

## REORGANIZATION, RECAPITALIZATION AND RESULTS OF HPB – THE LARGEST BANK IN CROATIAN OWNERSHIP



*Tomislav Vuić, President of the Management Board*

*Future of Public Companies - Dubrovnik, April 2016*

# Successful 2015



*HPB Management Board:  
Tomislav Vuić, Dubravka Kolarić, Domagoj Karadjole & Mladen Mrvelj*

- EU's approval of the recapitalization process (DG Competition – MEO)
- Recapitalization through public offer, amounting to HRK 550 mln – 55% private investors ~ 25% of total ownership
- Bank reorganization
- Increase in market share, loans and retail deposits
- Substantial improvement of cooperation with Croatian Post
- Best financial result in HPB's corporate history
- Best bank by return on equity in Croatia – 9,4%

## TO FOLLOW ADVICE OUTLINED IN THIS PRESENTATION DOES NOT NECESSARILY MEAN YOU WILL NOT MAKE ANY MISTAKES

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Every company is a unique story as restructuring goals and executives' ambitions are frequently different.

Nevertheless, some rules I have learnt in the first two mergers out of 6 transformations I took part in were present in each:

- **Decisions should be made and implemented quickly** with subsequent adjustments – post implementation
- Delays and **compromises cost more in the future**
- All **changes start from the top**
- Sometimes you can **achieve** what seems **impossible**



# HPB – SUCCESSFUL, UNIVERSAL BANK

(customer focus, excellence, taking responsibility, achievement-oriented culture, agility/speed, teamwork)

## RETAIL SEGMENT

- 632.000 clients
- 53 business units
- 421.000 current accounts
- HRK 8,6 bn. in deposits
- 683.000 HPB cards
- Market share growth in loans and deposits



- #3 bank by 2015 net profit
- #4 by number of clients, #7 by assets, #2 by cash payment transactions
- #1 Bank in Croatia by probability of recommendation & among the leading banks with respect to client trust (according to multiple independent surveys)
- largest retail network in Croatia through 1.000 postal offices

## CORPORATE SEGMENT

- 8 regional centers throughout Croatia
- 9.471 business giro accounts
- HRK 6 bn. of Croatian sovereign debt financing
- Improving cooperation with state units and public funds
- Significant growth in corporates that initiate cooperation with the Bank

## FY 2015 RESULTS EXCEEDED STRATEGIC GUIDELINES PRESENTED TO EUROPEAN COMMISSION AND PRIVATE INVESTORS

		2014	2015   MEO <sup>1</sup> PLAN 2015	PLAN 2016   MEO PLAN 2016
<b>BALANCE SHEET</b>	Total assets	HRK 17,4 bn.	HRK 17,7 bn.   17,6 bn. ✓	HRK 18,1 bn.   18,1 bn.
	Gross loans	HRK 12,4 bn.	HRK 12,4 bn. <sup>2</sup>   12,9 bn. ✗	HRK 13,3 bn. <sup>2</sup>   13,5 bn.
	Total deposits	HRK 14,2 bn.	HRK 14,6 bn.   14,0 bn. ✓	HRK 15,1 bn.   14,3 bn.
<b>MARKET POSITION</b>	Number of clients	635.348	639.907   ≈640.000 ✓	≈650.000   ≈650.000
	Total assets mkt. share	4,4%	4,5%   4,4% ✓	4,6%   4,5%
	Retail loans mkt. share	3,6%	3,7%   3,7% ✓	4,0%   3,9%
	Retail deposits mkt. share	4,4%	4,5%   4,5% ✓	4,6%   4,5%
<b>PROFITABILITY</b>	Operating profit	HRK 300 mn.	HRK 322 mn.   268 mn. ✓	HRK 321 mn.   309 mn.
	ROAE	-55,3%	9,4%   9,0% ✓	9,9%   9,7%
	C/I	60,1%	58,9%   62,3% ✓	57,8%   58,8%
	Net result	(HRK 635 mn.)	HRK 123 mn.   113 mn. ✓	HRK 181 mn.   180 mn.

Comments:

<sup>1</sup>MEO = Market Economy Operator test applied when assessing public investment

<sup>2</sup>Bank had been faced with loan growth limitations during 2015, until CAR of 10 was reached, which materialized as per Jun 30 2015.

Loan growth dynamics was slower than planned.

