



CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

SEMI-ANNUAL REPORT

FOR THE PERIOD 1 JANUARY – 30 JUNE 2024

Zagreb, August 2024

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

To the best of our knowledge the management report for the period 1 January – 30 June 2024 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 Management
Board



Hrvoje Čuvalo, MSc

Member of the Management
Board



Alan Herjavec, MSc

Member of the Management
Board



Josip Pavković

Zagreb, 22 August 2024

MANAGEMENT REPORT FOR THE PERIOD

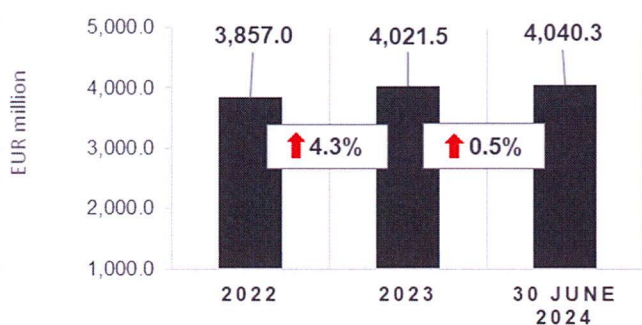
1 JANUARY – 30 JUNE 2024

RESULTS OF THE GROUP

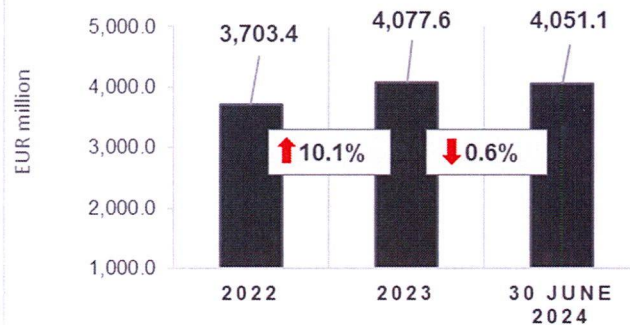
BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INFORMATION OF HBOR GROUP

-in millions of euros-	2022	2023	30 June 2024
Total assets	3,857.0	4,021.5	4,040.3
Gross loans	3,703.4	4,077.6	4,051.1
Total equity	1,422.2	1,457.9	1,496.6
	1 January – 30 June 2022	1 January – 30 June 2023	1 January – 30 June 2024
Total income	75.1	58.4	76.5
Total expense	(25.7)	(28.6)	(38.0)
Profit	49.4	29.8	38.5
Interest income calculated on the basis of effective interest rate method and income from cancellation of the subsidy deferral at the expense of HBOR's operations	43.6	44.3	56.3
Interest expense	(10.5)	(12.3)	(22.1)
Net interest income	33.1	32.0	34.2

