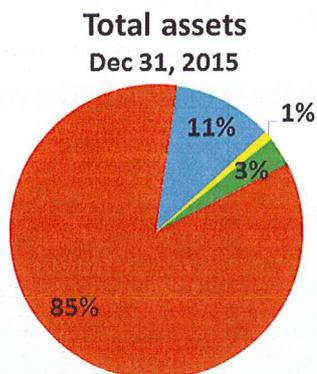
Borrowings and bonds payable increased by 2% compared with the beginning of the year due to the withdrawal of funds borrowed.

In the reporting period, on 17 February 2016 concluded a Finance Contract with the European Investment Bank in the amount of EUR 150.0 million. Funds are intended for the financing of mid-cap companies in the industry, services, tourism and other sectors, as well as public and private companies investing in knowledge-based, infrastructure and environmental projects. This Contract is a part of the framework of EUR 800.0 million for the financing of small and medium-sized companies and mid-cap companies signed between HBOR and EIB on 24 March 2014.

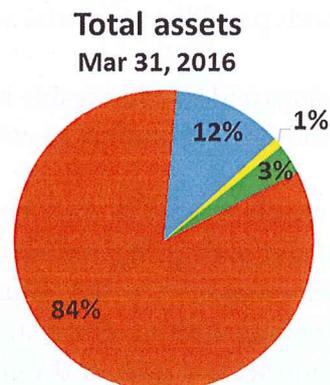
### ***Total equity***

Total equity amounted to HRK 9,729.0 million, representing 38% of total liabilities and total equity. Total equity 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.

The total amount of capital contributed from the budget of the Republic of Croatia amounted to HRK 6,500.0 million. 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 500.0 million.

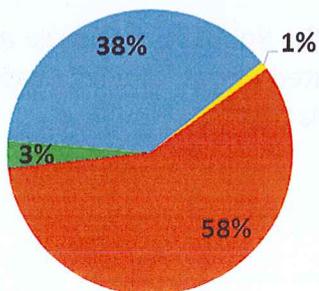


- Cash on hand and deposits with other banks
- Total loans, net
- Assets available for sale
- Other assets\*



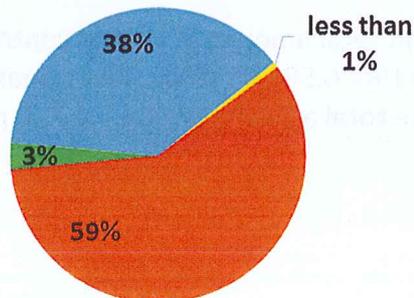
- Cash on hand and deposits with other banks
- Total loans, net
- Assets available for sale
- Other assets\*

**Total liabilities and Total equity**  
Dec 31, 2015



- Deposits
- Borrowings and Bonds payable
- Other liabilities
- Total equity

**Total liabilities and Total equity**  
Dec 31, 2015



- Deposits
- Borrowings and Bonds payable
- Other liabilities
- Total equity

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

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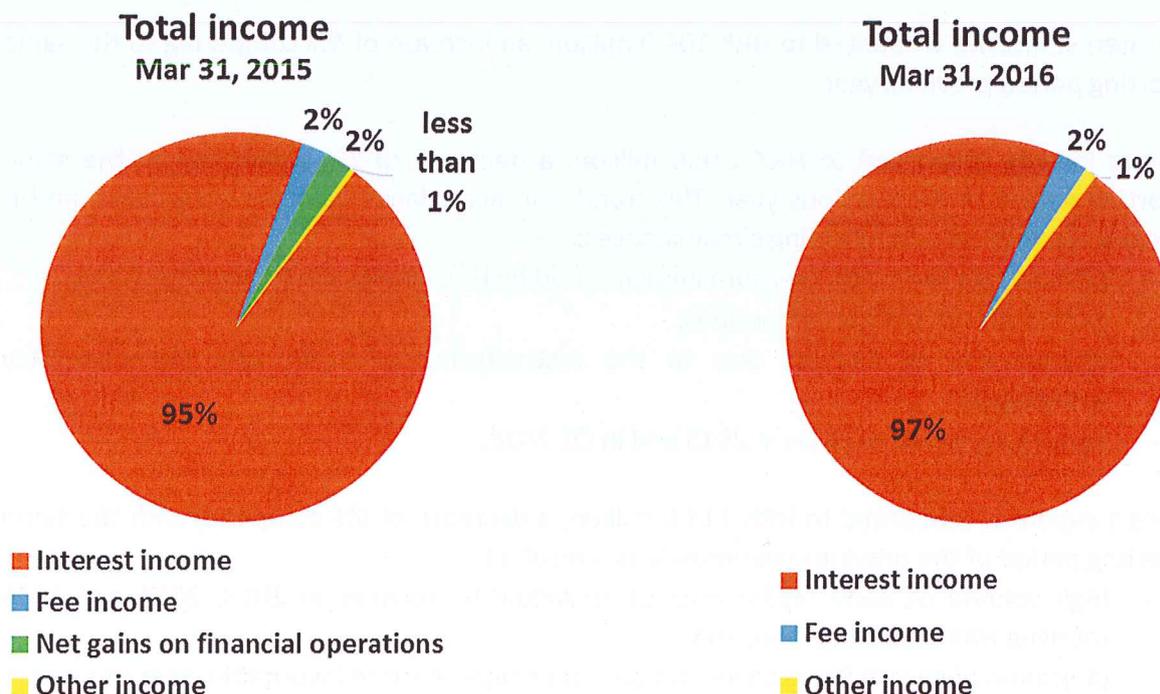
## SIGNIFICANT CHANGES IN FINANCIAL PERFORMANCE:

