

SUMMARY OF INFORMATION



CROATIA BANKA plc

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Letter of Presentation



Zagreb, July 6, 2020

Dear Sir or Madam,

This document and the Summary of Information related to the Purchase Transaction of 100% Shares of Croatia banka d.d. („**Summary of Information related to the Planned Transaction**”), having its registered seat in Zagreb (Republic of Croatia), Roberta Frangeša Mihanovića 9, PIN: 32247795989 (“**Bank**”), constitute an integral part of the released Invitation by which the State Agency for Deposit Insurance and Bank Resolution, having its registered seat in Zagreb (Republic of Croatia), Jurišićeva 1, PIN: 94819327944 (“**Seller**”), as a sole owner of Bank’s shares, invites interested investors for expression of interest for the purchase of 100% shares of the Bank (“**Planned Transaction**”). All three documents are available on the respective websites of the Seller (www.dab.hr/en/news) and the Bank (www.croatiabanka.hr/prodaja).

This document does not constitute an offer for the purchase of shares and/or assets of the Bank, but its sole purpose is to provide initial information about the Bank and on the subject and the course of the Planned Transaction in order to determine the existence of interest for the purchase of the Bank’s shares.

* * *

Should you have any further questions or in case you need any clarifications, please do not hesitate to contact the Committee for Conducting the Sale Procedure of the Bank’s shares via e-mail: povjerenstvo.croba@dab.hr.

Yours sincerely,

State Agency for Deposit Insurance and Bank Resolution

Basic Information



Croatia banka p.l.c. registration	
Name	Croatia banka p.l.c.
Headoffice	Zagreb, Roberta Frangeša Mihanovića 9
Trade Court	Zagreb
MBS	080007370
MS	03467988
OIB	32247795989
Number of shares	4,746,000 shares A series
Nominal value	HRK 100.00 per share
Ownership	100% State Agency for Deposit Insurance and Bank Resolution

History, size and activity

Croatia banka p.l.c. (the Bank) was founded in 1989 as The Bank of Small Business p.l.c. Zagreb. In 1990, it began with banking operations as a bank of large mandates based on the Resolution of the National Bank of Yugoslavia. In 1995 the bank changes its name to Croatia banka p.l.c. Zagreb and to this day operates under that name.

Due to difficulties the Bank faced in 1999, the process of resolution started and in 2000 new replacement shares were issued in the amount of HRK 204,600 thousand and thereby the resolution process was completed*, and the Bank continued to operate as a 100% owned by the State Agency for Deposit Insurance and Bank Resolution (DAB).

The bank increased share capital in 2010 for HRK 70,000 thousand and in 2012 for HRK 200,000 thousand, and the equity capital at the December 31, 2019 amounted HRK 474,600 thousand. By a decision of the Croatian Competition Agency (AZTN) from 2013, the Bank was prohibited from receiving new aid for a period of 10 (ten) years from the date of completion of the restructuring process for which the aid was granted.

According to its size Croatia banka p.l.c. is the 14th out of 20 banks. The share capital consists of 4,746,000 shares of series A, nominal value of HRK 100.00 and amounts of HRK 474,600 thousand. The bank is 100% owned by DAB. The Bank’s management are:

- Danijel Luković, CEO and
- Tadija Vrdoljak, Member of the Board.

The management received the first consent of the Croatian National Bank in June 2018 for the one year period and the second in June 2019 for two years period. As of December 31, 2019, the Bank had 169 employees, of which 86 in sales.

Croatia banka p.l.c. is a universal bank that performs all kinds of deposit and credit activities for legal entities and citizens, payment operations at home and abroad, cash pooling, bills of exchange and factoring, issuance of guarantees, promissory notes and other forms of guarantees, purchase of securities and other banking businesses, and performs deposit and deposit insurance activities, and has developed online banking, mobile banking and credit cards.

