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**REPORT ON FINANCIAL PERFORMANCE**

**FOR THE PERIOD 1 JANUARY – 31 MARCH 2020**

**Zagreb, May 2020**

**RESULTS OF THE GROUP**

**BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INFORMATION OF hbor GROUP**

-HRK million-

|  |  |  |  |
| --- | --- | --- | --- |
|   | 31 December 2018 | 31 December 2019 | 31 March 2020 |
| Total assets | 27,219.0 | 26,470.6 | 26,662.0 |
| Gross loans | 26,243.1 | 26,571.1 | 26,969.8 |
| Total equity | 10,061.1 | 10,274.6 | 10,277.1 |
|   |  |  |  |
|  | **31 March 2018** | **31 March 2019** | **31 March 2020** |
| Total income | 219.6 | 177.4 | 170.3 |
| Total expense | (144.6) | (155.8) | (148.1) |
| Profit | 75.0 | 21.6 | 22.2 |
|   |  |  |  |
| Interest income | 190.9 | 163.3 | 160.5 |
| Interest expense | (84.5) | (81.8) | (72.8) |
| Net interest income | 106.4 | 81.5 | 87.7 |

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**Results of the Group**

In the period 1 January – 31 March 2020, the HBOR Group generated profit after tax in the amount of HRK 22.2 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 – 31 March 2020, total income on consolidated basis amounted to HRK 170.3 million, whereas total expenses amounted to HRK 148.1 million.

The consolidated total income decreased by 4.0 percent, whereas total expenses decreased by 4.9 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. 94.2 percent, relates to interest income as a result of operations of the parent company.

The major part of total expenses, i.e. 49.2 percent, relates to interest expenses arising from the operations of the parent company.

The consolidated operating expenses in the period 1 January – 31 March 2020 amounted to HRK 38.1 million and consisted of general and administrative expenses and other operating expenses.

On 31 March 2020, the Group had 394 employees (on 31 March 2019: 387 employees).

**Assets and liabilities of the Group**

Total assets of the Group on consolidated basis amount to HRK 26,662.0 million, an increase of 0.7 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 88.1 percent of total assets.

Total liabilities and total equity as at 31 March 2020 amount to HRK 26,662.0 million, of which amount total liabilities equal HRK 16,384.9 million, i.e. 61.5 percent.

In total liabilities and total equity of the Group, the major portion, i.e. 59.2 percent, 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 10,277.1 million and accounted for 38.5 percent of total liabilities and total equity of the Group.

 

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\*Property, plant and equipment and intangible assets, Foreclosed assets, Debts 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 31 March 2020, HBOR generated total income of HRK 167.7 million, expenses of HRK 145.9 million and profit in the amount of HRK 21.8 million. HBOR’s profit generated in the reporting period increased by HRK 0.5 million compared with the profit generated in the same period last year, i.e. by 2.3 percent.

The increase in profit in the reporting period compared with the same period last year is a result of a decrease in total income by HRK 7.1 million and a decrease in total expenses by HRK 7.6 million. The circumstances that affected the financial result achieved in the three-month reporting period 2020 compared to the results generated in the same period in 2019 are:

* decrease in interest income of HRK 2.8 million, i.e. by 1.7 percent,
* decrease in interest expenses of HRK 9.1 million, i.e. by 11.1 percent,
* decrease in net income from fees and commissions of HRK 1.7 million, i.e. by 25.4 percent,
* realization of expenses from financial activities in the amount of HRK 19.2 million, while in the same period last year revenues from financial activities in the amount of HRK 3.4 million were realized,
* decrease in losses from impairment and provisions in the amount of HRK 18.4 million,
* increase in operating expenses of HRK 0.8 million, i.e. by 2.3 percent.

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

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***Net interest income***

Net interest income amounted to HRK 87.5 million, an increase of 7.8 percent on the same period of the previous reporting year.

Interest income amounted to HRK 160.2 million, a decrease of 1.7 percent on the same reporting period last year due to decreased interest income from long-term loans due to the long-term implementation of measures of interest rate reduction, reduction of interest income from interest rate subsidies, significant amounts of premature loan repayments in 2019 and the manner of recording of interest income from exposures classified to stage 3 and POCI assets (unwinding).

On this basis, from 1 January to 31 March 2020, interest income was reduced by HRK 10.6 million, while in the same reporting period in 2019 it decreased by HRK 8.7 million.

Interest expenses amounted to HRK 72.7 million, a decrease of 11.1 percent on the same reporting period last year, which was mostly affected by the repayment of loans and the utilisation of credit lines of special financial institutions at favourable interest rates.

Having in mind the described trends in interest income and interest expenses, net interest margin increased compared with the same reporting period last year and stood at 1.3 percent as against 1.2 percent in the same reporting period last year.

