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1. Regulations

Author: Đuro Vrga

The previous issue of the Banks Bulletin outlines the main determinants of the current Banking Law and the regulations enacted during 1999 on the basis of that Law. This issue of the Bulletin summarizes the major amendments to the regulations enacted during 2000. These amendments are primarily related to the calculation of capital and its adequacy and classification of placements according to degrees of risk.

The Decision on the Methodology for Calculating Bank Capital and the Decision on the Methodology for Calculating the Capital Adequacy and Risk-Weighted Assets of Banks were published in *Narodne novine*¹, No. 32/99, and were applied as of April 1, 1999. By the end of 2000, the amendments to these Decisions were enacted. These amendments were published in *Narodne novine*, No. 101/2000, and have been applied as of January 1, 2001.

The amendments to the regulation on the methodology for calculating bank capital partly altered the component parts of equity capital, as well as the structure of deduction items from equity capital, which is shown in the overview below.

<table>
<thead>
<tr>
<th>Component Parts of Equity Capital</th>
<th>Prior to Amendments</th>
<th>Following Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td>paid-in capital raised by selling bank’s own common and preference shares</td>
<td>paid-in capital raised by selling bank’s shares apart from cumulative preference shares</td>
<td></td>
</tr>
<tr>
<td>reserves</td>
<td>reserves</td>
<td></td>
</tr>
<tr>
<td>retained income</td>
<td>retained income</td>
<td></td>
</tr>
<tr>
<td>profit for the current year</td>
<td>profit for the current year</td>
<td></td>
</tr>
<tr>
<td>capital gain (loss)</td>
<td>capital gain</td>
<td></td>
</tr>
<tr>
<td>reserve for repurchased own shares</td>
<td>reserve for own shares</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deduction Items from Equity Capital</th>
<th>Prior to Amendments</th>
<th>Following Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td>previous years’ losses</td>
<td>previous years’ losses</td>
<td></td>
</tr>
<tr>
<td>loss for the current year when capital is calculated during the year</td>
<td>loss for the current year</td>
<td></td>
</tr>
<tr>
<td>intangible assets such as goodwill, licenses, patents and trademarks</td>
<td>capital loss incurred by trading own shares</td>
<td></td>
</tr>
<tr>
<td>repurchased own common and preference shares</td>
<td>intangible assets such as goodwill, licenses, patents and trademarks</td>
<td></td>
</tr>
<tr>
<td>claims and contingent liabilities secured by bank’s own common and preference shares</td>
<td>acquired own shares, excluding cumulative preference shares (Art. 233, 237 and 238 of the Company Law)</td>
<td></td>
</tr>
<tr>
<td>loans used for the purchase of bank’s shares</td>
<td>unpaid amount of a loan which was directly or indirectly granted by a bank for the purchase of bank’s shares apart from cumulative preference shares</td>
<td></td>
</tr>
</tbody>
</table>

¹ Official gazette of the Republic of Croatia; hereinafter *Narodne novine*.

1.1 Bank Capital and Capital Adequacy Calculations

1.1.1 Equity Capital of Banks
1.1.2 Supplementary Capital of Banks

Alterations in the component parts of equity capital required a certain adjustment of the component parts of supplementary capital, presented in the table below.

<table>
<thead>
<tr>
<th>Component Parts of Supplementary Capital</th>
<th>Prior to Amendments</th>
<th>Following Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td>paid-in capital raised by selling cumulative preference shares</td>
<td>specific reserves for unidentified losses</td>
<td></td>
</tr>
<tr>
<td>specific reserves for unidentified losses</td>
<td>hybrid instruments</td>
<td></td>
</tr>
<tr>
<td>hybrid instruments</td>
<td>subordinated instruments</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deduction Items from Supplementary Capital</th>
<th>Prior to Amendments</th>
<th>Following Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td>acquired own cumulative preference shares</td>
<td>specific reserves exceeding 1.50 percent of risk-weighted assets</td>
<td></td>
</tr>
<tr>
<td>specific reserves exceeding 1.50 percent of risk-weighted assets</td>
<td>subordinated instruments exceeding 50 percent of equity capital</td>
<td></td>
</tr>
<tr>
<td>subordinated instruments exceeding 50 percent of equity capital</td>
<td>claims secured by hybrid and subordinated instruments</td>
<td></td>
</tr>
<tr>
<td>claims secured by hybrid and subordinated instruments</td>
<td>unpaid amount of a loan used to purchase cumulative preference shares of a bank</td>
<td></td>
</tr>
</tbody>
</table>

1.1.3 Deduction Items from Gross Regulatory Capital

Indirect investments in other banks as a deduction item from gross regulatory capital were previously determined on the basis of a bank’s majority ownership of a company that invested in another bank. According to the amended Decision, indirect investments of a bank encompass investments of branches – juridical persons which are under the bank’s control, in shares and other financial instruments included in another bank’s regulatory capital.

Additionally, the definition of direct and indirect investments of banks in shares and other financial instruments included in another bank’s regulatory capital has been changed, comprising at present only direct and indirect investments in other domestic banks, in contrast to the previous practice of reducing capital by all investments both in domestic and foreign banks. It is considered that such a calculation will provide a more realistic amount of the total regulatory capital in the Croatian banking system.

1.1.4 Capital Adequacy and Risk-Weighted Assets of Banks

The amendments to the regulations on the methodology for calculating capital adequacy and risk-weighted assets of banks assure a more appropriate risk assessment in the banking operations. Furthermore, this is a step forward in the compliance with the EU directives and standards of the Basel Committee on Banking Supervision related to the bank capital adequacy calculation.

Regarding capital adequacy calculation, two major changes have been introduced:

(a) 75 percent risk-weight for balance sheet items has been eliminated (this risk-weight applied to claims on state-owned companies whose losses were covered from the central government budget);
(b) higher credit conversion factors were introduced for some off-balance sheet items.

There were two reasons for eliminating the 75 percent risk-weight. Firstly, its implementation in practice was questionable, since rather than applying the risk-weight automatically to claims on all state-owned companies, a proof was required that funds for covering losses of an individual company were assured.
within the budget. Taking this into account, the conclusion is reached that this risk-weight could be applied in very rare situations and that it influenced the banks' capital adequacy ratio only to a small extent.

Secondly, the elimination of the 75 percent risk-weight is a step forward in the compliance with the regulations of the international community, which do not apply this risk-weight, i.e. according to which, companies in state ownership are treated identically to companies in private ownership when weighting risk assets.

The following table summarizes the individual types of assets that are weighted by the respective risk-weights, according to the amended Decision.

<table>
<thead>
<tr>
<th>Risk-Weight</th>
<th>Asset Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>claims on the Republic of Croatia and the CNB, OECD member countries and their central banks, and assets covered by high-quality instruments of collateral</td>
</tr>
<tr>
<td>20%</td>
<td>claims on international financial institutions, banks with adequate creditworthiness, long-term claims on the Republic of Croatia and OECD</td>
</tr>
<tr>
<td>50%</td>
<td>claims on other banks and claims secured by a mortgage on a dwelling in the Republic of Croatia</td>
</tr>
<tr>
<td>100%</td>
<td>all other balance sheet assets</td>
</tr>
</tbody>
</table>

Following a review and analysis of the characteristics of the individual off-balance sheet risky items, and their comparison with the international guidelines, it was concluded that higher credit conversion factors should be applied to certain categories of off-balance sheet items. More specifically, the credit conversion factor of 50 percent was until recently assigned to both loan guarantees and performance guarantees. After the Decision has been amended, the credit conversion factor of 100 percent applies to loan guarantees.