**best results since Bank's foundation**

## 2014 – PROS AND CONS OF TAKING OFFICE AS PRESIDENT OF THE MANAGEMENT BOARD



- Insufficient capital adequacy
- Recapitalization under approval of the European Commission (threat of bank recovery and even liquidation of the bank)
- Possible outflows of deposits
- Weak client structure with regard to age and income
- High operating costs
- Outdated organization and ignorance of current trends
- No investment in knowledge, skills and HR development
- Limited access to foreign financing
- Bank is perceived as a government institution which is slow, focused on pensioners and public companies, linked to public scandals and losses

- 636.000 clients in total
- 1.000 offices of Croatian Post
- Large depositor base
- Focus on HRK in assets and liabilities
- No CHF risk
- Limited need for CAPEX
- Public sympathy (to the extent possible) for a Croatian-owned bank
- Trust of current clients and satisfaction with their primary bank
- **Turning most problems and disadvantages (low starting base) into opportunities**



# WHAT IS IMPORTANT FOR EVERY RESTRUCTURING

## PRECONDITIONS

- Motivation \*
- Knowledge
- Courage



*\* Motivation and a real desire to make a difference is most important, whilst a moderate lack knowledge or courage may be compensated for.*

## MAIN FOES

- Demotivation (often in the beginning)
- Ignorance (with regard to profession, trends, neglecting education and savings, narrow horizons)
- Fear (of changes, for existential security, personal and family included)
- Habits and sloth
- Ego and insecurity

## ALWAYS STRIKE A BALANCE!



**Need for change** due to unsustainable existing model

**Retain the company healthy aspects of the company**, motivated and enthusiastic employees



**Decrease in costs** – always necessary (potential is limited, requires minimal knowledge but firm will, large layoffs and savings are not stimulating and motivating)

**Growth and increase in revenue** (theoretically the sky is the limit, more skills and a bit of creativity needed, can't be forecasted with certainty) + greater goal above profitability (Croatian interests and interests of its citizens)



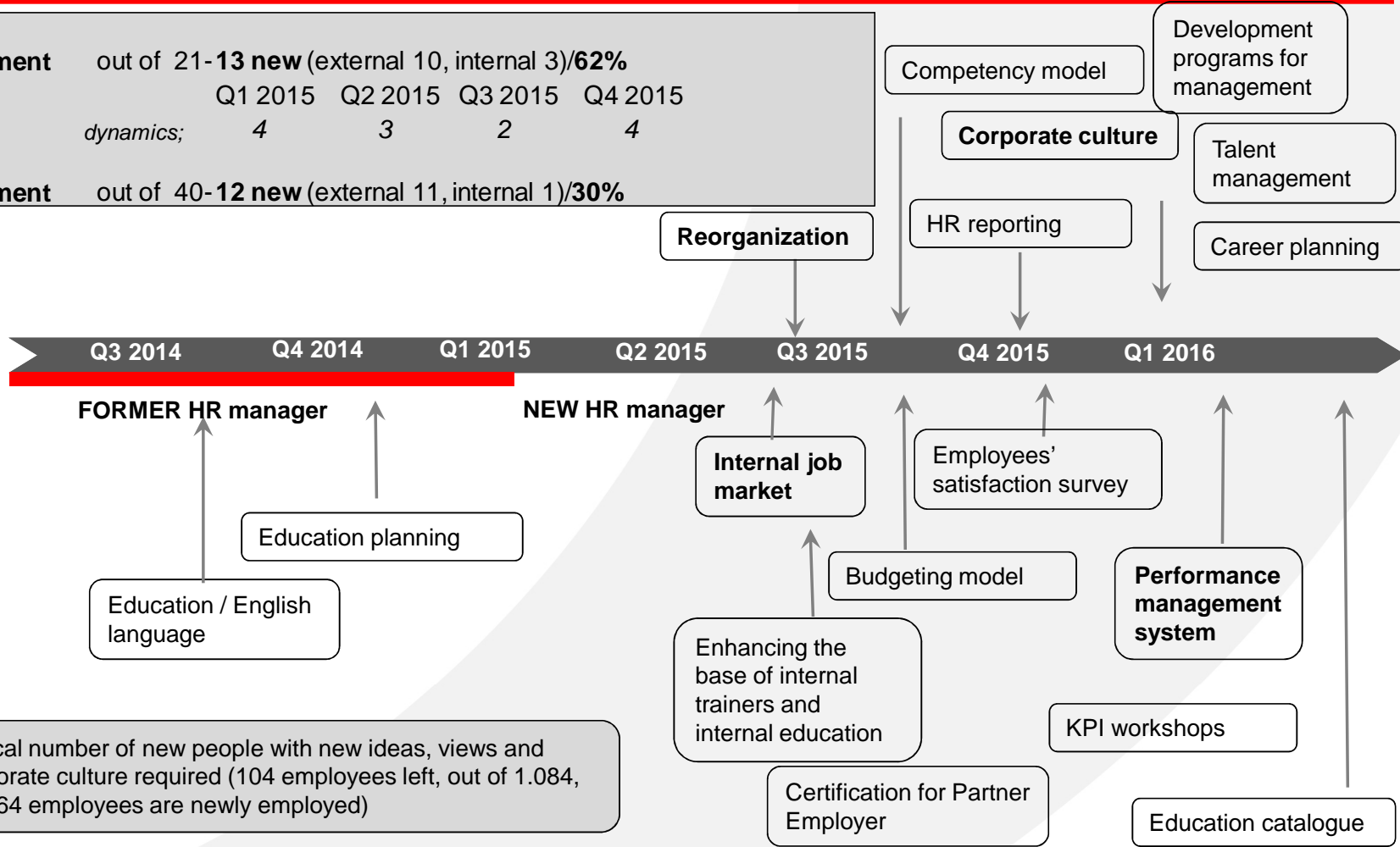
**Quick wins** – simple solutions with quickly visible outcomes, in light of the environment and more so due to motivation of managers and employees

