



PERFORMANCE IN 2018

Unaudited

QUICKLY DONE, AT FAVOURABLE PRICE AND EFFICIENT

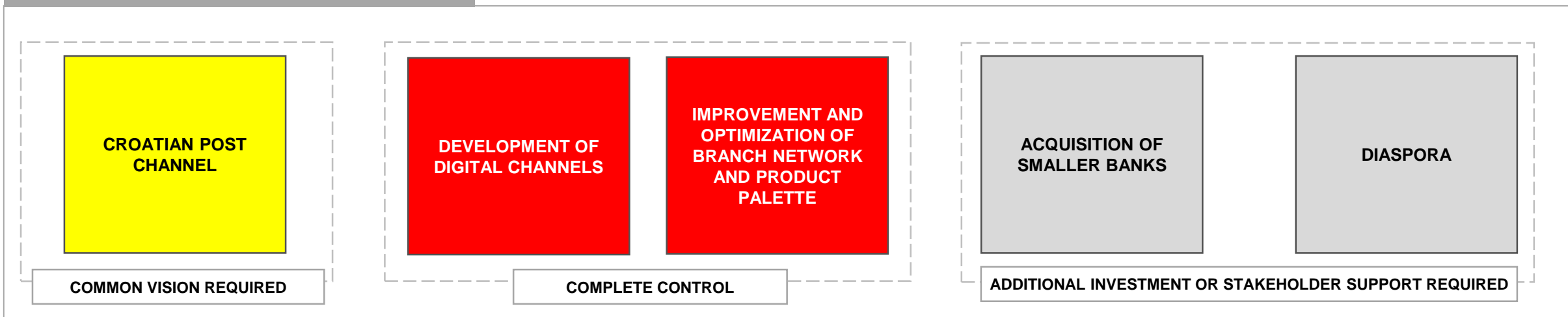
MISSION

We create conditions for a better life in Croatia.

VISION

Bank in Croatian ownership with relevant market influence, that takes the best possible care of its customers, shareholders and community.

STRATEGIC GUIDELINES



**for strategy realization, increase of capital is needed*



SUMMARY –

Profitability followed by intense corporate development in 2018

- **Net profit HRK 150.2 million, highest gross profit since Bank's foundation HRK 183.2 million,**
- **Increase in market share in almost all relevant segments, retail +13.4%, SME +20.6%,** in accordance with strategic guidelines and limited capital capabilities.
- **Operating income HRK 302.4 million,** decrease due to lower interest margins, merger of Jadranska banka p.l.c., launch of development projects and other activities,
- **Significantly lower credit loss expense,** due to better collection. Despite lower cost of risk, HPB needed the year with significant NPL coverage (67.4%),
- **book value of the shares increased by 5.0% on a yearly basis, amounting to HRK 988**
- **Jadranska banka acquired,** expected end of the process during first half of 2019.
- Important launched projects: **business model of cooperation with diaspora, cooperation with Hrvatska pošta, improvement of data quality, transformation of SME business model, digital banking, operating efficiency, change of corporate culture**



SUMMARY OF RESULTS IN 2018 – record gross profit achieved and improvement in almost all relevant indicators