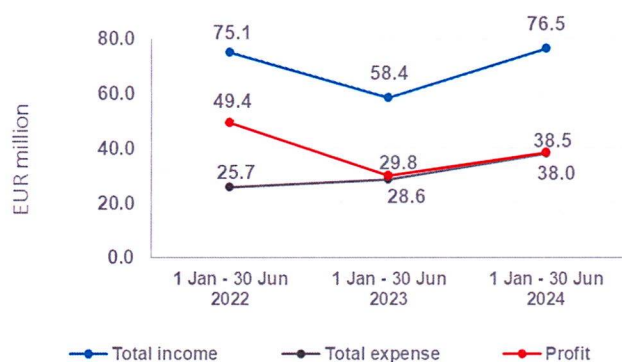
TOTAL ASSETS



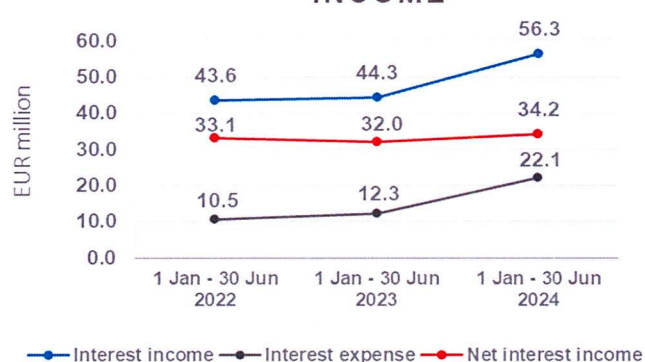
GROSS LOANS



TOTAL INCOME, TOTAL EXPENSE AND PROFIT



INTEREST INCOME, INTEREST EXPENSE AND NET INTEREST INCOME



Results of the Group

In the period 1 January – 30 June 2024, the HBOR Group generated profit after tax in the amount of EUR 38.5 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 – 30 June 2024, total income on consolidated basis amounted to EUR 76.5 million, whereas total expenses amounted to EUR 38.0 million.

The consolidated total income increased by 31.0 percent, whereas total expenses increased by 32.9 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. 73.6 percent, relates to interest income as a result of operations of the parent company.

The major part of total expenses, relates to interest expense (58.2 percent) and operating expenses (40.3 percent) arising from the operations of the parent company.

The consolidated operating expenses in the period 1 January – 30 June 2024 amounted to EUR 15.3 million and consisted of general and administrative expenses and other operating expenses.

On 30 June 2024, the Group had 447 employees (on 30 June 2023: 414 employees).

Assets and liabilities of the Group

Total assets of the Group on consolidated basis amount to EUR 4,040.3 million and were retained at the level from the beginning of the year.

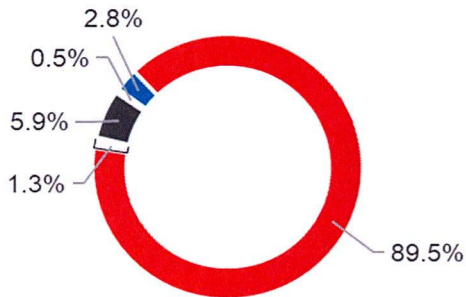
In the structure of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 88.9 percent of total assets.

Total liabilities and total equity as at 30 June 2024 amount to EUR 4,040.3 million, of which amount total liabilities equal EUR 2,543.7 million, i.e. 62.9 percent.

In total liabilities and total equity of the Group, the major portion, i.e. 54.8 percent, consists of borrowings of the parent company.

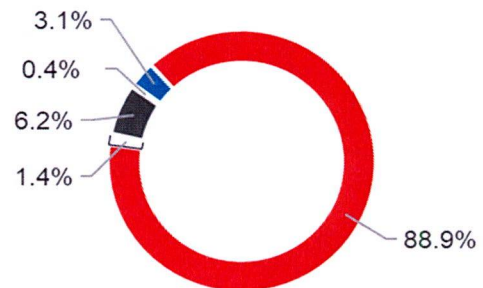
At the end of the reporting period, total equity on consolidated basis amounted to EUR 1,496.6 million and accounted for 37.1 percent of total liabilities and total equity of the Group.

TOTAL ASSETS
31 December 2023



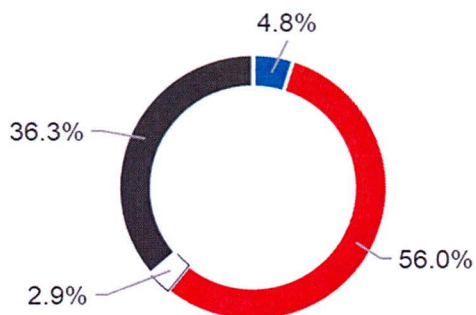
- Cash on hand and deposits with other banks
- Total loans, net
- Financial assets at FVPL
- Financial assets at FVOCI
- Other assets*

