



HRVATSKA POŠTANSKA BANKA

# **HPB d.d. RESULTS Q3 20**

## Investor information

# Limitation of liability

- The information and data contained in this presentation are intended to be general background information on Hrvatska poštanska banka p.l.c. (hereinafter referred to as the Bank or HPB p.l.c.) and its activities and is supplied in summary form and therefore not necessarily complete.
- This presentation may include information and data derived from publicly available sources that have not been independently verified, therefore HPB p.l.c. hereby expressly makes no representation of warranty of any kind, including, but not limited to the accuracy, completeness or reliability of the provided information and data.
- Contained statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions therefore, when making decisions based on predictions of future uncertain events, the investors and/or others should carefully consider such factors and other uncertainties and events.

# **1 Executive Summary**

## **2 Macroeconomic environment**

## **3 Financials**

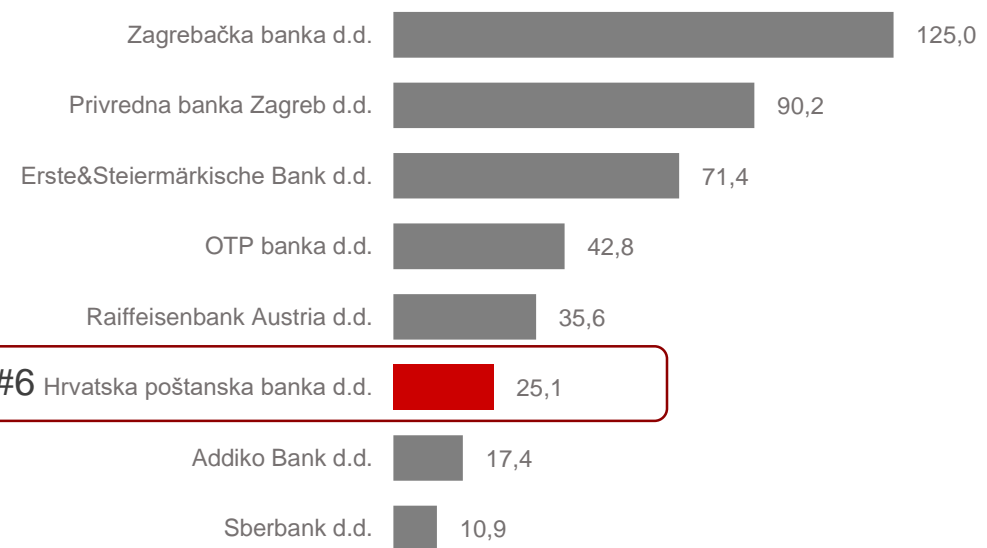
## **4 Risk Management**

## **5 Appendix**

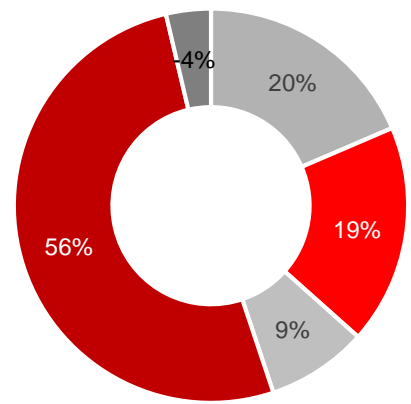
2017 2018 2019 30.9.2019 30.9.2020

Market position by total assets as of 30 Jun 2020 (in HRK bln)

	HRK mil	2017	2018	2019	30.9.2019	30.9.2020
Assets	HRK mil	19.799	21.256	23.844	24.155	25.590 ▲
Net loans to customers	HRK mil	10.963	11.009	13.341	12.638	14.174 ▲
Deposits	HRK mil	16.951	18.371	20.069	20.454	21.345 ▲
Equity	HRK mil	1.905	2.003	2.370	2.413	2.443 ▲
Income	HRK mil	1.276	1.173	1.227	941	846 ▼
Net profit	HRK mil	8	152	144	170	165 ▼
Cost-to-income ratio	%	54,4	60,1	61,3	55,8	62,7 ▼
Return on equity	%	0,4	7,6	6,1	7,1	6,7 ▼
CET 1 capital ratio	%	18,1	17,9	20,2	19,9	20,6 ▲
Total capital ratio	%	18,1	17,9	20,2	19,9	20,6 ▲
NPL share	%	12,8	11,7	10,8	11,8	10,4 ▲
NPL coverage	%	61,1	67,3	67,5	69,5	62,5 ▼



Composition of Net profit as of Sep, 30 2020



■ Financial market ■ State ■ Corporate ■ Retail ■ Other

Successful completion of a comprehensive assessment provided by the European Central Bank (AQR and Stress Test)

Total assets up +7,32% (ytd) → net placements up +6,2% (ytd)

In July 2020 market share increased up to 5,63% (June 2020 = 5,55%)

Net profit lower by 3,3% in comparison with 9M 2019

Selective loan growth → largest increase in the segment of placements to the central and local government and retail (housing loan subsidies)

SARK at historically highest level of 20,6%

# Key Financials Q3 2020

## Operating result (in HRK thousand)



Operating profit is lower due to lower operating income mostly affected by COVID-19 disease and higher cost growth

Net interest income increased by +0,92%; net income from fees and commissions decreased by -14,5% due to the suspension of customer fees and the slowdown in economic activities (lower tourist season)

## Gross loans (in HRK thousand)



Highest growth in the corporate and public sector segment (HRK +524 million) while retail segment records continuous growth (HRK + 505 million)

## Net result (in HRK thousand)



Net profit in comparison with same period 2019 is lower mainly due to a decline in operating profit

Provisioning decreased by -67,73% due to the cancellation of provisions for litigation (HRK 89 million); credit risk provisions at the same level

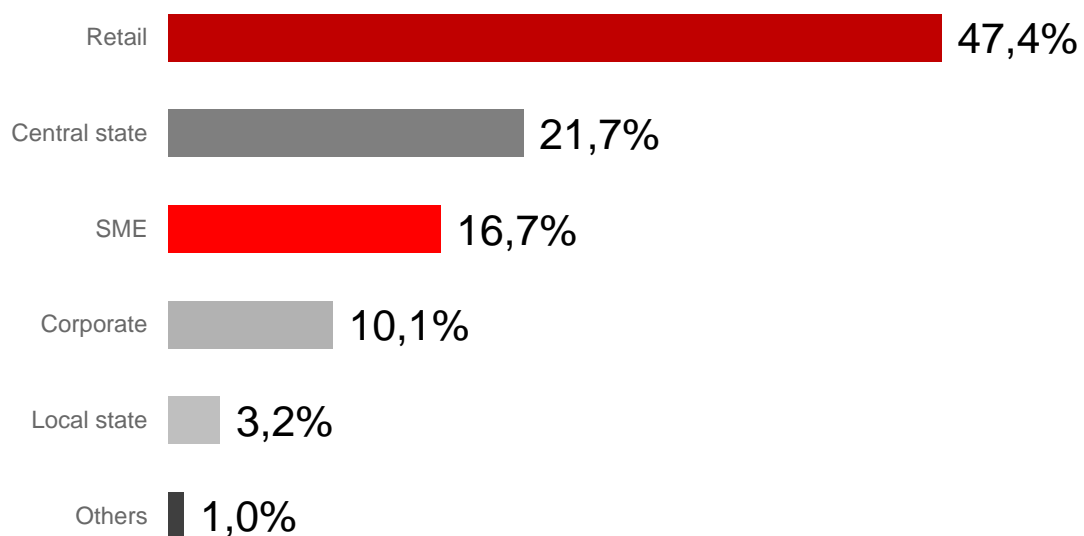
## CET 1 capital ratio (in %)



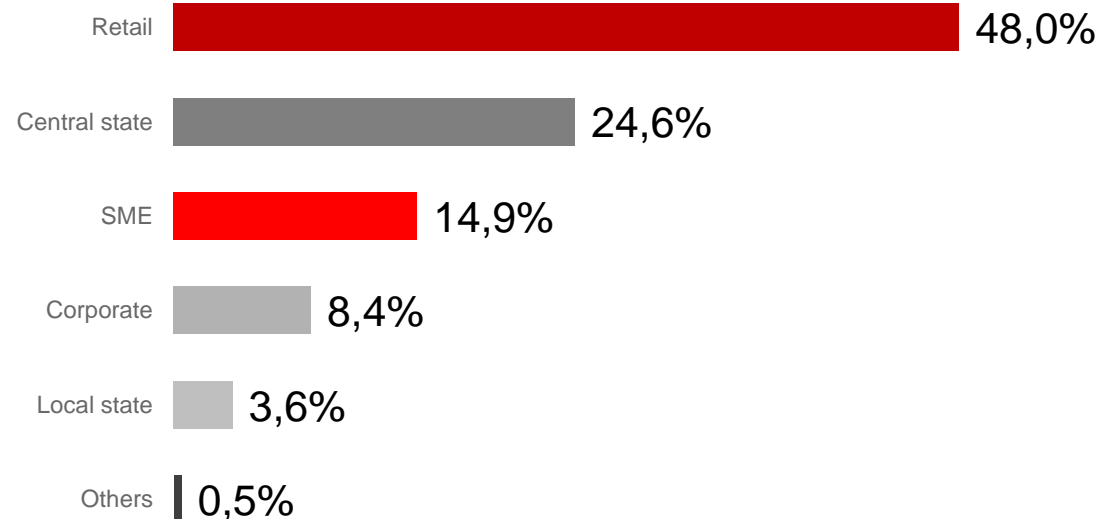
Strong capital base lead to high capital adequacy

# Gross loans structure per segment

31.12.2019



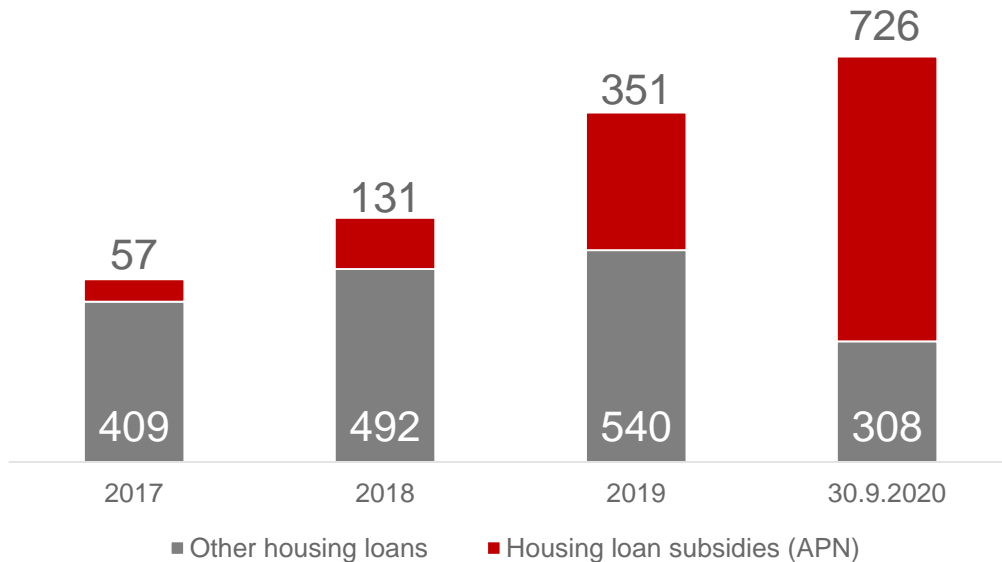
30.9.2020.



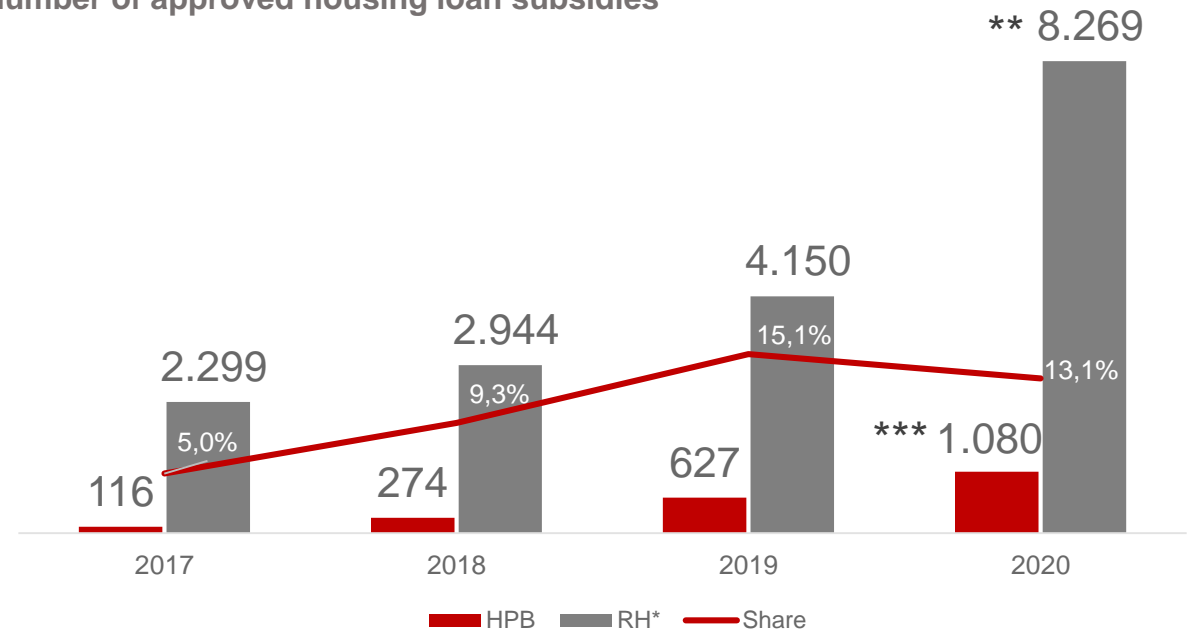
- Total gross loans increased by 5.7%, HRK 848 million (ytd)
- Most significant growth was achieved in corporate and the public sector + HRK 524 million, while the retail sector recorded continuous growth + HRK 505 million.
- Increase in housing loans + HRK 469 million, mainly in housing loan subsidies segment

# Loan subsidies

Housing loan production (in HRK million)



