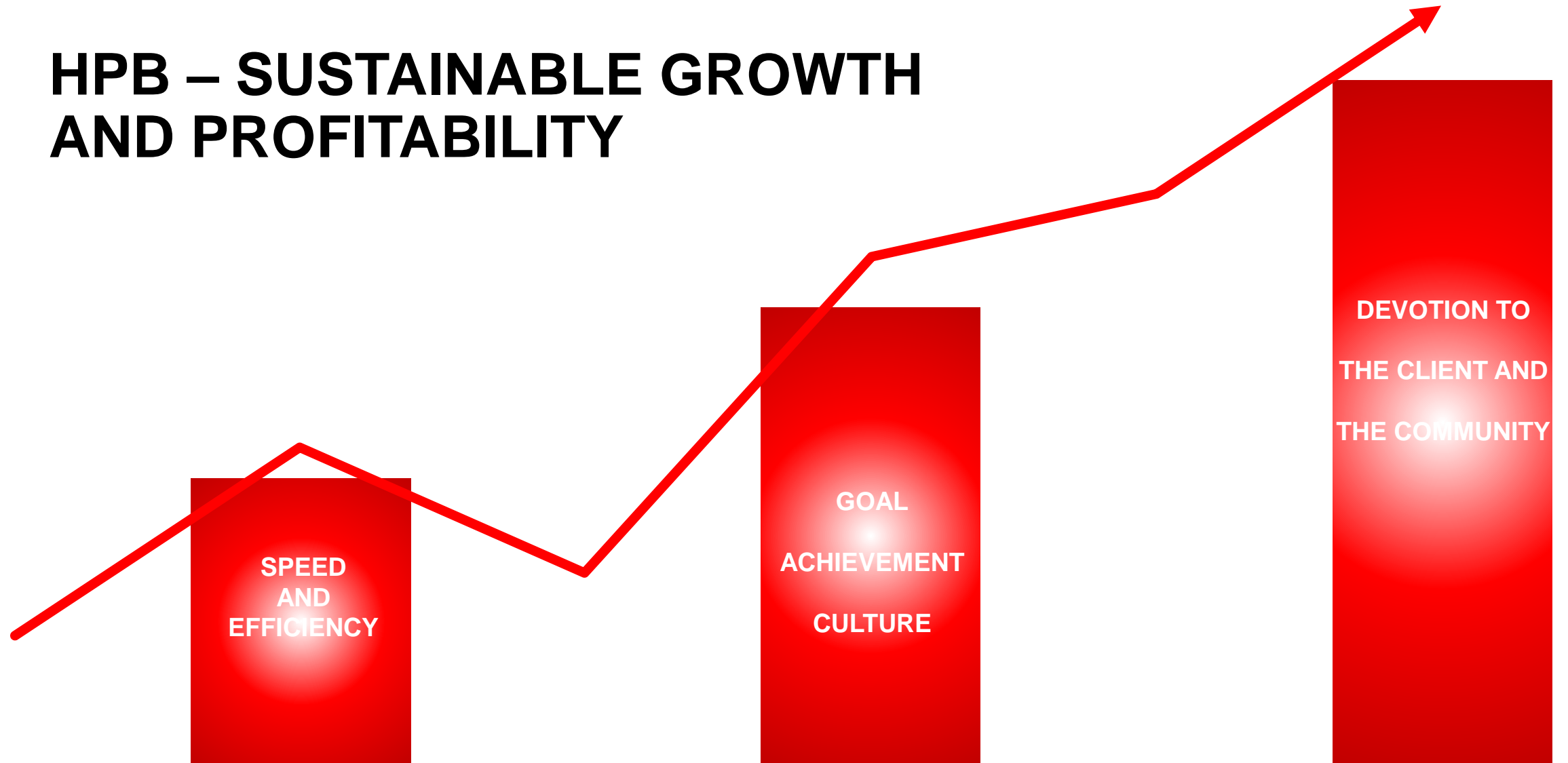


HPB – SUSTAINABLE GROWTH AND PROFITABILITY

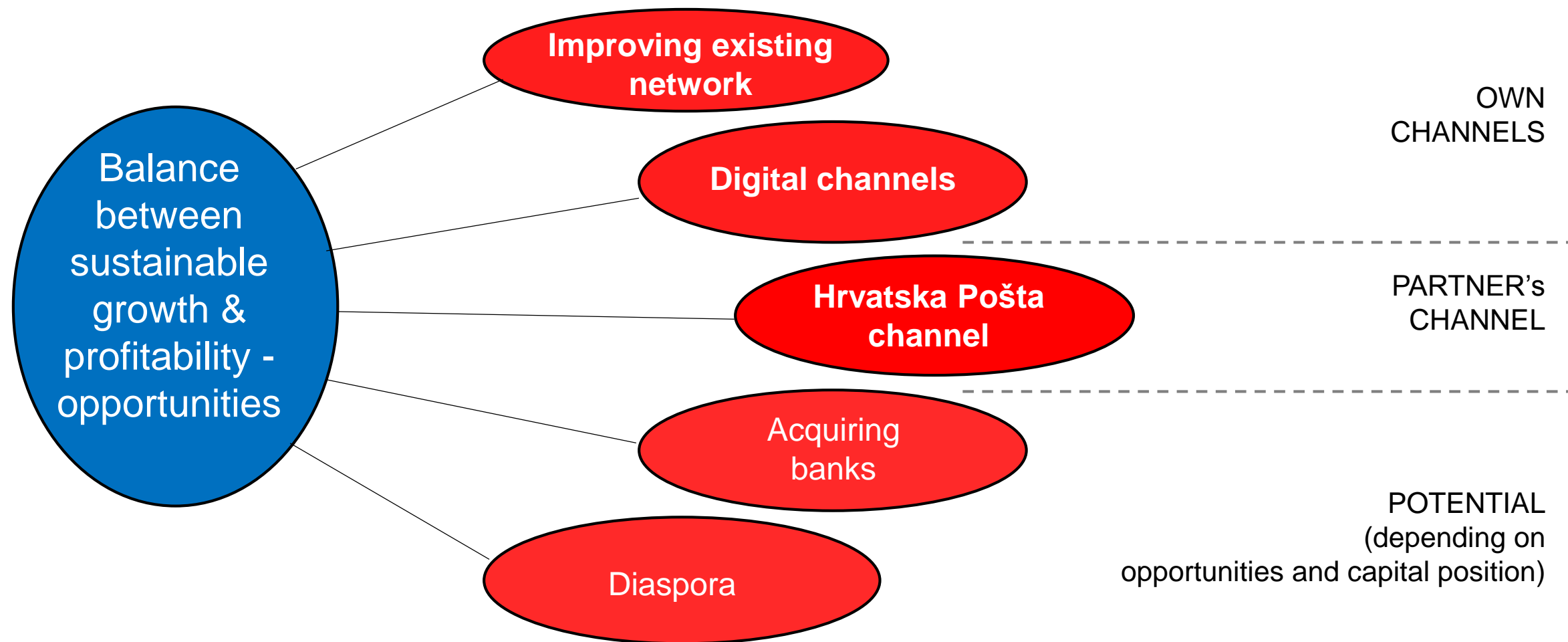


SUMMARY

- Largest **Croatian owned banking group** that takes care of **clients, shareholders, employees and community in the best possible manner.**
- **600 retail clients and more than 8 thousand corporate clients, 53 branches and outlets, 8 retail regional centers and 11 corporate regional centers,** almost **500 ATMs** and almost 1 thousand postal offices,
- **Assets over HRK 20B and capital HRK 1,9B***, ranked seventh by size in Croatia
- A **successful capital increase process** had been carried out in **2015** where **private investors** and the **Government** took part. This enabled the Bank to **avoid rehabilitation procedure**, cover legacy losses and **ensure minimum regulatory capital adequacy rate as approved by the European Commission.**
- **In 2015 and 2016** the Bank was successfully **restructured**, reorganized and with improved HR base. On the results front, these were the **best two years since the Bank's incorporation** (HRK123M and HRK181M net profit in 2015 and 2016 respectively) with substantial improvement of market share, **all above expectations.**
- **by 2016 year-end HPB reached 5,00% market share treshold**, which assumes additional capital buffer of 1,5 pp, and other regulatory limits that impede further growth, utilization of economy of scale, and investments into know-how and new technologies. In order to neutralize higher capital requirements due to coming regulation, and to continue with development of operations based on combination of sustainable growth and profitability, HPB need HRK 600M of capital,
- **Development plans will be met by rational cost & risk management.** It assumes improvement of the existing network, usage of Hrvatska Pošta channel, investment in digital channels, offering services to Croatian diaspora, and subject to opportunities, acquisition of smaller banks.



Largest Croatian-owned banking group that takes care of clients, shareholders, employees and community in the best possible manner



- Development plans will be achieved by rational cost & risk management, by improving existing network (retail, SME and local government operations) investment in digital channels, utilizing Hrvatska Pošta channel, offering services to Croatian diaspora, and depending on opportunities – acquisition of smaller banks.



POTREBA ZA KAPITALOM

Razvoj i prilagodba budućoj regulativi

GROWTH CAPACITY

- During 2015 and 2016 HPB had proven that through organic growth it can achieve growth rates on declining market, and had managed to exceed profitability goals on the market characterized by fierce competition

ECONOMY OF SCALE

- a portion of fixed and regulation costs in relation to total size enables larger institutions to achieve better scale, income and expenses. Therefore, depending on opportunities and conditions, acquisition of smaller banks would be a logical business decision.