**Structural solutions** which bring prosperity to the company in the long run (in the short run they tend to increase burden and costs)



# CHANGE IN CORPORATE CULTURE – MOST IMPORTANT GOAL OF HUMAN RESOURCES

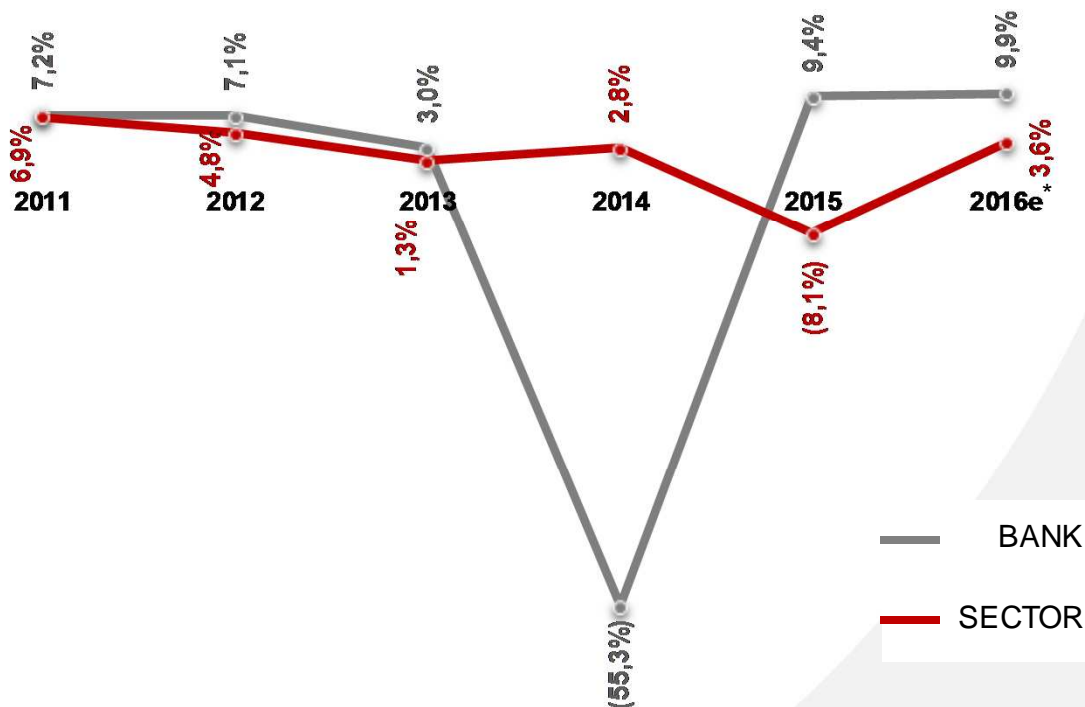
<b>1st level management</b>	out of 21-13 new (external 10, internal 3)/62%
	Q1 2015    Q2 2015    Q3 2015    Q4 2015
dynamics;	4            3            2            4
<b>2nd level management</b>	out of 40-12 new (external 11, internal 1)/30%



Critical number of new people with new ideas, views and corporate culture required (104 employees left, out of 1.084, and 64 employees are newly employed)

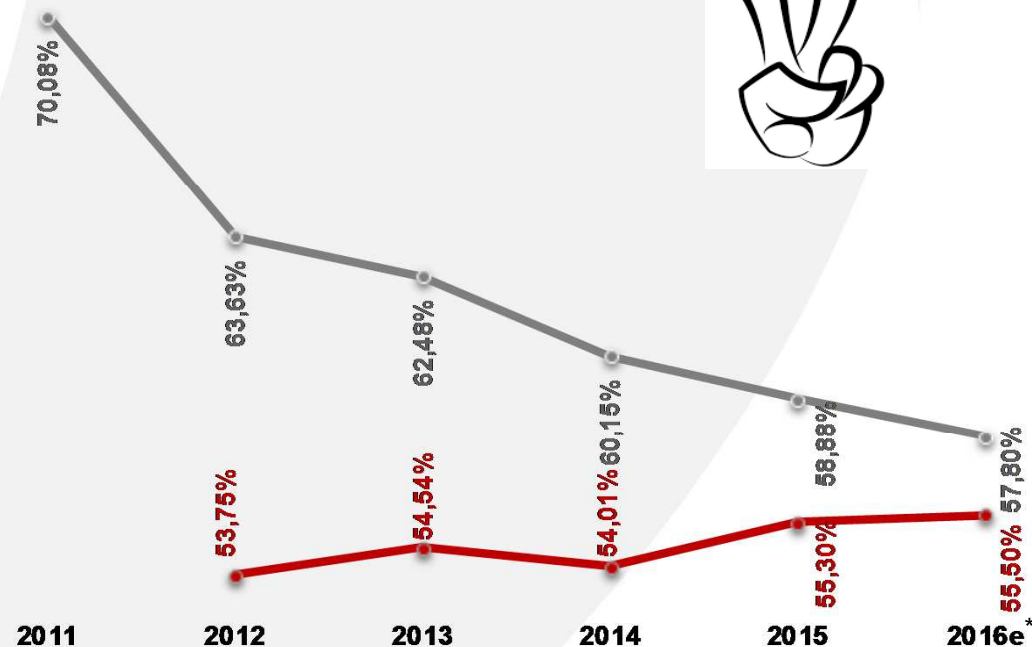
## 2015 – BANK WITH HIGHEST RETURN ON EQUITY IN CROATIA

