HBOR

Hrvatska banka za obnovu i razvitak

# REPORT ON FINANCIAL PERFORMANCE

## FOR THE PERIOD
## 1 JANUARY – 30 SEPTEMBER 2016

**Zagreb, October 2016**

# RESULTS OF THE GROUP

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

HRK million

| | Dec 31, 2014 | Dec 31, 2015 | Sep 30, 2016 |
|---|---|---|---|
| Total assets | 25,786.0 | 25,552.8 | 26,810.9 |
| Gross loans | 24,721.4 | 24,722.8 | 25,377.6 |
| Total equity | 9,431.0 | 9,664.6 | 9,854.9 |
| | | | |
| | **Sep 30, 2014** | **Sep 30, 2015** | **Sep 30, 2016** |
| Total income | 722.8 | 684.9 | 677.6 |
| Total expenses | (580.8) | (575.2) | (517.8) |
| Profit | 142.0 | 109.7 | 159.8 |
| | | | |
| Interest income | 707.5 | 648.3 | 644.9 |
| Interest expense | (369.7) | (358.1) | (340.9) |
| Net interest income | 337.8 | 290.2 | 304.0 |

## SIGNIFICANT CHANGES IN THE FINANCIAL POSITION:

Total assets of the Group on consolidated basis amount to HRK 26,810.9 million, an increase of 5% compared with the beginning of the year as a result of the operations of the parent company. 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 September 2016 amount to HRK 26,810.9 million and out of this amount total liabilities amount to HRK 16,956.0 million, i.e. 63%.

In total liabilities and total equity of the Group, the major portion, i.e. 60% 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 9,854.9 million and accounted for 37% 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.

## SIGNIFICANT CHANGES IN FINANCIAL PERFORMANCE:

In the period from 1 January to 30 September 2016, the HBOR Group generated profit after tax in the amount of HRK 159.8 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 September 2016, total income on consolidated basis amounted to HRK 677.6 million, whereas total expenses amounted to HRK 517.8 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 10% 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 September 2016 amounted to HRK 119.3 million and consisted of general and administrative expenses and other operating expenses.

There were 356 employees in the Group on 30 September 2016, whereas there had been 347 employees on 30 September 2015.

# RESULTS OF HBOR

## SIGNIFICANT CHANGES IN THE FINANCIAL POSITION:

Total assets of HBOR as of 30 September 2016 amounted to HRK 26,796.2 million, an increase of 5% compared with the beginning of the year. The increase in assets is the result of 3% increase in loans as well as the raise on liquidity reserve funds due to withdrawal of borrowings.

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

As of 30 September 2016, cash on hand and deposits with other banks amounted to HRK 773.8 million representing 3% of total assets. This item decreased by 8% 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 3% compared with the beginning of the year and stood at HRK 22,411.4 million as of 30 September 2016, representing 84% of total assets.

Total balance of the gross loans amounts to HRK 25,377.6 million and rose by 3% compared to the beginning of the year.

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 9 months of 2016 amounted to HRK 6.3 billion, that is 11% more than the lending activity in the same period of the previous year.

Gross loans to other customers increased by 12% due to the disbursements of the approved loans within the loan programmes for investments in tourism and infrastructural projects. Loans to financial institutions decreased by 6% 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 3,492.2 million, and rose by 23% 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 | 1,350.3 |
| Bonds of the Republic of Croatia | 382.1 |
| Investments in investment funds | 290.0 |
| **Total** | **2,022.4** |

***Total liabilities***

As of 30 September 2016, total liabilities amounted to HRK 16,945.3 million, which represents 63% 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 16,019.6 million.

Borrowings and bonds payable increased by 8% 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.

On 11 July 2016 HBOR concluded a Finance Contract with European Investment Bank in the amount of EUR 250.0 million for the support of the projects of local small and medium-sized enterprises (SMEs). The loan will contribute to the implementation of projects in the areas of industry services, tourism and other priority sectors. This loan operation contributes to the EIB "Jobs for Youth Initiative" whereby EIB and HBOR would additionally support final beneficiary if they can document that their investment project financed under the facility has also contributed to the creation of youth employment.
Both Contracts are contracted under the financing framework in the amount of EUR 800.0 million aimed at financing SMEs' and mid-capitalized companies that was concluded with EIB on 24 March 2014.

***Total equity***

Total equity amounted to HRK 9,850.9 million, representing 37% 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.

After the reporting period, on 12 October 2016 a payment in the amount of HRK 33.0 million was paid in into the capital out of the State Budget as it was planned. 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 467.0 million.

*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 September 2016, HBOR generated total income of HRK 669.6 million, expenses of HRK 510.7 million and profit in the amount of HRK 158.9 million. Profit generated in the reporting period rose by HRK 50.1 million compared with the profit for the same period of the previous year, i.e. 46%.

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 58.0 million. The following gives explanation of the circumstances that affected the financial result achieved in nine-months period of 2016 compared with the results generated in the same reporting period 2015:

- decrease in impairment loss and provisions of HRK 68.4 million compared to the same period of the prior year,
- decrease in interest expenses of HRK 17.2 million in relation to the same period 2015,
- higher realization of the net losses on financial operations because in the reporting period this item is realized as a loss in the amount of HRK 11.1 million while in the same reporting period of the prior year this item was realized as a gain in the amount of HRK 16.2 million, and
- increase in operating expenses of HRK 15.2 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 302.8 million, an increase of 5% comparing to the same reporting period previous year.

Interest income amounted to HRK 643.7 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 during nine months in 2016,
- low interest rates on liquidity reserve funds.

Interest expenses amounted to HRK 340.9 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 1.5%, as in the same reporting period of the prior year.

### *Net fee income*

Net fee income amounted to HRK 18.9 million, an increase of 76% 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 to the same period of the previous year.

### *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 11.1 million, whereas, in the same reporting period previous year, net gains amounted to HRK 16.2 million.

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

Note:
$A_1$ = HRK appreciation Sep 30, 2016/Dec 31, 2015
$A_2$ = HRK appreciation Sep 30, 2016/Sep 30, 2015

$A_1$ = HRK appreciation Sep 30, 2016/Dec 31, 2015
$A_2$ = HRK appreciation Sep 30, 2016/Sep 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 112.0 million, an increase of 16% compared with the previous year.

This development is mostly affected by other expenses increase by HRK 10.8 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 342 employees as at 30 September 2016, whereas there were 331 employees on 30 September 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 44.9 million and is considerably lower compared with the same period previous year due to a higher number of debtors undergoing bankruptcy proceedings in nine-months reporting period of the previous year, which lead to higher provisions, as well as due to a higher number of pre-bankruptcy settlement proceedings.



2

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

| | Dec 31, 2015 | | Sep 30, 2016 | |
|---|---|---|---|---|
| | HRK million | Structure (%) | HRK million | Structure (%) |
| **Total gross portfolio** | **33,114.2** | **100** | **35,997.3** | **100** |
| out of which: | | | | |
| - financial institutions | 16,006.7 | 48 | 16,477.2 | 46 |
| - direct borrowers | 17,107.5 | 52 | 19,520.1 | 54 |
| | | | | |
| **Total provisions** | **3,075.3** | **100** | **3,076.9** | **100** |
| out of which: | | | | |
| - financial institutions | 500.1 | 16 | 469.2 | 15 |
| - direct borrowers | 2,575.2 | 84 | 2,607.7 | 85 |
| | | | | |
| **Provisions/Gross portfolio** | **9%** | **-** | **9%** | **-** |