Below is the overview of the off-balance sheet items and relating credit conversion factors.

<table>
<thead>
<tr>
<th>Credit Conversion Factor for Off-Balance Sheet Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Conversion Factor</td>
</tr>
<tr>
<td>----------------------------</td>
</tr>
<tr>
<td>0%</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>20%</td>
</tr>
<tr>
<td>50%</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>100%</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
1.2 Classification of Placements and Risky Off-Balance Sheet Items

1.2.1 Criteria for the Classification of Placements into Risk Categories

The Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure was published in Narodne novine, No. 32/99, and was applied as of April 1, 1999. By the end of 2000, amendments to this Decision were adopted and published in Narodne novine, No. 101/2000, prescribing January 1, 2001 as the date of application.

One of the most important amendments to the Decision is the relatively less strict criteria that have to be satisfied for classifying a placement into risk category A.

In general, debtors, i.e. placements, meeting the following requirements cumulatively could previously be classified into risk category A:

a) whose financial position does not compromise further operations and meeting of their obligations within the due date (appropriate creditworthiness of a debtor);
b) placements to debtors that are secured by high quality instruments of collateral.

This general principle of classifying placements into risk category A has been retained, but the amendments to the Decision allow for the exceptional classification of an individual placement, i.e. debtor, into risk category A in special circumstances (which have to be properly documented) if only one of the above criteria is fulfilled.

Specifically, if the creditworthiness of a bank debtor is unquestionable and if it alone represents a sufficient instrument of collateral, a bank can classify such a placement into risk category A without requesting an additional formal instrument of collateral. An individual placement can also be graded A when a debtor with a poorer creditworthiness offers a high quality collateral which will, in case the debtor fails to meet their obligation, assure bank collection of its claim by activating this instrument of collateral.

The more flexible criteria set for the classification of placements into risk category A create more room for banks to classify placements into an appropriate risk category in the most realistic and objective manner (taking into account the given circumstances and specific characteristics of each placement, i.e. debtor), and thus to determine the realistic basis for the calculation and formation of the reserves required for covering the losses incurred from risky placements. This, however, also implies the increased accountability of banks for the adequate classification of placements, based on objectively assessed risk.

The criteria for the classification of placements into risk category B have remained unchanged, whereas the criteria for the classification into risk categories C, D, and E have been only to some extent complemented by more precise formulations of the existing provisions.

Other significant amendments to this part are those related to the redefinition of the term restructuring of claims, as well as the criteria for the classification of these placements into risk categories.

The changes in the definition of the term restructuring of claims are shown in the following overview.
Regarding the classification of the restructured claim, previously such a placement had to be classified into one of the poorer risk categories, i.e. involving higher risk, irrespective of other circumstances which may arise in relation to the change in the debtor’s creditworthiness and/or instruments of collateral. After the amendments have been adopted, this placement is classified into an appropriate risk category in accordance with the general classification criteria, i.e. by debtor’s creditworthiness, which concerns their ability to settle their obligations towards the bank and/or the quality of the instruments of collateral. Accordingly, such a placement can be classified into a higher or lower category under condition that it is not classified into a higher category (which means a category involving lower risk) before the expiry of six months from the restructuring date. Naturally, evidence of an improvement in the debtor’s financial standing or evidence that the prospects for collecting the restructured claim have improved due to some other reasons is a condition for classification into a higher category.

Similar to the provision on restructured claims, the provision on the classification of renewed claims and/or claims with extended maturity has also been changed. These changes are shown in the following overview.

The provisions on the classification of due placements secured by the highest quality collaterals were previously inadequately precise, which caused certain difficulties in their application. Accordingly, the amendments to the Decision aimed at a more precise formulation of these provisions.

According to the initial Decision, claims 100 percent secured by the highest quality collaterals were classified into risk category A until the instrument of collateral is activated, provided that it is activated within 60 days from the due date of the bank’s claim.

These provisions have been made more precise by the amendments to the Decision, so that the placements secured by the highest quality instruments of collateral are divided into two groups for which different time limits are prescribed for due placements to remain classified into the risk category A.
The first group includes due claims secured by the following highest quality instruments of collateral:

- a deposit in a lending bank which the bank is contractually authorized to use for the recovery of the claim;
- an irrevocable guarantee issued by a bank with an adequate credit rating
- an insurance policy with a first-class insurance company.

The claims from this group may remain classified into category A until the collection date, but no longer than 120 days from the due date of the claim, i.e. prior to the expiry date for the collection based on a guarantee or insurance policy.

The second group is composed of placements whose collection is secured by the following highest quality instruments of collateral:

- securities issued by the Republic of Croatia or the Croatian National Bank
- guarantee of the Republic of Croatia
- guarantee of the Croatian Guarantee Agency (up to the amount of the guarantee).

The claims from this group may remain classified into category A until the collection date, provided that the instruments of collateral are activated within 120 days of the due date of a claim and prior to the expiry date for collection based on securities or guarantees, provided that such a date is determined.
2 Liquidity Risk

Author: Milan Potkonjak

The most commonly quoted definition of liquidity is that it is a company’s ability to provide the cash required for the settlement of its due liabilities. Regarding the liquidity of banks as specific companies, liquidity is generally defined as the ability to provide the required cash primarily through the bank’s highly liquid assets at a reasonable cost and in a timely manner, whether for the purpose of asset growth or for settling due liabilities.

Within the integrated development of a company, i.e. integrated management system, there are four main criteria1:

- liquidity
- success
- present success potential
- future success potential

As we can see, liquidity is the first and foremost criterion, representing the shortest-term management measure. More specifically, it is a survival criterion defined in economic and legal terms, implying that a company cannot be established without liquid assets (which particularly refers to banks, since the basic condition for their establishment is the minimum equity capital in cash). Almost the same applies to companies that cannot assure liquid assets – such companies face a crisis which often ends in bankruptcy.

Liquidity risk and its management is one of the management segments which in a broader context is called funds management or assets and liabilities management2, and which, apart from liquidity risk, encompasses interest rate risk, currency risk3 and reputation risk. It is sometimes believed that funds management should be included in capital adequacy risk, which we hold justified, since capital is the most stable source, permanently assuring liquidity.

A summary of liquidity risk management within the process of assets and liability management is given below, as well as the supervisory requirements for sound practices for liquidity management, the most important techniques for determining liquidity risk and the most important liquidity ratios, and finally, the core principles for ranking banks relative to their liquidity position and risk management competence.

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2 There are various interpretations in professional literature, according to which assets and liabilities management represents a “broader” aspect of this issue. Assets and liabilities management, according to these views, represents a broader and a more complex analysis and assessment of a bank’s position in a certain market taking into account risks to which the bank is exposed in its operation (the determined credit risk and its analysis in the context of other risks are pointed out). The term funds management is used to refer to a “deeper” analysis of the aforementioned risks, which is beyond the scope of this report.

3 Interest rate and currency risk together are frequently referred to in the literature as market risk, although the assessment of market risk includes other segments, such as key products offered in a particular market and their competitiveness and profitability.
2.1 Assets and Liabilities Management

Assets and liabilities management is basic to sound banking planning and financial management. It focuses on two main aspects: profitability and risk. As previously mentioned, assets and liabilities management includes market risk management (interest rate and currency risk), liquidity risk, reputation risk and capital risk (as the most important and stable source of funds).