Number of approved housing loan subsidies



- In a four-year framework, since the introduction of housing loan subsidies, the bank **approved** a total of about **1,600 loans** and placed around **billion HRK**
- **70% of newly approved housing loans** in Y2020 refers to housing loan subsidies (APN), which represent an increase of 58 bp compared to the beginning of the implementation of measures (September 2017)
- Increased base of young, highly educated and active clients (**80% new clients**)
- Increased quality of Bank's loan portfolio

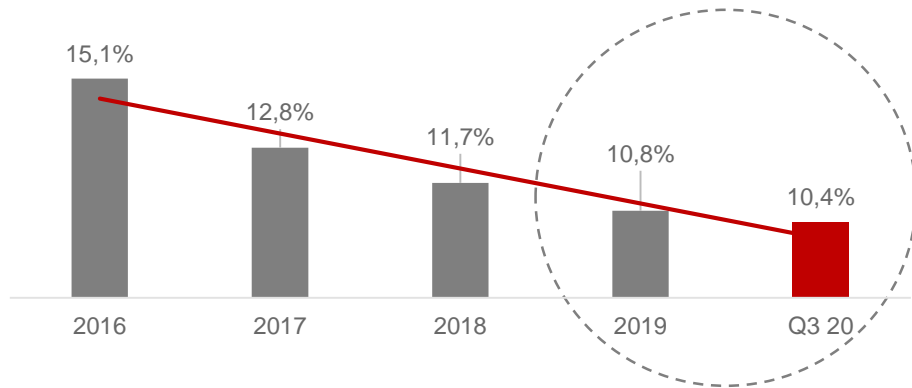
\* Source <https://mgipu.gov.hr/>

\*\* Data of collected requests as of Oct, 21 2020

\*\*\* the total number of submitted requests for APN that will be mostly placed to clients by the end of 2020

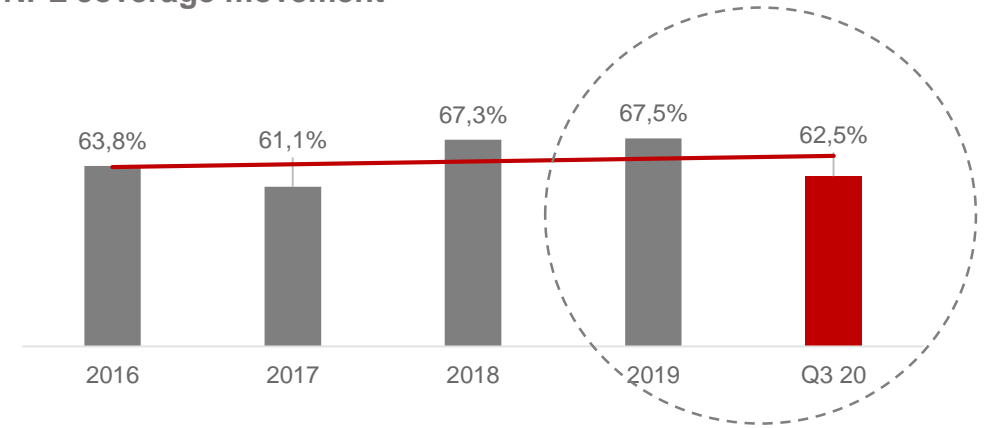
# Loan portfolio quality

## NPL share movement

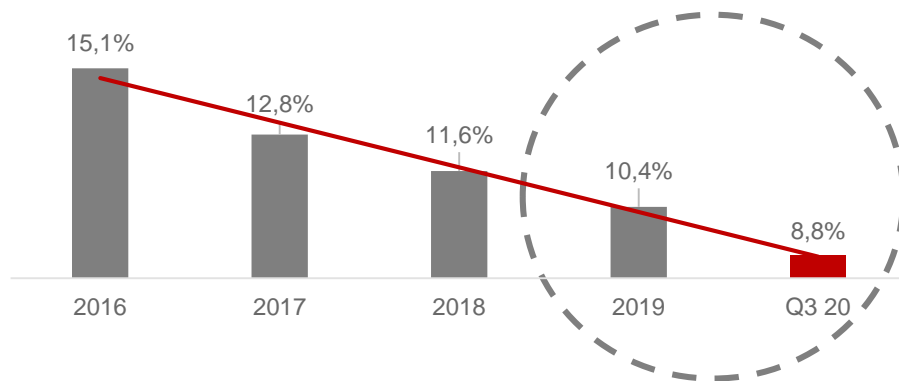


Ø Market NPL share\*  
7,93%

## NPL coverage movement

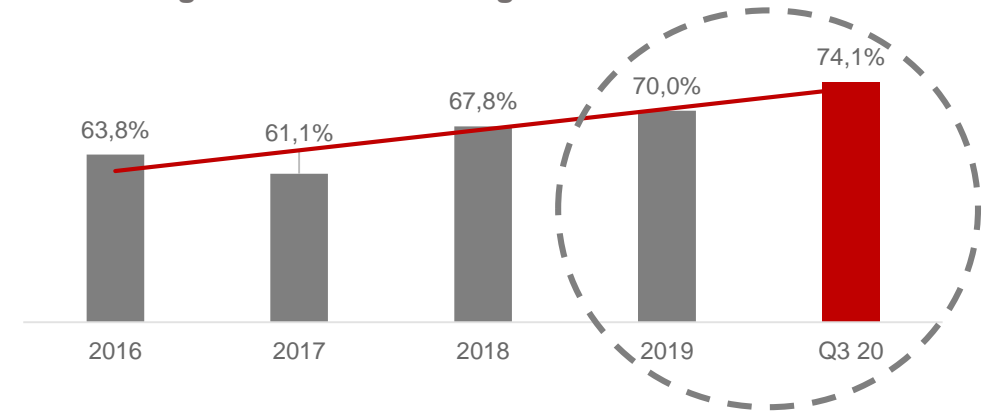


## NPL share movement - state guarantees excluded



Ø Market NPL coverage\*  
64,3%

## NPL coverage movement - state guarantees excluded

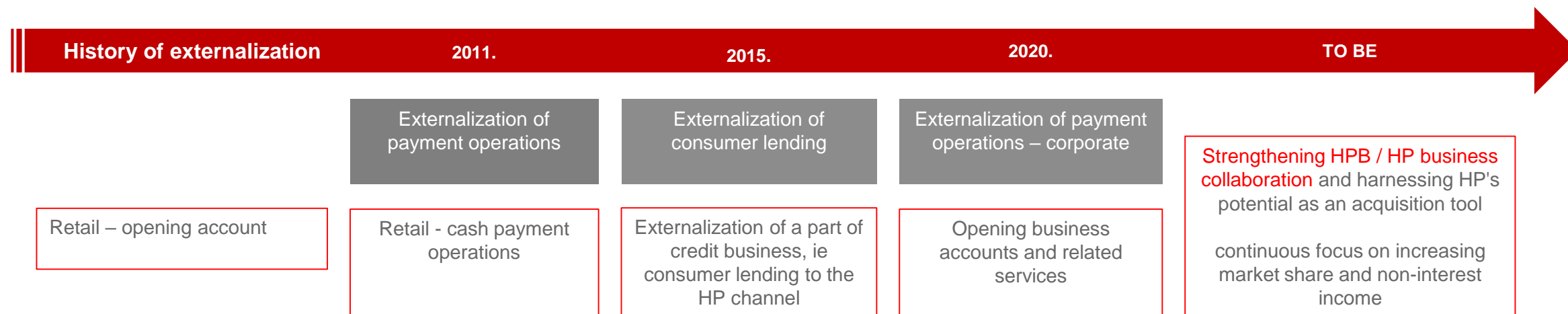


- Increased quality of the loan portfolio with adequate coverage
- The Bank has a high share of NPLs which is 100% covered by the guarantee of the Republic of Croatia and represents a fully recoverable part of loan (although the client is classified in the NPL portfolio due to compliance with the CNB Decision on classification of exposures into risk groups and method of determining credit losses)
- Calculation of NPL share include funds with central banks and other a vista deposits (according to EBA guidelines; Risk dashboard data as of Q2 2020)

\* For period 2016 – 30.6.2020



# Business development in the channel of Hrvatska Pošta d.d.



**Hrvatska pošta d.d. as an important distinguishing element of the Bank** - contractual, IT and ownership connections are the basis of the largest branch network in Croatia which is used for contracting part of the most frequently used financial products and services from the HPB range.

**OBJECTIVE: To become the most accessible bank on the Croatian market in physical channels with cost optimization with Hrvatska pošta d.d.**

Providing the best service to cash-intensive customers with the use of potential in cooperation with a strategic partner HP

1 Executive Summary

---

**2 Macroeconomic environment**

---

3 Financials

---

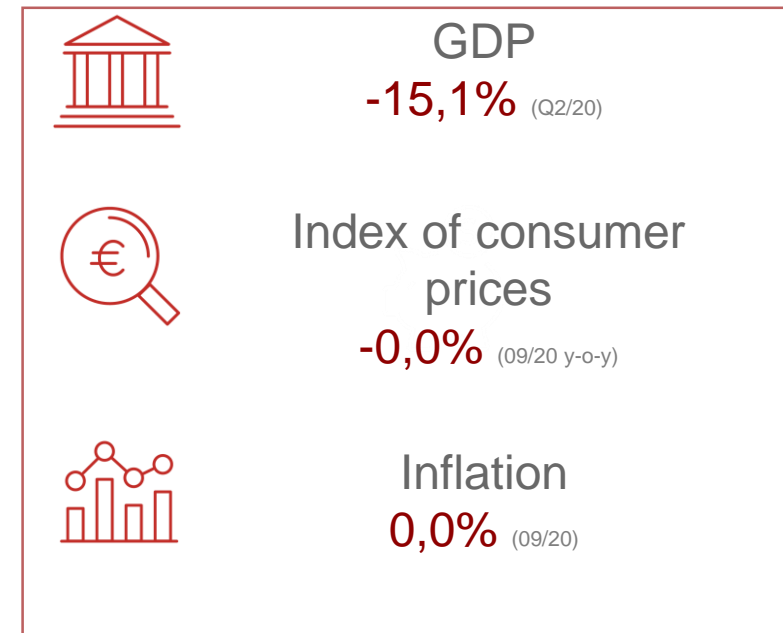
4 Risk Management

---

5 Appendix

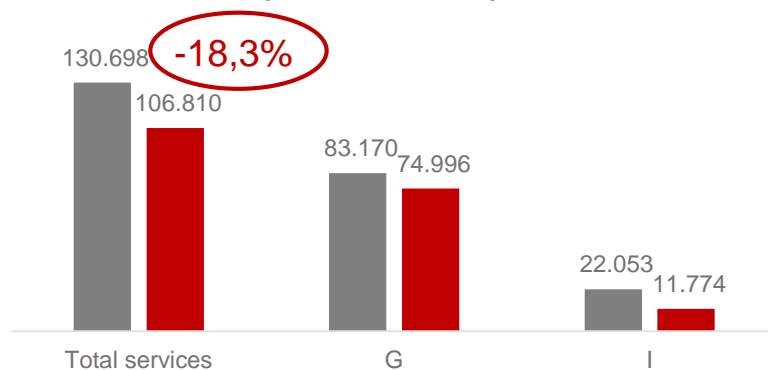
---

# Socioeconomic indicators (y-o-y)

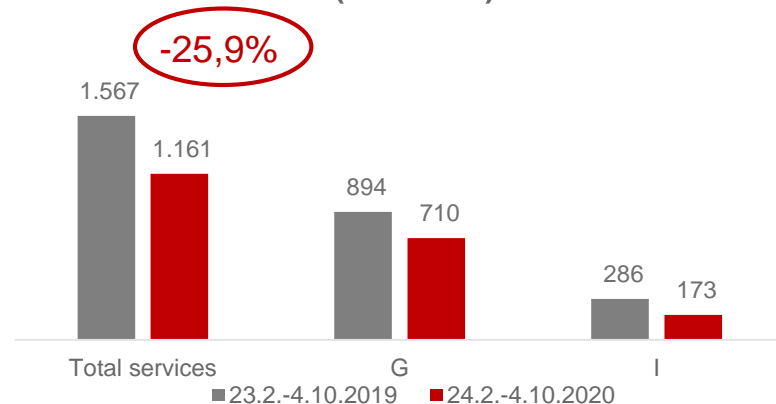


Data from ficscalisation system:

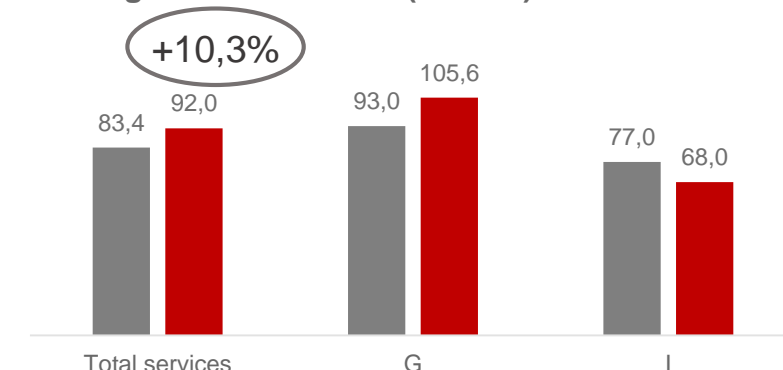
Account value\* (in HRK million)



Number of account\* (in million)



Average account value\* (in HRK)



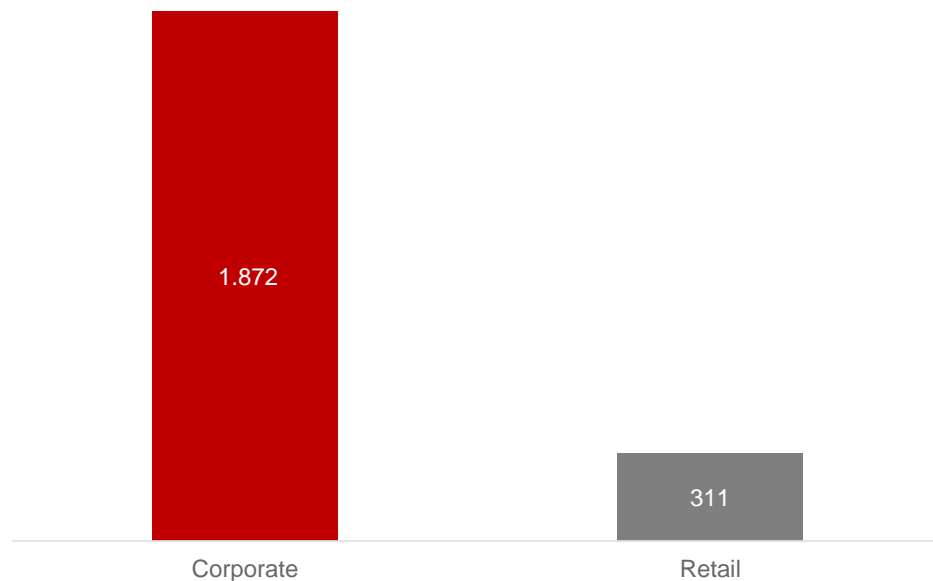
Source: Croatian Bureau of Statistics <https://www.dzs.hr/eng> (July and August 2020)

\*Source: <https://www.porezna-uprava.hr/Dokumenti> (data for the period 23.2.-4.10.2019 and 2020.)