### ROAE



- MEO PLAN exceeded during 2015.: 9,4% actual vs. 9,0% planned
- Continuation with strong profitability in 2016 as well

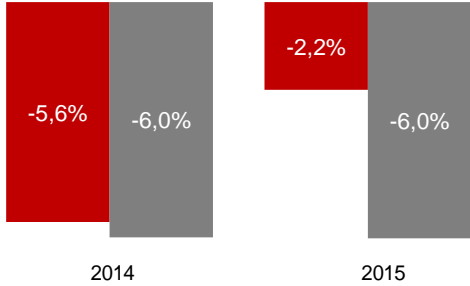
### C/I indicator



- operating improvements & convergence with the sector average
- better effects without processes being changed
- MEO PLAN exceeded during 2015: 58,9% actual vs. 62,3% planned

# BANKING SECTOR & HPB – ACTION & REACTION

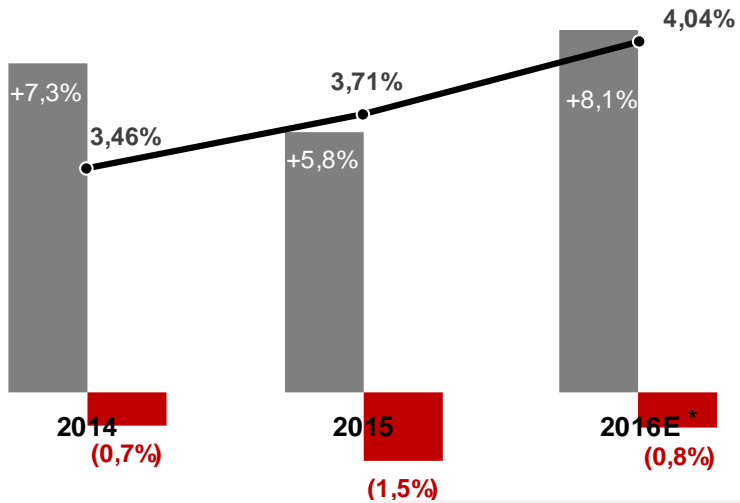
## OPERATING EXPENSES AND COSTS (YoY)



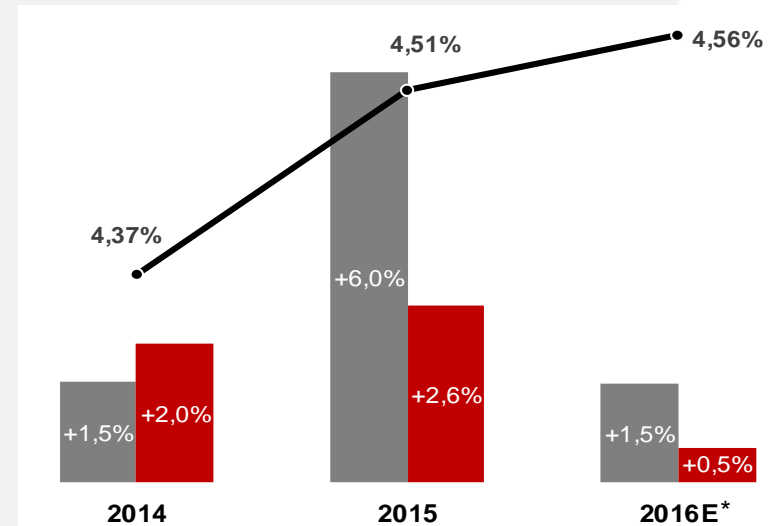
- Fierce competition and revenue downtrend
- Focus on costs
- HPB is adapting by:

- ← - lowering interest rates and fees
- ← - decreasing operating costs
- **Increasing loans in a decreasing market**
- Substantial growth in deposits
- ← - New current accounts opened (32.000 in 2015)

## RETAIL LOANS



## RETAIL DEPOSITS



# MEDIA ABOUT HPB

## Uspješno završena dokapitalizacija HPB-a

Uspješno je završena dokapitalizacija u vrijednosti od 550 milijuna kuna čime je HPB-u omogućen stabilan nastavak poslovanja.