A well-designed and realistic strategic plan (five-year plan) should be the basis of any assets and liabilities management program. On the basis of such a plan, detailed one-year plans are elaborated, as well as operating plans that are drawn up for each month, quarter and semester. It is crucial to monitor the achievement of targets and analyze the achieved results in order to set realistic tasks. In order to devise high quality, attainable, both long-term and short-term, operating plans (daily, weekly, monthly, quarterly, etc.), a monitoring system and data recording system (statistics) must be established. They will provide high quality data for writing reports, determining ratios and indicators, and adequately analyzing the achieved results and unrealized targets. The basic point is to establish why a plan was incorrectly defined and why it was not accomplished, and to undertake measures in response to the failure to accomplish the plan, i.e. to propose and issue decisions on correcting and amending the existing plans and defined targets, methods, procedures and measures for their realization. Sound planning, monitoring and reporting on the actual results and the analysis of what is achieved is a precondition for organized and efficient risk management. All this is also required by the supervisory standards and recommendations, as well as by the bodies authorized for banking supervision in an individual country.

Assets and liabilities management basically encompasses the management of the following:

- bank’s liquidity position for the purpose of assuring adequate funds to satisfy the expected demand for funds without jeopardizing the prudent liquidity requirements set by the supervisors and shareholders;
- allocation of funds and determination of loan and deposit prices for the purpose of realizing specific goals related to profit in accordance with the bank’s annual profit plan;
- sensitivity to changes in interest rates on bank’s assets and liabilities for the purpose of assuring net interest income;
- bank’s assets and liabilities in a manner which will not jeopardize the bank’s capital accounts while providing continuous growth.

The purpose of all of these procedures is to attain the strategic goals:

- to earn the highest income sustainable in a particular period while maintaining an acceptable level of risks arising from banking operations, and
- to maximally increase the bank shareholders’ wealth measured by the market price of their shares.

Assets and liabilities management includes the following four areas of responsibility:

- planning the bank’s future orientation, which may encompass: markets, products, human resources, organizational improvement, new technology, etc.;
- providing adequate sources of funds by combining such sources, including equity capital, which require the lowest costs necessary for the satisfaction of the demand for funds;
 LIQUIDITY RISK

classifying funds into cash funds and funds earning higher income for the bank (placements, investments, etc.) with a risk that can be controlled by the bank;

bank positioning, i.e. positioning of its operations, to enable the bank to adjust its activities in a profitable manner to any future conditions – to respond to new market conditions and situations promptly, efficiently and with the lowest costs.

Within the tasks and activities of assets and liabilities management, the obligations and responsibilities are shared among:

1. the supervisory board of a bank, which should:

- approve the strategic plan (as one of the crucial criteria and elements for selecting and confirming the bank’s management board);
- assure continuous supervision of the performance and fulfillment of the planned tasks;
- continuously supervise the implementation of the procedures and activities assuring the control and measurement of risks and the legality of operations;

2. bank’s management board:

- adopts the strategic plan, an annual plan which must project in detail revenues and expenditures and determine the expected level of profit;
- defines the strategy, adopts policies that will determine the measures for the realization of the strategic goals, and prescribes procedures for the attainment of these goals;
- provides an adequate system of:
  a. risk measurement
  b. monitoring compliance with the set limits
  c. providing accurate reports on the current bank position and its observance of guidelines and limits
- assures adequate control of the observance of the established polices and procedures
- issues decisions on corrective measures and amendments to the established policies and procedures on the basis of information on changes and market developments, data and analyses of the set targets, forecasts etc.;

3. assets and liabilities management committee\(^5\):

- formulates and proposes the fund management plan by individual elements;
- proposes individual restrictions and limits;
- monitors the realization of goals, analyzes them and regularly reports on the same to the management board;
- manages the balance sheet structure;
- monitors the maturity mismatch of assets and liabilities and analyzes its causes and consequences, as well as breaches of the determined restrictions and limits;
- controls the liquidity level and manages liquidity;
- controls the interest rate risk level and manages this risk;
- monitors and analyzes the foreign exchange position, both total and by individual currencies;
- monitors and prescribes the capital adequacy requirements;
- plans the future and makes projections.

\(^5\) The basic tasks of this committee (ALCO), which, depending on the bank, may consist of a special committee (or subcommittee for liquidity management) are summarized here, with no intention of offering final solutions or imposing strict rules of conduct. For details see: Stigum, M.L. and Branch, R.O. Jr. (1991), Baughn, W.H., Storrs, T.I. and Walker, C.E. (1993) and Fabozzi, F.J. and Konishi, A. (1996).
The committee is obliged to inform the management board and senior management (relative to the bank size) at certain intervals through reports of the achieved results, i.e. it should provide concise and sufficient information on the basis of which the bank management board can make timely and efficient decisions. Every bank, relative to the stated factors, must issue policies adequate to its size, human and technical resources, products and markets in which it operates, and which prescribe the form, content and terms in which the reports are composed and presented.

2.2 Liquidity Risk

In terms of banks, liquidity risk may be defined as follows:

- risk arising from the mismatch between cash inflows and outflows – structural liquidity risk, and
- risk arising from the inability to sell financial instruments within the appropriate time limits and at an acceptable price – financial instruments liquidity risk.

A bank’s survival depends primarily on its liquidity; an illiquid bank cannot function in the market. Furthermore, confidence is a basic prerequisite for a sound, stable and growing banking business. Confidence, along with the fulfillment of other conditions, is a prerequisite for an increase in liquidity, which assures continuous bank growth (balance sheet amount). This, in turn, continuously provides a stable and competitive position in the market. News of a bank’s inability to meet its due obligations to its creditors, mostly small savers, spreads rapidly, and the perception of a bank as a stable and safe financial institution can change overnight. Although a bank can have true liquidity problems, such a bank is frequently viewed as an insolvent bank6. The panic that can be caused by the illiquidity of a single bank can have systemic consequences. The consequences of bank illiquidity of which its clients have been informed are the following:

- depositors’ and other creditors’ fear for the funds invested in the bank;
- occasional withdrawals of large amounts of funds, which has a direct effect on profitability due to the increase in liquidity reserves or the sale of assets, most frequently those earning the highest profit, at a low price;
- limited asset growth as a result of the reduction or cessation of inflows of new sources of funds (deposits);
- due to the exceptional nature of the situation, the non-application of adopted policies and procedures, which can have adverse effects (e.g. concentration and increased dependence upon particular sources);
- possible insolvency and the threat of bankruptcy;
- restricted access to stable and cheap sources of funds (market);
- the violation of regulatory rules.

In addition to the internal causes threatening bank liquidity, the external elements can also represent a possible threat to liquidity. However, sound liquidity risk management must take into account both types of risks. The external risks can include:

- geographical risk, reflecting the safety and stability of a particular region and its level of development – macroeconomic stability;
- systemic reasons as a result of risk of a single bank failure and the “contagion” which can arise due to investors’ general lack of confidence;
- specific reasons, such as a lack of confidence in certain financial instru-

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6 There are different definitions and interpretations of insolvency, but for the purpose of this report insolvency will be defined as a bank condition when liabilities exceed the amount of assets, taking into account the influence of off-balance sheet items.
ments (e.g. problems with foreign exchange deposits following the breakup of the SFRY).