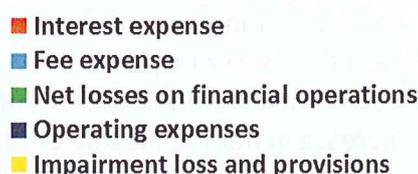
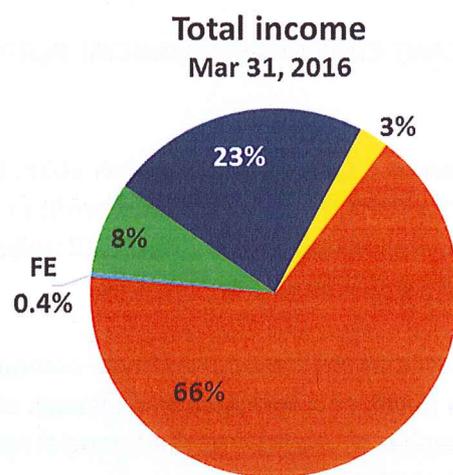
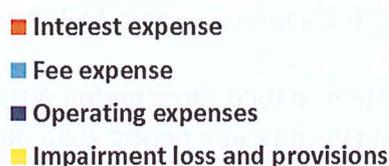
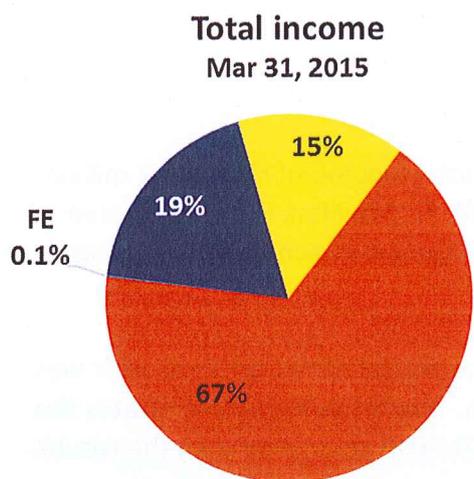
In the period 1 January to 31 March 2016, HBOR generated total income of HRK 226.2 million, expenses of HRK 173.3 million and profit in the amount of HRK 52.9 million. Profit generated in the reporting period rose by HRK 12.8 million compared with the profit generated in the same period of the previous year, i.e. 32%.

Higher profit in the reporting period compared with the same period of the previous year was mostly a result of a decrease in expenses of HRK 12.5 million. The following text illustrates the circumstances that affected the financial result achieved in Q1 2016 compared with the results generated in Q1 2015:

- decrease in impairment loss and provisions of HRK 28.6 million compared to the same period of the prior year,
- decrease in interest expenses of HRK 6.0 million in relation to the same period 2015,
- increase in net fee income of HRK 1.4 million comparing to the same period 2015 due to stronger guarantee activity in 2015.

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





### **Net interest income**

Net interest income amounted to HRK 104.0 million, an increase of 4% comparing to the same reporting period previous year.

Interest income amounted to HRK 218.6 million, a decrease of 1% comparing to the same reporting period of the previous year. This trend is in accordance with the projections and is mostly a result of several following circumstances:

- interest rate reduction measure implemented by HBOR since the beginning of 2012,
- extended loan repayment periods,
- recalculation of interest due to the restructuring of loans and pre-bankruptcy settlements,
- early repayments of loans in 2015 and in Q1 2016.

Interest expenses amounted to HRK 114.6 million, a decrease of 5% compared with the same reporting period of the previous year mostly as a result of:

- high volume of early repayments of individual borrowings in 2013, 2014 and 2015 totalling HRK 5,326.4 million, and
- utilisation of special financial institutions credit lines at more favourable interest rates.

Net interest margin remained unchanged compared to the same reporting period of the previous year and stood at 1.6%.