Novi suvlasnici HPB-a: Mirovinci, osiguravajuće kuće, Todorić i Bakić



## Nova mobilna aplikacija HPB-a

Hrvatska poštanska banka uvela je novu mHPB mobilnu aplikaciju koja svim korisnicima pruža prikaz poslovnica i bankomata, mogućnost unovara-



**PRISTUP BROJNIM E-UŠLUGAMA**

HPB prva banka u projektu e-Građani

**HPB** Unatoč gubitku povjerenje klijenata veće nego u ostalim bankama

Ujedinjeni rezultati GfK-ova istraživanja tržišta bankarskih usluga pokazali su da su HPB-ovi klijenti prepoznali da iskazani gubitak nema veze s dobrim smjerom poslovanja

**H**rvatska poštanska banka, d.o.o. (HPB) je u gubitku od 409 milijuna kuna za dokapitalizaciju HPB-a državi treba još 450 mil. kuna

HPB u gubitku od 409 milijuna kuna

**Za dokapitalizaciju HPB-a državi treba još 450 mil. kuna**



**Tomislav Vuić i Domagoj Karadjole,** predsjednik i član Uprave Hrvatske poštanske banke:

HPB JE PREDVODNIK KUNSKOGA KREDITIRANJA, KOJE POSTAJE SVE DOMINANTNIJE

**ZDRUŽENA AKCIJA UDAR DRŽAVNE BANKE I DUŽNIKA U FRANCIMA**

**HPB nudi povoljne kunske kredite pa pritišće banke da »omekšaju« konverziju**

Hrvatska poštanska banka u 2015. poslovala s rekordnom dobiti

HPB udvostručio kapital i ostvario rekordnu neto dobit

Hrvatska 20.1.2016. 10:22



## HPB odustao od izdavanja obveznice

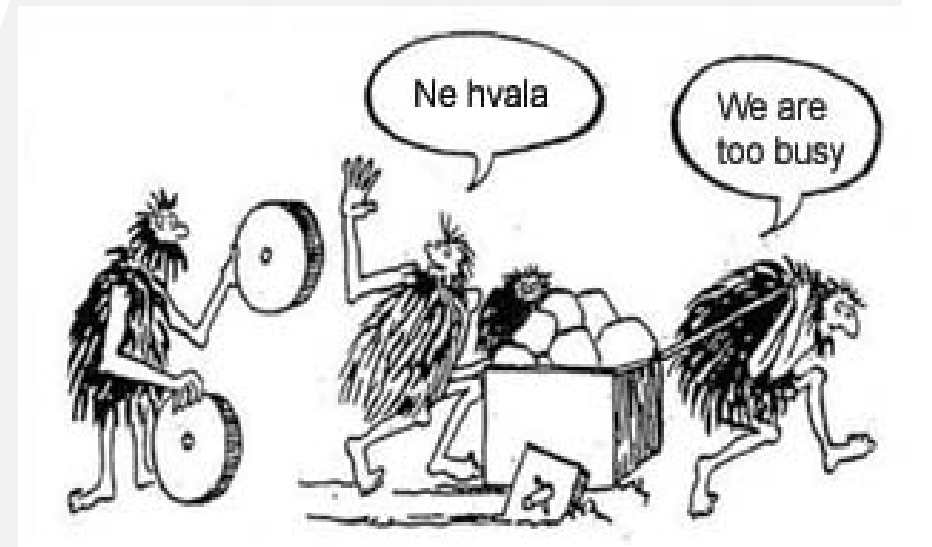


Investitori se povukli, debakl obveznica HPB-a

## ONCE AGAIN - THE MOST IMPORTANT OF ALL

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- Client orientation (real benefit – fair price – availability)
- Culture of defining, monitoring and achieving goals (excellent performance management system)
- Excellent IT (for a bank)
- Clear and communicated strategy, open-mindedness to new ideas and courage to implement and innovate
- Unity and team spirit – between organizational units and employees





## SIZE AND STRENGTH DO NOT MATTER, BUT ABILITY TO ADAPT TO CHANGES DOES





## APPENDIX



**HPB AND FELLOW COLLEAGUES DURING THE RECAPITALIZATION PROCESS:**

*David Tomašek, Domagoj Karadjole, Darko Blagović - DUUDI, Dubravka Kolarić, Krešimir Dragić – Ministry of Finance, Tomislav Vuić, Hrvoje Bujanović – PBZ , Marijana Liszt – Law Office Posavec, Rašica & Liszt, Goran Horvat - KPMG, Angelika Terek, Tomica Pustišek – TP Consultum*

# RESUME AND EXPERIENCE IN TRANSFORMATIONS AND MERGERS



- 2014 – today Hrvatska poštanska banka – CEO
- 2003 – 2014 Erste & Steiermärkische Bank d.d., Croatia – deputy CEO
- 2013 – 2014 Erste Card Ljubljana, Slovenia – Chairman of the Supervisory Board
- 2009 – 2011 ESB Podgorica, Montenegro – Deputy Chairman of the Supervisory Board
- 2007 – 2010 Diners Club Russia – Supervisory Board member
- 2006 – 2014 Erste Card Club d.o.o., Croatia – Chairman of the Supervisory Board
- 2004 – 2006 Kvarner Wiener Städtische Osiguranje d.d., Croatia – SB Member
- 2002 – 2003 – Erste & Steiermärkische Bank, Croatia – CEO
- 1997 – 2000 Trgovačka banka – Management Board Member (CEO in 2000)
- 1995 – 1996 Law office Žurić i Partneri – partner
- 1993 – 1995 Law office Ratko Žurić, Bojan Fras, Tomislav Vuić – attorney-at-law