In an environment such as Croatia’s, there is a specific risk, “judiciary risk”, that must also be taken into account. This refers to the problems caused by prolonged and exhausting lawsuits filed by banks against their debtors, whether to directly collect claims based on placements or to activate the instruments of collateral. Such legal disputes can last for years, and during the whole period the bank is obliged to provide liquidity (sources) for financing the frozen, non-performing assets, resulting in a profitability problem. In addition, although the bank usually wins the case, whose outcome was predictable, and gains the right to exercise the lien, the costs of such lawsuits are very high. Furthermore, the bank commonly cannot collect the high default interest and other damages since the debtor’s overall assets are often insufficient and the damage must be assessed and claimed through a separate legal action. The settlement of these problems would have a positive effect on the increased safety, stability and liquidity of the financial system of Croatia. This would reduce the need for such high liquidity reserves, strengthen the market (especially real estate market, goods markets, securities market, etc.) and increase the supply of placements and other banking products. Consequently, interest rates and prices of other banking products would be reduced, even if deposit interest rates and prices of other sources remained unchanged.

The bank management board is required to establish liquidity risk management as an organizational unit and to provide adequate funds and human resources for the purpose of measuring the liquidity position on an on-going basis. The final aim is to assess and evaluate the quality and level of liquidity reserves and to establish other options for forming liquidity reserves, taking into account different scenarios, including unfavorable situations, applying the “what if” principle.

It is evident from the above that any well-organized bank that has operating and business strategies must manage liquidity risk, since adequate liquidity is the basic condition for its successful operation and survival. In principle, the liquidity risk management methods are:

- by asset management: increasing or decreasing liquid assets,
- by sources of funds management: increasing or decreasing liabilities, and
- by a combined method: increasing liquid assets and liabilities.

Smaller banks, which cannot significantly influence the size of their sources of funds and have limited access to the capital and short-term security market, manage their liquidity through assets. The need for increased liquidity in that case is met by changing the asset structure, that is, by selling highly liquid assets or a part of those assets which would not have been sold if the liquidity had not deteriorated.

An example of managing liquidity by means of bank assets is that of placing funds through syndicated loans. When managing liquidity in such a manner (i.e. assets and liabilities management), the bank participates in fund placements together with a number of banks and takes part in several syndicates, expecting that it can relatively easily sell its participation to another bank in the syndicate at an acceptable price in the event of a sudden need for liquid assets.
The weakness of liquidity management by manipulating asset structure is that a bank, having assessed its liquidity needs, holds this amount in highly liquid assets with a low return on capital employed. On the other hand, if a bank opts for a low level of liquidity reserves that would be compensated for by selling assets that are not highly liquid, the market would respond by offering a lower price for such assets, thus causing losses for the bank from such sale. Additionally, by selling performing assets, a bank is deprived of its income in the future.

The advantage of such a policy is that a bank holding liquidity reserves in highly liquid assets can at any time and in an efficient manner respond to possible liquidity disorders.

Another method of liquidity management is management by increasing sources of funds (liabilities). Such liquidity management requires the availability of sources of funds, which should be quickly obtained by the bank at a reasonable cost.

In order for a bank to decide to manage liquidity risk by increasing liabilities, the following assumptions must be in place, i.e. a bank must be able to:

- raise new funds by taking new deposits;
- borrow in capital markets;
- sell securities, commonly through repo agreements;
- assure credit lines granted by a correspondent bank;
- as a last resort – borrow from the central bank.

One of the most frequent options for providing liquidity sources is to increase deposit interest rates above the interest rates offered by competing banks, thus making the bank more attractive to potential investors. This policy is generally very risky and its far-reaching weaknesses were evident in the banking crisis in Croatia, when there were serious weaknesses in the liquidity management policies, poor liquidity planning or no planning at all. The most common consequence of using this expensive source of funds is bad loans.

Liquidity risk management by relying on bank’s liabilities is reflected in lower costs and simple techniques, under the condition that the bank has an adequate market position and credit rating.

The weaknesses of liquidity risk management by relying on liabilities is reflected in the following:

1. It may not be possible to acquire new deposits when this is really necessary.
2. The concentration of sources of funds may increase liquidity risk.
3. As a result of interest rate competition, financing costs may increase.
4. When money is expensive in the entire country, interest rate discrimination may occur and also discrimination against smaller banks or non-money-center banks, which implies that new deposits are not easily available to banks other than money-center banks. Accordingly, a bank with limited sources of financing should rather focus on its local market, if possible, instead of buying assets in the national market.
5. The purchase of assets at the lowest possible price, irrespective of maturities and maturity mismatch restrictions, significantly increases bank exposure to risks of great changes in interest rates.
The bank’s management board should adopt liquidity policies according to the size and characteristics of the bank’s operations, the strategic goals and plans, the bank’s internal organization and its environment. Liquidity policies should determine data to be collected and time limits, define procedures and methods for calculating liquidity ratios, analyze trends for the purpose of monitoring the realization of plans, and making decisions and taking timely measures, all with a single aim: to provide sufficient liquidity sources. The bank’s assets and liabilities should be structured so as to provide an adequate liquidity reserve.

The provision and maintenance of optimum liquidity, i.e. bank liquidity risk management, in contrast to most of the other elements that must be managed, is specific to each bank; there are no two banks to which the same liquidity policies and procedures can be applied, nor is there the identical organization of these activities. Liquidity and liquidity risk management thus need special attention from the supervisory point of view. Bank supervision checks that the management board and senior management of a bank understand the bank’s specific needs for liquidity and assesses whether the bank has appropriately established its procedures related to monitoring, measuring and analyzing data and different liquidity ratios and whether it makes timely decisions and timely adjustment of the planned goals.

This approach to liquidity is important since there are no established rules, no data which would serve as indicators for taking particular measures and no ratios which can be unequivocally interpreted as a certain standard and which can unmistakably evaluate the liquidity position of banks of all sizes and categories, in various markets. A particular liquidity position can be adequate for one bank but inadequate for another, or it can be adequate for one bank in a particular time period but inadequate for the same bank in another period.

In order to achieve the goals of adequate liquidity risk management, the management board and senior management of a bank should understand the basic principles and accept sound practices for liquidity management. Only then will the preconditions be created for adopting policies and procedures appropriate for the bank. A bank is obliged to develop an organization and liquidity measuring system that assures that liquidity requirements are implemented, analyzed and supervised by a well-organized internal control system that also evaluates internal audits. The task of bank supervision is to continuously monitor and evaluate bank liquidity and its method of risk management.

Due to the specific characteristics of the problems to be resolved when managing liquidity risk, the Basel Committee on Banking Supervision issued a special document referring banks and bank supervisors to the core principles and sound practices for managing this risk. In early 2000, the Committee updated the 1992 document entitled A Framework for Measuring and Managing Liquidity. In the new document issued in February 2000, under the title Sound Practices for Managing Liquidity in Banking Organisations, 14 principles were established which every banking organization should observe and should incorporate in their liquidity risk policies and procedures as applicable.

The principles for liquidity risk management are outlined below.
Developing a Structure for Managing Liquidity

Principle 1: Each bank should have an agreed strategy for the day-to-day management of liquidity. This strategy should be communicated throughout the organization.