*Act on Bank Resolution and Restructuring from 1994



Croatia banka p.l.c. Snapshot

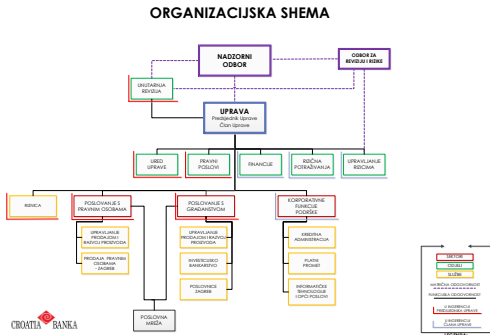


CROATIA BANKA PLC HAS A WIDESPREAD AND SUSTAINABLE NETWORK OF COMMERCIAL CENTRES COVERING THE WHOLE CROATIA WITH THE POTENTIAL FOR FURTHER GROWTH



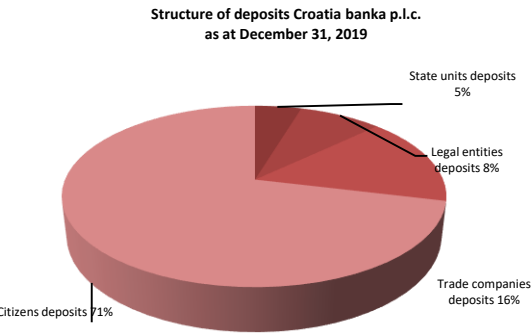
Due to the widespread network, Croatia banka p.l.c. has ensured a good dispersion of geographical and industrial risk.

CROATIA BANKA PLC HAS A WELL-DEVELOPED INFRASTRUCTURE AND A PREPARED ORGANIZATION FOR FURTHER GROWTH OF THE BANK



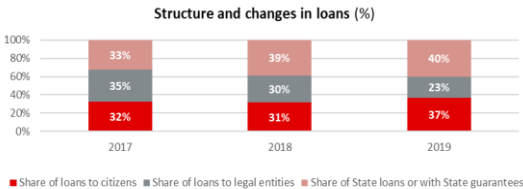
The developed infrastructure includes a risk management system and control functions, and well-established back office for the operations, which compliance with the CNB requirements and the quality, the audits of regulatory reports have been predominantly assessed as satisfactory.

CROATIA BANKA PLC HAS A GOOD DEPOSIT STRUCTURE WITH LOW CONCENTRATION RISK AND MANAGEABLE COST OF PAID INTEREST



The average paid interest rate in the observed period has decreasing trend, and for 2019 was 0.55%, what is an decrease of 0.54pp compared to 2018.

CROATIA BANKA PLC HAS A HIGH-QUALITY PORTFOLIO STRUCTURE, WHICH ALLOWS FOR FURTHER GROWTH OF PROFITABLE PORTFOLIO, WITH LOW PARTICIPATION OF NON-PERFORMING PLACEMENTS, AND DECLINING PARTICIPATION OF LARGE EXPOSURES



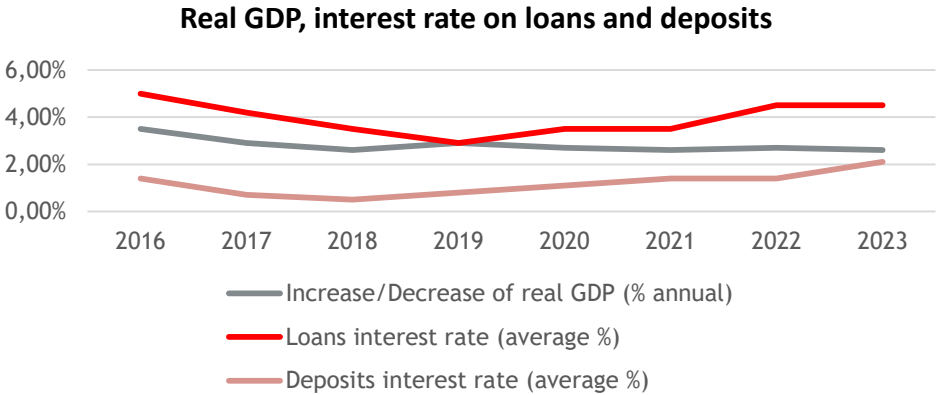
The portfolio of Croatia banka p.l.c. includes citizens, small and medium-sized enterprises, in which the share of non-revenue placements is significantly reduced, while significantly reducing the participation of large exposures in total exposure.