"G- WHOLESALE AND RETAIL TRADE OF MOTOR VEHICLES AND MOTORCYCLES; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES "  
 "I- ACCOMMODATION AND FOOD SERVICE ACTIVITIES "

# COVID-19 impact on loan portfolio

Total exposure - implemented measures (in HRK million)



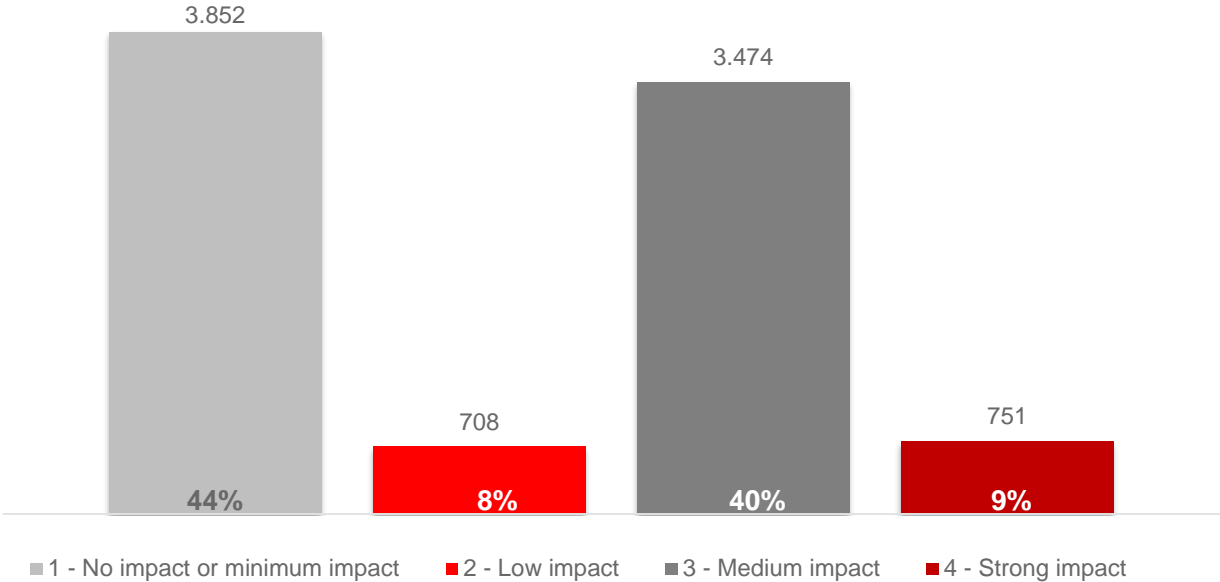
Corporate  
Segment share 22,89%

Retail  
Segment share 4,34%

- Until September, 30 2020 the moratorium has expired for loans worth HRK 746 million
- Performing loans that went into repayment after the moratorium are regularly repaid

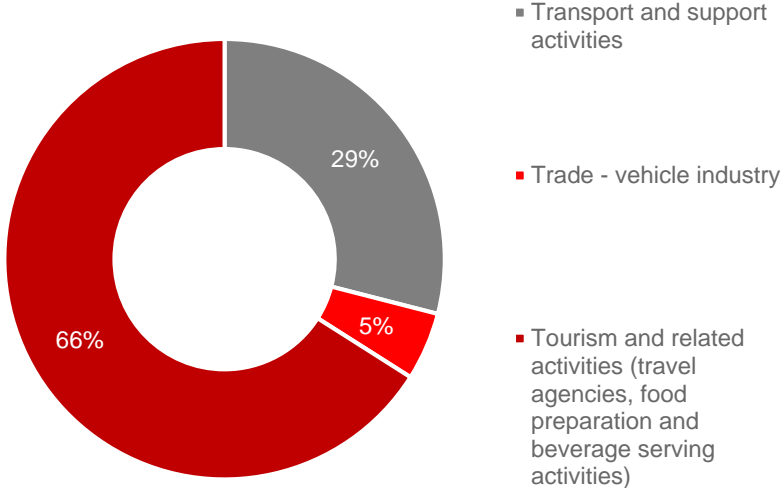
# COVID-19 impact on loan portfolio

## COVID 19 impact on corporate performing loans

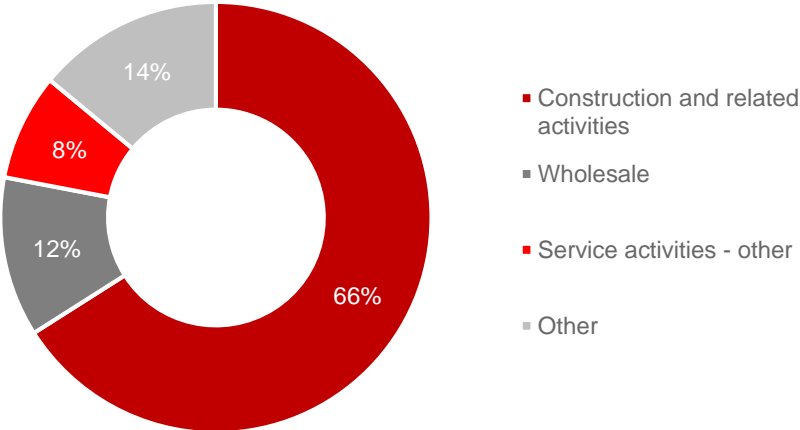


- Most of Bank’s portfolio (52%) is not affected by the COVID-19 pandemic or it has a low impact
- The Decision on Risk Appetite (RAS) was adopted limiting new exposures to the most affected activities by the COVID 19 pandemic

## Strong impact industries

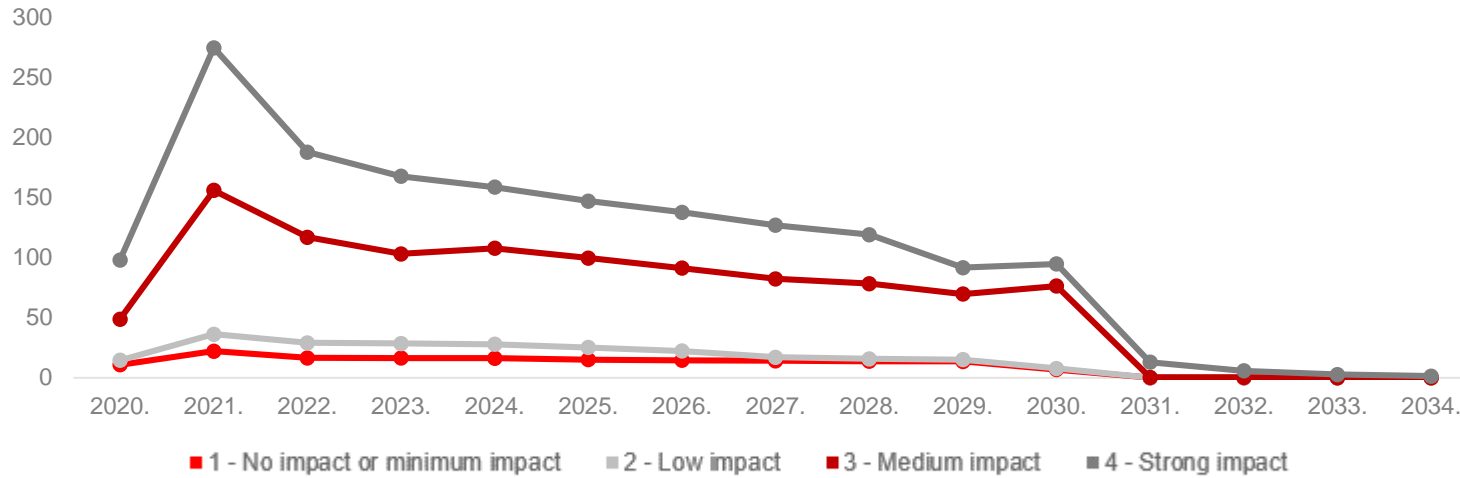


## Medium impact industries



# Maturity of loans under moratorium – COVID 19

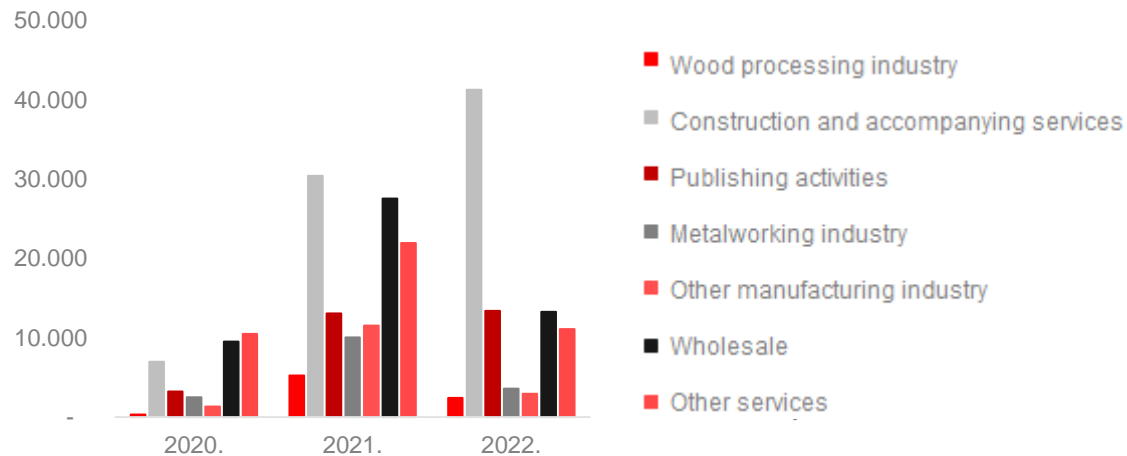
Maturity of loans under moratorium – realised by Sep, 30 2020\*



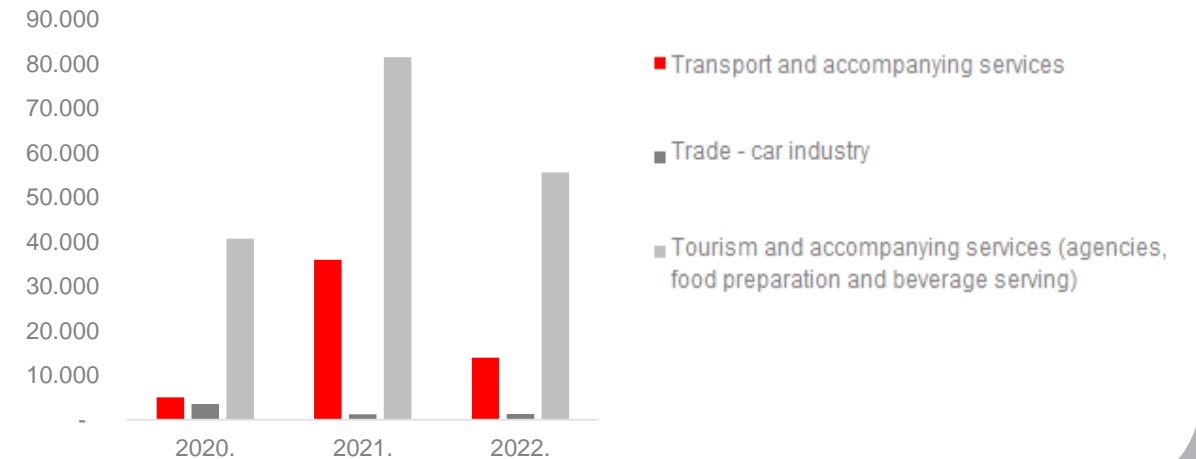
- The Bank regularly monitors loans to clients who have been granted a moratorium, regardless of the COVID impact, and approach the cash flows of clients on an individual basis
- Until the end of the 3rd quarter, the Bank does not record delays in payment on performing loans