Principle 2: Each bank’s board of directors should approve the strategy and significant policies related to the management of liquidity. The board should also ensure that senior management takes the steps necessary to monitor and control liquidity risk. The board should be informed regularly of the liquidity situation of the bank and immediately if there are any material changes in the bank’s current or prospective liquidity position.

Principle 3: Each bank should have a management structure in place to execute effectively the liquidity strategy. This structure should include the ongoing involvement of members of senior management. Senior management must ensure that liquidity is effectively managed, and that appropriate policies and procedures are established to control and limit liquidity risk. Banks should set and regularly review limits on the size of their liquidity positions over particular time horizons.

Principle 4. Each bank must have adequate information systems for measuring, monitoring, controlling and reporting liquidity risk. Reports should be provided on a timely basis to the bank’s board of directors, senior management and appropriate personnel.

Measuring and Monitoring Net Funding Requirements

Principle 5: Each bank should establish a process for the ongoing measurement and monitoring of net funding requirements.

Principle 6: Each bank should analyze liquidity utilizing a variety of “what if” scenarios.

Principle 7: Each bank should frequently review their assumptions in managing liquidity to determine that they continue to be valid.

Managing Market Access

Principle 8: Each bank should periodically review its efforts to establish and maintain relationships with liability holders, to maintain the diversification of liabilities, and aim to ensure its capacity to sell assets.

Contingency Planning

Principle 9: Each bank should have contingency plans in place that address the strategy for handling liquidity crises and include procedures for making up cash flow shortfalls in emergency situations.

Foreign Currency Liquidity Management

Principle 10: Each bank should have a measurement, monitoring and control system for its liquidity positions in the major currencies in which it is active. In addition to assessing its aggregate foreign currency liquidity needs and the acceptable mismatch in combination with its domestic currency commit-
ments, each bank should also undertake separate analysis of its strategy for each currency individually.

Principle 11: Subject to the analysis undertaken according to Principle 10, each bank should, where appropriate, set and regularly review limits on the size of its cash flow mismatches over particular time horizons for foreign currencies in aggregate and for each significant individual currency in which the bank operates.

Internal Controls for Liquidity Risk Management

Principle 12: Each bank must have an adequate system of internal controls over its liquidity risk management process. A fundamental component of the internal control system involves regular independent reviews and evaluations of the effectiveness of the system, ensuring, where necessary, that appropriate revisions or enhancements to internal controls are made. The results of such reviews should be available to the supervisory authorities.

Role of Public Disclosure in Improving Liquidity

Principle 13: Each bank should have in place a mechanism for ensuring that there is an adequate level of disclosure of information about the bank in order to manage public perception of the organization and its soundness.

Role of Supervisors

Principle 14: Supervisors should conduct an independent evaluation of the bank’s strategies, policies, procedures and practices related to the management of liquidity. Supervisors should require that the bank has an effective system in place to measure, monitor and control liquidity risk. Supervisors should obtain from each bank sufficient and timely information with which to evaluate its level of liquidity risk and should ensure that the bank has adequate liquidity contingency plans.

Bank ranking is very common and any bank of importance commonly asks one or more credit rating agencies to assess its short-term and long-term credit rating for a particular year. The significance of credit rating for a bank is understandable and requires no special explanation.

The supervisory bodies also give ratings to banks, most frequently according to individual components of the CAMELS rating system, and assign a composite rating from 1 to 5, where 1 denotes the highest rating and a bank of the highest operating quality according to the elements of the system.

The most important elements taken into account when determining a bank’s condition concerning liquidity reserves and assessing liquidity risk management are given below.

The liquidity and liquidity risk management of a bank is commonly rated on the basis of determining and assessing the following elements:

- the position of liquid assets, which is measured by taking into account the present need of the bank for settling liabilities and future asset increase; special assessment is made of whether the required liquidity sources are

2.4 Ranking According to Liquidity Criteria

CAMELS basically denotes the assessment of bank operating quality according to: capital amount and adequacy, asset quality, management quality, earnings, liquidity, and sensitivity to market risk. With the development of supervisory techniques, ratings have recently included the assessment of the bank’s competence in risk management, where a 9th rating component may also appear.
provided without adverse effects on bank operations, i.e. whether cash can be obtained without additional losses;

- access to money markets and other sources of finance, which sets the prices at which a bank borrows;
- the trend and stability of deposits;
- the level of diversification of sources of funds both on- and off-balance sheet, as well as the quantity of various financial instruments that the bank uses to ensure sources of funds;
- the competence of the management board and senior management in appropriately organizing the establishment, measurement and supervision of the bank’s liquidity position. Funds management strategies, planning documents, policies and procedures are assessed, as well as information system quality.

2.5 In Lieu of a Conclusion

As previously mentioned, the provision of liquid assets necessary for normal bank operations and liquidity risk management are a part of the broader processes of funds management or assets and liabilities management. Therefore, all the described represents only an introduction to the issue of liquidity, whereas other segments of assets and liabilities management are beyond the scope of our review and are not discussed here. Contemporary approaches to assets and liabilities management increasingly take into account a larger number of interrelated elements, assessing risk through a dynamic analysis, as well as by evaluating the strengths and weaknesses of the bank and the opportunities and threats in the environment (mostly in the market). The bank management board should recognize its potentials (comparative advantages) for success, but it should also continuously supervise risks that may cause losses. The provision of an adequate liquidity level in banks and liquidity risk management is at the top of the pyramid, meaning that almost all analytical and diagnostic models start with liquidity analysis.

References


By the end of 2000, the banking system of the Republic of Croatia consisted of 44 commercial banks – 9 less than in the previous year. In 2000, the number of banks was reduced for three main reasons. Bankruptcy proceedings were initiated in Agroobrtnička banka d.d., Zagreb, Cibalae banka d.d., Vinkovci, Hrvatska gospodarska banka d.d., Zagreb, and Trgovačka-turistička banka d.d., Split, and the operating license for Razvojna banka “Dalmacija” d.o.o., Split was not renewed, according to Articles 35, 36, and 37 of the Banking Law. Zagrebačka banka – Pomorska banka d.d., Split merged with Zagrebačka banka d.d., Zagreb; Krapinsko-zagorska banka d.d., Krapina merged with Privredna banka Zagreb d.d., Zagreb; Čakovačka banka d.d., Čakovec and Trgovačka banka d.d., Zagreb merged with Bjelovarska banka d.d., Bjelovar and Erste & Steiermärkische Bank d.d., Zagreb was established.

In 2000, the number of banks in majority foreign ownership increased from 13 to 20. Simultaneously, their share in total assets of the system grew significantly, from 39.9 percent at the end of 1999 to 76.1 percent in mid-2000, and 84.1 percent at the end of 2000. The significant growth in the asset share results from the fact that foreign banks acquired the majority interest in capital of the second, third and fourth largest banks by asset size1.

For the purpose of simplified comparison, banks are classified into four groups in the text below. The classification criterion is asset size. Group I thus includes banks with assets exceeding 5 billion kuna, Group II banks with as-

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3 Indicators of Banking Institution Operations

3.1 Banks

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1 Privredna banka Zagreb d.d., Zagreb, Splitska banka d.d., Split, Riječka banka d.d., Rijeka

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In accordance with the selected criterion – the size of assets – the table shows the parameters for the classification of banks into individual groups. The reports submitted by banks in Schedule B8 (Bank Statistical Report – Narodne novine, Nos. 57/99 and 3/2001) are the source of data on the size (amount) of assets.
sets between 1 billion and 5 billion kuna, Group III banks with assets between 500 million and 1 billion kuna, and finally Group IV banks with assets less than 500 million kuna.

