



Hrvatska banka za
obnovu i razvitak

SEMI-ANNUAL REPORT

1 JANUARY – 30 JUNE 2016

August 2016

STATEMENT OF PERSONS RESPONSIBLE FOR THE PREPARATION OF SEMI-ANNUAL REPORTS

To the best of our knowledge the 2016 semi-annual management report 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
Managing Board


Dušan Tomašević

Member of the
Managing Board


Martina Jus

Member of the
Managing Board


Goran Filipić

Zagreb, 25 August 2016

2016 SEMI-ANNUAL MANAGEMENT REPORT

The 2016 semi-annual management report comprises the concise description of business activities, description of risks and contingencies, a summary of financial information and unaudited financial statements of HBOR and the Group for the period from 1 January to 30 June 2016.

Description of business activities during the first half of 2016

In the first six months of 2016, HBOR supported 1,689 projects of Croatian business entities with the total amount of HRK 5.7 billion through lending, insurance of export receivables and issue of bank guarantees.

In the reporting period, HBOR supported 1,588 projects through its loan programmes and the cooperation with leasing companies with the total approved amount of HRK 4.2 billion.

The majority of HBOR's loan beneficiaries were small and medium-sized enterprises that were approved the total amount of HRK 3.2 billion, which is 2.5 times higher than the amount approved to these entities in the same period previous year. During the first six months of 2016, 787 projects of small and medium-sized companies were supported via leasing companies in the amount of HRK 232.3 million, and through framework loan arrangements for working capital and capital investments, the total amount of HRK 1.7 billion was approved.

The greatest interest of small and medium-sized enterprises, apart from the funds that HBOR approves via leasing companies and commercial banks' framework loan arrangements, was shown for micro-loans, development of entrepreneurship, financing of projects in the tourism industry and especially for the development of female entrepreneurship, for which 34 percent more funds were approved than in the same period in 2015.

In the reporting period, investments in the tourism sector were supported in the amount of HRK 834.7 million, which is an increase of almost 50 percent compared to the same period previous year. Through these funds, 161 projects were supported, and beneficiaries ranged from small entrepreneurs to large hotel companies.

An important indicator for the reporting period is also retaining of a high share of investment loans at 73 percent, which indicates to the start of an investment cycle. The share of investment loans started to rise significantly during 2015, while in the period from 2008 to 2014 it ranged from 13 and 58 percent.

Projects co-financed out of the EU funds proceeds were supported with the amount of HRK 265 million. Taking into account that in the forthcoming period new tenders were invited for the proceeds of the EU funds, the growth of lending activity in this area is expected until the end of this year.

The figures achieved are the result of number of new measures that were taken by HBOR in the last year. We would like to remind that with the aim to provide help to business entities, during 2015 and in the first six months of 2016, HBOR introduced and continued to implement a number of measures relating primarily to the reduction in interest rates and cooperation with financial intermediaries with the aim to make easier access of loan funds to business entities, but also to enable direct lending under individual loan programmes:

- a) **Extended application of interim measure of lowering interest rates by one percentage point for new investments** (the measure was extended until 31 December 2016) - Lowered interest rate applies for the financing of new investments in agriculture and fisheries, tourism, processing industry, environmental protection and energy efficiency projects. Pursuant to this measure, interest rate can be 2 or 3 percent p.a., depending on the size and former success of an entrepreneur, and in the areas of investment for loan funds approved until 31 December 2016. Loan repayment periods for such investments are up to 17 years, with a possible grace period of 2 to 5 years.
- b) **Reduced interest rates for units of local and regional government and legal entities majority-owned by them** – Interest rate was reduced from 4 to 3 percent p.a. for projects of local and regional government units and legal entities majority-owned by them; the possibility of loan extension in Kuna was introduced and the commitment fee abolished. The measure includes loan programmes Infrastructure, IPARD Measure 301, the Construction of Water Supply and Wastewater Systems in the Republic of Croatia, Tourism, Environmental Protection and the Loan Programme for Energy Renovation of Buildings.
- c) **Reduced interest rates for large entrepreneurs under the loan programme Tourism** – Interest rate of 6 percent for large entrepreneurs investing into tourism projects was abolished and now it is either 2 or 4 percent, depending on the area of investment and the former success of entrepreneur.
- d) **Reduced interest rates under the programme Pre-Export Finance and introduced possibility of direct lending under the programmes Tourism and Exports – IBRD and the Pre-Export Finance** – Under the programme Pre-Export Finance, the basic interest rate was reduced, now being 3 percent instead of former 4 percent. For start-up exporters, or the companies entering foreign markets for the first time ever, or entering for the first time a foreign market they have not tapped into so far, or introducing a new product and/or service on a foreign market where they are already present, the basic interest rate is 2 percent. Interest rate for the final borrower is determined on the basis of the basic interest rate and the margin that is determined depending on the credit rating of the client and the collateral offered.