\*excl. loans out of moratorium as of Sep, 30 2020

Medium impact – maturities by 2022

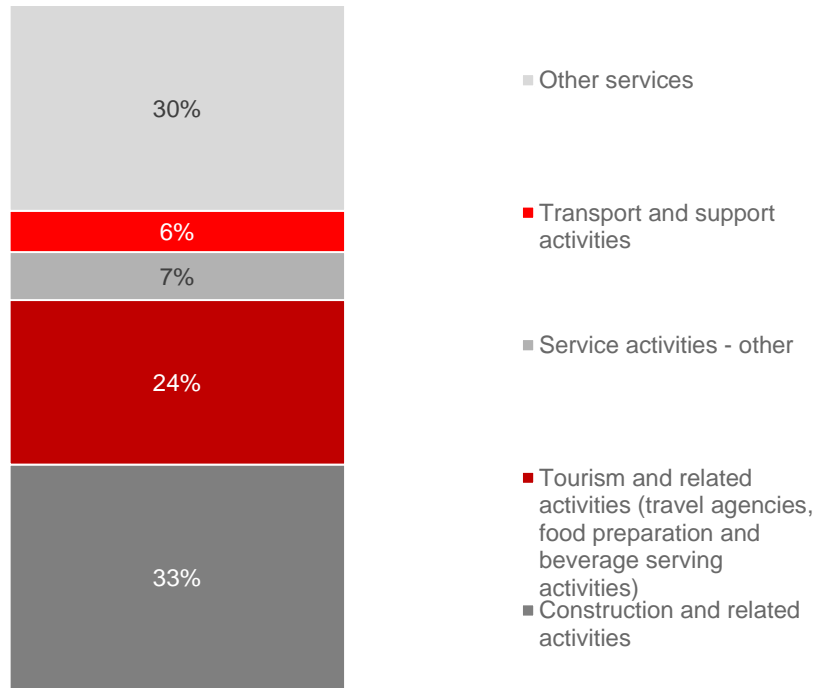


Strong impact – maturities by 2022

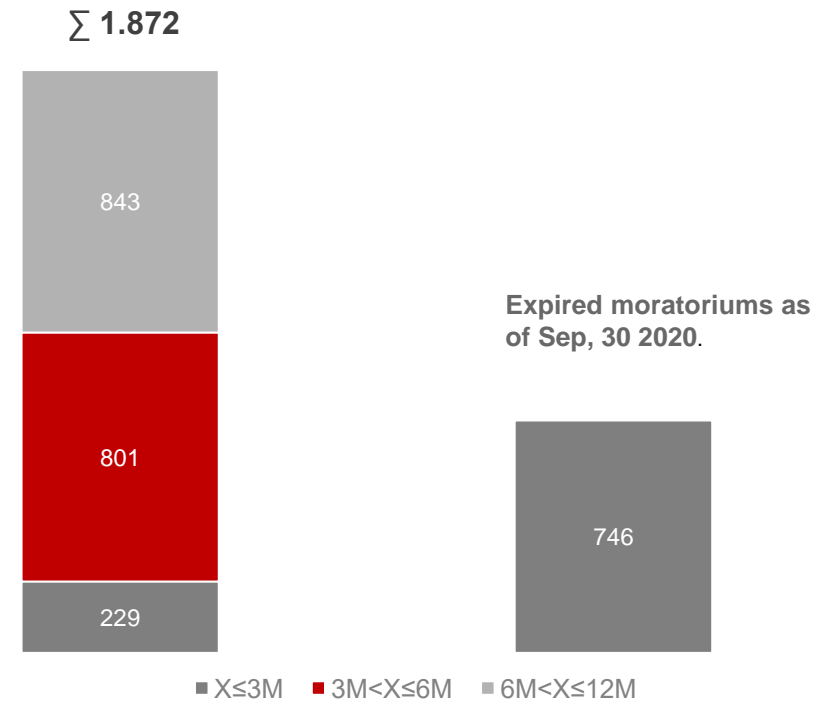


# COVID-19 impact on loan portfolio

Approved moratoriums per industry



Approved moratoriums per maturity (in HRK million)



- We approved moratoriums due to the impact of COVID-19 - a total of HRK 1.87 billion approved to corporate sector (23.0% of the gross corporate loans)
- Tourism has an extremely low share in the Bank's total portfolio (6% of gross corporate loans)
- We actively manages the portfolio, analyzes the industry and the impact of pandemic prevention measures on them

1 Executive Summary

---

2 Macroeconomic environment

---

**3 Financials**

---

4 Risk Management

---

5 Appendix

---



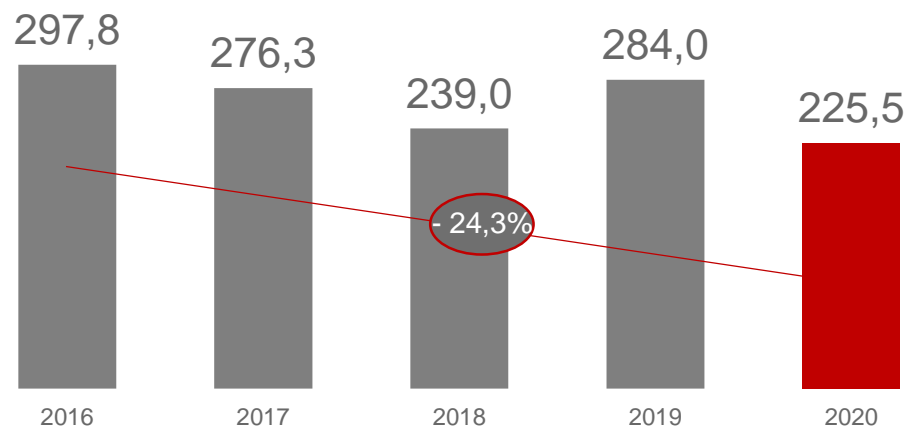
# Key financials – Income statement

		30.9.2019.	30.9.2020.	
Net interest income	HRK ths	401.248	<b>404.937</b>	3.689 ▲
Net fee income	HRK ths	155.865	<b>133.261</b>	(22.604) ▼
Operating income	HRK ths	642.472	<b>603.925</b>	(38.547) ▼
Operating expense	HRK ths	(358.488)	<b>(378.384)</b>	(19.896) ▼
Operating profit	HRK ths	283.984	<b>225.541</b>	(58.443) ▼
Provisioning	HRK ths	(82.876)	<b>(26.741)</b>	56.135 ▲
Net profit	HRK ths	170.360	<b>164.754</b>	(5.606) ▼
Cost-to-income ratio	%	55,8	<b>62,7</b>	6,9 ▼
Net interest margin	%	1,8	<b>1,6</b>	(0,1) ▼

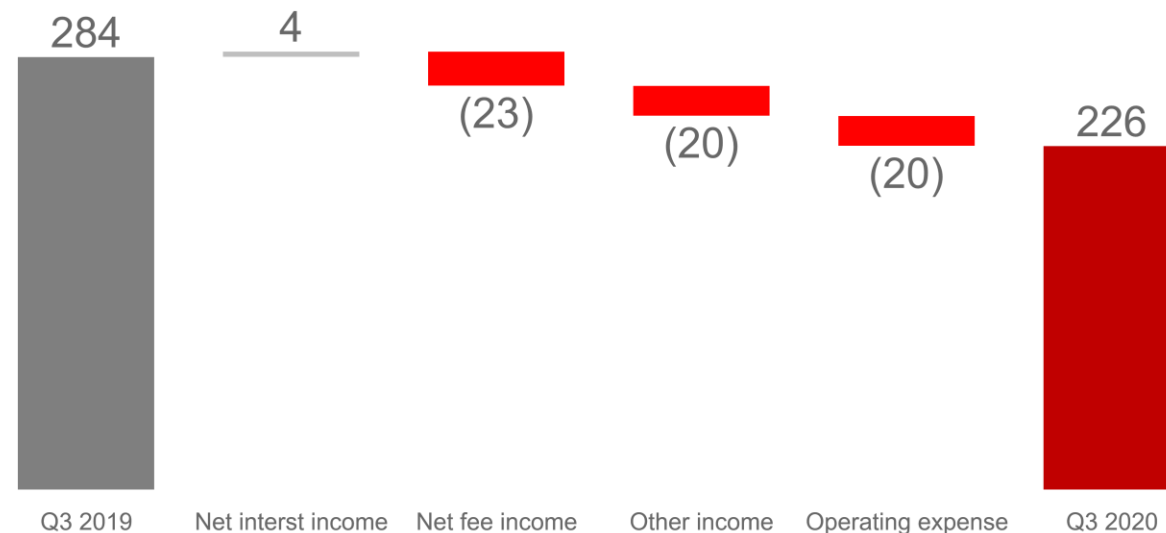
- Net interest income is higher by HRK 3.7m (+ 0.9%) compared to last year, which is a result of a stronger decline in interest expenses than the decline in income.
- Net fee income decreased by -14.5%. The largest deviations in the positions of card business and fees from payment transactions with legal entities due to the impact of COVID-19 disease that lead to suspension of fees to clients in order to facilitate access to their funds (Q2), slowdown in economic activities and significantly lower number of tourist arrivals (decrease of -47.6% according to CBS).
- OPEX increased by +5.5% in the position of employee costs (merger of JABA and HPB Stambena-štedionica) and insurance of savings deposits (increase in customer deposits).
- Provisions are lower by 67.7% due to revenues collected from suspension of litigation provisions in the amount of HRK 89 million.

# Operating profit

Operating profit movement in third quarter (in HRK million)



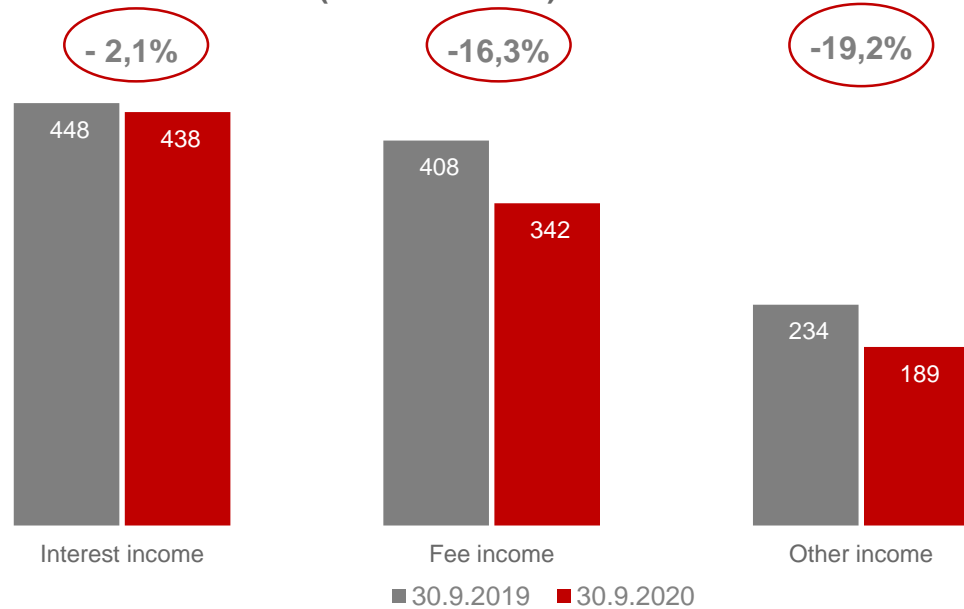
Operating profit movement (in HRK million)



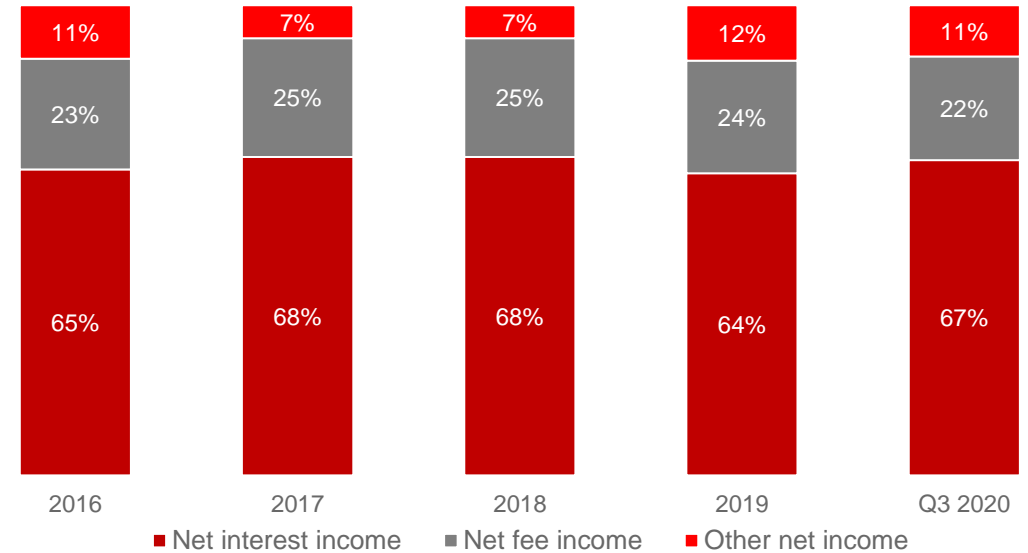
- Operating profit is expected to be lower than last year, mostly as a result of the adjustment to the COVID-19 pandemic → the previously mentioned impact on the decline in net fee income and slower growth in net interest income
- Profit from trading lower by -47.1% compared to the same period last year mainly due to the falling prices of securities
- From March 2020, the calculation and recognition of default interest to clients was suspended

# Operating income

Gross income movement (in HRK million)



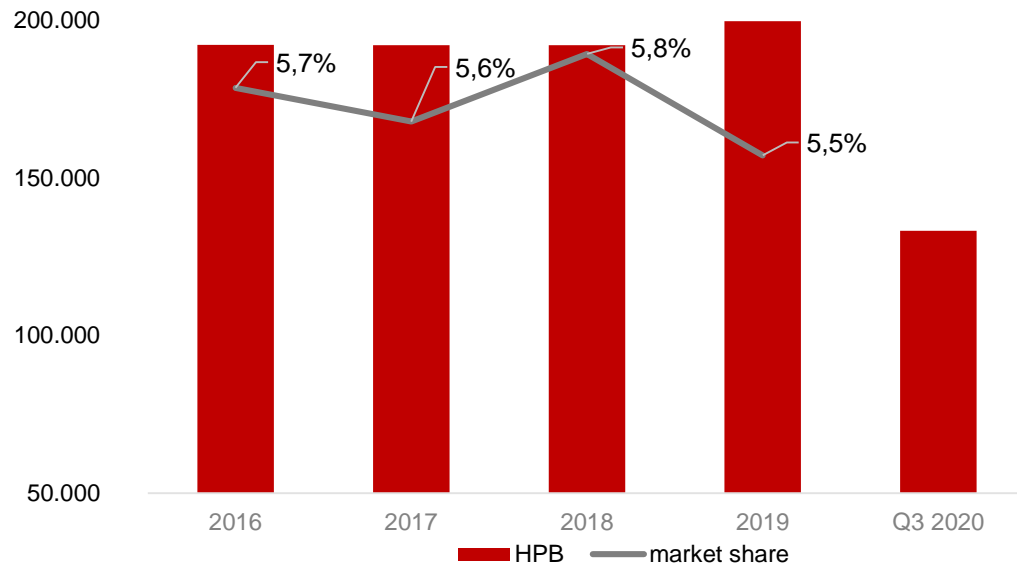
Composition of net income



- Interest income slightly lower than 9M 2019, mostly due to the adjustment of the loan portfolio to the COVID-19 pandemic, ie active credit risk management (increase in placements with the central state and housing loan subsidies)
- The decline in operating income amortized by the decline in operating expenses

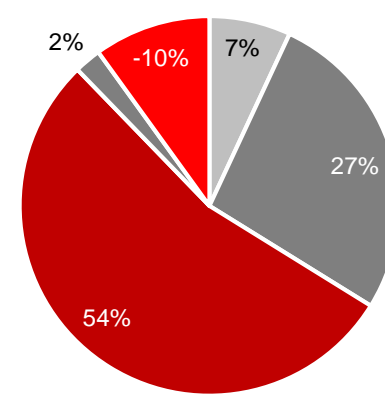
# Fees and commissions

Net fee income movement (in HRK thousand)

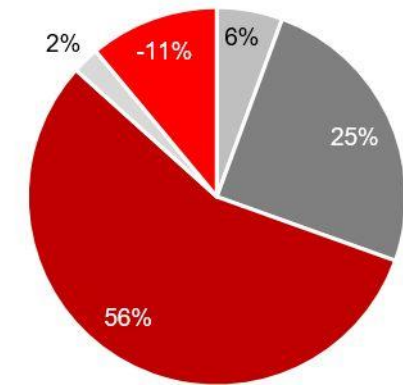


Composition of net fee and commission income

31.12.2019



30.9.2020.