The largest growth rates of assets were recorded for the largest and small banks, which is the main reason for the increase in the number of banks in Groups I and III and the reduction in the number of banks in Group II. The reduced number of banks in Group IV mainly resulted from the initiation of bankruptcy proceedings in the above mentioned small banks, apart from the above stated reason.

3.1.1 Territorial Distribution of Banks’ Operating Network

The operating network is analyzed here at the county level, on the basis of the changes in the number of branches and sub-branches and ATMs. At the level of the banking system, the number of branches and sub-branches was reduced in 2000 by 60 operating units (8 percent). This was the result of the reduction in the number of banks in the system (56 operating units) and the reduction in the number of operating units, primarily in several medium-size regional banks (34 operating units), along with a simultaneous establishment of 24 new sub-branches, mainly of foreign banks. The majority of these changes occurred in the first half of 2000. While there was noticeable expansion of the operations of several banks to regions where they were not previously active, there was evident rationalization of several regional banks’ operating networks following the entry of new owners. In 2000, new branches and sub-branches were mainly established by banks in the City of Zagreb and the County of Zagreb, the County of Primorje and Gorski Kotar, and the County of Istria.

As regards the ATM network, high growth rates continued. In 2000, the number of installed ATMs increased by 213 units, or 40.7 percent. The number of installed ATMs increased in all counties. The largest absolute growth (56 ATMs) was recorded in the County of Zagreb (including the City of Zagreb), and the largest relative growth (150 percent) in the County of Slavonski Brod-Posavina. A significant growth was recorded in the County of Split and Dalmatia (32 ATMs), the County of Primorje and Gorski Kotar (27 ATMs) and the County of Dubrovnik and Neretva (17 ATMs).

### TABLE 2. Territorial Distribution of Branches and Sub-Branches, end of period

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>County of Zagreb and City of Zagreb</td>
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<td>159</td>
<td>157</td>
<td>140</td>
</tr>
<tr>
<td>County of Krapina-Zagorje</td>
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<td>18</td>
<td>18</td>
<td>18</td>
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<tr>
<td>County of Sisak-Moslavina</td>
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<td>30</td>
<td>27</td>
<td>24</td>
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<tr>
<td>County of Karlovac</td>
<td>19</td>
<td>19</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>County of Varaždin</td>
<td>22</td>
<td>24</td>
<td>26</td>
<td>23</td>
</tr>
<tr>
<td>County of Koprivnica-Križevci</td>
<td>27</td>
<td>25</td>
<td>24</td>
<td>23</td>
</tr>
<tr>
<td>County of Bjelovar-Bilogora</td>
<td>26</td>
<td>25</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>County of Primorje and Gorski Kotar</td>
<td>46</td>
<td>46</td>
<td>55</td>
<td>57</td>
</tr>
<tr>
<td>County of Liška-Senj</td>
<td>9</td>
<td>9</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>County of Virovitica-Podravina</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>County of Požeega-Slavonia</td>
<td>16</td>
<td>16</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>County of Slavonski Brod-Posavina</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>County of Zadar</td>
<td>36</td>
<td>40</td>
<td>39</td>
<td>32</td>
</tr>
<tr>
<td>County of Osijek-Baranya</td>
<td>57</td>
<td>59</td>
<td>59</td>
<td>47</td>
</tr>
<tr>
<td>County of Šibenik-Knin</td>
<td>29</td>
<td>30</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>County of Vukovar-Srijem</td>
<td>16</td>
<td>19</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td>County of Split-Dalmatia</td>
<td>93</td>
<td>104</td>
<td>106</td>
<td>100</td>
</tr>
<tr>
<td>County of Istria</td>
<td>79</td>
<td>83</td>
<td>86</td>
<td>85</td>
</tr>
<tr>
<td>County of Dubrovnik and Neretva</td>
<td>50</td>
<td>54</td>
<td>55</td>
<td>49</td>
</tr>
<tr>
<td>County of Međimurje</td>
<td>22</td>
<td>23</td>
<td>25</td>
<td>26</td>
</tr>
</tbody>
</table>
The total number of installed ATMs of all banks in the Republic of Croatia is classified by counties. Banks are the source of data.

The dynamic growth of the ATM network is closely connected to a rapid growth of credit and debit card users. The high growth rates of the network in the counties along the Adriatic coast are motivated by the large number of potential customers (foreign tourists) who withdraw cash at ATMs.

Since the end of 1999, the share of the two largest banks in assets and deposits has been on the increase again, following a mild fall in the second half of 1999, and the share in deposits has grown more rapidly than in the second half of 1998. In mid-1999, the share of these banks in total deposits of the system exceeded their share in total assets, reaching 50.1 percent at the end of 2000. At the same time, their share in total assets reached 47.5 percent. This growth is even more significant in view of the fact that a continuous rise has been recorded in total assets and deposits of the banking system since mid-1999.
Assets and deposits of the next three largest banks have been continuously growing in nominal terms since mid-1999, but their share in total assets of the system and in total deposits decreased slightly in the first half of 2000. By the end of 2000, the share of these banks in total assets and deposits of the system began to grow again, reaching 18.8 percent of total assets, while their share in total deposits reached 19.7 percent.

The share of the five largest banks in total assets and total deposits went up from 62.1 percent (assets) and 64.7 percent (deposits) at the end of 1999 to 66.3 percent and 69.8 percent, respectively, at the end of 2000.

The changes in the Herfindahl index confirm the described concentration of the banking system. At end 2000, this index stood at 1,368 points, a 178.1 point increase compared to end 1999. In terms of assets, which were used to calculate the index in this case, the degree of concentration reached the 1996 level.

As at December 31, 2000, total bank assets were 111.9 billion kuna, an increase of 18.3 billion kuna or 19.6 percent compared to the end of 1999, and an increase of 12.7 billion kuna or 12.8 percent compared to the balance on June 30, 2000. According to data as at December 31, 2000, total loans accounted for 45.8 percent of the asset structure. Deposits with banking institutions had the second-largest share in total assets, 15.8 percent, followed by investment portfolio of securities with 12.7 percent.

In contrast to the first half of 2000, the share of deposits with the Croatian National Bank in the second half of 2000 decreased from 9.5 percent to 8.9 percent, primarily as a result of a reserve requirement rate reduction from 28.5 to 23.5 percent. On the other hand, deposits with banking institutions increased from 12.5 percent in mid-2000 to 15.8 percent at the end of the year.

In the same period, the share of Ministry of Finance treasury bills and CNB bills went up from 4.7 percent to 5.4 percent, and the share of trading portfolio of securities went up from 1.5 to 2.2 percent, mainly due to a bond issue by the State Agency for Bank Rehabilitation and Deposit Insurance.

The share of Group I in total bank assets grew continuously in 2000. At end 2000, this share amounted to 66.3 percent, an increase of 8.1 percentage point compared to end 1999. 4.6 percentage points of this increase is accounted for by Raiffeisenbank Austria d.d., which shifted from Group II to Group I in the
fourth quarter. The further 1.6 percentage points refer to the merger of Zagrebačka banka – Pomorska banka d.d. with Zagrebačka banka d.d., and the merger of Krapinsko zagorska banka d.d. with Privredna banka Zagreb d.d. The share growth in assets of the rest of the four banks in Group I account for the remaining 1.9 percentage points.