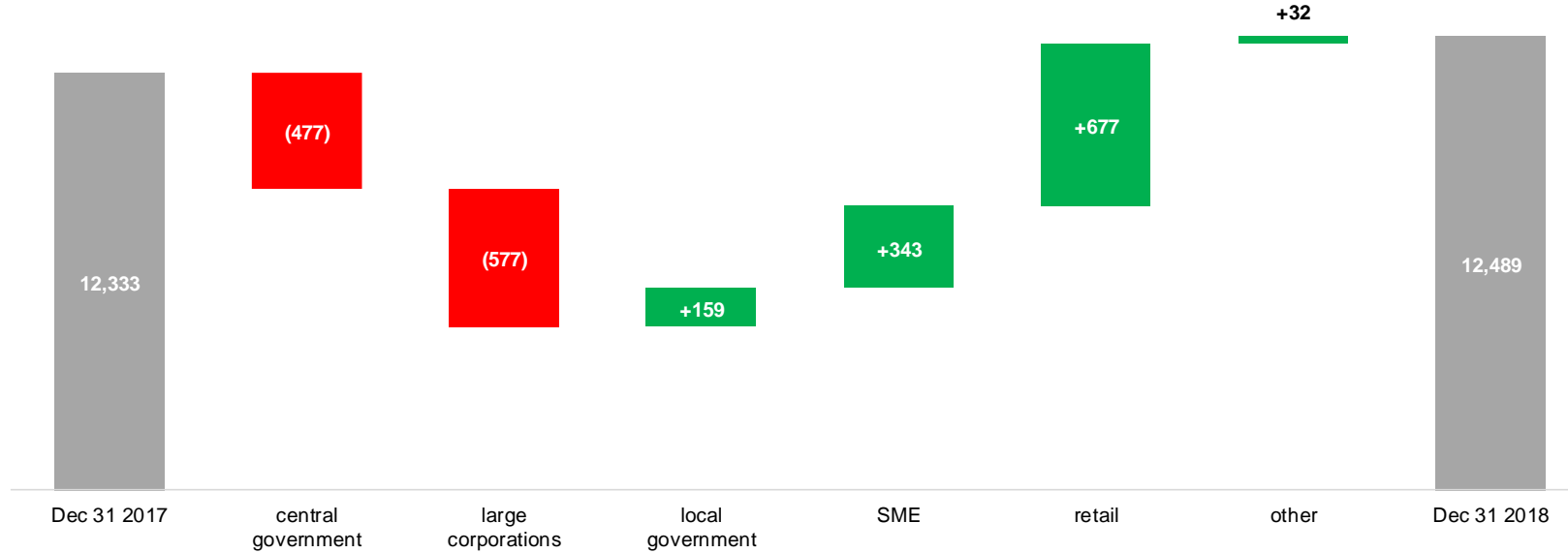
	2017	2018	Change
GROSS PROFIT (before tax)	HRK 12.5 mil.	HRK 183.2 mil.	+1,370% ↑
NET PROFIT	HRK 8.3 mil.	HRK 150.2 mil.	+1,702% ↑
OPERATING INCOME	HRK 372.4 mil.	HRK 302.4 mil.	(18.8%) ↓
ROAE	0.4%	7.7%	+7.3 b.p. ↑
ASSETS	HRK 19.8 bill.	HRK 21.3 bill.	+7.3% ↑
GROSS LOANS	HRK 12.3 bill.	HRK 12.5 bill.	+1.3% ↑
NPL SHARE	17.2% <small>59.8% coverage</small>	15.8% <small>67.4% coverage</small>	(1.4 p.p.) ↓
DEPOSITS	HRK 16.9 bill.	HRK 18.3 bill.	+8.5% ↑

- best gross profit since HPB's foundation achieved
- operating income lower due to decrease in interest margins and large liquidity surplus
- with growth of 7.3% HPB took 6th place by size of assets in Croatia
- loans: increase in market share of strategic segments, retail and SME, with decrease in exposures toward the state and large companies at the same time
- cost of risk: significantly lower cost of risk as a result of collection activities and good NPL coverage
- deposits: HPB continues to be one of the Bank's with the strongest client trust
- continuously strong liquidity position: liquidity coverage ratio (LCR) 175%, and net stable funding ratio (NSFR) 153%
- Capital adequacy 17.53%
- Most important launched projects: business model with diaspora, cooperation with Hrvatska pošta, improvement of data quality, transformation of SME business models, digital banking, operational excellence, corporate culture change



LOANS – deleveraging by the central government and an decrease in loans to large corporations have been neutralized by retail and SME loan growth

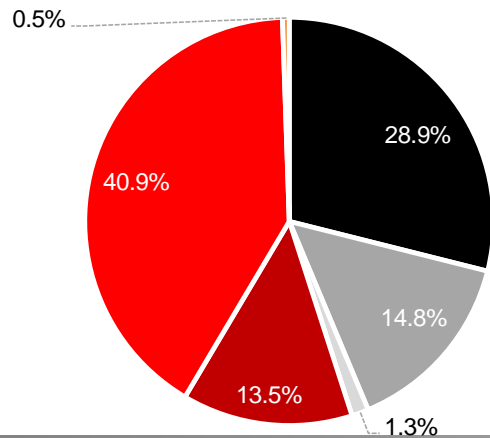
Gross loans (in HRK million)



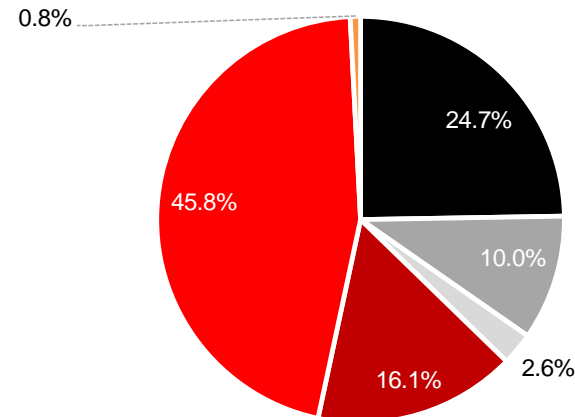
commentary on 2018 trends

- increase in **gross loan volume** by **+1.3%**
- **deleveraging by the government continues** (-13.4%) in accordance with favorable fiscal movements, in addition to **fall in loans to large corporations** (-31.6%) as a result of repayments through state guarantees, have been neutralized by an **increase in strategic segments - SME by +20.6% and retail by +13.4%**
- market share is stable with position being improved in retail segment