TOTAL ASSETS
30 June 2024



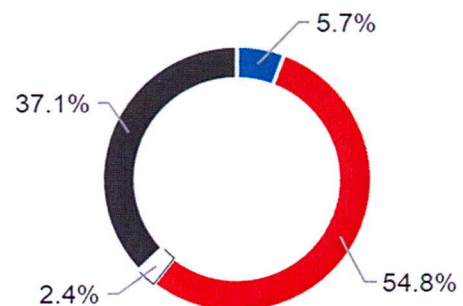
- Cash on hand and deposits with other banks
- Total loans, net
- Financial assets at FVPL
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- Other assets*

TOTAL LIABILITIES AND TOTAL EQUITY
31 December 2023



- Deposits from customers
- Borrowings
- Other liabilities and provisions**
- Total equity

TOTAL LIABILITIES AND TOTAL EQUITY
30 June 2024



- Deposits from customers
- Borrowings
- Other liabilities and provisions**
- Total equity

*Property, plant and equipment and intangible assets, Foreclosed assets, Debt 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 30 June 2024, HBOR generated total income of EUR 75.0 million, expenses of EUR 36.6 million and profit in the amount of EUR 38.4 million. HBOR's profit generated in the reporting period increased by EUR 8.9 million compared with the profit generated in the same period last year.

The increase in profit in the period from 1 January to 30 June 2024 compared with the same period last year is a result of an increase in total income by EUR 18.1 million and an increase in total expenses by EUR 9.2 million.

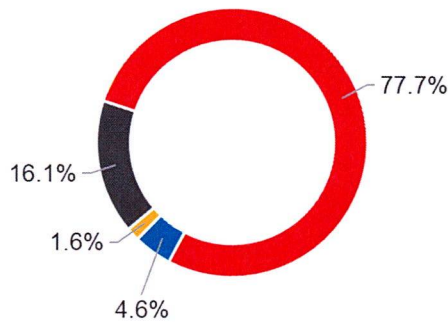
The circumstances that affected the financial result achieved in the six-month reporting period 2024 compared to the results generated in the same period in 2023 are:

- increase in interest income of EUR 11.7 million,
- increase income from the cancellation of the subsidy deferral at the expense of HBOR's operations by EUR 0.3 million,
- increase in interest expenses of EUR 9.8 million,
- decrease in net income from fees and commissions of EUR 1.5 million,
- increase in net gains from financial activities in the amount of EUR 3.1 million,
- increase in other income of EUR 1.2 million,
- increase in impairment gain and provisions by EUR 6.1 million,
- increase in operating expenses of EUR 1.9 million,
- increase in subsidy cost at the expense of HBOR's operations by EUR 0.3 million.

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

TOTAL INCOME

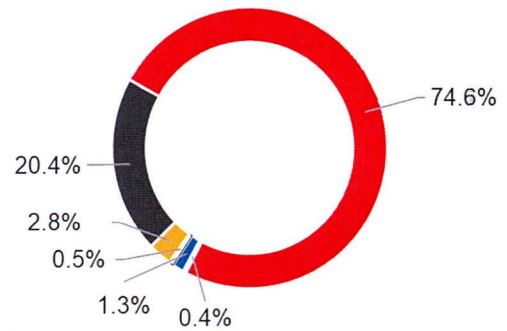
1 January - 30 June 2023



- Interest income
- Fee and commission income
- Other income
- Impairment gain and provisions

TOTAL INCOME

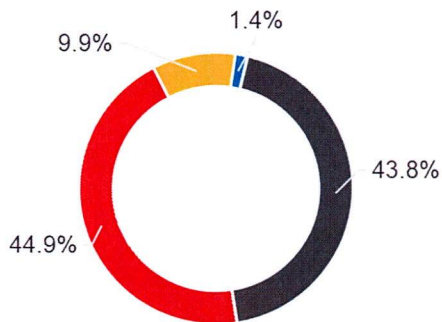
1 January - 30 June 2024



- Interest income
- Income from the cancellation of the subsidy deferral at the expense of HBOR's operations
- Fee and commission income
- Net gains on financial operations
- Other income
- Impairment gain and provisions