Under the programme Pre-Export Finance, which was implemented via commercial banks exclusively, the possibility of direct lending for small and medium-sized enterprises was introduced, having assets in the amount over HRK 50 million and requiring funds in the amount of over HRK 10 million for pre-export financing. Direct lending is also made possible under the programme Tourism and Exports – IBRD.

e) **Continued implementation of the Risk sharing model with commercial banks**

With the aim to encourage commercial banks to increase lending to business sector, HBOR continued the implementation of the Risk Sharing Model, where HBOR and the commercial bank share the risk of repayment of loan proceeds.

f) **Cooperation with leasing companies and lending through framework arrangements with commercial banks** - For the purpose of increasing the availability of favourable HBOR loans, in 2015 HBOR started to approve loans through framework arrangements with commercial banks and financing the purchase of equipment, machinery, commercial vehicles and vessels through leasing companies. The results achieved so far have indicated to a large interest of entrepreneurs for this manner of financing.

g) **Extended application of measure of increased margins to commercial banks** – The measure was introduced in 2015 in order to encourage commercial banks to approve favourable HBOR loan funds in the manner that margins to banks were increased from one to two percentage points for loans approved to small and medium-sized enterprises. The increase in margin to commercial banks entirely burdens HBOR, so that final borrowers of funds do not suffer an increase in interest rates. During the reporting period, the measure was extended until 31 December 2016.

Export promotion activities

In the first six months of 2016, HBOR supported Croatian exporters with the amount of HRK 3.2 billion through lending, insurance and issue of bank export guarantees. Croatian exporters were backed up by HBOR with the total amount of HRK 1.6 billion under all loan programmes, through which 320 projects were supported. In the reporting period, the amount of issued bank export guarantees exceeded HRK 1 billion.

Through export credit insurance transactions implemented by HBOR for and on behalf of the Republic of Croatia, in the first half of 2016, new export transactions were insured in the total amount of HRK 633.57 million, an increase of 12.4 percent compared to the same period previous year.

Thus, HBOR's total exposure towards debtors as at 30 June 2016 was HRK 1.61 billion. As for the structure of total exposure as at 30 June 2016 under export credit insurance programmes, the major portion relates to medium and long-term insurance (48%), programmes of insurance and reinsurance of short-term export receivables (25%) and insurance of performance-related bank guarantees (20%).

Based on HBOR's total exposure as at 30 June 2016, the most represented markets were Albania (16%), Monaco (12%) and Bosnia and Herzegovina (8%).

In the period under review, the greatest demand for the insurance of export receivables related to the markets of the Netherlands, Serbia, Armenia, Bosnia and Herzegovina, Algeria and the Russian Federation. In the first half of 2016, the greatest demand for HBOR's export credit insurance products related to the programmes of insurance and reinsurance of short-term export receivables intended to exporters of consumer goods, on the basis of which in the first 6 months of 2016 export turnover amounted to HRK 359.69 million, which is a portion of 57% in the total turnover insured.

In the first half of 2016, the amount of HRK 9.35 million was collected based on insurance premiums.

In the first half of 2016, the largest export transaction insured under the medium- and long-term insurance programme related to the insurance of supplier credit in the total insured amount of HRK 84.1 million. The mentioned export transaction relates to the export of telecommunication equipment and services to a foreign buyer in Armenia, being also the first insurance policies issued for exports to Armenia.

Under the Pre-Export Finance Programme, in the first half of 2016, an insurance policy for pre-export finance was issued in the amount of HRK 31.7 million for the construction of a self-erecting platform for the buyer in Luxembourg.

In the first half of 2016, two indemnities were paid in the total amount of HRK 107 thousand as a result of non-payment of obligations by debtors from Azerbaijan and Italy. In the period under review, the recourse collection of receivables amounted to HRK 1.03 million under the previously paid indemnities from debtors from Iran, Serbia and Montenegro.

Other activities

For the purpose of supporting the implementation of measures for the increase of employment, growth and investments, within the framework of the Investment Plan for Europe, HBOR signed the Memorandum of Understanding with the European Investment Bank. The objective of the Memorandum is providing access to a wide range of advisory services of the European Investment Advisory Hub (EIAH) which provides its services both at

the EU level and local level through promotional banks. The main purpose of EIAH is to provide advice to investors – private and public project promoters with the objective of preparing and monitoring of projects.