The share of banks in Group II in total assets fell in the same period from 31.6 percent to 25.5 percent. The share of banks that formed Group II over the whole of 2000 was reduced by 1.4 percentage points.

The increase in the share of banks in Group III from 3.3 to 4.6 percent in the same period can be fully accounted for by the shift of three banks from Group IV to this Group. The decrease in the share of banks in Group IV is a result of a reduction in the total number of banks and a reduction in the share of the remaining banks in this Group in the total assets of the system.

According to the data for end 2000, deposits accounted for the largest share in the structure of bank liabilities (65 percent). They were followed by other loans with 14.6 percent and capital with 10.9 percent.

\[\text{The share of each balance sheet item of assets in total bank assets is calculated on the basis of data from the Bank Statistical Report (Narodne novine, Nos. 57/99 and 3/2001 – Schedule BS) and the derived aggregated report of the same type on the banking system in the observed periods. The change in the balance is the percentage change in comparison with the previous period.}\]

\[\text{The share of assets of each stated bank group in total bank assets is calculated in the following manner. First, the total assets of all banks in a group are added up. Second, the sum thus calculated is divided by total bank assets. Shares are stated in percent. The reports submitted by banks in Schedule BS (Bank Statistical Report – Narodne novine, Nos. 57/99 and 3/2001) are the source of data on the amount of assets.}\]
In 2000, total deposits recorded the largest absolute growth of 15.7 billion kunas and the largest growth in share of total liabilities of 4.1 percentage points. In the structure of deposits, the shares of giro account deposits, current account deposits and time deposits showed similar growth. At the end of 2000, the share of giro and current account deposits in total deposits stood at 21.7 percent, the share of savings deposits at 25.6 percent and the share of time deposits at 52.7 percent.

In the second half of 2000, loans from financial institutions further decreased, and their share in total liabilities fell from 4.4 percent in mid-2000 to 3.1 percent at the end of 2000.

At the system level at end 2000, foreign exchange liabilities accounted for 64.1 percent of total liabilities, a reduction of 0.5 percentage points compared with mid-2000 and 0.6 percentage points compared with end 1999.
The share of foreign exchange deposits in total deposits at the system level at end 2000 amounted to 73 percent, a reduction of 2.9 percentage points compared with end 1999.

Bank capital in the second half of 2000 continued its growth from the first half of the year. It increased by 6.9 percent compared with mid-2000 and by 15.4 percent compared with end 1999. In 2000, retained income and reserves provided for by articles of association and other capital reserves significantly increased.

### TABLE 6. Structure of Bank Capital, end of period, in million kuna and %

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>Share</td>
<td>Amount</td>
<td>Share</td>
<td>Change</td>
</tr>
<tr>
<td>1. Share capital</td>
<td>8,224.4</td>
<td>80.1</td>
<td>8,944.7</td>
<td>81.1</td>
</tr>
<tr>
<td>2. Retained income/loss brought forward</td>
<td>58.8</td>
<td>0.6</td>
<td>16.7</td>
<td>0.2</td>
</tr>
<tr>
<td>3. Legal reserves</td>
<td>818.9</td>
<td>8.0</td>
<td>1,165.5</td>
<td>10.6</td>
</tr>
<tr>
<td>4. Reserves provided for by the articles of association and other capital reserves</td>
<td>1,159.2</td>
<td>11.3</td>
<td>899.8</td>
<td>8.2</td>
</tr>
<tr>
<td>Total</td>
<td>10,261.3</td>
<td>100.0</td>
<td>11,026.7</td>
<td>100.0</td>
</tr>
</tbody>
</table>

According to data for end 2000, share capital accounted for 70.2 percent of capital structure. Legal reserves had the second-largest share, 17.2 percent, followed by the reserves provided for by the articles of association and other capital reserves at 10 percent.

In comparison with end 1999, the share of share capital in total capital decreased from 77.7 to 70.2 percent, which represents a continuation of the slightly downward trend recorded in 2000. On the other hand, the share of retained income in total capital increased to 2.6 percent of total capital at end 2000.

At the system level, regulatory capital grew continuously in the reporting period. It rose by 16.1 percent in the course of 2000 and by 8.8 percent in the second half of the year. Total assets of the system increased by 19.6 percent in 2000 and by 12.8 percent in the second half of the year, which casts a somewhat different light on the regulatory capital growth rates. Equity capital accounted for of 90.9 percent of regulatory capital at the end of 2000, 0.4 percentage points less than at the end of 1999.

### 3.1.3 Bank Capital

The capital as one of items stated on the liabilities side of the aggregated balance sheet of all banks (Table 5.) is presented in detail. In the observed periods, the share of each stated item in total bank capital is calculated as a ratio between each item and total bank capital. The sums thus calculated are multiplied by 100. The change in the balance is the percentage change in comparison with the previous period.

The structure of regulatory capital is calculated as a ratio between the sum of the amounts of equity capital of all banks included in an individual bank group and the sum of amounts of regulatory capital of the same group of banks. The amount thus calculated is multiplied by 100. The share of the supplementary capital of an individual bank group in regulatory capital is calculated in the same manner.

The reports submitted by banks are the source of data on the equity, supplementary and regulatory capital, and the schedule for submitting these reports (Schedule CAP) forms an integral part of the Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank’s Capital (Narodne novine, Nos. 36/99 and 123/2000).
The calculation of regulatory capital is regulated by the Decision on the Methodology for Calculating Bank’s Capital (Narodne novine, Nos. 32/99 and 101/2000) and the pertaining instruction for its implementation (Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank’s Capital – Narodne novine, Nos. 36/99 and 123/2000). The reports submitted by banks are the source of data on regulatory capital, and the schedule for submitting these reports forms an integral part of the stated regulation (Schedule CAP).

The reports submitted by banks are the source of data on regulatory capital, and the schedule for submitting these reports forms an integral part of the stated regulation (Schedule CAP).

At the system level, equity grew continuously over the entire reporting period. In 2000, a 2 billion kuna growth was recorded, or 19.1 percent, whereas in the second half of 2000 alone, the growth amounted to 1 billion kuna, or 8.3 percent.

The upward trend was caused by an increase in equity capital of Group I banks, which accounted for 60.5 percent of the total equity capital of banks at the end of 2000.

The upward trend was caused by an increase in equity capital of Group I banks, which accounted for 60.5 percent of the total equity capital of banks at the end of 2000.

The share of individual groups of banks in equity capital changed as follows:

- at the end of 1999, Group I accounted for 47.2 percent of equity capital, Group II for 34.2 percent, Group III for 4.5 percent, and Group IV for 14.1 percent;
- in mid-2000, Group I accounted for 52.9 percent of equity capital, Group II for 28.9 percent, Group III for 4.4 percent, and Group IV for 13.8 percent;
- at the end of 2000, Group I accounted for 60.5 percent of equity capital, Group II for 24.2 percent, Group III for 6.1 percent, and Group IV for 9.1 percent.

At the system level, supplementary capital rose by 254 million kuna, or 24.9 percent, in 2000. In the second half of 2000 alone, this growth amounted to 242 million kuna, or 23.4 percent.