Overview of Macroeconomic Indicators and Comparison With the Banking Sector



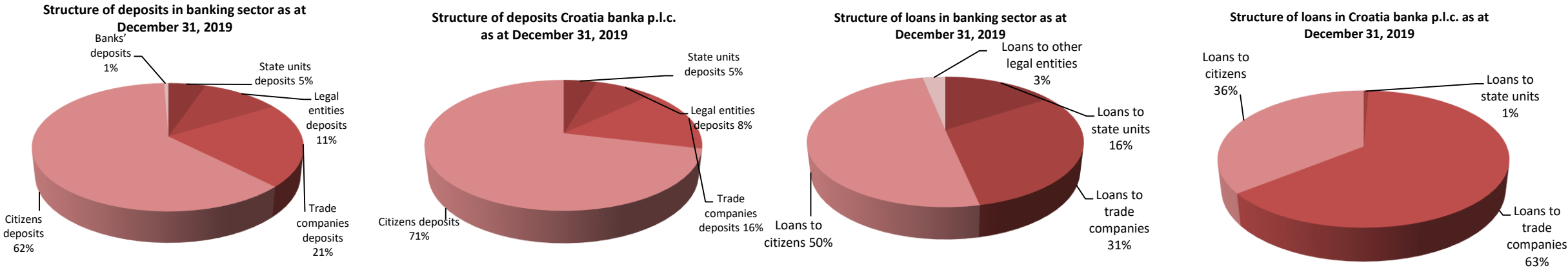
Macroeconomic indicators	2016	2017	2018	2019	2020	2021	2022	2023
Increase/Decrease of real GDP (% annual)	3.50%	2.90%	2.60%	2.90%	2.70%	2.60%	2.70%	2.60%
Increase/Decrease of nominal GDP (% annual)	2.40%	4.00%	4.10%	3.90%	4.10%	4.30%	4.60%	4.60%
Increase/Decrease of inflation (% annual)	-1.10%	1.10%	1.50%	1.00%	1.40%	1.70%	1.90%	2.00%
Loans interest rate (average %)	5.00%	4.20%	3.50%	2.90%	3.50%	3.50%	4.50%	4.50%
Deposits interest rate (average %)	1.40%	0.70%	0.50%	0.80%	1.10%	1.40%	1.40%	2.10%
Increase/Decrease of average real salary (% annual)	2.80%	4.10%	2.90%	1.50%	0.40%	-0.20%	0.00%	0.20%
Increase/Decrease of nominal real salary (% annual)	1.60%	5.30%	4.50%	3.00%	2.00%	1.50%	1.90%	2.20%
EUR-HRK, average exchange rate	7.53	7.46	7.41	7.41	7.42	7.41	7.4	7.39

Source: The Economist Intelligence Unit - forecast 1-2020, without impact of COVID-19



During the observed period, as well as the basis of projections until 2023, the Republic of Croatia has good indicators, which do not threaten the banking industry, and despite the expected stagnation in GDP growth in the short term, expected interest rate movements will ensure that the existing interest margin is maintained.

Croatia banka p.l.c., unlike the sector, shows less dependence on deposits of legal entities, and a higher proportion of deposits of the citizens, which reduces concentration risk, viewed as individual exposure and makes the management of interest margin easier. The largest part of the portfolio is placed to the citizens and small and medium-sized enterprises.

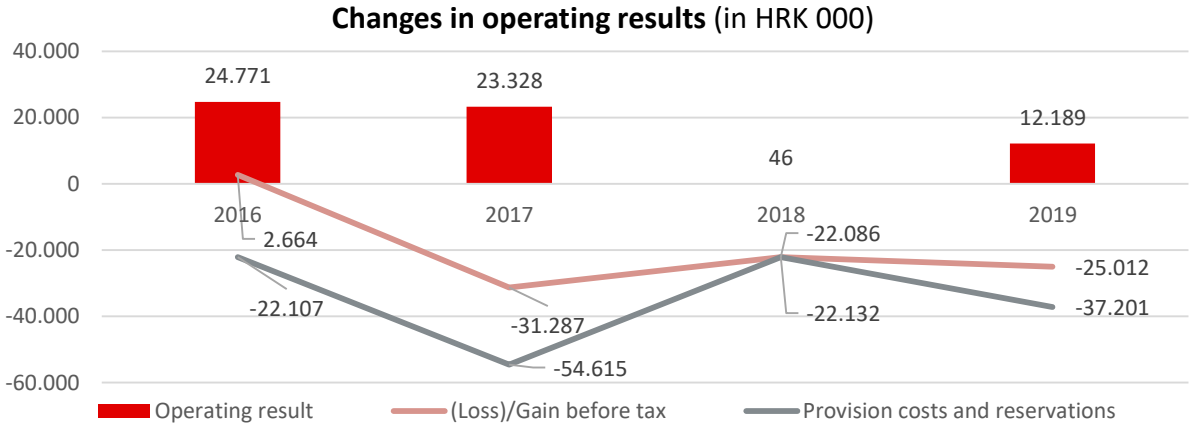


Operating of Croatia banka p.l.c.