In the reporting period, HBOR signed the Finance Contract with the European Investment Bank (EIB) for the financing of projects of mid-cap companies in the amount of EUR 150 million. This Contract is a part of the framework in the amount of EUR 800 million for the financing of small and medium-sized companies and mid-cap companies that was signed with EIB in 2014.

In the reporting period, HBOR signed the InnovFin agreement with the European Investment Fund within the framework of the Investment Plan for Europe. By its participation in the InnovFin Guarantee Facility, HBOR will provide more favourable financing under the existing HBOR loan programmes to innovative small and medium-sized enterprises (up to 250 employees) and small mid-caps (250 to 499 employees). A special advantage of this instrument is reflected in reduced interest rates for borrowers as a result of utilisation of the EIF guarantee. Thus, the final interest rate for a loan with the EIF guarantee will be reduced by 0.422 percentage points for a small mid-cap company and by 0.572 percentage points for an SME. This instrument will be available to entrepreneurs from autumn onwards.

In April, the Conference on Micro-Lending with the EU support was held under the auspices of the Government of the Republic of Croatia. The goal of the conference was to promote possibilities and encourage the potentials of growth and development of micro-entrepreneurs. The conference gathered around 300 micro-entrepreneurs.

In June 2016, HBOR published its seventh social responsibility report, i.e. report on the manner and progress on the application of UN Global Compact principles in the area of human rights, labour rights, environment and anti-corruption combat.

In the first six months of 2016, a number of one-day, free of charge workshops and educations were held for the beneficiaries of the EU funds and small businesses in categories of micro enterprises and business start-ups, particularly those starting their own business for the purpose of self-employment. The goal of these workshops is to familiarise small entrepreneurs with the possibilities and manners of project financing, the manner of creditworthiness assessment and the control of long-term liabilities repayment.

The Hrvatsko kreditno osiguranje Group

In the first six months of 2016, the Hrvatsko kreditno osiguranje Group insured transactions in the total amount of HRK 1.85 billion, of which 52.9% related to insured export receivables, and 47.1% to insured domestic receivables. As at 30 June 2016, Hrvatsko kreditno osiguranje had 81 concluded insurance contracts in its portfolio, within the framework of which limits towards 2,510 buyers in 60 countries. The largest portion in the number of approved limits

related to the following countries: Croatia 47.1%, Italy 7.9%, Germany 7.5%, Slovenia 7.2%, Serbia 4.9%, Bosnia and Herzegovina 3.7% and Switzerland 3.1%. The total exposure per approved limits as at 30 June 2016 amounted to HRK 1.71 billion, and the largest portion in the total exposure related to the following markets: Croatia 45.3%, Italy 10.6%, Slovenia 5.7%, Serbia 5.3%, Germany 4.1% and Bosnia and Herzegovina 3.9%.

The total charged premium in the first six months of 2016 amounted to HRK 5.96 million, i.e. it was by 2.06% higher compared to the same period previous year. In the first half of 2016, total amount of indemnities paid was HRK 1.61 million, of which the amount of HRK 1.37 million related to the coverage of domestic receivables and HRK 0.24 million to the coverage of export receivables.

Description of risks and contingencies

The most significant financial risks to which HBOR is exposed in its operations are credit risk, liquidity risk, interest rate risk in the loan book, currency risk, operational risk and outsourcing risk. HBOR continuously identifies, assesses, measures, monitors, manages and controls the mentioned risks through policies, procedures, methodologies, regulations, limits and controls.

Scenario and sensitivity analyses are regularly performed by assuming changes in one or more risk factors in regular and stressful circumstances of operations and it reports on the results of such analyses to HBOR's bodies in charge.

Based on the mentioned procedures, guidelines and measures for a proactive management of risks to which HBOR is or may be exposed to in its operations, are determined.