TOTAL EXPENSE

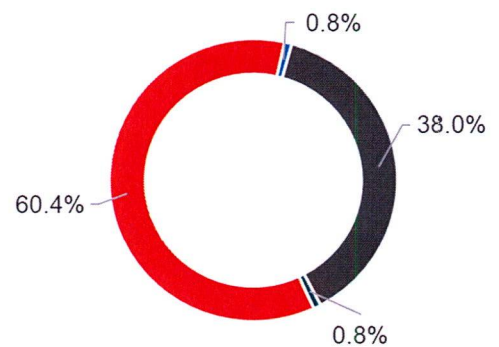
1 January - 30 June 2023



- Interest expense
- Net losses on financial operations
- Fee and commission expense
- Operating expenses

TOTAL EXPENSE

1 January - 30 June 2024



- Interest expense
- Fee and commission expense
- Operating expenses
- Subsidy costs at the expense of HBOR's operations

Net interest income

Net interest income amounted to EUR 34.1 million, an increase of 6.9 percent on the same period of the previous year.

Interest income stood at EUR 55.9 million, an increase of 26.5 percent compared with the same reporting period previous year due to an increase in lending activity in the amount of EUR 5.5 million, the collection of subsidised interest income in the amount of HRK 2.7 million and due to an increase in interest income from short-term Treasury operations in the amount of EUR 3.2 million.

In addition, interest income rose by EUR 0.3 million owing to the income resulting from the cancellation of the subsidy deferral at the expense of HBOR's operations.

Interest expenses amounted to EUR 22.1 million, an increase of 79.7 percent on the same reporting period last year, which is the result of growth of borrowings.

Considering the described trends, the higher increase in interest income in the absolute amount of EUR 12.0 million compared with interest expenses of EUR 9.8 million influenced the increase in the net interest margin in comparison with the same reporting period previous year, which stood at 1.7 percent, whereas it had amounted to 1.6 percent in the same period previous year.

Net fee income and commission income

Net fee and commission income amounted to EUR 0.7 million, a decrease of 68.2 percent compared with the same reporting period last year due to a decrease in income from fees and commissions for transactions in the name and for the account and in respect of the fees for issued guarantees.

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, 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 gains from financial activities amounted to EUR 0.4 million, whereas, in the same reporting period previous year, net losses amounted to EUR 2.7 million.

A breakdown of changes in the exchange rate of the euros against the USD:



Note:

D₁ = EUR depreciation Jun 30, 2024/Dec 31, 2023

D₂ = EUR depreciation Jun 30, 2024/Jun 30, 2023

Funds and sources of funds that are denominated in another currency or are indexed to the currency clause are converted by HBOR into the equivalent value in EUR at the middle exchange rate of HBOR or another agreed exchange rate on the reporting date.

Revenues and expenditures in another currency are converted at the exchange rate on 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 EUR 13.9 million, an increase of 15.8 percent compared with the same reporting period last year, as a result of an increase in general and administrative expenses due to an increase in the number of employees.

On 30 June 2024, HBOR had 427 employees (on 30 June 2023: 392 employees).