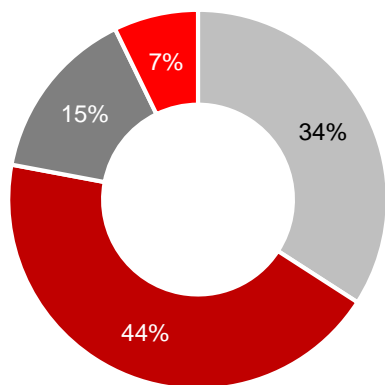


■ Croatian Post ■ Corporate ■ Retail and card business ■ Financial markets ■ FINA and other provisions

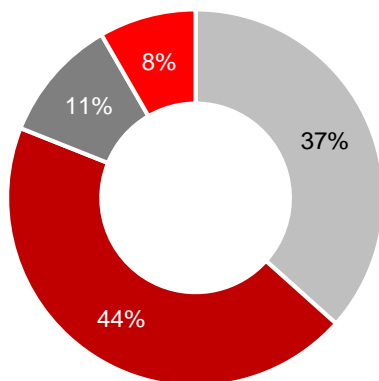
- Net fee and commission income follows long-term sectoral movement with a share of 5%
- Fees and commissions amount an average of 24% of total operating income
- The largest share of income from fees and commissions is made up of retail and card business fees
- Decline compared to Q3 19 caused by: 1) temporary suspension of fees for cash withdrawals at ATMs outside the parent bank (March 25, 2020 - July 1, 2020) in accordance with the CNB Recommendation due to the COVID-19 pandemic, 2) slowdown in economic activities, 3) significantly lower number of tourist arrivals (decrease by -47.6% according to CBS)

# Operating cost

31.12.2019

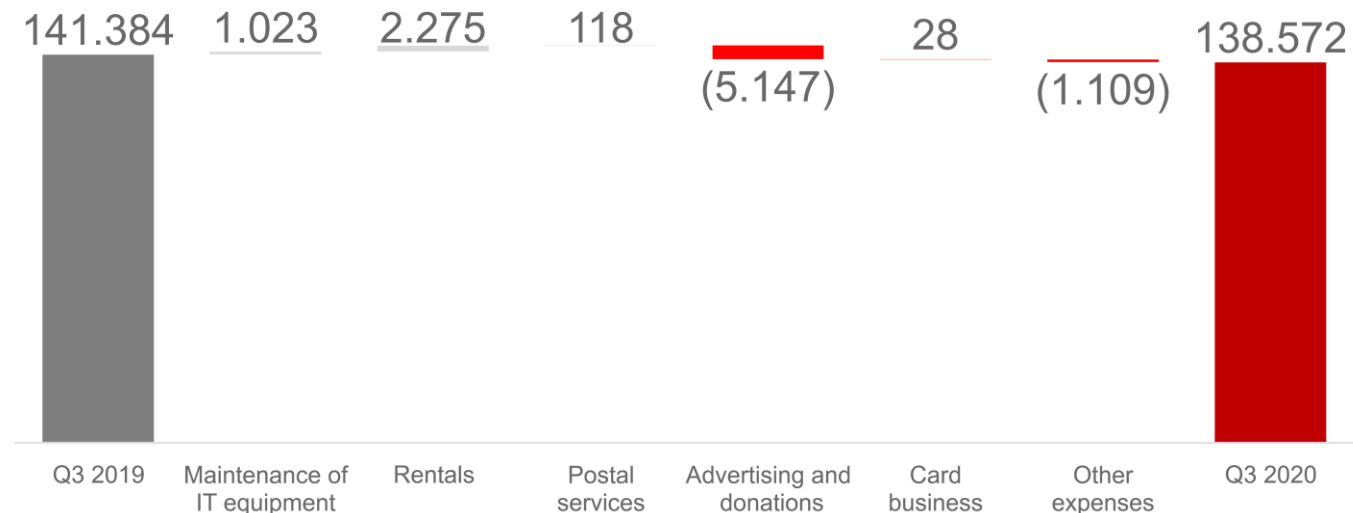


30.9.2020



■ Administrative expenses ■ Employee expenses ■ Amortization ■ Deposit insurance

## Administrative expenses movement (in HRK thousand)



- Bank successfully reduced costs in 2020 despite increased spending related to the COVID-19 pandemic
- At the beginning of 2020, significant activities related to the optimization and rationalization of general and operating costs were launched, which were intensified at the beginning of the COVID-19 pandemic.
- Increase in costs of IT equipment and protective and safety equipment due to the adaptation of measures made by Croatian Civil Protection Headquarter and implementation of home office method of work
- The increase in the rental cost is the result of finding new office space due to the earthquake in Zagreb, but their optimization is being carried out and the effects are expected to happen in 2021

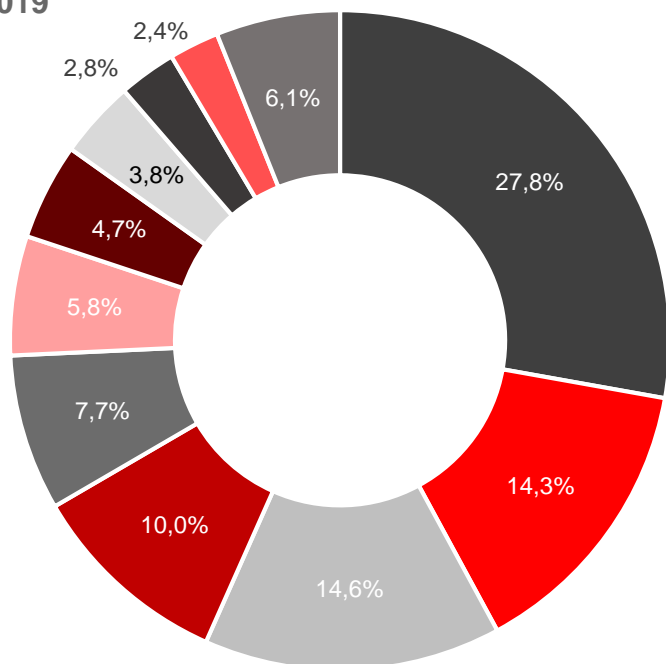
# Key financials – Balance sheet

		31.12.2019.	30.9.2020.	
Asset	HRK ths	23.844.461	<b>25.589.779</b>	1.745.318 ▲
Gross loans	HRK ths	14.825.207	<b>15.672.811</b>	847.604 ▲
Deposits	HRK ths	20.069.171	<b>21.344.770</b>	1.275.599 ▲
Equity	HRK ths	2.370.212	<b>2.443.438</b>	73.226 ▲
Regulatory capital	HRK ths	2.209.224	<b>2.209.303</b>	79 ▲
Loan/deposit ratio	%	66,5	<b>66,4</b>	(0,1) ▼
ROAE	%	6,6	<b>9,4</b>	2,9 ▲
NPL share	%	11,7	<b>10,4</b>	(1,3) ▲
NPL coverage	%	67,3	<b>62,5</b>	(4,8) ▼
Balance of placements value adjustment	HRK ths	(1.487.615)	<b>(1.507.193)</b>	(19.578) ▼

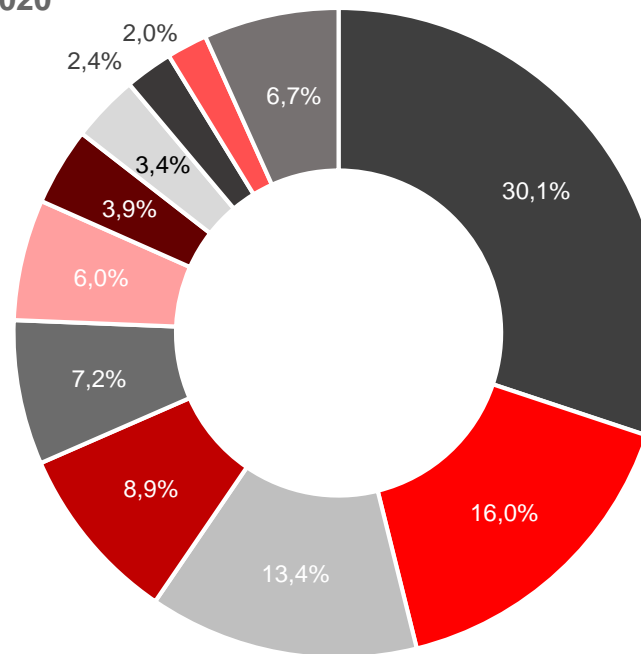
- Assets records continuous growth + 7.3% ytd → liquid assets + 29.8%, securities -7.7%, gross loans + 5.7%
- Deposits up + 6.4% → largest increase in the segment of central state and large corporate clients HRK +780m, SMEs HRK +242m, retail HRK +235m
- Moderate recovery in the price of securities that caused the recovery of the comprehensive income reserve + 12.7% compared to Q2
- NPL coverage increases when excluding exposures covered by state guarantees (70.0% Q4 19 → 74.1% Q3 20)

# Structure of corporate gross loans per industry

31.12.2019



30.9.2020

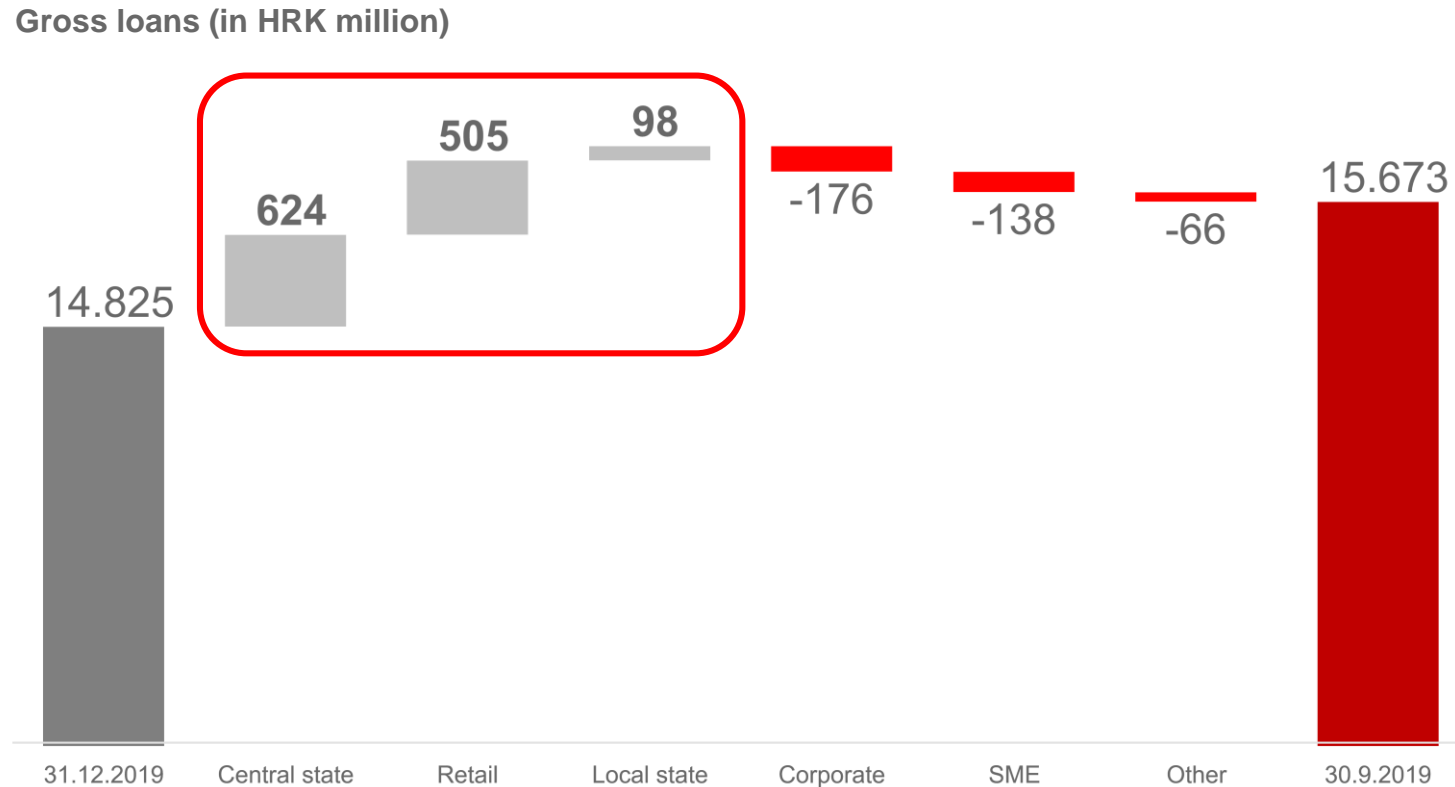


- Public administration and defense; 30,1%
- Construction industry; 16,0%
- Manufacturing industry; 13,4%
- Wholesale and retail trade; 8,9%
- Transport and storage; 7,2%
- Accommodation activities; 6,0%
- Real estate industry; 3,9%
- Electricity supply; 3,4%
- Agriculture, forestry and fishing; 2,4%
- Information and communication; 2,0%
- Other; 6,7%

- Accommodation service industry (primarily **tourism**), which was hardest hit by the COVID-19 pandemic, had a **low share of 6.0% as of Sep, 30 2020**.
- Large share of exposure (**30.1%**) to the **central and local state**, which represents the **lowest risk**, with a parallel increase in housing loan subsidies to retail sector