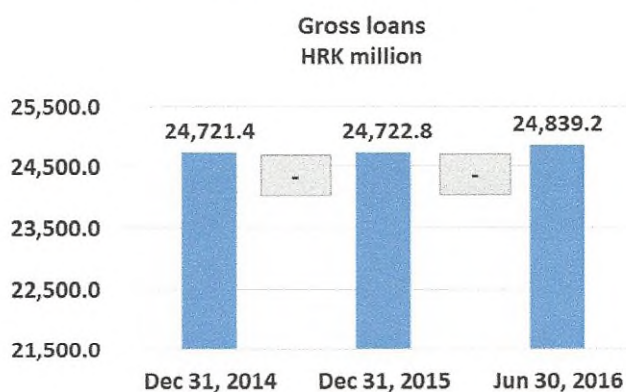
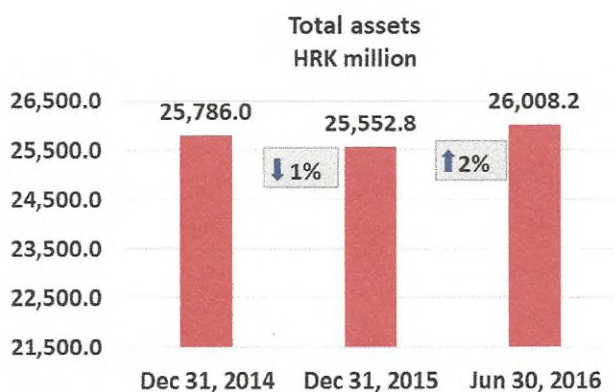
The risk management system is continuously revised and enhanced. Legislation and secondary legislation of the Republic of Croatia and the Croatian National Bank, the principles of the Basle Committee applicable to HBOR as a special financial institution as well as good banking practices are observed.

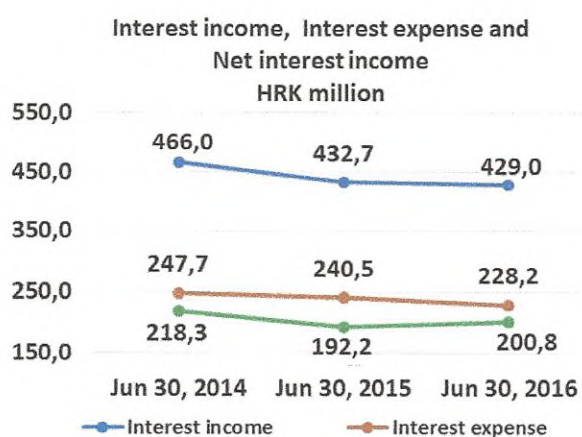
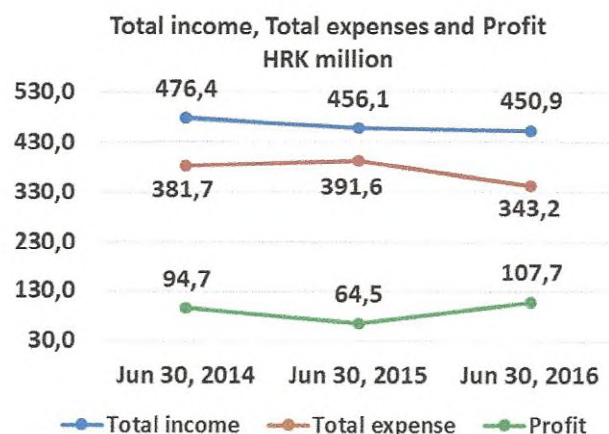
REPORT ON FINANCIAL PERFORMANCE

FOR THE PERIOD 1 JANUARY – 30 JUNE 2016

BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INDICATORS OF THE GROUP:

	HRK million		
	Dec 31, 2014	Dec 31, 2015	Jun 30, 2016
Total assets	25,786.0	25,552.8	26,008.2
Gross loans	24,721.4	24,722.8	24,839.2
Total equity	9,431.0	9,664.6	9,786.3
	Jun 30, 2014	Jun 30, 2015	June 30, 2016
Total income	476.4	456.1	450.9
Total expenses	(381.7)	(391.6)	(343.2)
Profit	94.7	64.5	107.7
Interest income	466.0	432.7	429.0
Interest expense	(247.7)	(240.5)	(228.2)
Net interest income	218.3	192.2	200.8





SIGNIFICANT CHANGES IN THE FINANCIAL POSITION:

Total assets of the Group on consolidated basis amount to HRK 26,008.2 million, an increase of 2% compared with the beginning of the year. The reasons for such tendency are stated in the description of HBOR's financial performance.

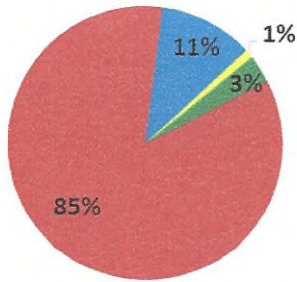
In the structure of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 84% of total assets.

Total liabilities and total equity as of 30 June 2016 amount to HRK 26,008.2 million kuna and out of this amount total liabilities amount to HRK 16,221.9 million, i.e. 62%.

In total liabilities and total equity of the Group, the major portion, i.e. 58% consists of borrowings and bonds payable of the parent company.