In HRK 000	2016	2017	2018	2019
Interest income	131,425	98,156	67,424	53,109
Interest expenses	-63,716	-39,503	-23,602	-10,908
Net interest income	67,709	58,653	43,822	42,201
Income from fees and commissions	12,056	10,453	9,116	9,741
Expenses from fees and commissions	-4,360	-4,753	-3,546	-3,689
Net income from fees and commissions	7,696	5,700	5,570	6,052
Net gains from financial operations	7,751	15,184	3,021	10,801
Net income from exchange differences	3,219	2,743	-47	-23
Other operating income	6,361	8,694	8,522	10,015
Total other income	17,331	26,621	11,496	20,793
Other operating expenses	-67,965	-67,646	-60,842	-56,857
Provision costs and reservations	-22,107	-54,615	-22,132	-37,201
Total other expenses	-90,072	-122,261	-82,974	-94,058
(Loss)/Gain before tax	2,664	-31,287	-22,086	-25,012
Profit tax	-1,026	656	-2,903	30
(Loss)/Gain for the year	1,638	-30,631	-24,989	-24,982
Changes in other comprehensive income	5,966	-6,996	304	3,125
TOTAL COMPREHENSIVE INCOME/(LOSS)	7,604	-37,627	-24,685	-21,857

- In 2019 the Bank:
- Stopped decrease of net interest margin and decreased it to 2,12%,
 - Increased net income from fees and commissions,
 - Gained the increase of income from financial operations (bonds) and
 - Reduced operating costs



During 2018 and 2019, due to the increased focus on rationalisation of the business, operating costs have been reduced. Still, in 2019 Croatia banka p.l.c. made a loss from its business in the amount of HRK 24,982 thousand due to the cost of provisions for litigation in the amount of HRK 36,528 thousand (2 disputes).

Operating result achieved in 2019 has been transferred to profitable businesses, and continuous work is being done to stabilise it.

In HRK 000	2017	2018	2019
Operational result	23,328	46	12,189
Net loss	-30,631	-24,989	-24,982
Provisions for litigations	-1,307	-6,325	-36,528
Corection in net result I	-29,324	-18,664	11,546
Reservations for Konzum	-29,573	-12,051	0
Corection in net result II	249	-6,613	11,546

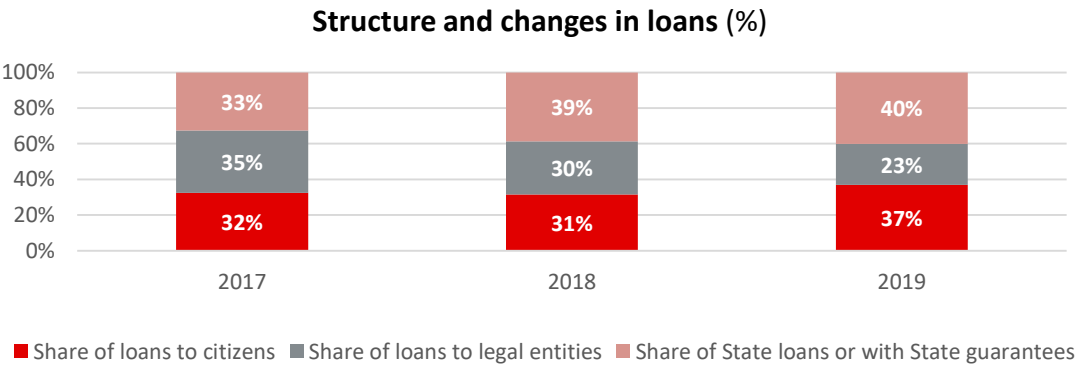
The trend of business, without the impact of litigation and provisions for the Konzum, shows that only in 2018 corrected result was negative.

The operating result in 2019 was transferred to the profitable business zone and as such was sustainably stabilized.