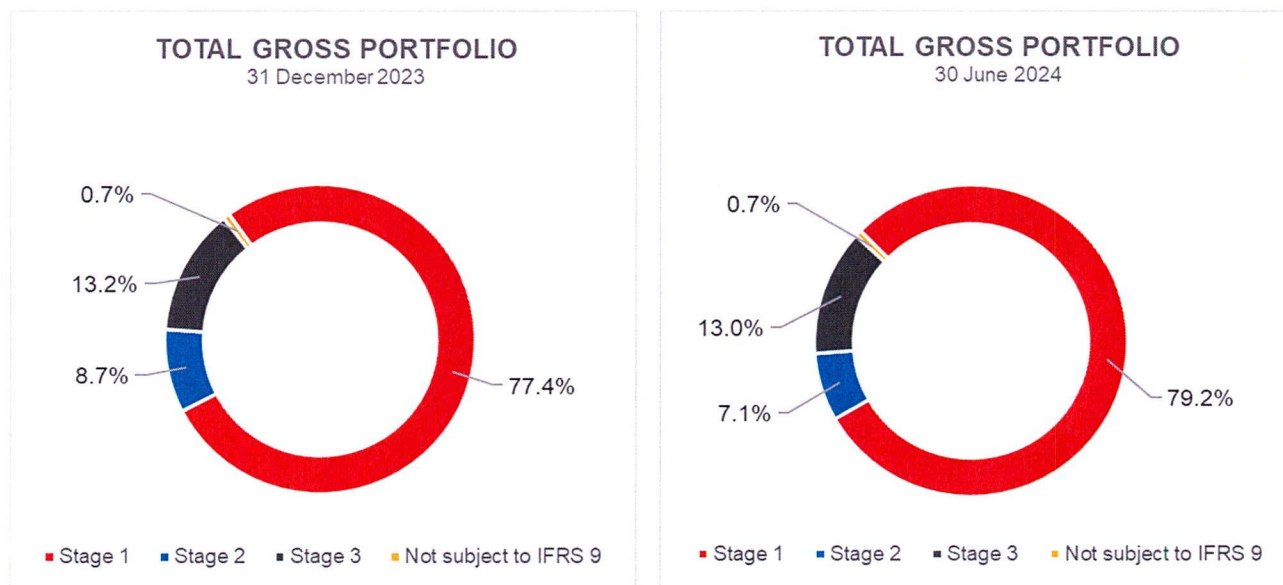
Subsidy costs at the expense of HBOR's operations

Subsidy costs at the expense of HBOR's operations stood at HRK 0.3 million and are linked with the new product of subsidising interest rates at the expense of HBOR's operations that was introduced in the second half of 2023.

Impairment gain/(loss) and provisions

In the reporting period, a net gain from impairment of placements in the amount of EUR 15.3 million was recorded (in the period 1 January – 30 June 2023: net gain in the amount of EUR 9.2 million).

The text to follow contains a breakdown of portfolio quality:



Overview of total gross portfolio and provisions by structure – financial institutions and direct

	2023		Jun 30, 2024	
	In millions of euros	Breakdown (percent)	In millions of euros	Breakdown (percent)
Total gross portfolio	4,980.5	100.00	5,084.3	100.00
Of which:				
- financial institutions	1,576.6	31.7	1,650.2	32.5
- direct	3,403.9	68.3	3,434.1	67.5
Total provisions	496.9	100.00	473.5	100.00
Of which:				
- financial institutions	7.9	1.6	7.4	1.6
- direct	489.0	98.4	466.1	98.4
Provisions/gross portfolio	10.0 percent	-	9.3 percent	-

Significant changes in financial position

Total assets of HBOR as at 30 June 2024 amounted to EUR 4,037.3 million and were retained at the level from the beginning of the year.

Cash on hand and deposits with other banks

As at 30 June 2024, cash on hand and deposits with other banks amounted to EUR 123.4 million representing 3.1 percent of total assets, an increase of 11.2 percent compared with 31 December 2023 as a result of reallocation of liquidity reserve funds.

Loans to financial institutions and other customers

As at 30 June 2024, total net loans amounted to EUR 3,592.7 million representing 89.0 percent of total assets and were retained at the level from the beginning of the year.

Total gross loans amounted to EUR 4,051.1 million and were retained at the level from the beginning of the year. Gross loans to other customers were retained at the level from the beginning of the year as were gross loans to financial institutions.

As at 30 June 2024, the proportion between gross loans on-lent through financial institutions and direct placements stood at 31 percent : 69 percent (31 December 2023: 31 percent: 69 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 30 June 2024, the total amount of these assets was EUR 55.7 million representing 1.4 percent of total assets.