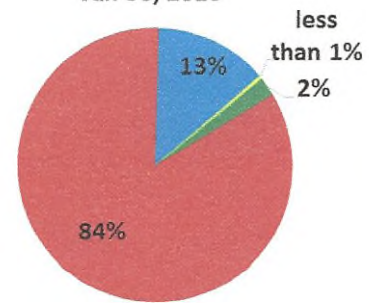
At the end of the reporting period, total equity on consolidated basis amounted to HRK 9,786.3 million and accounted for 38% of total liabilities and total equity of the Group.

Total assets
Dec 31, 2015



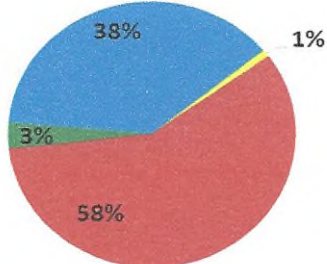
- Cash on hand and deposits with other banks
- Total loans, net
- Assets available for sale
- Other assets*

Total assets
Jun 30, 2016



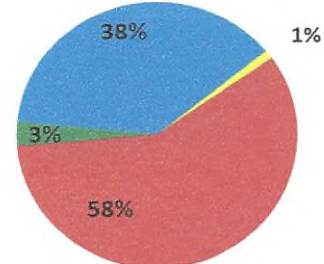
- Cash on hand and deposits with other banks
- Total loans, net
- Assets available for sale
- Other assets*

Total liabilities and Total equity
Dec 31, 2015



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

Total liabilities and Total equity
Jun 30, 2016



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

*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.

SIGNIFICANT CHANGES IN FINANCIAL PERFORMANCE:

In the period from 1 January to 30 June 2016, the HBOR Group generated profit after tax in the amount of HRK 107.7 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 30 June 2016, total income on consolidated basis amounted to HRK 450.9 million, whereas total expenses amounted to HRK 343.2 million.

Total income on consolidated basis were lower by 1% compared to the same period of the previous year, whereas total expenses were lower by 12% 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. 95%, relates to interest income as a result of operation of the parent company.

The major part of total expenses, i.e. 66%, relates to interest expenses arising from the operations of the parent company.

The consolidated operating expenses in the period from 1 January to 30 June 2016 amounted to HRK 81.9 million and consisted of general and administrative expenses and other operating expenses.

There were 358 employees in the Group on 30 June 2016, whereas there had been 338 employees on 30 June 2015.

RESULTS OF HBOR

SIGNIFICANT CHANGES IN THE FINANCIAL POSITION:

Total assets of HBOR as of 30 June 2016 amounted to HRK 25,995.5 million, an increase of 2% 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 30 June 2016, cash on hand and deposits with other banks amounted to HRK 575.5 million representing 2% of total assets. This item decreased by 31% compared with the previous year as a result of reallocation of liquidity reserve funds.

Loans to financial institutions and other customers

Total net loans increased by 1% compared with the beginning of the year and stood at HRK 21,867.4 million as of 30 June 2016, representing 84% of total assets.

Total balance of the gross loans amounts to HRK 24,839.2 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 6 months of 2016 amounted to HRK 4.2 billion, that is 2% more than the lending activity in the same period of the previous year.

Gross loans to other customers increased by 6% due to the disbursements of the approved loans within the loan programmes for infrastructure investments and tourism. Loans to financial institutions decreased by 5% 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 include primarily debt instruments and, to a minor extent, of investments into investment funds and equity instruments.

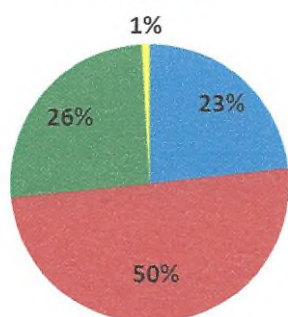
This item amounted to HRK 3,430.6 million, and rose by 21% compared to the beginning of the year due to the investments of available funds in treasury bills of the Ministry of Finance, bonds of the Republic of Croatia and investment funds as a part of liquidity reserve instruments.

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	979.8
Bonds of the Republic of Croatia	188.0
Investments in investment funds	290.2
Total	1,458.0

Assets available for sale

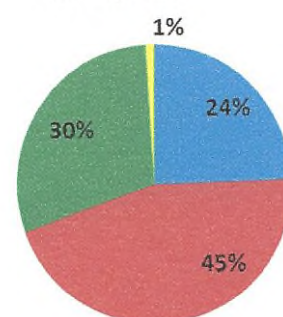
Dec 31, 2015



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

Assets available for sale

Jun 30, 2016



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

Total liabilities

As of 30 June 2016, total liabilities amounted to HRK 16,212.2 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 15,185.8 million.