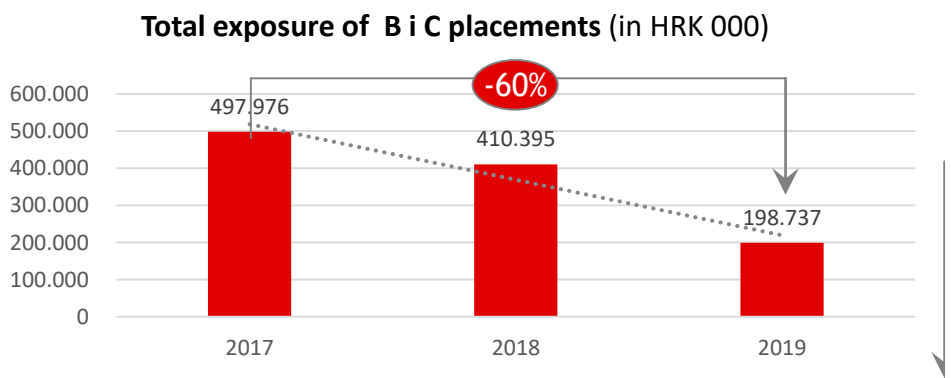
Reconstruction Goals and Effects

- The Bank’s Management task was to carry out the restructuring process and change business trends. The restructuring objectives covered the following areas:
- Restructuring of the portfolio (sale of non-performing loans, increase of the participation of citizens in total exposure and decrease in the participation of large exposures in loan portfolio)
 - Increase in interest margin, reduction in operating costs and increase in operating profit
 - Increase of the level of provision for potential risks and/or litigation
 - Increase of capital adequacy.

In HRK 000	2017	2018	2019	2019/ 2018
Total loans to citizens, net	373,191	340,424	415,605	22.1%
Share of loans to citizens	32%	31%	37%	
Legal entities				
Total loans to legal entities, net	779,830	740,906	709,855	-4.2%
<i>Out of which loans to the State or loans with State guarantees</i>	<i>376,082</i>	<i>418,471</i>	<i>450,608</i>	<i>7.7%</i>
Total loans and advances to clients, net	1,153,021	1,081,330	1,125,460	4.1%



In HRK 000	B and C risk group	December 31
2017	Total exposure (balance and off-balance)	497,976
	Loans	451,196
2018	Total exposure (balance and off-balance)	410,395
	Loans	367,901
2019	Total exposure (balance and off-balance)	198,737
	Loans	165,608





Key Indicators (1/3)

In HRK 000	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019
ASSETS				
Cash and cash equivalens	276,808	176,668	206,351	152,322
Receivables from Croatian National Bank	191,709	149,557	142,387	120,447
Placements to banks	53,334	23,092	19,249	18,971
Financial assets at fair value measured through OCI	0	0	752,681	452,045
Financial assets at fair value measured through P/L	0	0	492	434
Financial assets at depreciated cost	0	0	496	1,203
<i>Financial assets held to maturity</i>	<i>50,647</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Financial assets available for sale</i>	<i>833,773</i>	<i>887,053</i>	<i>0</i>	<i>0</i>
Loans and advances to clients	1,590,643	1,153,021	1,081,330	1,125,460
Investments in fixed assets	33,702	33,630	34,446	35,350
Property and equipment	13,427	6,280	5,646	8,189
Intangible assets	4,926	4,187	3,506	3,152
Acquired assets	23,389	15,397	28,518	25,758
Assets for sale	-	5,280	5,280	5,280
Deferred tax assets	1,898	4,089	1,119	693
Other assets	35,759	32,562	24,159	19,306
Total assets	3,110,015	2,490,816	2,305,660	1,968,610

The financial position of Croatia banka p.l.c. indicates satisfactory liquidity (cash coverage) and missing capital in relation to the required level of capital adequacy.