Financial assets at fair value through other comprehensive income

a) Debt instruments

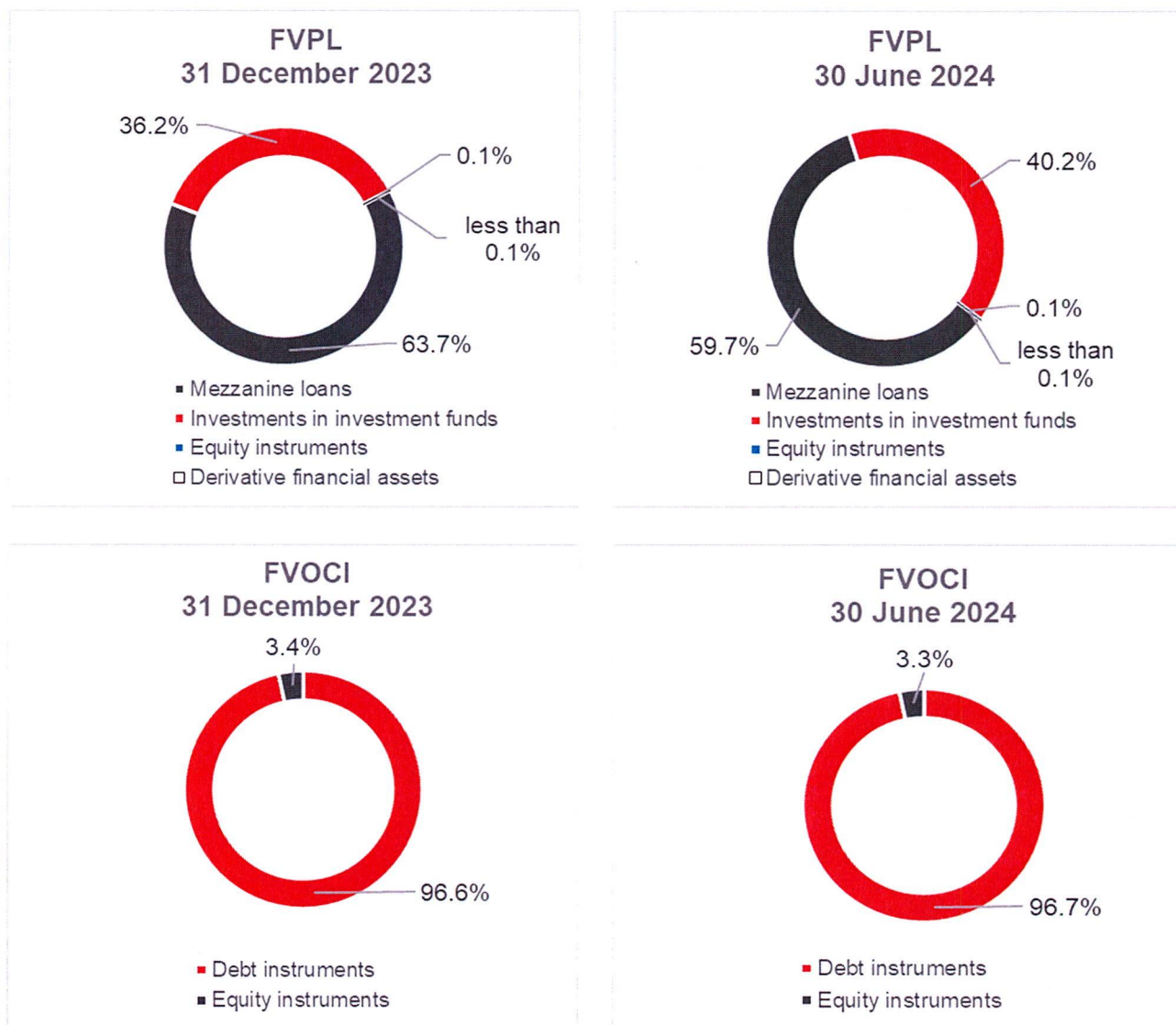
Bonds of the Republic of Croatia and treasury bills of the Ministry of Finance as part of liquidity reserve as well as bonds of a company are classified to these assets. On the reporting date, they amounted to EUR 236.2 million, representing 5.9 percent of total assets and recorded an increase compared to the beginning of the year by 6.9 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 EUR 0.5 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 EUR 8.1 million, representing 0.2 percent of total assets.