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

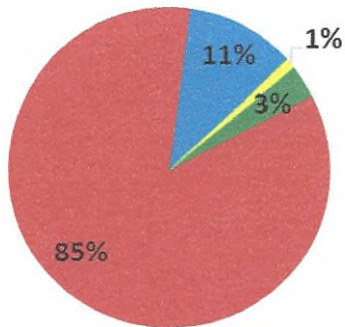
In the reporting period, on 17 February 2016 HBOR concluded a Finance Contract with the European Investment Bank in the amount of EUR 150.0 million. Funds are intended for the financing of mid-cap companies in the industry, services, tourism and other sectors, as well as public and private companies investing in knowledge-based, infrastructure and environmental projects. This Contract is a part of the EUR 800.0 million frameworks 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 9,783.3 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.

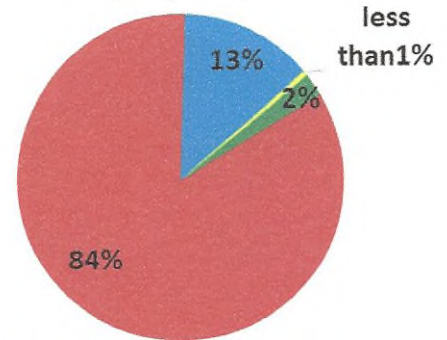
The total amount of capital contributed from the budget of the Republic of Croatia amounted to HRK 6,500.0 million. The remaining amount to be contributed to the founder's capital up to the total amount of HRK 7,000.0 million set by the HBOR Act is HRK 500.0 million.

Total assets
Dec 31, 2015



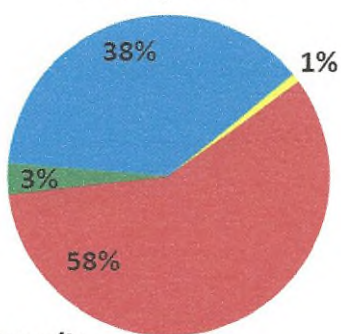
- Cash on hand and deposits with other banks
- Total loans, net
- Assets available for sale
- Other assets*

Total assets
Jun 30, 2016



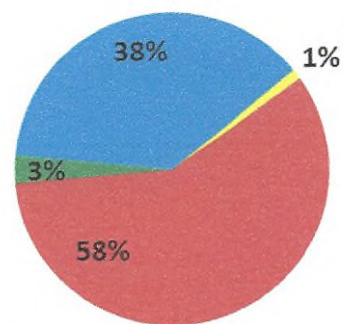
- Cash on hand and deposits with other banks
- Total loans, net
- Assets available for sale
- Other assets*

Total liabilities and Total equity
Dec 31, 2015



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

Total liabilities and Total equity
Jun 30, 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.

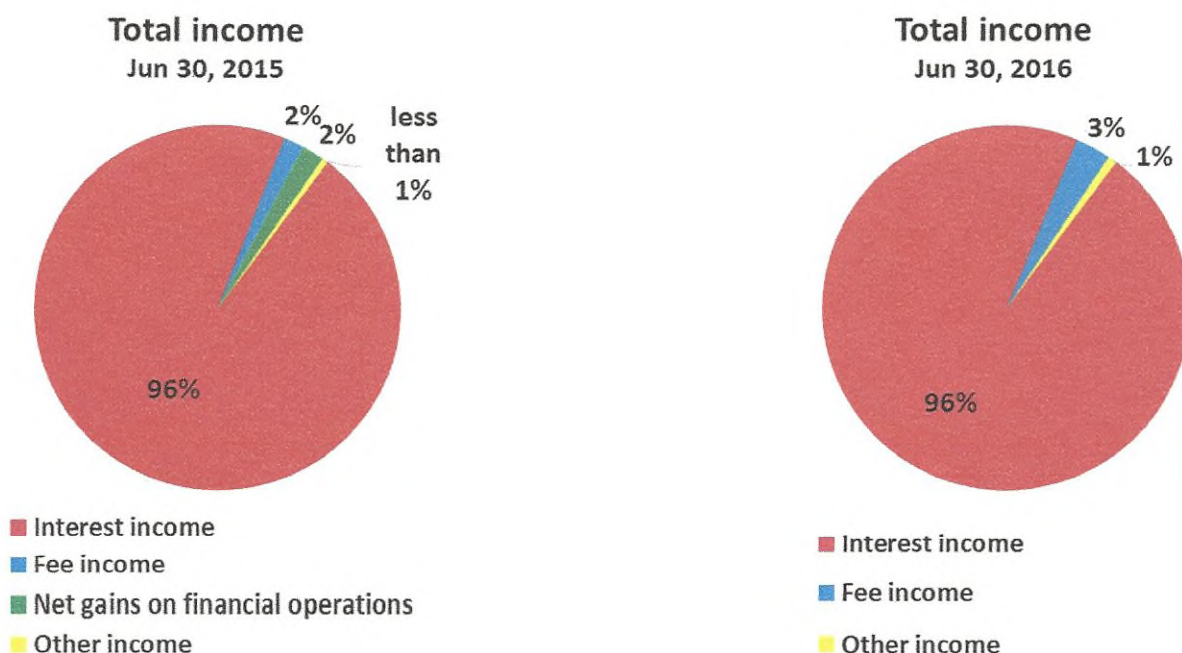
SIGNIFICANT CHANGES IN FINANCIAL PERFORMANCE:

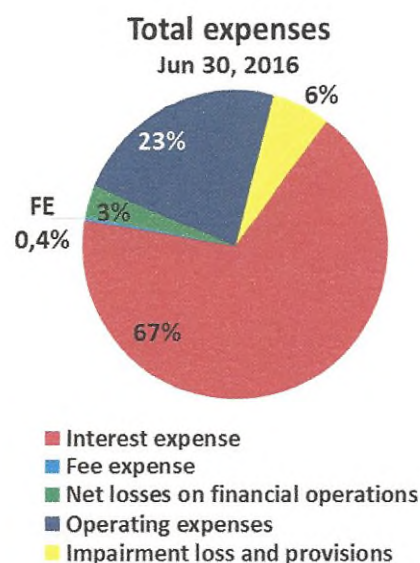
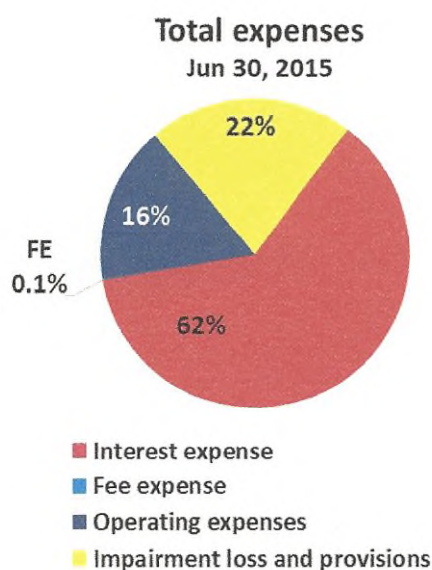
In the period 1 January to 30 June 2016, HBOR generated total income of HRK 445.7 million, expenses of HRK 338.5 million and profit in the amount of HRK 107.2 million. Profit generated in the reporting period rose by HRK 43.2 million compared with the profit for the same period of the previous year, i.e. 68%.

Higher profit in the reporting period compared to the same period of the previous year was mostly a result of a decrease in expenses of HRK 49.1 million. The following gives explanation of the circumstances that affected the financial result achieved in the half-year reporting period 2016 compared with the results generated in the same reporting period 2015:

- decrease in impairment loss and provisions of HRK 62.4 million compared to the same period of the prior year,
- decrease in interest expenses of HRK 12.3 million in relation to the same period 2015,
- increase in net gains/(losses) on financial operations of HRK 19.7 million comparing to the same period 2015, and
- increase in operating expenses of HRK 13.6 million compared to the same period 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 200.0 million, an increase of 4% comparing to the same reporting period previous year.

Interest income amounted to HRK 428.2 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 in the half-year reporting period 2016.

Interest expenses amounted to HRK 228.2 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 funds by special financial institutions at more favourable interest rates.

Net interest margin stood at 1.6%, an increase of one percentage point on the same reporting period of the previous year when it stood at 1.5%.

Net fee income

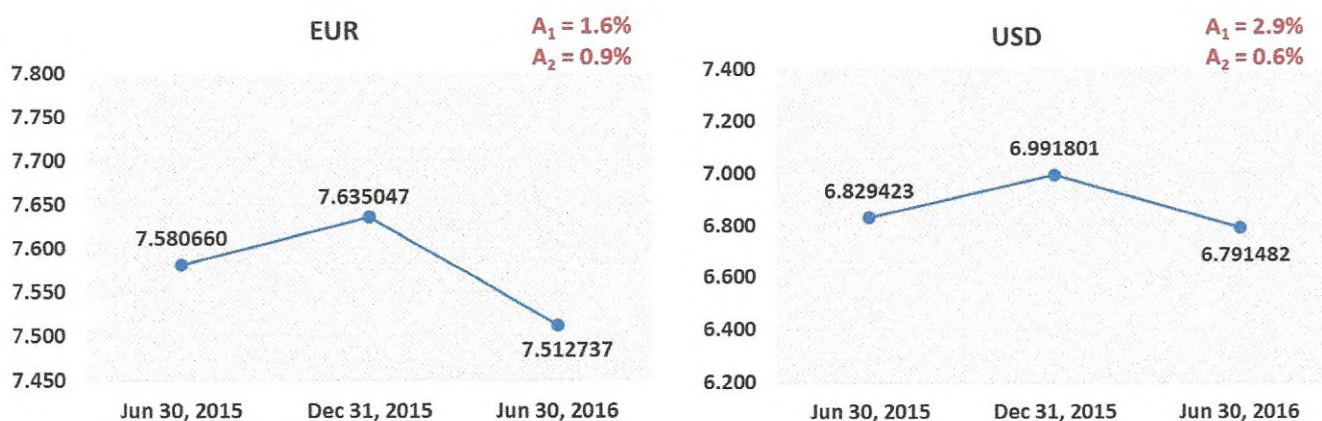
Net fee income amounted to HRK 12.6 million, an increase of 62% compared to the same reporting period previous year as a result of increased fee income from guarantee activities caused by a higher volume of guarantees issued compared with the half-year reporting period 2015.