In HRK 000	2016	2017	2018	2019
Loans and advances to clients, net	1,590,643	1,153,021	1,081,330	1,125,460
Cash and cash equivalents	276,808	176,668	206,351	152,322
Cash coverage	17%	15%	19%	14%

In HRK 000	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019
LIABILITIES				
Liabilities to banks	92,095	62,173	110,543	18,206
Demand deposits	471,935	411,882	508,601	668,867
Time deposits	2,044,562	1,682,228	1,418,110	951,015
Loans received	292,003	163,492	114,311	160,891
Lease liabilities	0	0	0	3,377
Other liabilities	9,109	10,663	10,054	9,963
Provisions	10,676	8,370	13,944	49,132
Total liabilities	2,920,380	2,338,808	2,175,563	1,861,451
CAPITAL AND RESERVES				
Share capital	474,600	474,600	474,600	474,600
Accumulated losses	-290,536	-321,167	-343,382	-369,445
Reserves	5,571	-1,425	-1,121	2,004
Total capital and reserves	189,635	152,008	130,097	107,159
Total liabilities, capital and reserves	3,110,015	2,490,816	2,305,660	1,968,610

The transferred tax loss as at December 31, 2019, was HRK 42,994 thousand. In 2022 HRK 24,999 thousand expires, and in 2023 HRK 17,995 thousand. Deferred tax asset is not recognized in the annual financial statements.



Key Indicators (2/3)

Net interest margin				TOP 15 clients in Interest income				Changes in large exposure				Investment in securities			
In HRK 000	2017	2018	2019	In HRK 000	2017	2018	2019	In HRK 000	2017	2018	2019	In HRK 000	Dec 31, 2018	Increase/Decrease	Dec 31, 2019
Net interest income	53,077	43,822	42,201	Total interest income	98,156	67,424	53,109	Total exposure (gross)	1,807,978	1,691,595	1,376,274	EMU bonds	94,483	61%	152,097
NKM from internal report	1.97%	1.54%	2.12%	Top 15 interest income	50,491	31,393	18,513	Large exposure (gross)	245,260	153,354	141,843	RH bonds	275,471	-43%	157,951
				Share of top 15 interest income	51%	47%	35%	Change ih large exposure		-37%	-8%	Treasury bills	376,669	-63%	139,298
								Share (%)	14%	9%	10%	Total	746,623	-40%	449,346

*total exposure (gross) without State and banks

Despite the sale of a significant portfolio of non-performing placements in 2019, the exclusion of Agrokor Group interest from performing loans and the consequent decrease in net interest income, Croatia Banka p.l.c. has managed with dispersive loan placement activity and deposit interest rate decrease, to increase net interest margin (NIM) in the year 2019. Net interest margin for 2019 was greater than 2% and amounted to 2.12% with growth tendency.

Total interest income of the 15 largest clients was 51% in 2017; 47% in 2018; while in 2019 was just 35%, what represents the decrease of 12 percentage points with tends to further decrease.