Loan structure (Dec 31 2017)



Loan structure (Dec 31 2018)



- central government
- large corporations
- local government
- SME
- retail
- other

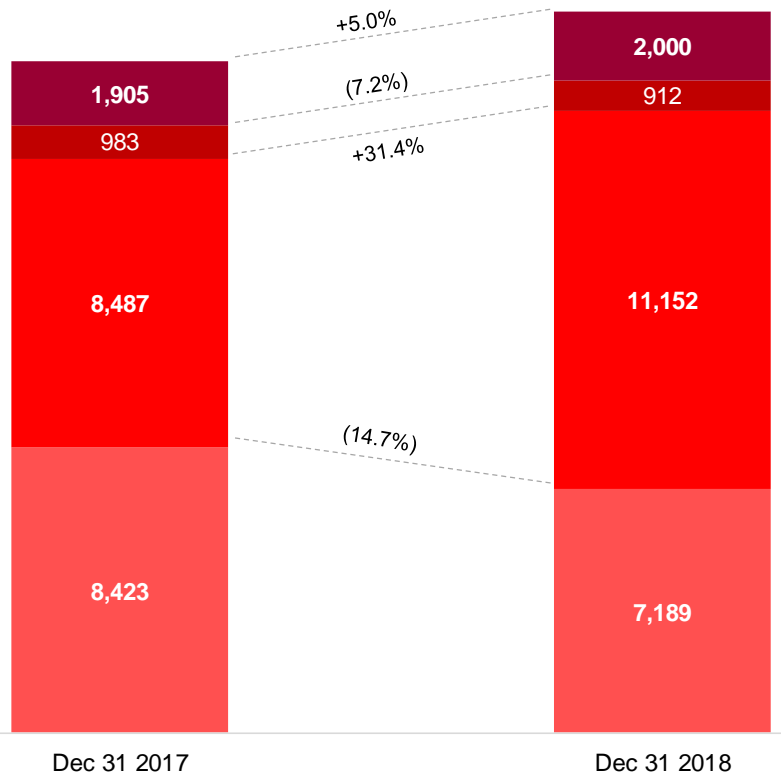
CATEGORY	MARKET SHARE ¹⁾
GROSS LOANS	4.9% Dec 31 2017: 4.9%
- retail	4.7% Dec 31 2017: 4.3%
- corporate	5.4% Dec 31 2017: 5.7%



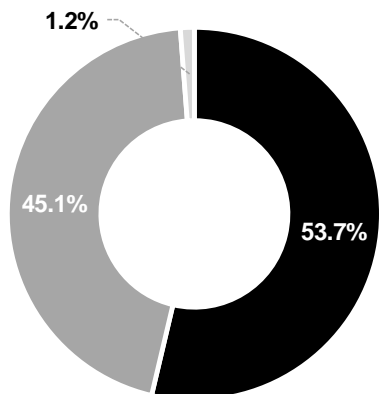
SOURCES OF FUNDING –

stable funding structure – dominated by domestic currency, aimed mainly at retail funds

Liabilities and equity (in HRK million)

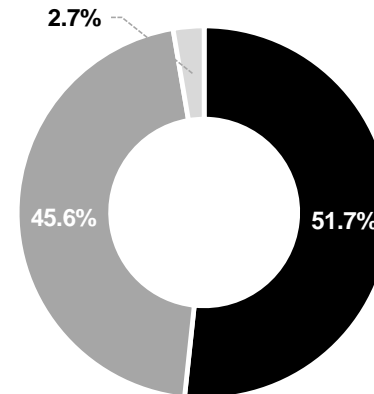


Deposit structure (Dec 31 2017)



■ retail
■ corporate entities
■ other

Deposit structure (Dec 31 2018)



■ retail
■ corporate entities
■ other

■ term deposits ■ demand deposits ■ other liabilities ■ equity and reserves

commentary on 2018 trends

- depositors' trust is reflected by an **increase in deposits by 8.5 percent** with market share increasing to 5.6 percent
- retail and corporate have continued with growth**, with considerable spillover from term deposits (-14.7%) to demand deposits (+31.4%), contributing favorably to average funding price
- Deposits remain HPB's primary source of funding (86.3%), with a dominant share of domestic currency (i.e. 2/3) in total deposit structure