***Net fee income and commission income***

Net fee and commission income amounted to HRK 5.0 million, a decrease of 25.4 percent compared with the same reporting period last year due to a lower volume of guarantees issued.

***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 losses on financial operations amounted to HRK 19.2 million, whereas, in the same reporting period previous year, net gains amounted to HRK 3.4 million.

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

  

 Note:

 D1 = HRK depreciation 31.3.2020/31.12.2019 D1 = HRK depreciation 31.3.2020/31.12.2019

 D2 = HRK depreciation 31.3.2020/31.3.2019 D2 = HRK depreciation 31.3.2020/31.3.2019

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 36.1 million, an increase of 2.3 percent compared with the same reporting period last year. This increase is the result of increase in recalculation and write-offs under financial instruments by 64.6 percent.

On 31 March 2020, HBOR had 374 employees (on 31 March 2019: 367 employees).

***Impairment gain/(loss) and provisions***

In the reporting period, net expenses from the impairment of placements stood at HRK 17.6 million.

The text to follow contains a breakdown of portfolio quality:

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| --- | --- | --- |
|  | **31 December 2019** | **31 March 2020** |
|  | **In HRK millions** | **Breakdown (percent)** | **In HRK millions** | **Breakdown (percent)** |
| **Total gross portfolio** | **34,024.8** | **100.00** | **34,294.2** | **100.00** |
|  Of which: |  |  |  |  |
|  - financial institutions | 13,186.7 | 38.8 | 13,368.2 | 39.0 |
|  - direct | 20,838.1 | 61.2 | 20,926.0 | 61.0 |
|  |  |  |  |  |
| **Total provisions** | **3,518.7** | **100.00** | **3,544.1** | **100.00** |
| Of which: |  |  |  |  |
| - financial institutions | 65.9 | 1.9 | 64.2 | 1.8 |
| - direct | 3,452.8 | 98.1 | 3,479.9 | 98.2 |
|  |  |  |  |  |
| **Provisions/gross portfolio** | **10.3 percent**  | **-** | **10.3 percent** | **-** |

**Significant changes in financial position**

Total assets of HBOR as at 31 March 2020 amounted to HRK 26,639.6 million, an increase of 0.7 percent compared with 31 December 2019.

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

As at 31 March 2020, cash on hand and deposits with other banks amounted to HRK 1,483.3 million representing 5.6 percent of total assets, an increase of 3.4 percent compared with 31 December 2019 as a result of reallocation of liquidity reserve funds.

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

As at 31 March 2020, total net loans amounted to HRK 23,498.2 million representing 88.2 percent of total assets, an increase 1.5 percent on the beginning of the year.

Total gross loans amounted to HRK 26,969.8 million, an increase of 1.5 percent compared with 31 December 2019. Gross loans to other customers increased by 2.5 percent compared with the end of 2019. Gross loans to financial institutions were retained at the level generated in 2019.

As at 31. March 2020, the proportion between gross loans on-lent through financial institutions and direct placements stood at 35 percent : 65 percent (as at 31 December 2019: 36 percent : 64 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 31 March 2020, the total amount of these assets was HRK 184.2 million representing 0.7 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 1,313.7 million, representing 4.9 percent of total assets and recorded a decrease compared to the beginning of the year by 13.1 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 3.2 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 26.8 million, representing 0.1 percent of total assets.

  

  

***Total liabilities***

As at 31 March 2020, total liabilities amounted to HRK 16,369.6 million, which represents 61.5 percent of total liabilities and total equity. The major part of total liabilities consists of HBOR’s foreign borrowings and bonds payable in the total amount of HRK 15,788.7 million.

Borrowings and bonds payable decreased by 1.5 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  | 486.0 |
| - Repayments of borrowings | (629.4) |
| - Foreign exchange gains or losses | 347.9 |
| - Other calculations \* | 25.4 |
| **Total changes** | **229.9** |
|  |  |
| *\* Other calculations relate to the changes in discount, amount of interest not due and deferred fees.* |

***Total equity***

Total equity amounted to HRK 10,270.0 million, representing 38.5 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 period from 1 January to 31 March 2020 there were no payments from the State Budget of the Republic of Croatia to the founder’s capital of HBOR. The planned contribution in 2020 is HRK 50.0 million.

The total amount of capital contributed from the budget of the Republic of Croatia amounted to HRK 6,683.00 million, and the remaining amount to be contributed to the founder’s capital up to the total amount of HRK 7,000.00 million set by the HBOR Act is HRK 317.00 million.

  

  

\*Investments in subsidiaries, Property, plant and equipment and intangible assets, Foreclosed assets and Other assets.

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