UNDERCAPITALIZED IN COMPARISON WITH COMPETITORS

- HPB is one of the least capitalized banks among large banks in Croatia, making recapitalization a necessity for further volume and profit growth

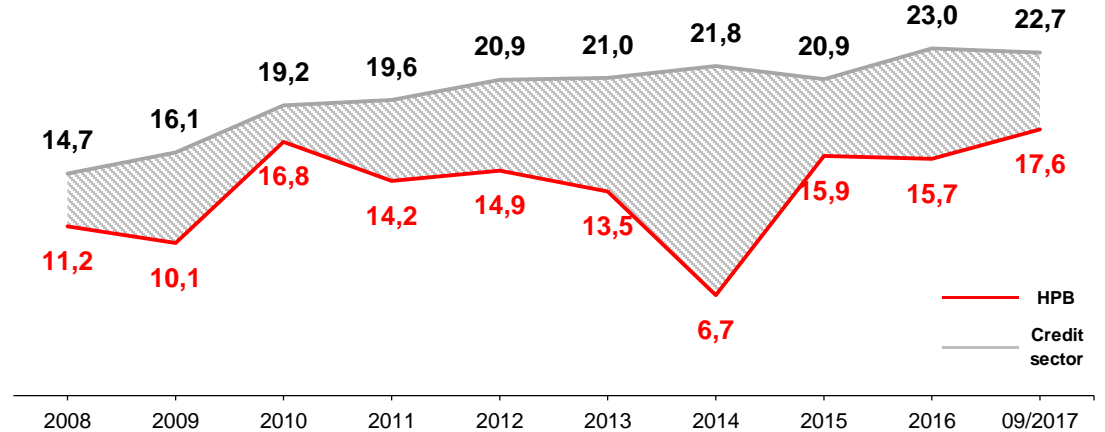
PRESERVING EXISTING INVESTMENT

- taking into account capitalization on the limits, inability to grow and with time - new regulations, existing shareholder value will decrease without recapitalization

CURRENT AND FUTURE REGULATION

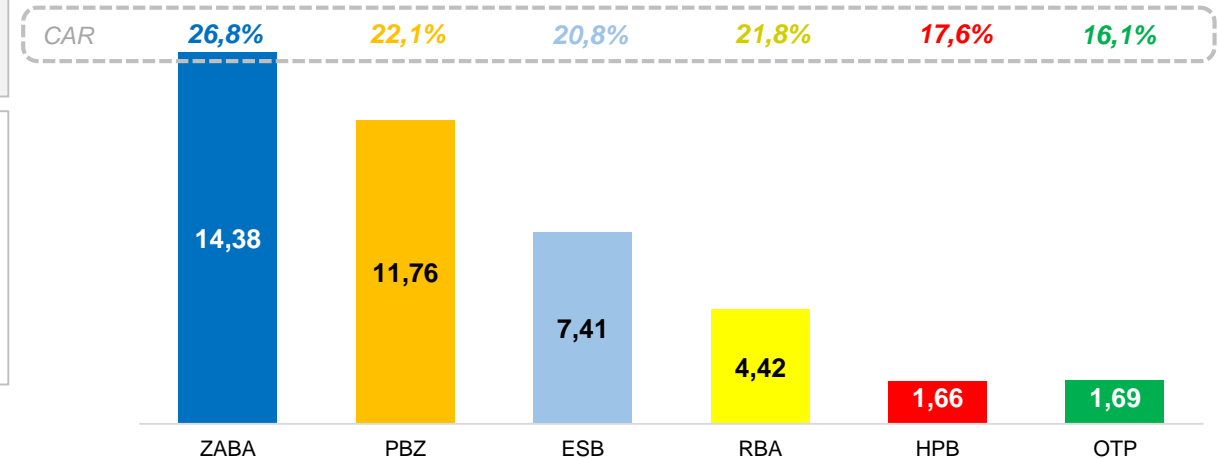
- SSR capital buffer – by exceeding 5,00% market share limit, an additional capital buffer of 1,5 pp will be imposed on the Bank
- IFRS 9 – losses on financial instruments will no longer be recognized on „incurred loss” basis, but on „expected loss” basis, which will additionally burden the capital,
- Regulation (EU) 575/2013 with regard to Croatian sovereign debt in EUR
- MREL – depending on liabilities structure, new solvency minimum will be imposed on the banks
- Other unforeseen regulations will come into force in 2018 and coming years

Capital adequacy ratio – HPB and credit sector



NOTE: highlighted field denotes the capitalization gap between the credit sector and HPB
 Source: Pokazatelji poslovanja kreditnih institucija, www.hnb.hr
 Analysis: HPB

Own funds and CAR – HPB and TOP4 banks in Croatia + OTP



Source: Pokazatelji poslovanja kreditnih institucija, www.hnb.hr
 Analysis: HPB