Source: management reports of the issuer

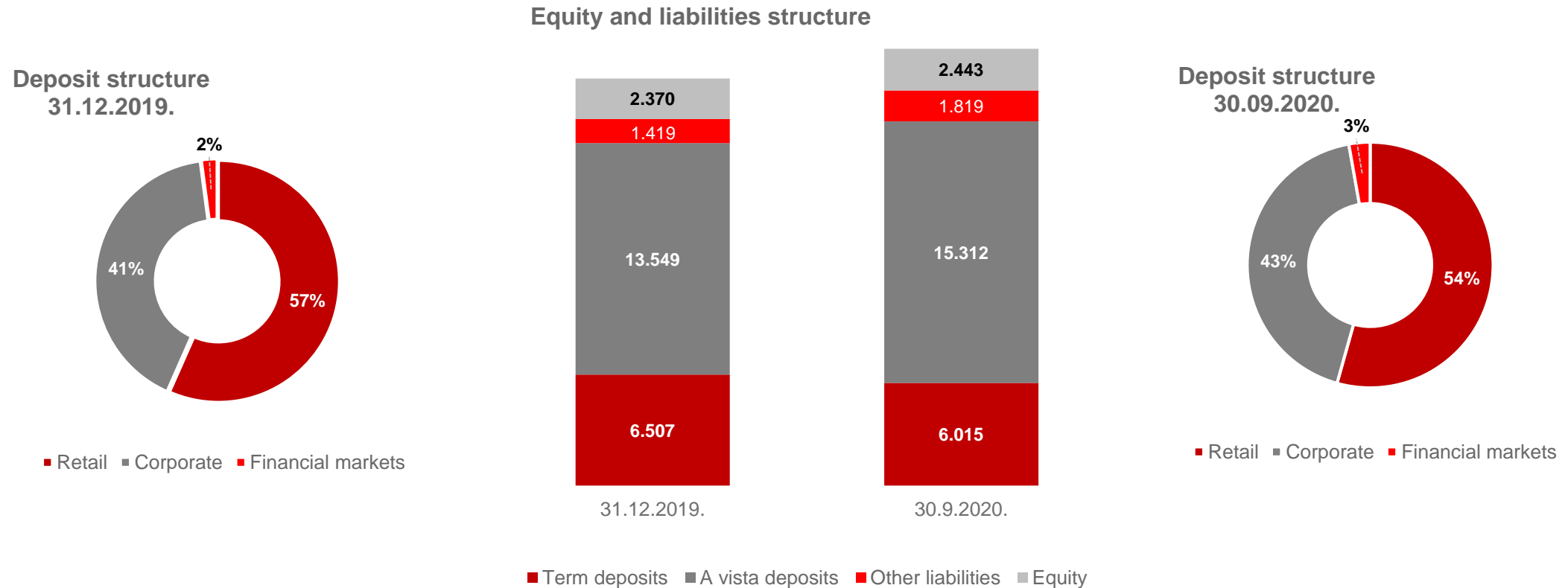
# Gross loan movement



- Total gross loans grew by **+ 5.7%** compared to 2019, and the highest growth was achieved in the public sector,
- The retail sector has continuous growth, mostly in housing loans



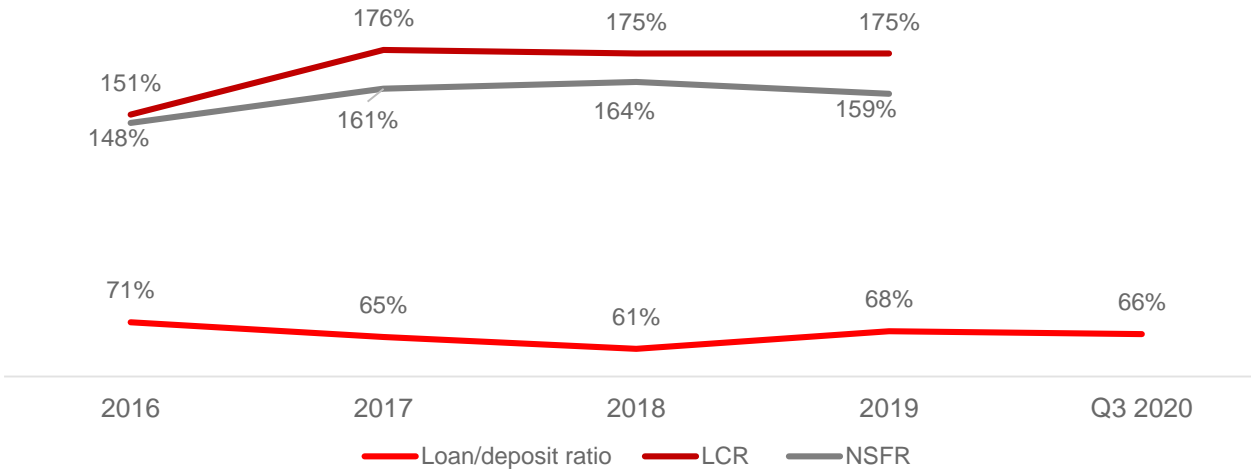
# Composition of equity and liabilities and deposit structure



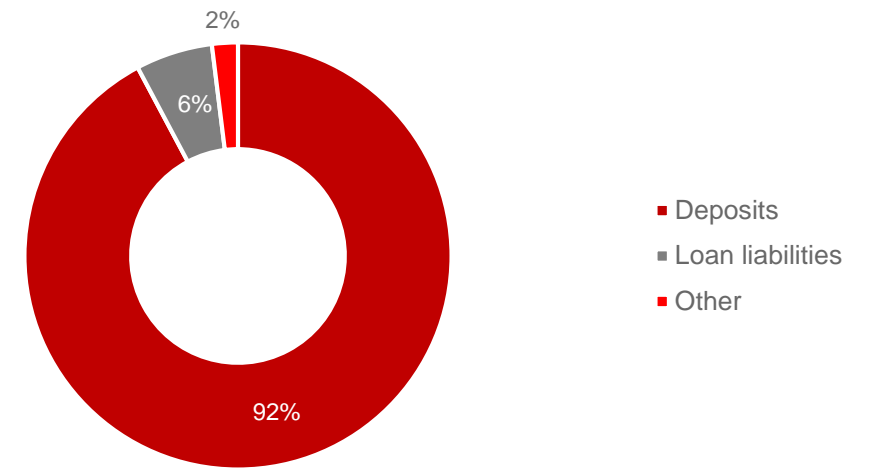
- Stable deposit base and key financing source
- Deposits recorded an increase of HRK 1,276 million (+ 6.4%)

# Liquidity and financial stability review

## Liquidity ratios



## Funding mix as of Sep, 30 2020\*

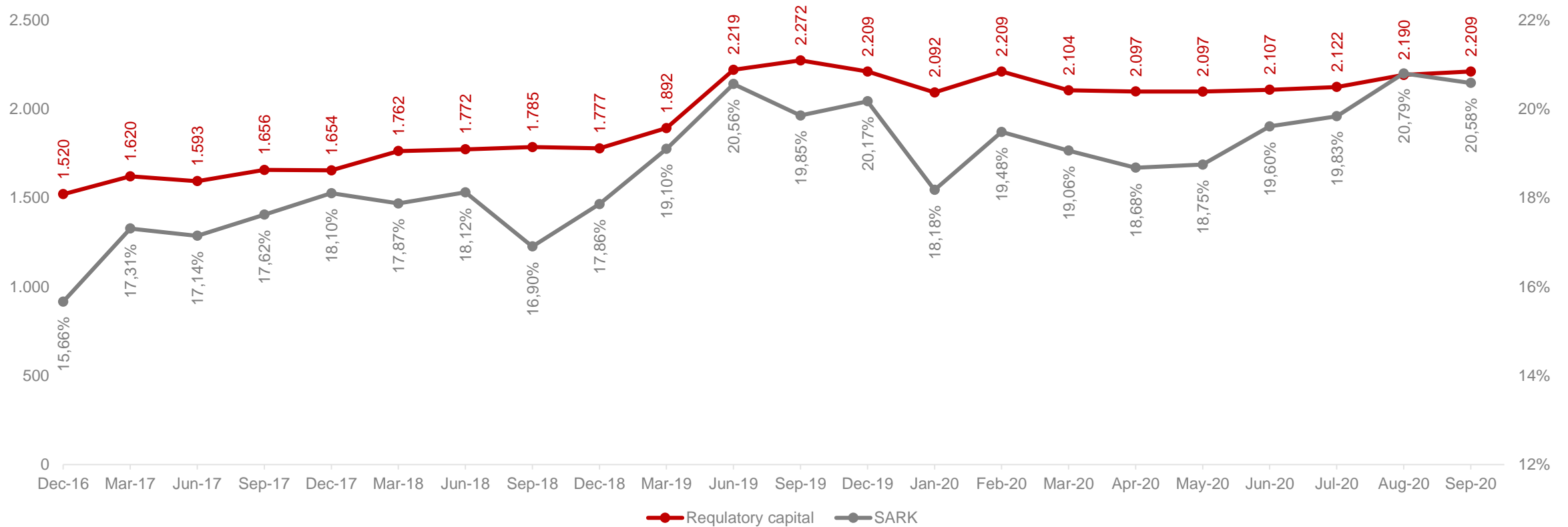


\*excl. equity

- The bank is highly liquid with significantly low loan-to-deposit ratio
- The most significant source of funds are **customer deposits 92%**
- Stable and constant growth of deposits, primarily retail sector, increased the market share to 5.9% (2016 = 5.3%)
- Stable structure of received loans - foreign financial institutions, CBRD and CNB repo loans

# Regulatory capital and adequacy ratio movement

Regulatory capital and adequacy ratio movement (in HRK million)



- Capital management optimization measures launched in Q4 19, mostly by optimizing RWA, result in an increase in the adequacy rate through 2020 → above the regulatory minimum by + 5.4%

1 Executive Summary

2 Macroeconomic environment

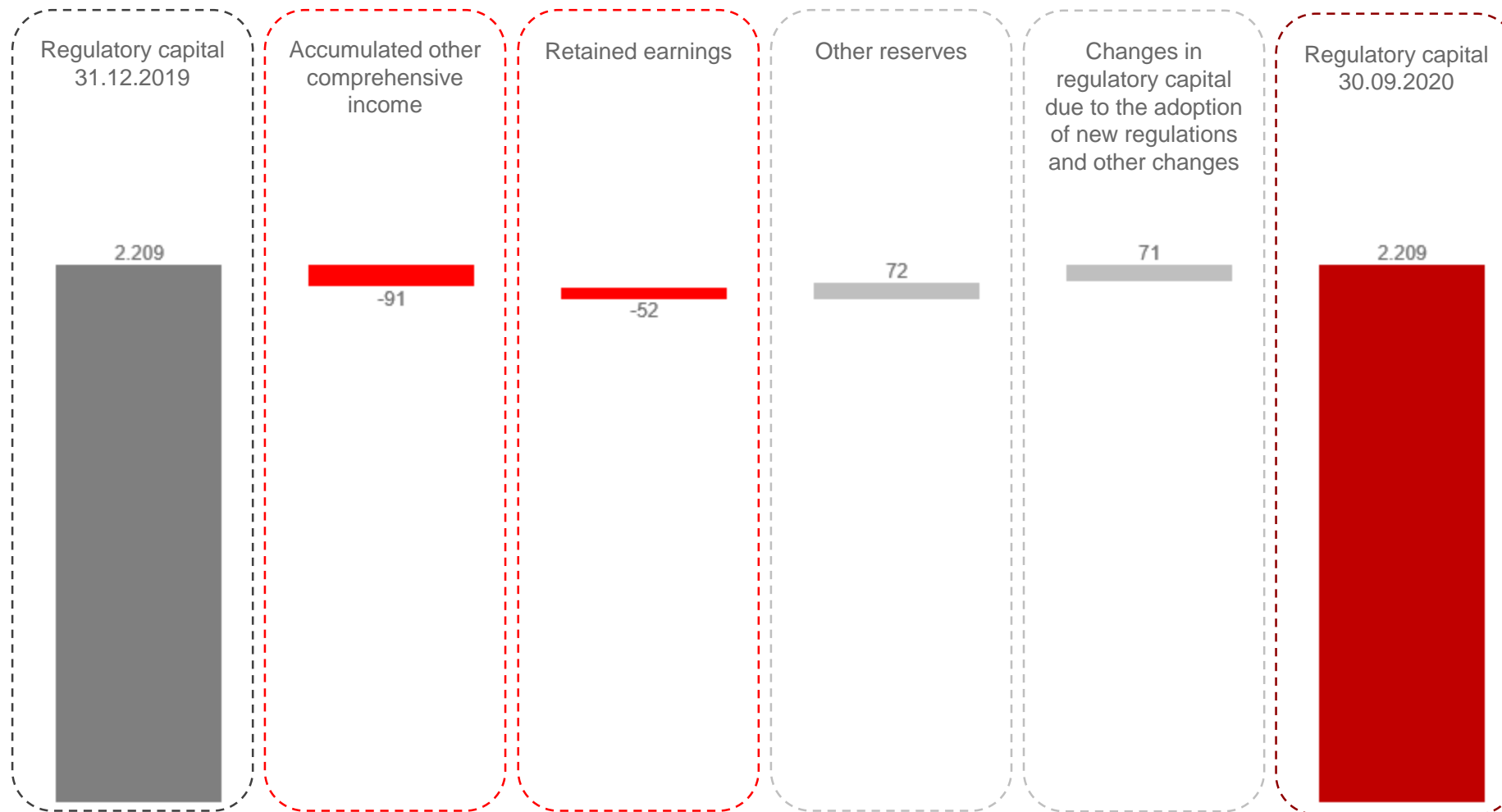
3 Financials

**4 Risk Management**

5 Appendix

# Regulatory capital movement

Regulatory capital (in HRK million)