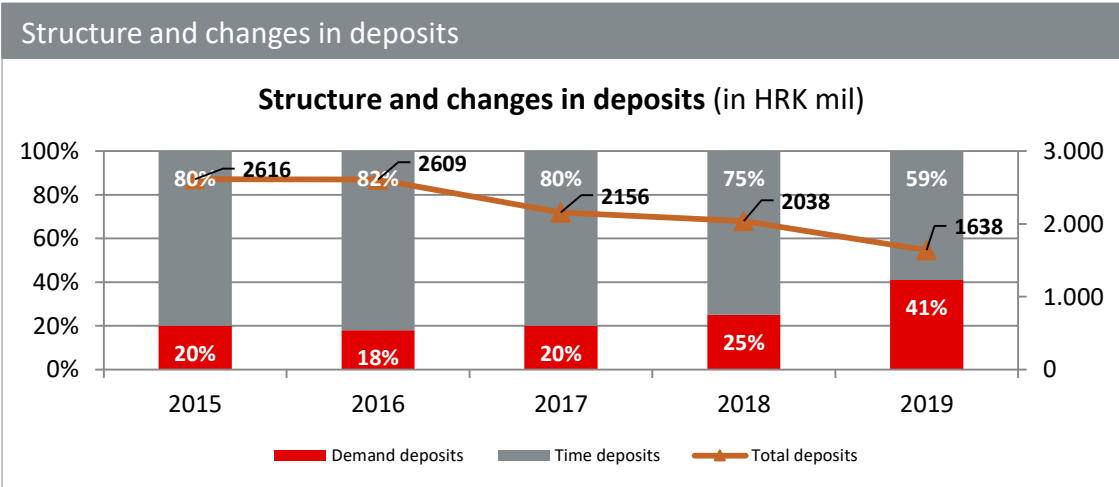
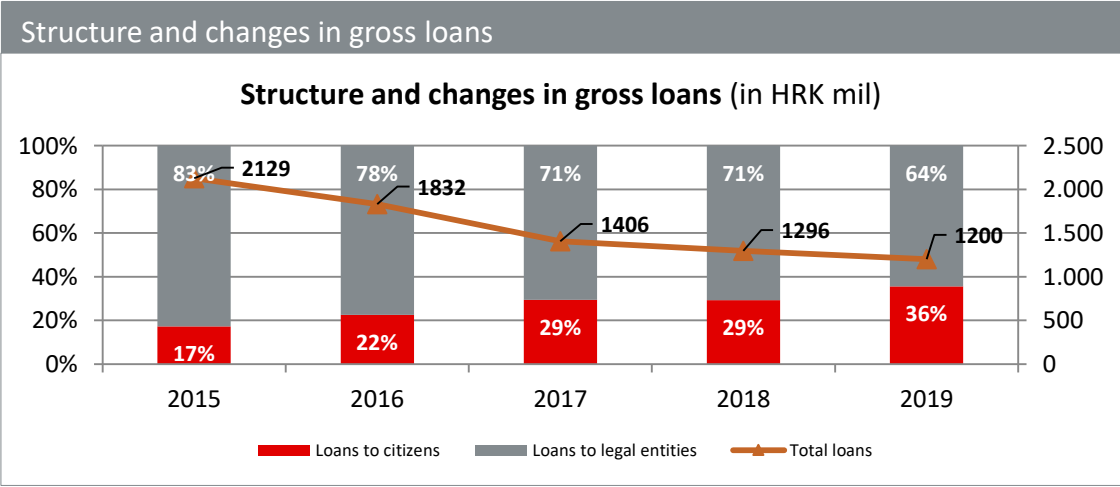
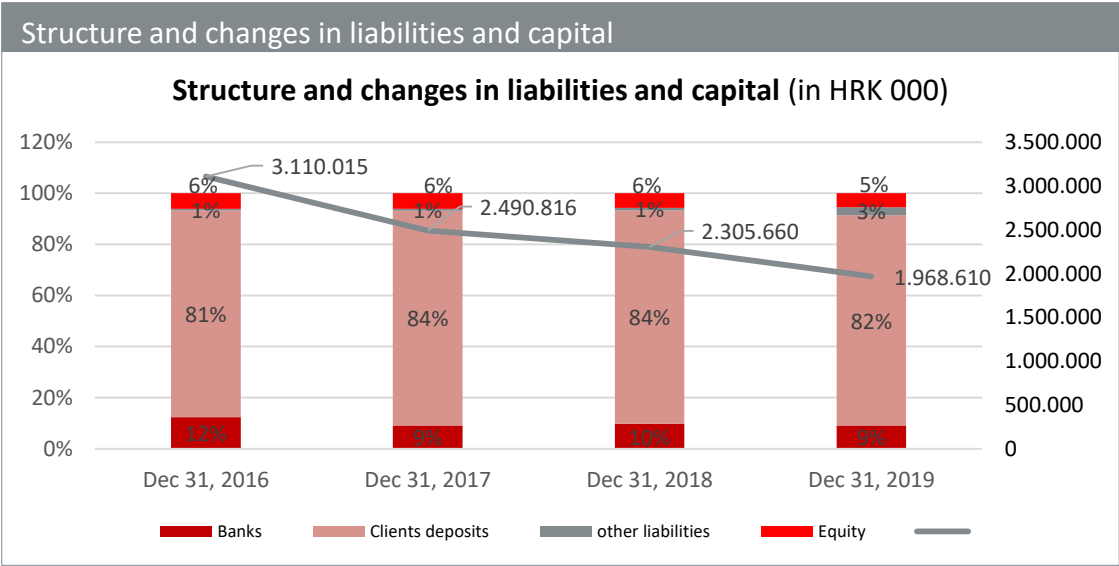
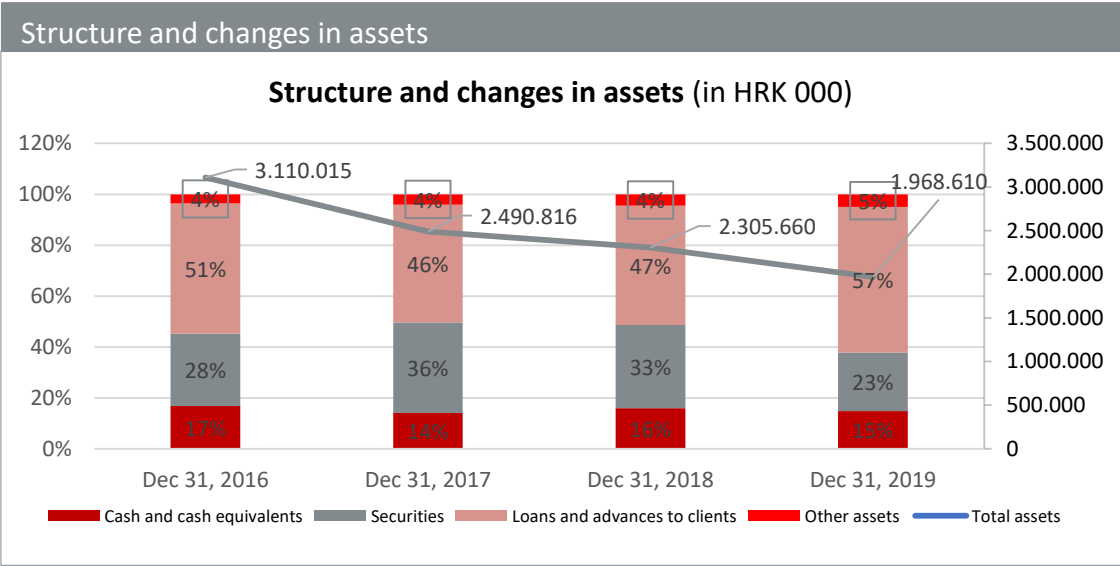
The result of a decrease in the participation of the Top 15 clients in interest income is the result of diversification of the credit portfolio, which has been substituted by the exposure of large clients to the citizens, as well as to small and medium sized entrepreneurs.