- Merger of Trgovačka banka d.d., Zagreb, Čakovečka banka d.d. Čakovec and Bjelovarska banka d.d. Bjelovar
- Merger of Riječka banka d.d., Rijeka and Erste & Steiermarkische Banka d.d.
- Acquisition and transformation of Diners Club Adriatic d.d. into Erste Card Club d.d.
- Acquisition of American institution for micro financing 'Opportunity International' and transformation into Erste banka AD Podgorica
- Acquisition and transformation of Diners Club Slovenija into Erste Card Slovenija d.o.o.
- Reorganization and recapitalization of Hrvatska poštanska banka d.d., Zagreb

# RECAPITALIZATION, EU COMMISSION, PARTIAL PRIVATIZATION AND REGULAR ACTIVITIES - SIMULTANEOUSLY

## BACKGROUND TO RECAPITALIZATION & RECAPITALIZATION IN 2015

- HNB performed on-site examination of HPB during Q2 2014
- Sep 2014 – HNB issues a Resolution outlining insufficient NPL impairments and provisions, and imposes a CAR minimum of 14% on the Bank
- new Management Board takes office in Q4 2014 – balance sheet cleansing and initiating rationalization measures
- 2014: HRK 635 million net loss due to recognized impairment losses and provisions (HRK 935 million of total impairment losses)
- HPB enters 2015 with CAR equaling 6,7 percent (danger of rehabilitation or even liquidation of the bank)
- H1 2015 – negotiation with European Commission (*DG Competition*) about recapitalization – presentation and successful argumentation of MEO Business plan
- Jun 2015 – DG COMP's conditional acquiescence on MEO plan & HPB enters into negotiations with investors - *road show* and activities regarding issuance of shares
- Sep 2015 – successful recapitalization through a public share offer – HRK 550 mn. raised (55% by private investors ≈ 25% equity stake in HPB)
- capital adequacy after recapitalization exceeds 16 percent

## ACHIEVED DURING 2015

- defining HPB's development strategy – on sound foundations
- improvements to previously neglected risk management
- strong focus on utilization of HPB's advantages in retail segment (market share growth & growth in number of clients)
- development of model of cooperation with HP Hrvatska pošta
- implementation of most modern *m-banking* solution in Croatia
- successful reorganization – number of organizational units was cut from 94 to 71
- significant staff refreshment through arrival of executives and experts from international groups (Unicredit, Intesa SP, Erste & Steiermärkische, Societe-Generale...)
- Efficiency improvements
- Funding structure improvements
- Best financial results in HPB's corporate history:
  - NET PROFIT HRK 123 million (previously 2007: HRK 121 million)
  - OPERATING PROFIT HRK 322 million (previously 2014: HRK 300 million)

HPB – Best bank in Croatia by  
quality of services and products,  
market growth and profitability

Is this possible?

Is it possible to achieve this at the same  
time?

Is he serious?

Are we the best bank already?

How can we do it?

In which period?

**Why should we do it?**



HRVATSKA POŠTANSKA BANKA

Tomislav Vuić  
October 24 2014

## FIRST PRESENTATION TO WIDER NUMBER OF MANAGERS 2014

### Clients

Without them there is no bank, whilst without quality services and products there are no clients. Ever-demanding, ever-protected and ever-informed they expect cheap prices, understanding and availability.

### Community

Our greatest contribution, banking excellence, encouraging employment, following regulation and best business practices.

**HPB**

Best bank in  
Croatia  
For whom?

### Shareholders

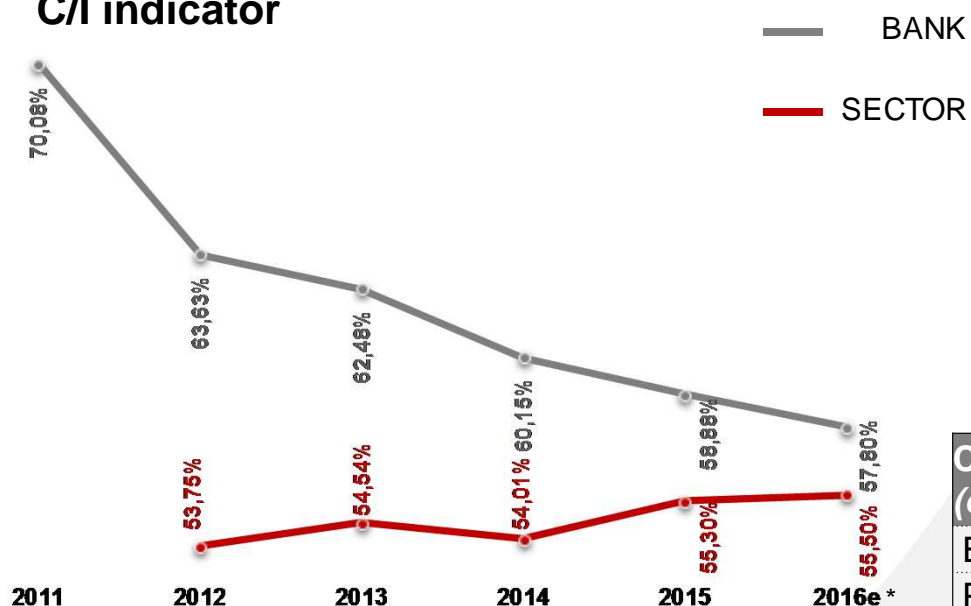
Expect earnings which are paid-out, bank profitability – security and trust, especially in the long run.