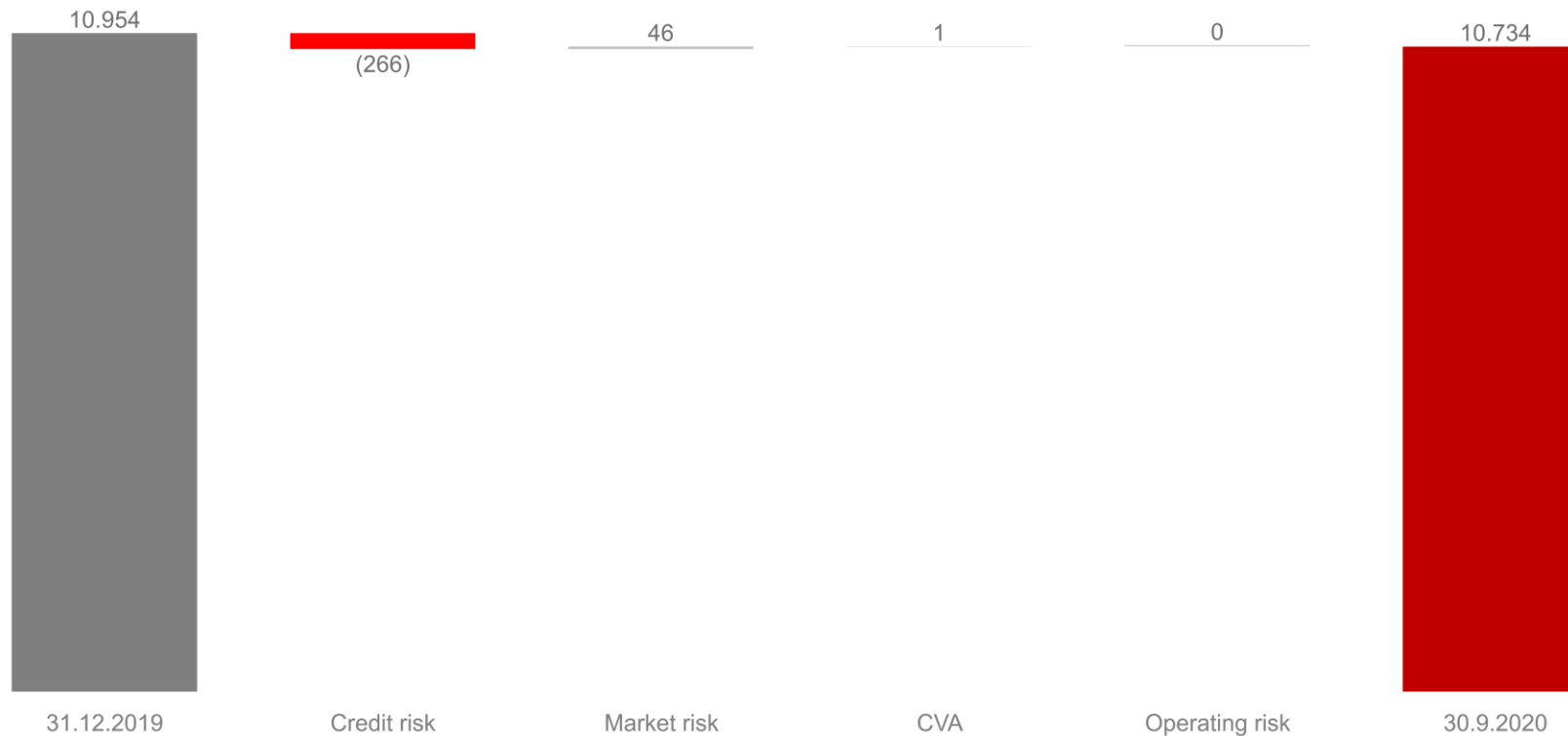


- Strong and stable capital base

\* on Dec, 31 2019 the Bank included 6-month profit in 2019 in the calculation of regulatory capital (retained earnings position), in accordance with the approval of the regulator. By the decision of the General Assembly of the Bank this year, the net profit in 2019 was allocated to the position of retained earnings and other reserves.

# RWA – risk-weighted assets

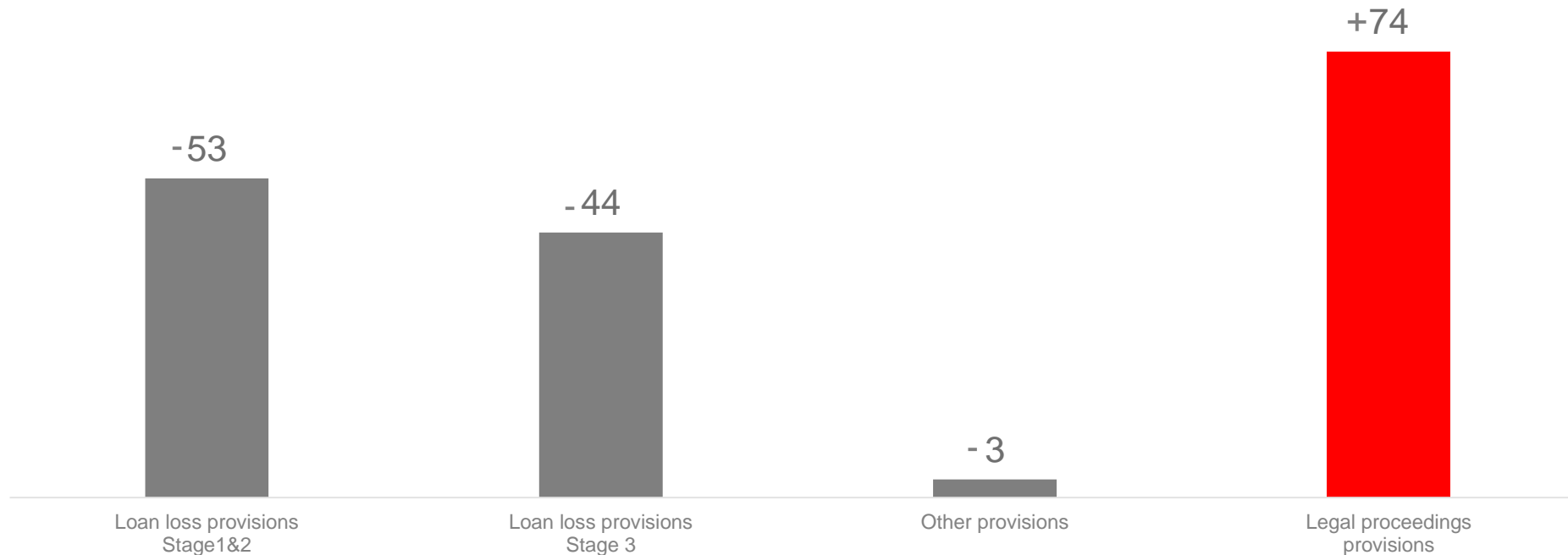
RWA movement (in HRK million)



- In line with the growth of the Bank's assets, the risk-weighted assets are decreasing as a result of the strengthening the capital management culture

# Provisioning

Structure of provision costs (in HRK million) as of Sep, 30 2020



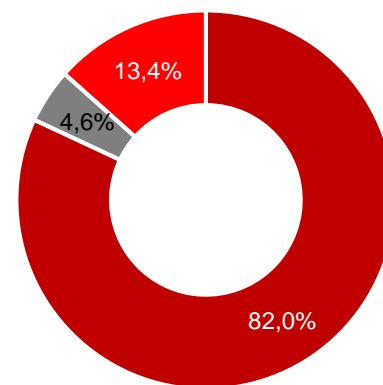
- Provisioning costs are **lower by 67.7%** than in 2019, mainly due to the suspension of legal proceedings provisions (net provisions for credit risk amount to HRK -97.4 million; net legal proceedings provisions + HRK 70.7 million)
- Provisions on a collective basis also include updates of macroeconomic indicators in the model for calculating provisions due to economic circumstances and projections caused by the impact of COVID-19 disease (HRK 55.8 million additional cost recognized in 6M 2020)

# Exposures and coverage per stage

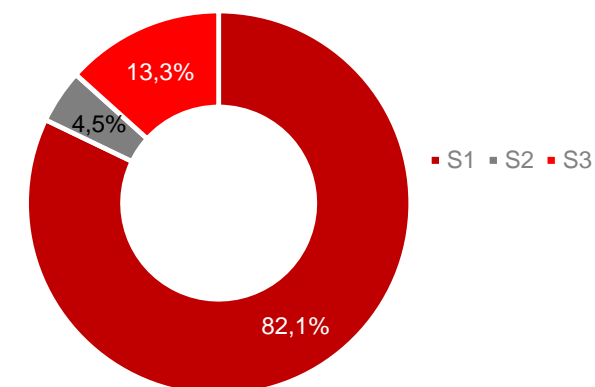
Segment	Stage	Share	Coverage	Share	Coverage
		30.9.2019	30.9.2019	30.9.2020	30.9.2020
CORPORATE	S1	66,6%	2,8%	61,8%	3,4%
CORPORATE	S2	6,0%	6,3%	5,4%	10,5%
CORPORATE	S3	27,5%	68,2%	32,8%	46,8%
SME	S1	57,2%	3,3%	50,0%	4,1%
SME	S2	7,1%	11,0%	19,0%	14,2%
SME	S3	35,7%	69,5%	31,0%	71,0%
STATE	S1	99,1%	0,8%	98,6%	0,8%
STATE	S2	0,9%	7,3%	1,4%	8,6%
STATE	S3	0,0%	0,0%	0,0%	0,0%
RETAIL	S1	86,4%	0,5%	89,4%	0,6%
RETAIL	S2	5,3%	4,5%	2,5%	8,2%
RETAIL	S3	8,3%	72,8%	8,1%	74,5%

Exposure per stage

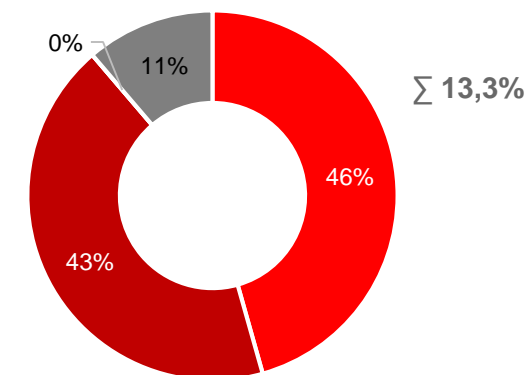
30.9.2019.



30.9.2020.



NPL share per segment as of Sep, 30 2020



The increase in stage 1 and stage 2 coverage mainly reflects the deterioration of macroeconomic indicators and their impact on risk parameters due to the COVID pandemic, while the increase in stage 3 share in the corporate segment, accompanied by a decrease in coverage, is the result of AQR and reclassification of certain exposures covered by state guarantees as a non-performing assets.