Total liabilities

As at 30 June 2024, total liabilities amounted to EUR 2,541.1 million, which represents 62.9 percent of total liabilities and total equity. The major part of total liabilities consists of HBOR's borrowings in the total amount of EUR 2,213.8 million.

Borrowings decreased by 1.7 percent compared with the beginning of the year, whereas changes in these liabilities are shown in the following table:

	(in millions of euros)
- Draw-down of funds borrowed under previously contracted funds of special financial institutions	306.2
- Repayments of borrowings	(346.1)
- Foreign exchange gains or losses	0.6
- Other calculations *	1.9
Total changes	(37.4)

* Other calculations relate to changes in amount of interest not due and deferred fees.

Total equity

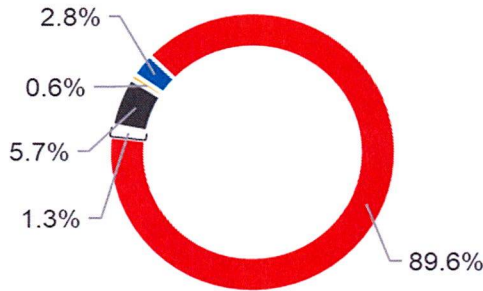
Out of the total amount of total liabilities and total equity, EUR 1,496.2 million or 37.1 percent relate to total equity.

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.

The total amount of capital contributed from the budget of the Republic of Croatia stood at EUR 902.3 million, and the remaining amount to be contributed to the founder's capital up to the total amount of EUR 929.1 million set by the HBOR Act is EUR 26.8 million.

TOTAL ASSETS

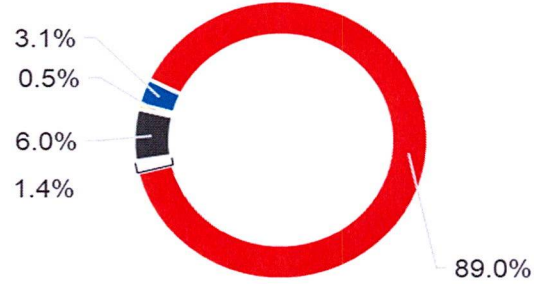
31 December 2023



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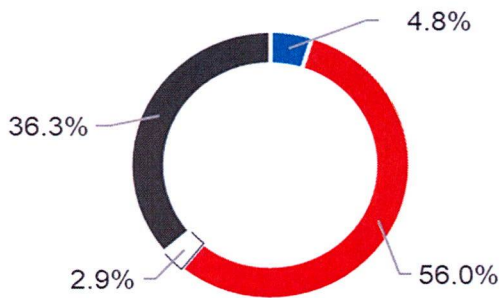
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TOTAL LIABILITIES AND TOTAL EQUITY

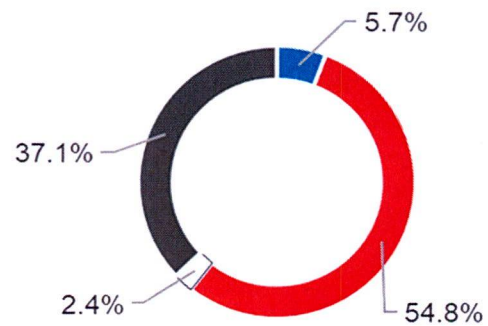
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TOTAL LIABILITIES AND TOTAL EQUITY

30 June 2024



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