### Employees

Culture of achieving goals, high motivation, performance management system and constant learning. Learning from the best and benchmarking with them.

## SAVINGS IN 2015 – VIGILANT PROCUREMENT, RENEGOTIATIONS WITH SUPPLIERS

### C/I indicator



\*2016: sector estimate & HPB's operating plan

- **HRK 24 million of savings** (annualized) achieved through cost management activities
- savings effective mostly from H1 2015, but significant improvements are already accomplished
- 2016 and onwards should bring additional savings through better job organization and efficient processes

### Cost groups with largest cuts realized during 2015 (comparison between 2015 and 2014 actuals)

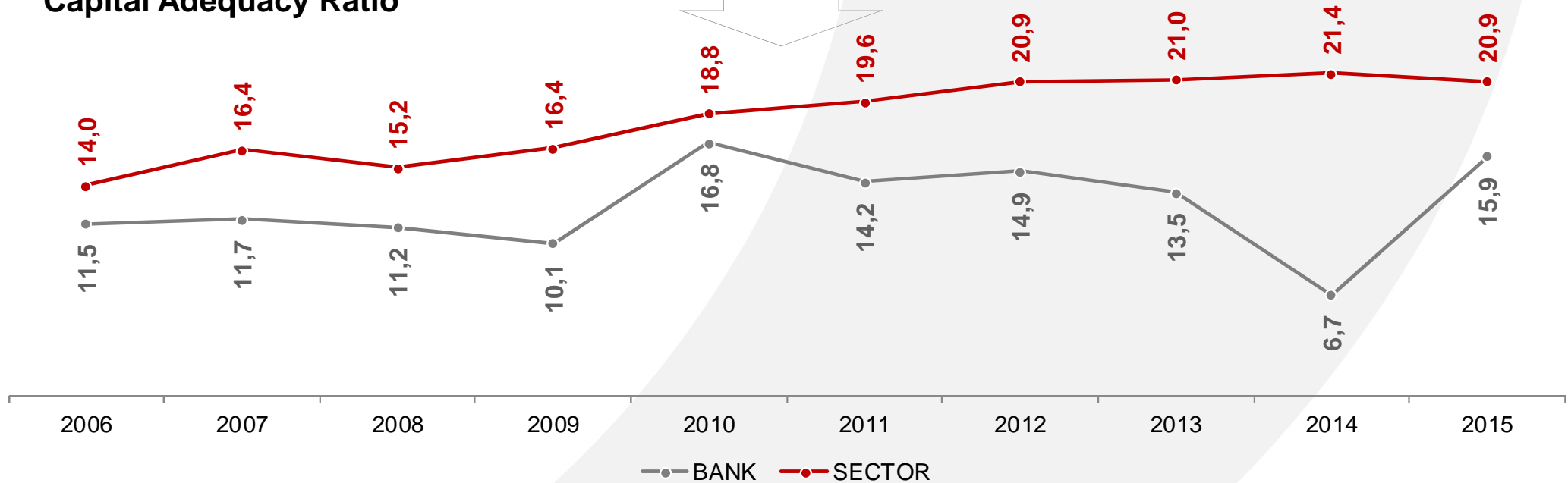
Equipment & assets maintenance	-8,5%
Postal services	-17,4%
Telecommunications	-17,9%
Protection services	-16,5%
Currency transportation services	-20,7%
Cleaning services	-15,3%



# CAPITALIZATION IN THE PAST

HPB has historically been undercapitalized when compared to its competitors, and close to legal minimum