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 10.8 million, whereas, in the same reporting period previous year, net gains amounted to HRK 8.9 million.

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



Note:

A₁ = HRK appreciation June 30, 2016/Dec 31, 2015

A₂ = HRK appreciation June 30, 2016/June 30, 2015

A₁ = HRK appreciation June 30, 2016/Dec 31, 2015

A₂ = HRK appreciation June 30, 2016/June 30, 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 77.1 million, an increase of 21% compared with the previous year.

This development is mostly affected by other expenses increase by HRK 10.1 million compared with the same period previous year. This increase is a result of a recalculation arising from partial assumption of the placement by another debtor resulting in the expense in the amount of HRK 5.9 million as well as of the recalculation upon restructured loans and pre-bankruptcy settlements.

Excluding the above mentioned one-off expenses, the operating expenses would increase by 5% compared with the same reporting period previous year.

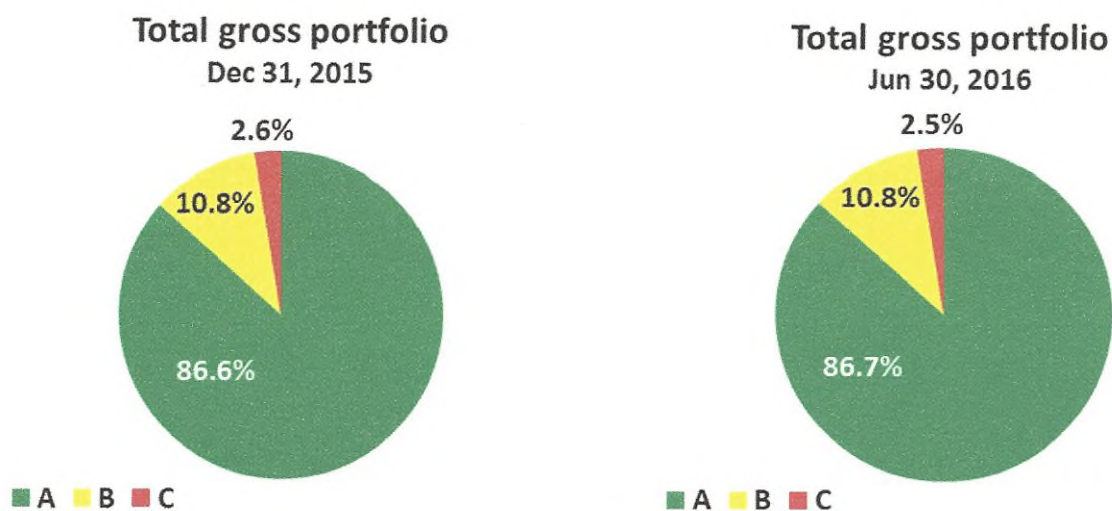
There were 345 employees as at 30 June 2016, whereas there were 323 employees on 30 June 2015.

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 21.0 million and is considerably lower compared with the same period previous year due to a higher number of debtors undergoing bankruptcy proceedings in the half-year reporting period 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:



	Dec 31, 2015		June 30, 2016	
	HRK million	Structure (%)	HRK million	Structure (%)
Total gross portfolio	33,114.2	100	33,322.7	100
out of which:				
- financial institutions	16,006.7	48	14,965.0	45
- direct borrowers	17,107.5	52	18,357.7	55
Total provisions	3,075.3	100	3,057.9	100
out of which:				
- financial institutions	500.1	16	459.0	15
- direct borrowers	2,575.2	84	2,598.9	85
Provisions/Gross portfolio	9%	-	9%	-