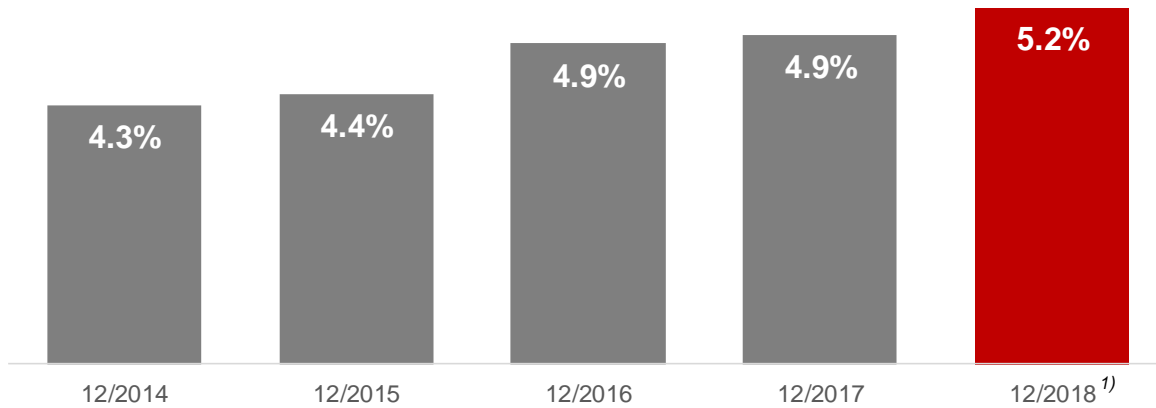
CATEGORY	MARKET SHARE ¹⁾
DEPOSITS	5.7% Dec 31 2017: 5.5%
- retail	4.8% Dec 31 2017: 4.7%
- corporate	8.5% Dec 31 2017: 8.0%