## Capital Adequacy Ratio



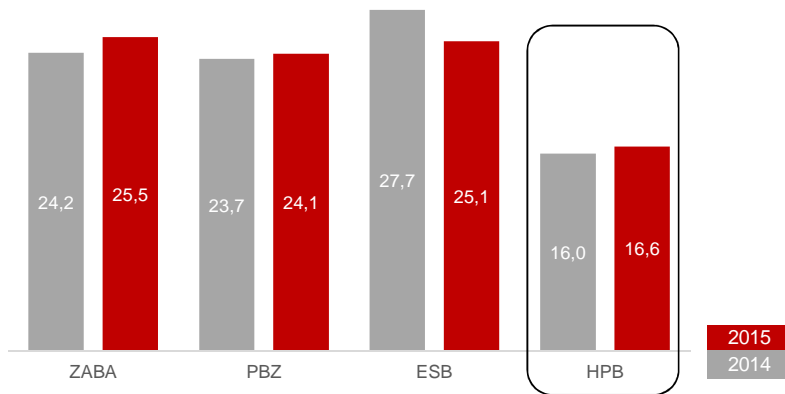
Comment: Bank had been recapitalize with HRK 500 million during 2010, when it had HRK 600 million of hybrid instruments, whence HRK 350 million matures between 2012 and 2014

Low capitalization represented a limiting factor during periods of growth, and insufficient reserves during periods of recession

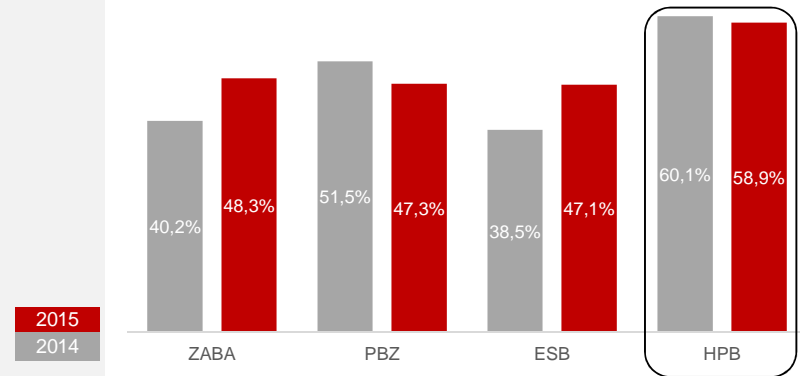
## SLIGHT UPTRENDS IN INDICATORS DURING THE RESTRUCTURING YEAR – SUBSTANTIAL POTENTIAL FOR IMPROVEMENT

### Selected indicators of largest banks in Croatia for 2014 and 2015

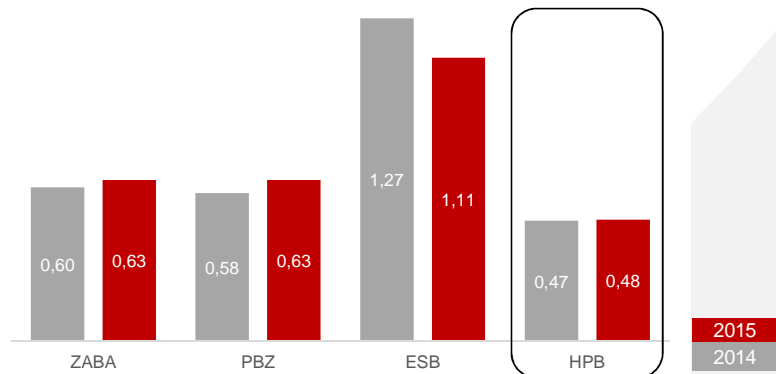
Assets per employee (HRK million)



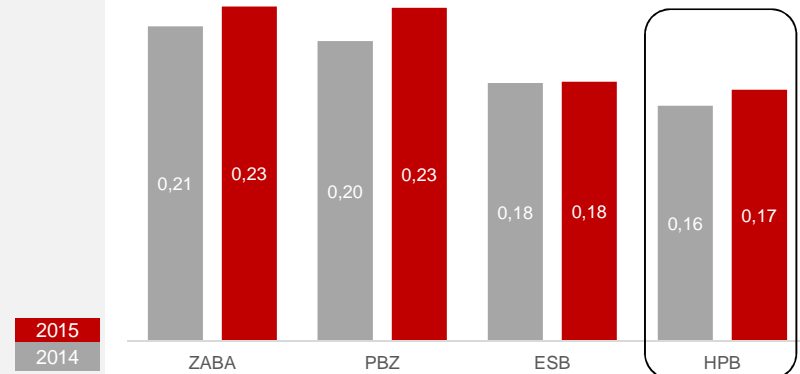
C / I indicator



Net interest income per employee (HRK million)



Net fee income per employee (HRK million)



## PRODUCT DEVELOPMENT IN SPITE OF COMPLEX RECAPITALIZATION & REORGANIZATION PROCESSES

Housing loans in HRK with combination of fixed and variable interest rate – *refinancing*



General purpose loans  
*Always in HRK*



Contactless debit card  
*Mastercard Contactless*



Moja banka.



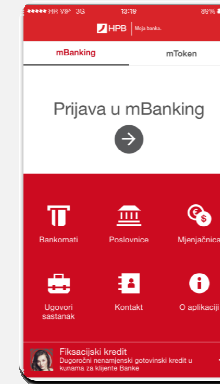
Instalment card  
*HP & HPB card*



Deposits  
*Motiv Plus*



Mobile banking  
*HPB m-banking*  
*Currently most modern solution in Croatia*



++...various specific purpose loans for individuals and companies...  
++...direct channels...

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