



Hrvatska banka za obnovu i razvitak

**REPORT ON FINANCIAL PERFORMANCE
FOR THE PERIOD
1 JANUARY – 31 MARCH 2015**

Zagreb, April 2015

RESULTS OF THE GROUP

SIGNIFICANT CHANGES IN THE FINANCIAL POSITION:

Total assets of the Group on consolidated basis amount to HRK 25,936.6 million, an increase of 1% compared with the beginning of the year.

In the structure of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 82% of total assets.

Total liabilities and total equity as of 31 March 2015 amounted to HRK 25,936.6 million and out of this amount total liabilities amounted to HRK 16,454.6 million, i.e. 63%.

In the 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 9,482.0 million and accounted for 37% of total liabilities and total equity of the Group.

SIGNIFICANT CHANGES IN FINANCIAL PERFORMANCE:

In the period from 1 January to 31 March 2015, the Group generated profit after tax in the amount of HRK 40.4 million.

Pursuant to the provisions of the Act on HBOR, the parent company is exempt from income tax and its income tax liabilities arise exclusively from the activities of the other members of the Group.

In the period 1 January to 31 March 2015, total income on consolidated basis amounted to HRK 228.0 million, whereas total expenses amounted to HRK 187.6 million.

In the structure of income of the Group, the largest portion, i.e. 97% relates to interest income as a result of operation of the parent company.

The major part of total expenses, i.e. 64% relates to interest expenses arising from the operations of the parent company.

The consolidated operating expenses in the period 1 January to 31 March 2015 amounted to HRK 33.9 million, and consisted of general and administrative expenses and other operating expenses.

There were 334 employees in the Group on 31 March 2015, whereas there had been 311 employees on 31 March 2014.

RESULTS OF HBOR

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SIGNIFICANT CHANGES IN THE FINANCIAL POSITION:

Total assets of HBOR as of 31 March 2015 amounted to HRK 25,927.2 million, an increase of 1% compared with the beginning of the year.

Cash on hand and deposits with other banks

Cash on hand and deposits with other banks recorded a slight increase compared with the beginning of the year and amounted to HRK 1,382.4 million, representing 5% of total assets.

Loans to financial institutions and other customers

Total net loans decreased by 2% compared with the previous year, and as of 31 March 2015 stood at HRK 21,360.3 million, representing 82% of total assets.

Total gross loans amounted to HRK 24,311.6 million, a decrease of 2% compared with the beginning of the year.

While the balance of the gross loans to other customers remained at the same level as at the beginning of the year, whereas gross placements to financial institutions decreased by 3% compared with the beginning of the year due to regular repayments.

Assets available for sale

Assets available for sale were comprised primarily of liquidity reserve funds.

Further to this, assets available for sale were comprised primarily of debt instruments and, to a minor extent, of equity instruments.

This assets recorded an increase of 22% compared with the beginning of the year and amounted to HRK 3,016.6 million at the end of the reporting period. The increase in assets available for sale is a result of the investments of available funds in treasury bills, cash investment funds in the Republic of Croatia and bonds of the Ministry of Finance as a part of liquidity reserve instruments in accordance with the Liquidity Risk Management Procedures and pursuant to the covenants in the contracts with foreign creditors.

In the reporting period, the amount of HRK 986.6 million was placed in assets available for sale. Out of this amount treasury bills of the Ministry of Finance amounted to HRK 926.4 million, bonds of the Republic of Croatia amounted to HRK 52.2 million and investments in cash investment funds amounted to HRK 8.0 million.

Other assets

Other assets recorded a significant increase compared with the beginning of the year and amounted to HRK 33.5 million at the end of the reporting period. The stated increase is of a transitional nature caused by the time of completion of a purchase relating to money market investment funds. Although the payment for investment into cash investment funds in the amount of HRK 25.0 million was made on 31 March 2015, the transaction was completed on 1 April 2015 by the receipt of share purchase certificate.

Total liabilities

As of 31 March 2015, total liabilities amounted to HRK 16,446.8 million, which represents 63% of total liabilities and total equity. The major part of total liabilities, i.e. 93% consists of HBOR's borrowings and bonds payable in the total amount of HRK 15,298.3 million.

At the end of the reporting period, total liabilities, borrowings and bonds payable remained at the same level as at the beginning of the year.

Total equity

Total equity amounted to HRK 9,480.4 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.

The total amount of capital contributed from the budget of the Republic of Croatia amounted to HRK 6,467.1 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 532.9 million, i.e. the amount of payment planned in the State Budget for 2015.

SIGNIFICANT CHANGES IN THE FINANCIAL PERFORMANCE:

In the period 1 January to 31 March 2015, HBOR generated total income of HRK 225.9 million, expenses of HRK 185.8 million and profit in the amount of HRK 40.1 million. In the reporting period, total income decreased by 3% compared with the same period previous year as a result of developments in interest income, total expenses remained at the level of the same period previous year and profit was affected by the lower income generated.

Net interest income

Net interest income in the reporting period amounted to HRK 100.1 million, a decrease of 5% on the previous year. The trends in net interest income reflect the developments in interest income generated.

Interest income amounted to HRK 220.7 million, a decrease of 4% on the same period previous year. This trend in interest income is a result of the following:

- interest rate reduction measure implemented by HBOR since the beginning of 2012,
- low yields on available liquidity reserve funds, and
- pre-bankruptcy settlements and restructuring of loans.

Particular attention should be drawn to the fact that HBOR has, through the measure of reducing interest rates for certain categories of final borrowers and investments in the last three business years, given up a portion of its profits in order to provide support to Croatian business entities in crisis conditions. The implementation of the interest rate reduction measure has continued in 2015 by extending it until 30 June 2015.

Interest expenses amounted to HRK 120.6 million, a decrease of 2% compared with the previous reporting year mostly as a result of the following:

- reduction in the level of borrowings in the last two business years and particularly of early repayments of individual borrowings, and
- utilisation of credit lines from special financial institutions at more favourable interest rates.

Net fee income

Net fee income amounted to HRK 3.5 million, an increase of 59% compared with the previous year as a result of increased fee income from guarantee activities caused by a higher volume of guarantees issued.

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 gains from financial activities amounted to HRK 0.2 million, whereas, in the same period previous year, net gains amounted to HRK 0.4 million.

Developments in the exchange rate of kuna against the EUR and the USD reflect the following trends:

- compared with 31 March 2014, the reporting currency appreciated by 0.2% against the EUR and depreciated by 26.4% against the USD, and
- compared with 31 December 2014, it appreciated by 0.2% against the EUR and depreciated by 11.9% against the USD.

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 figures.

Operating expenses

Operating expenses that include general and administrative expenses and other operating expenses stood at HRK 32.1 million, a decrease of 36% compared with the same period previous year.

However, the recorded trend is affected by a one-off expense of HRK 21.0 million that was stated in the same period previous year and that related to the expense arisen due to the taking into direct relationship of the loans of Centar banka d.d. in bankruptcy and to the recalculation of restructured loans.

There were 319 employees as at 31 March 2015 (297 employees as at 31 March 2014).

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 amounted to HRK 33.0 million.