OPENING REMARKS

Plenary 2: Re-examining the Role of the State in Financial Sector Policies after the Global Financial Crisis

Washington, November 6, 2012
HBOR was established in 1992 by a special law as a specialized financial institution with a public mandate.

HBOR is 100% owned by the Republic of Croatia which guarantees unconditionally, irrevocably and on first demand the obligations of HBOR.

The founding capital of HBOR amounts to nearly EUR 1 billion.

HBOR supports systematic, sustainable and even, economic and social development of the Croatian economy pursuant to the strategic goals of the Republic of Croatia through:

- financing reconstruction and development
- financing infrastructure
- promoting exports
- supporting the development of SMEs
- promoting environmental protection
- insuring exports of Croatian goods and services against non-marketable risks

Acts as a Group (subsidiary – ECA company for marketable risk / EU requirement)

HBOR’s credit rating: Baa3 (Moody’s), BBB- (S&P)

Since 1992, HBOR supported more than 47,000 projects in overall amount of EUR 14.4 billion.
### HBOR’s FINANCIAL POSITION

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<tbody>
<tr>
<td>Total assets</td>
<td>3,563.6</td>
<td>2,920.5</td>
<td>3,103.8</td>
<td>2,845.5</td>
<td>2,560.2</td>
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<tr>
<td>Gross loans</td>
<td>3,167.2</td>
<td>3,055.1</td>
<td>3,191.2</td>
<td>3,063.4</td>
<td>2,692.0</td>
</tr>
<tr>
<td>Total capital</td>
<td>1,025.7</td>
<td>972.6</td>
<td>949.2</td>
<td>913.3</td>
<td>857.9</td>
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<tr>
<td>Borrowings &amp; Issued bonds</td>
<td>2,360.2</td>
<td>1,771.8</td>
<td>1,967.4</td>
<td>1,743.9</td>
<td>1,486.6</td>
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<tr>
<td>Profit</td>
<td>6.9</td>
<td>19.7</td>
<td>16.0</td>
<td>22.7</td>
<td>23.9</td>
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<thead>
<tr>
<th>HBOR (in %)</th>
<th>30 June 2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
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<tbody>
<tr>
<td>Overdue receivables / Total portfolio</td>
<td>4.5</td>
<td>3.5</td>
<td>2.2</td>
<td>2.7</td>
<td>1.1</td>
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<tr>
<td>Overdue receivables past 90 days / Gross loans</td>
<td>2.42</td>
<td>1.91</td>
<td>1.48</td>
<td>1.05</td>
<td>0.47</td>
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<tr>
<td></td>
<td>2011</td>
<td>2010</td>
<td></td>
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<tr>
<td>Total capital (HRK million)</td>
<td>7,324.2</td>
<td>7,009.8</td>
<td></td>
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<tr>
<td>Net balance sheet total (HRK million)</td>
<td>21,992.9</td>
<td>22,922.3</td>
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<tr>
<td>Capital share</td>
<td>33%</td>
<td>31%</td>
<td></td>
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<tr>
<td>Capital adequacy ratio</td>
<td>63.45%</td>
<td>63.50%</td>
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</table>
Since 1992, HBOR extended more than 30,000 loans totaling EUR 9 billion and supported more than 47,000 projects in overall amount of EUR 14.4 billion.

Lending activities by amount committed and type of HBOR’s loan programme:
- Export and tourism: 46.95%
- SMEs: 14.94%
- Infrastructure: 8.13%
- Industry: 29.98%

Lending activities by number of loans committed and type of HBOR’s loan programme:
- SMEs: 40.39%
- Industry: 45.28%
- Export and tourism: 13.19%
- Infrastructure: 1.14%
Since 1999, HBOR insured export turnover in the amount of EUR 2.1 billion

In H1 2012:
- HBOR insured EUR 0.2 billion i.e. 4.37% of Croatian exports; on HBOR’s Group level 0.4 billion i.e. 7.65% of Croatian exports
- supported exports to over 60 countries worldwide
HBOR IN THE CRISIS – LOANS IN GDP

Share of HBOR’s loans in relation to GDP of counties by regional units in 2011

- Central and Eastern (Pannonia) region: 2.25%
- Adriatic region: 2.14%
- North-Western region: 1.85%
HBOR IN THE CRISIS - EMPHASIS

◆ HBOR’s credentials:
◆ pivotal role in addressing market failures
◆ securing unconstrained access to finance
◆ counter-cyclical role
◆ launching of innovative lending models
◆ catalyzing additional funding
◆ strong deal flow
◆ efficient & swift allocation and disbursement procedure
◆ longstanding and successful cooperation with local banks

◆ Current state of play:
◆ 23% loans more approved than in the same period last year
◆ increase in investment loans by 75%
◆ decline in working capital loans by 6%
◆ guaranteed activity x 5.5
HBOR IN THE CRISIS - COMMITMENTS
HBOR operates:

- for and on its own behalf
- for and on behalf of others
- on its own behalf and for the account of others

Approval of loans:

- directly to final borrowers
- on-lending via commercial banks
- HBOR does not compete with commercial banks
COUNTRYWIDE

- Recognizing the existence of crisis
- Identifying the crisis
- Delayed reaction (first Govn’t measures in 2010)
- Austerity measures (tax increase, public expenditures)
- Failure of certain sectors (e.g. construction, shipbuilding)

CROATIAN BANKS IN THE CRISIS:

- No banks failing (predominantly foreign owned)
- Increase in interest rates and collateral requirements
- Risk averse
- Constrained access to finance for entrepreneurs (only VIP clients)
- Central Bank reducing regulatory capital requirements – release of liquidity
HBOR IN THE CRISIS – CHALLENGES

• Mitigating the effects of the crisis
  • Innovative lending models & new products
    • IPA, PE, EE&RER, Risk sharing facilities
  • Guarantee facilities
• Investment loans vs. working capital loans
  • 2007 IL 64% : WCL 36%
  • 2009 IL 23% : WCL 77%
  • 2011 IL 43% : WCL 57%
  • 2012 IL 48% : WCL 52%
• Response to market failure :
  • Increase in direct lending (‘08 = 10,2%, ‘11 = 24,4%)
  • Enhancing access to finance (increase in risk appetite, below <5%)
  • Longer maturity, lower interest rates and collateral requirements
  • Catalyzing private capital
• Key challenge: access to funding for HBOR to meet increase in demand
• Providing the right incentives for: investments, exports, tourism, etc…
• Public banks
  • Definition (EU definition – dominant influence)
  • Role (development, promotional, funding agencies, export promotion, …)
• EU state of play:
  • 221 banks & 81 funding agencies (varying degrees of pub. influence)
  • 21% of assets of the financial sector
  • Germany: 44 fully public fin. institutions, 24% of German banking sector’s total assets
• Key players in Europe: EIB, KfW, CEB, NRW.Bank
• Key role in crisis: rectifying shortcomings in the availability of financial services
  • General market failures
  • Niche players (PE, VC, micro lending, guarantee activity, etc…)
  • Specific sectors or activities (innovations, SMEs, exporters)
• Key challenge: changing regulatory environment
• General remark: public banks are a preferred form of public intervention when a valuable service to society would be under-provided in a free-market setting
CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (HBOR)

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