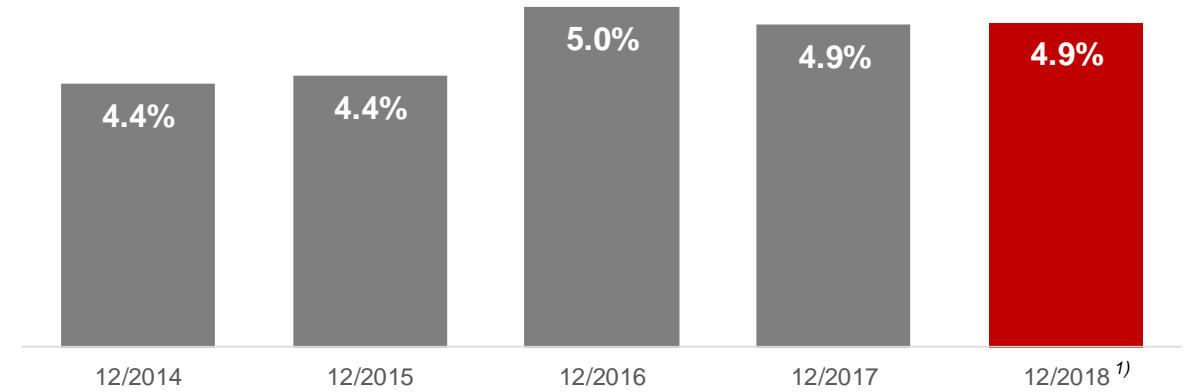
MARKET SHARES –

Market share growth in line with capital capacity

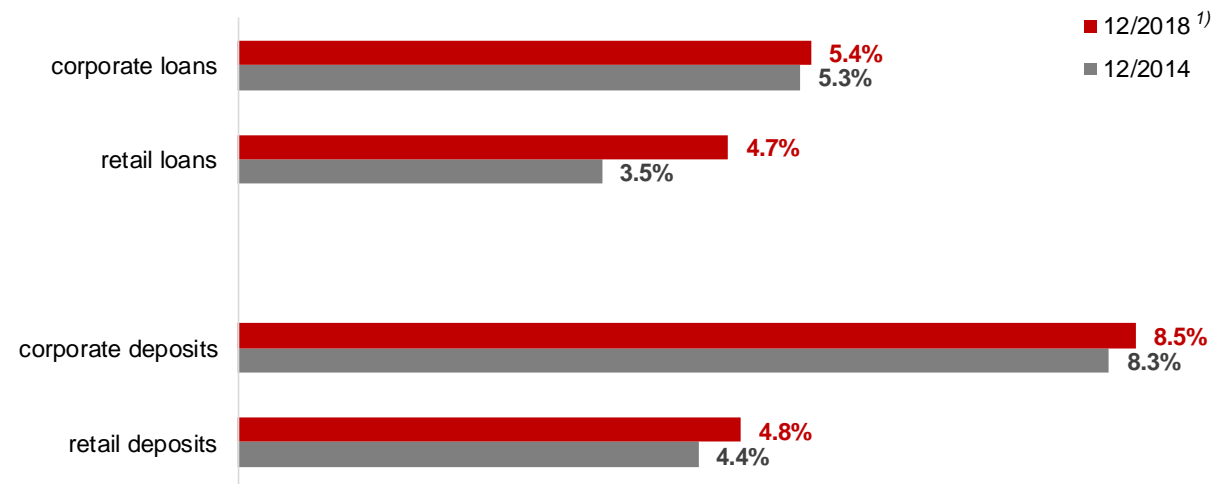
market shares in assets



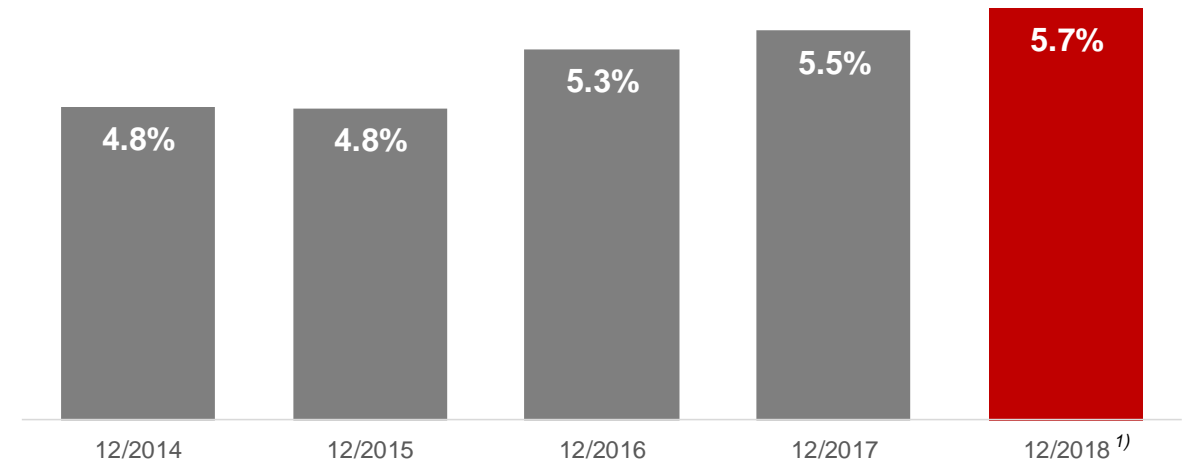
market share in gross loans



market shares (segmented)



market share in deposits



¹⁾ estimate by HPB p.l.c.

NOTE: owing to insufficient capital adequacy, Bank has initiated activities aimed at shrinking exposures between 09/2014 and 09/2015, whilst between 10/2016 and 08/2017 balance sheet growth had to cease due to a threat of breaching 5% market share threshold (capital requirement for structural systemic risk before relevant regulation had changed)



JADRANSKA BANKA –

the acquisition of Jadranska banka strengthens our presence in the region of middle Dalmatia



commentary

assets	HRK 21,253 mil.	+	HRK 1,676 mil.	=	HRK 22,929 mil.
loans	HRK 12,493 mil.	+	HRK 359 mil.	=	HRK 12,852 mil.
deposits	HRK 18,341 mil.	+	HRK 1,498 mil.	=	HRK 19,839 mil.
# corporate accounts (Dec 31 2018)	11 thd.	+	3 thd.	=	14 thd.
# retail accounts (Dec 31 2018)	626 thd.	+	35 thd.	=	661 thd.
market share ¹⁾ (in assets)	5.2%	+	0.4%	=	5.6%

- Jul 04 2018 signing of share purchase agreement
- Jul 13 2018 recapitalization of Jadranska banka by HPB with a capital injection of HRK 110 million
- Feb 12 2019 signing of merger contract → conclusion expected in 1H 2019
- market share increased over 5.5 percent, with an addition of app. 40 thousand new clients
- stronger presence in Šibensko – kninska county which according to DZS estimate for 2016 has 102 thd. inhabitants, representing a leverage for future expansion

¹⁾ estimate by HPB p.l.c. as per Dec 31 2018



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