1 Executive Summary

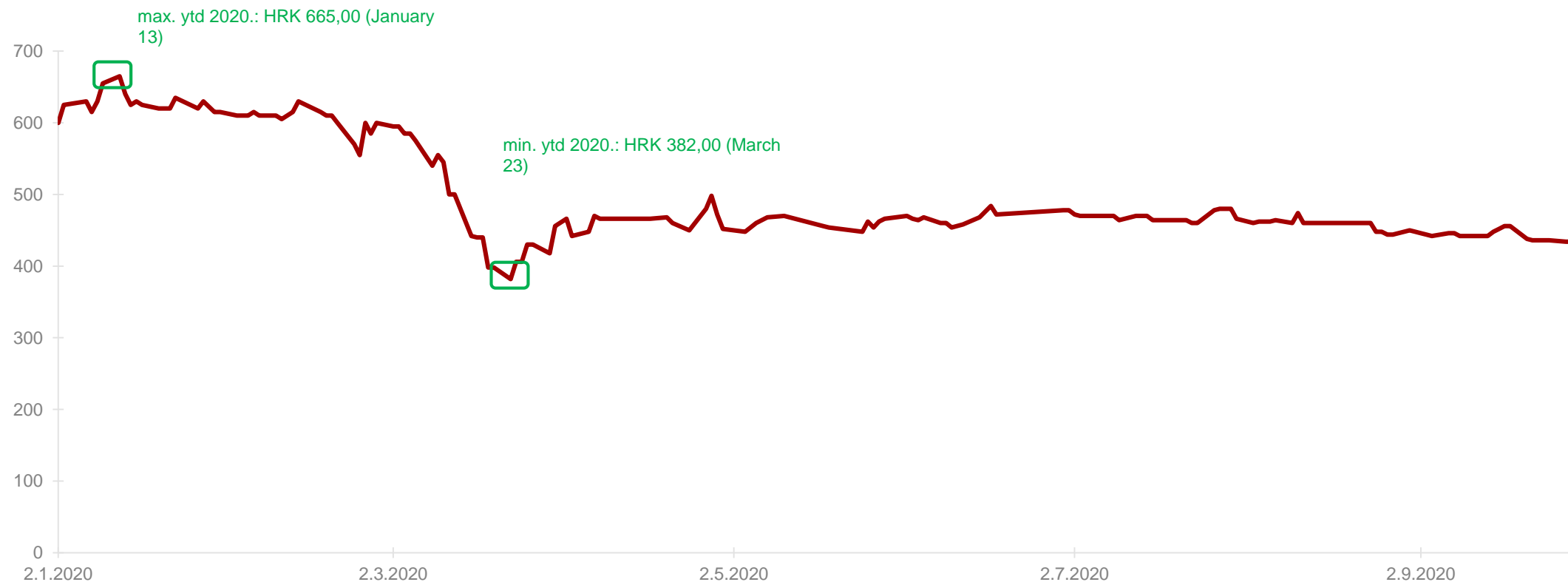
2 Macroeconomic environment

3 Financials

4 Risk Management

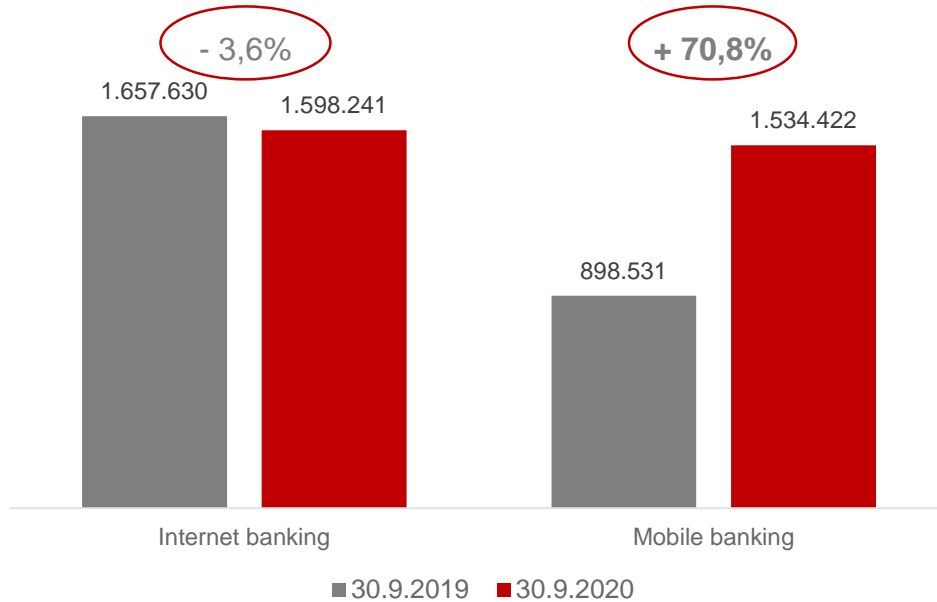
5 Appendix

# Trading of HPB-R-A stock during the reporting period



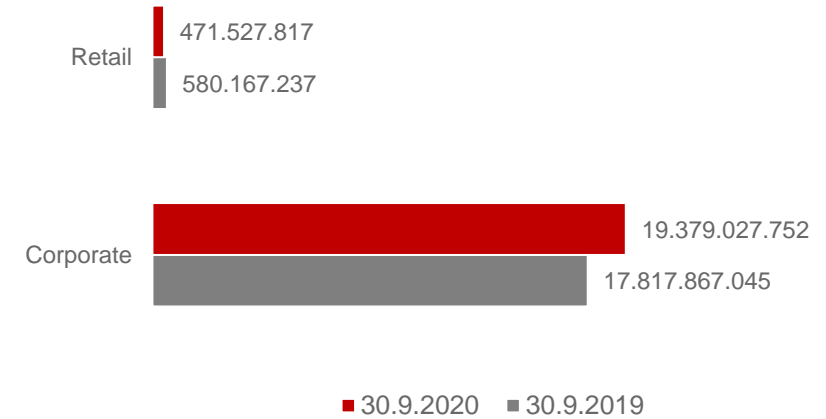
# Direct channels

Transaction number - direct channels

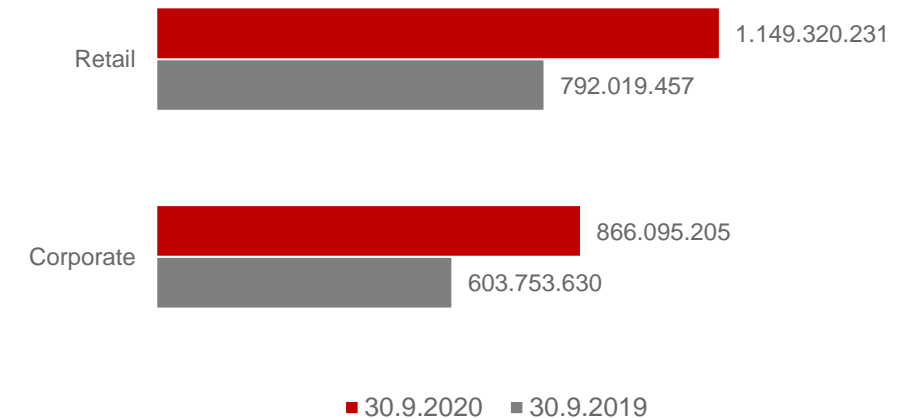


- Expected significant increase in mobile banking both in the volume and number of transactions

Transaction volume - Internet banking

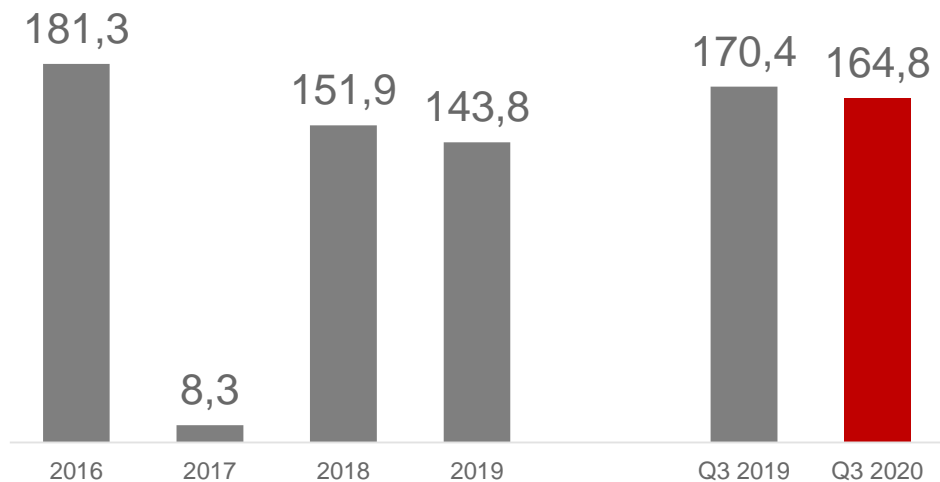


Transaction volume - Mobile banking

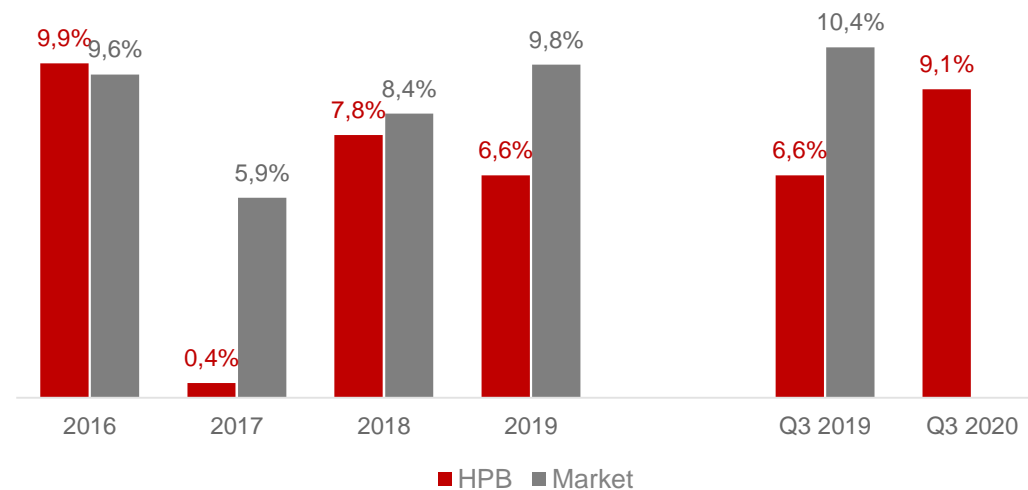


# Net profit and return on equity

Net profit movement (in HRK million)



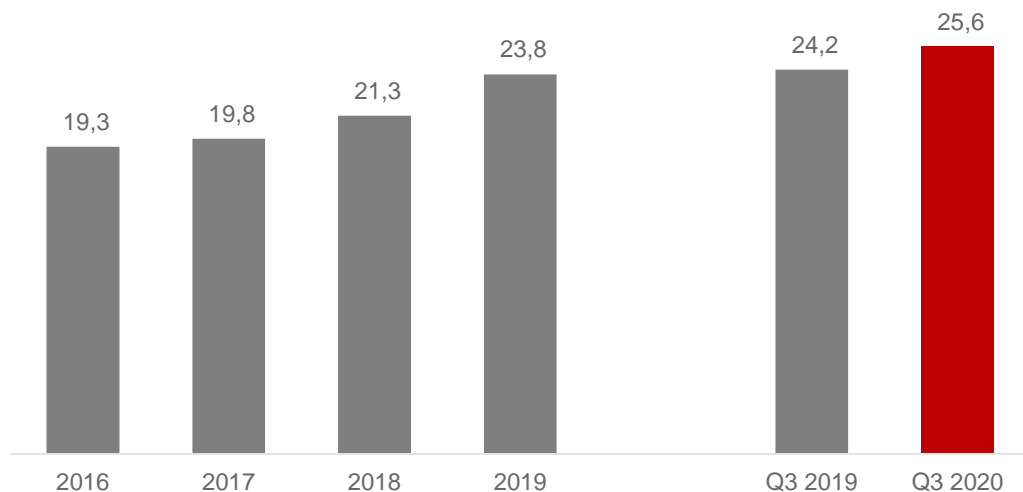
Return on average equity ROAE



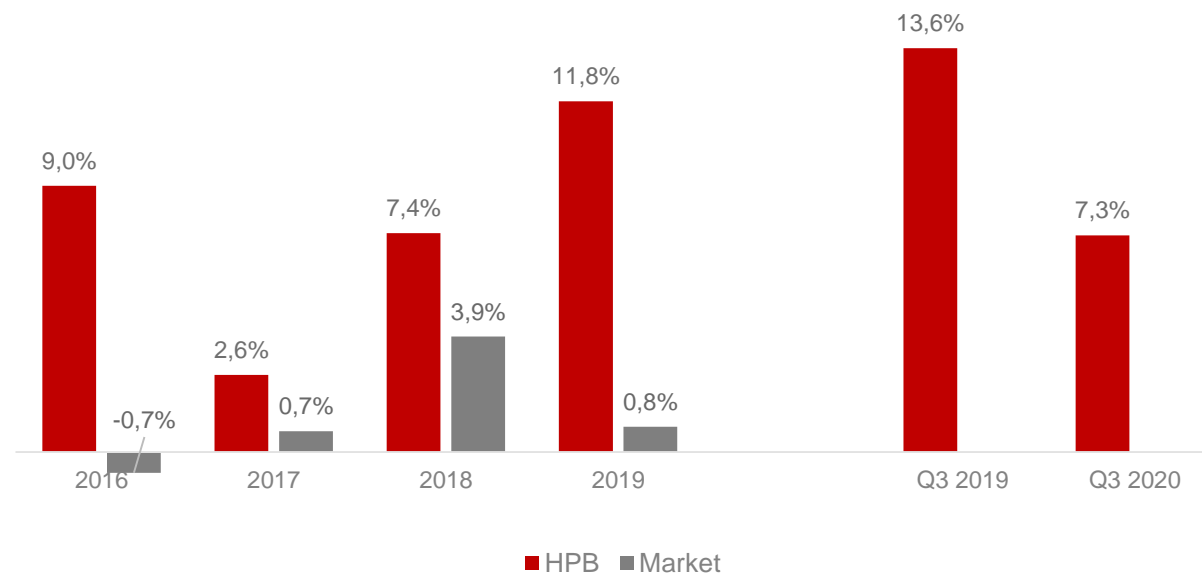
- The cumulative net profit amounts to HRK 650 million in observed period
- The average rate of return on average capital (ROAE) is 6.2% in a period 2016 - 2019

# Asset movement

Asset movement (in HRK billion)

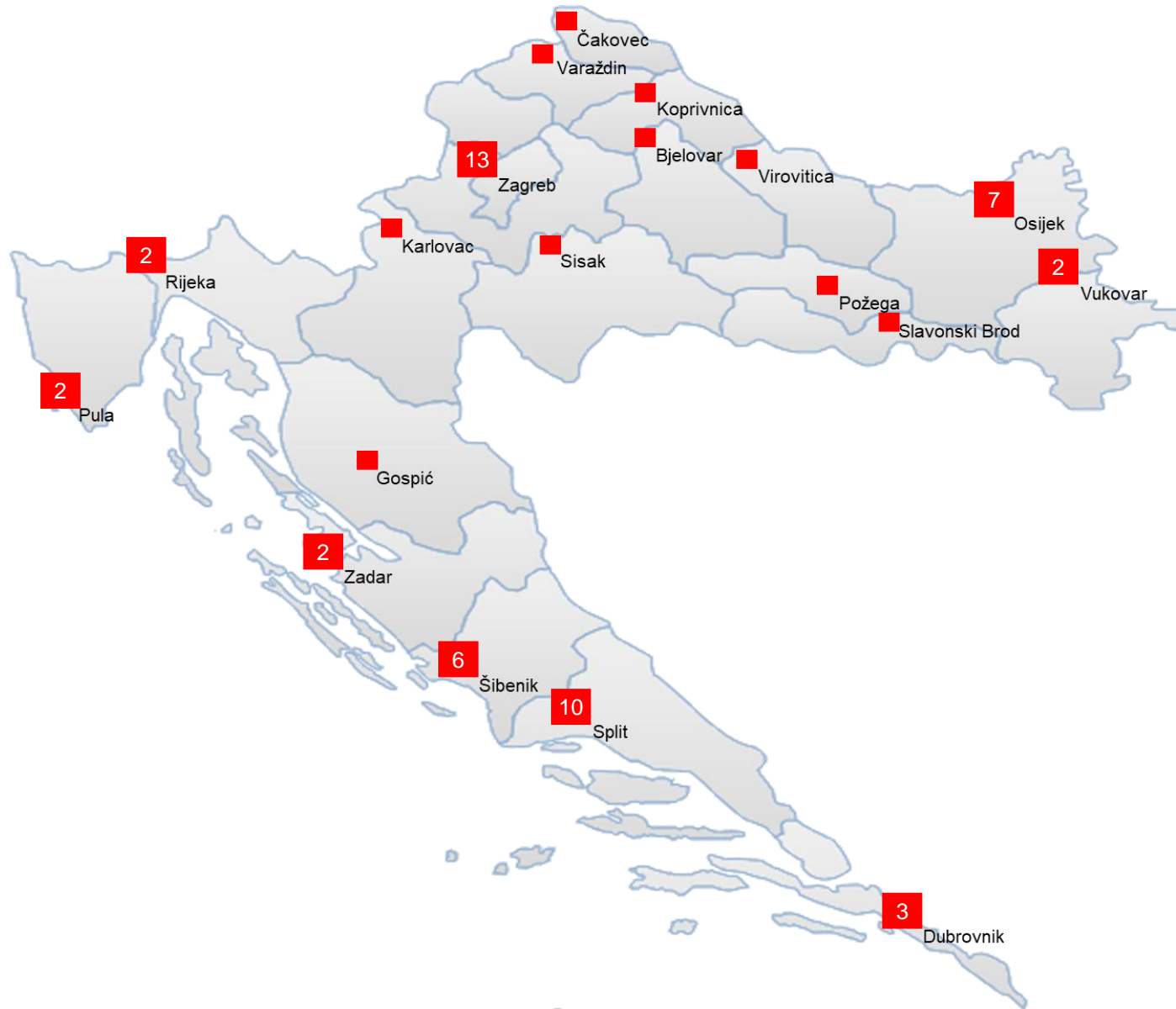


Comparative asset growth rates



- **Stable and sustainable growth of assets**, in 2019 acquisition growth through Jadranska banka, in 2020 slower growth than the market
- In 2020, we recorded the continued **growth of the bank's gross loan portfolio**
- During the first half of 2020, a strong **increase in sources of funds** and consequently an **increase in liquid assets** (+ HRK 901 million)

# Accessibility



■ 57 branch offices

12 regional centers

3 business centers

142 financial corners at the Croatian post

Over 1.500 cash-out points with no fees