## Net fee income

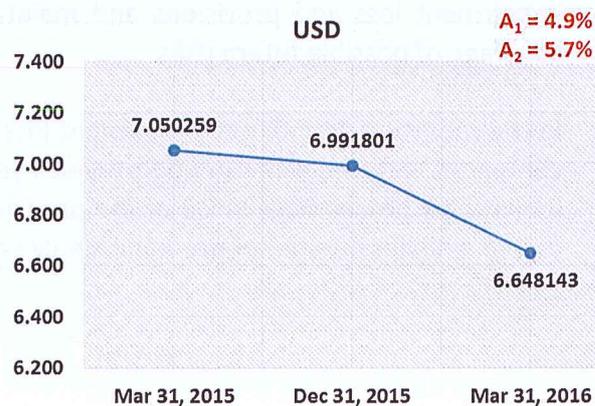
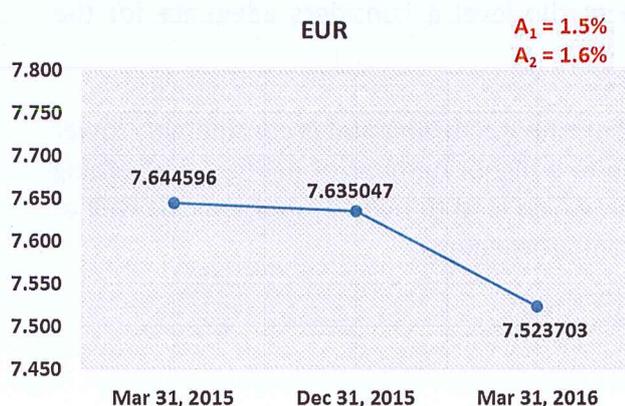
Net fee income amounted to HRK 4.9 million, an increase of 37% compared to the previous year as a result of increased fee income from guarantee activities caused by a higher volume of guarantees issued compared with Q1 2015.

## 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 14.0 million, whereas, in the previous year, net gains amounted to HRK 0.2 million.

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



Note:

A<sub>1</sub> = HRK appreciation March 31, 2016/Dec 31, 2015

A<sub>2</sub> = HRK appreciation March 31, 2016/March 31, 2015

A<sub>1</sub> = HRK appreciation March 31, 2016/Dec 31, 2015

A<sub>2</sub> = HRK appreciation March 31, 2016/March 31, 2015

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 amount.

### ***Operating expenses***

Operating expenses that include general and administrative expenses and other operating expenses stood at HRK 39.5 million, an increase of 23% compared with the previous year.

The recorded trend is mostly affected by other expenses increased by HRK 6.8 million compared with the same period previous year. This increase is a result of a recalculation arising from another debtor assuming a portion of a placement in the amount of HRK 5.9 million as well as of the recalculation of restructured loans and pre-bankruptcy settlements.

If the above mentioned one-off expenses resulting in increased expenses in the reporting period were excluded, the operating expenses would increase by 2% compared with the same reporting period previous year.

There were 346 employees as at 31 March 2016, whereas there has been 319 employees on 31 March 2015.

### ***Impairment loss and provisions***

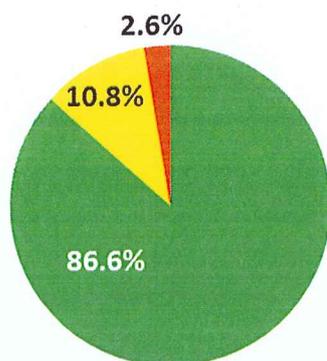
In accordance with the regulations and internal acts, HBOR determines the amount of impairment loss and provisions and maintains it at the level it considers adequate for the coverage of possible future risks.

In the reporting period, net impairment loss stood at HRK 4.5 million and is considerably lower compared with the same period previous year due to a higher number of debtors undergoing bankruptcy proceedings in Q1 of the previous year, which lead to higher provisions, as well as due to a higher number of pre-bankruptcy settlement proceedings.

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

### Total gross portfolio

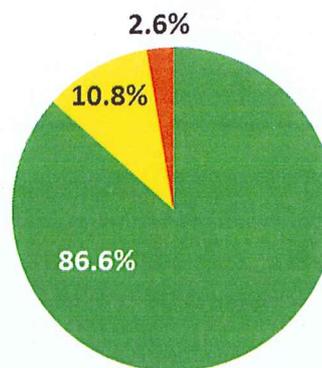
Dec 31, 2015



■ A ■ B ■ C

### Total gross portfolio

Mar 31, 2016



■ A ■ B ■ C

|                                   | Dec 31, 2015    |               | Mar 31, 2016    |               |
|-----------------------------------|-----------------|---------------|-----------------|---------------|
|                                   | HRK million     | Structure (%) | HRK million     | Structure (%) |
| <b>Total gross portfolio</b>      | <b>33,114.2</b> | <b>100</b>    | <b>33,066.7</b> | <b>100</b>    |
| out of which:                     |                 |               |                 |               |
| - financial institutions          | 16,006.7        | 48            | 15,515.8        | 47            |
| - direct borrowers                | 17,107.5        | 52            | 17,550.9        | 53            |
| <b>Total provisions</b>           | <b>3,075.3</b>  | <b>100</b>    | <b>3,066.3</b>  | <b>100</b>    |
| out of which:                     |                 |               |                 |               |
| - financial institutions          | 500.1           | 16            | 481.8           | 16            |
| - direct borrowers                | 2,575.2         | 84            | 2,584.5         | 84            |
| <b>Provisions/Gross portfolio</b> | <b>9%</b>       | <b>-</b>      | <b>9%</b>       | <b>-</b>      |