Although gross exposure decreased for just 6% in 2018, and the following 19% in the 2019, the reduction in large exposures was much more significant.

Large exposure in 2018 decreased for 37% and a further 8% in 2019 and tends to further decrease.

Finally, with December 31, 2019, the structure of bond investments was changed, which ensured the diversification of the portfolio. The sold part of the existing portfolio generated a profit from financial operations and released the liquidity, which was further used to recover high interest deposits, with the aim of improving net interest margin and operating performance. The level of liquidity remains still high.

Key Indicators (3/3)



Subject of the Planned Transaction

The subject of the Planned Transaction is the sale and purchase of 4,746,000 series A shares, each having nominal value of HRK 100.00 (“**Shares**”), which represents 100% of the Bank’s share capital. Depending on the determined interest of potential investors for the sale and purchase of the Shares, the intention of the Seller is to select one buyer for the sale and purchase and transfer of 100% Shares after the entire procedure has been carried out, in accordance with the described structure of the Planned Transaction in the Activity Timeline— *see slide 13 of this document*.

Disclaimers



The Seller and the Bank have prepared this document with the purpose of informing interested investors and therefore it is intended for informational purposes only. Neither the Seller nor the Bank nor any of their advisors, undertake any duty to provide any additional information. The Seller and the Bank reserve the right to amend this document. It shall not be deemed that the Seller or the Bank made any declarations (either expressed or implied), or in any other manner made any representation or warrant to the accuracy and completeness of this document. Neither the Seller nor the Bank nor any of their advisors undertake any duty to update, modify, correct or supplement this document or to notify the reader in any other manner that anything else stated herein, including, but not limited to any opinion, projection, prediction or estimation, has been modified or has subsequently become inaccurate.

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Release of this document shall not constitute an obligation of the Seller to sell the Shares, nor shall it constitute the basis for any right or request of the interested investor to/for fulfilment on any basis. The Seller reserves the right to modify, terminate or discontinue the Planned Transaction at any moment, without any explanation and/or to exclude any interested investor from the Planned Transaction and without obligation to reimburse the costs and/or losses to the interested investor. This document does not constitute an offer for the purchase of the Shares and/or assets of the Bank, but its sole purpose is to provide initial information about the Bank and on the subject and the course of the Planned Transaction, in order to determine the existence of interest for the purchase of the Shares.