The share of individual groups of banks in supplementary capital changed as follows:

- at the end of 1999, Group I accounted for 43.5 percent of supplementary capital, Group II for 26 percent, Group III for 2.9 percent, and Group IV for 27.6 percent;
- in mid-2000, Group I accounted for 44.1 percent of supplementary capital, Group II for 25.6 percent, Group III for 4.9 percent and Group IV for 25.4 percent.
The capital adequacy ratios\(^6\) were as follows: 20 percent in Group I, 18.9 percent in Group II, 28.6 percent in Group III, and 46.7 percent in Group IV. At the same time, the capital adequacy ratio of the banking system amounted to 21.3 percent. At the system level, in 2000 the ratio increased by 0.7 percentage points compared to 1999.

The change in the capital adequacy ratio of Group 1 in 2000 is primarily the result of changes in risk-weighted assets, whereas in other Groups it was mainly the result of changes in regulatory capital.

\(^6\) Pursuant to the Banking Law (Narodne novine, No. 161/98) banks are obliged to maintain the minimum capital adequacy ratio of 10 percent. This provision came into force on January 1, 2001 (see Articles 39 and 112 of the Law).


The difference between the reported provision for identified losses is deducted from total placements.

TABLE 9. Income Statement, in million kunas

<table>
<thead>
<tr>
<th>Item</th>
<th>Group I</th>
<th>Group II</th>
<th>Group III</th>
<th>Group IV</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Net interest income</td>
<td>1,860.2</td>
<td>2,626.6</td>
<td>1,403.5</td>
<td>1,202.3</td>
<td>3,893.4</td>
</tr>
<tr>
<td>1.1 Interest income</td>
<td>4,013.4</td>
<td>5,091.1</td>
<td>2,475.2</td>
<td>327.7</td>
<td>7,185.0</td>
</tr>
<tr>
<td>1.2 Interest expenses</td>
<td>2,153.2</td>
<td>2,464.5</td>
<td>1,341.7</td>
<td>127.0</td>
<td>5,062.5</td>
</tr>
<tr>
<td>2. Net non-interest income</td>
<td>1,258.7</td>
<td>1,483.8</td>
<td>495.3</td>
<td>262.9</td>
<td>2,426.6</td>
</tr>
<tr>
<td>2.1 Net-interest income</td>
<td>1,718.9</td>
<td>1,917.3</td>
<td>859.3</td>
<td>660.6</td>
<td>3,959.6</td>
</tr>
<tr>
<td>2.2 Non-interest expenses</td>
<td>460.2</td>
<td>433.6</td>
<td>364.0</td>
<td>30.0</td>
<td>868.0</td>
</tr>
<tr>
<td>3. General administrative expenses and depreciation</td>
<td>1,643.6</td>
<td>2,079.9</td>
<td>1,094.0</td>
<td>1,054.6</td>
<td>5,862.9</td>
</tr>
<tr>
<td>4. Net operating income before provisions</td>
<td>1,475.3</td>
<td>2,030.5</td>
<td>894.8</td>
<td>410.6</td>
<td>4,801.4</td>
</tr>
<tr>
<td>5. Loan loss provision expenses</td>
<td>753.2</td>
<td>381.2</td>
<td>812.9</td>
<td>208.4</td>
<td>1,364.7</td>
</tr>
<tr>
<td>6. Pre-tax income/loss</td>
<td>82.0</td>
<td>22.0</td>
<td>11.6</td>
<td>9.6</td>
<td>86.4</td>
</tr>
<tr>
<td>7. Profit tax</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>8. After-tax income/loss</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

In 2000, banks earned a total of 1.3 billion kuna after-tax profit, at the level of the entire banking system, which represents an increase of 0.6 billion kuna, or 82.9 percent, compared with 1999. Profit growth was primarily the result of increased net interest income and reduced loan loss provision expenses.

Total operating income was calculated on the net principle (as a sum of net interest income and non-interest income net of general administrative expenses and depreciation). The total operating income of the banking system remained almost unchanged in 2000 compared with the previous year. In some groups of banks, total operating income increased: in Group I by 0.6 billion kuna, or 37.6 percent, and in Group III by 63 million kuna, or 55.2 percent, whereas a fall was recorded in Group II (0.5 billion kuna or 54.1 percent), and Group IV (0.1 billion kuna, or 52.9 percent).

The share of interest income in the income structure of the banking system continued to grow in 2000. While this growth amounted to 6.6 percentage points in 1999 in comparison with 1998, it was somewhat smaller in 2000,
TABLE 10. Structure of Expenses, in %

<table>
<thead>
<tr>
<th>Group I</th>
<th>Group II</th>
<th>Group III</th>
<th>Group IV</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Interest income</td>
<td>70.0</td>
<td>72.6</td>
<td>76.2</td>
<td>78.9</td>
</tr>
<tr>
<td>1.1 Interest income from loans</td>
<td>46.0</td>
<td>45.4</td>
<td>62.0</td>
<td>58.7</td>
</tr>
<tr>
<td>1.2 Interest income from deposits</td>
<td>7.3</td>
<td>12.4</td>
<td>5.3</td>
<td>7.4</td>
</tr>
<tr>
<td>1.3 Interest income from debt securities</td>
<td>12.6</td>
<td>11.9</td>
<td>4.3</td>
<td>4.8</td>
</tr>
<tr>
<td>1.4 Income from shares and other equity participations</td>
<td>0.5</td>
<td>0.4</td>
<td>0.0</td>
<td>1.4</td>
</tr>
<tr>
<td>1.5 Net balances on exchange rate fluctuations related to interest income</td>
<td>0.1</td>
<td>0.0</td>
<td>2.9</td>
<td>1.3</td>
</tr>
<tr>
<td>1.6 Interest income from previous years</td>
<td>2.4</td>
<td>1.0</td>
<td>0.2</td>
<td>1.1</td>
</tr>
<tr>
<td>1.7 Other interest income</td>
<td>1.1</td>
<td>1.5</td>
<td>1.5</td>
<td>4.2</td>
</tr>
<tr>
<td>2. Non-interest income</td>
<td>30.0</td>
<td>27.4</td>
<td>23.8</td>
<td>21.1</td>
</tr>
<tr>
<td>2.1 Non-interest income from commissions or fees</td>
<td>14.1</td>
<td>14.3</td>
<td>10.6</td>
<td>12.0</td>
</tr>
<tr>
<td>2.2 Net balance on exchange rate fluctuations related to non-interest income</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2.3 Income/loss from calculated exchange rate fluctuations</td>
<td>4.9</td>
<td>-0.8</td>
<td>-0.6</td>
<td>-1.6</td>
</tr>
<tr>
<td>2.4 Income/loss from purchase/sale of foreign exchange</td>
<td>5.1</td>
<td>7.3</td>
<td>4.7</td>
<td>6.2</td>
</tr>
<tr>
<td>2.5 Income/loss from purchase/sale of securities</td>
<td>3.0</td>
<td>1.3</td>
<td>0.0</td>
<td>-0.1</td>
</tr>
<tr>
<td>2.6 Other income</td>
<td>2.9</td>
<td>4.4</td>
<td>2.8</td>
<td>3.3</td>
</tr>
<tr>
<td>2.7 Extraordinary income</td>
<td>0.0</td>
<td>0.7</td>
<td>6.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The structure of expenses is calculated in the same manner as the structure of income in Table 9, i.e., the share of each item of expenses in the income Statement of an individual bank group in total expenses of the group is calculated as the ratio between the sum of these items in the reports of each bank in the group and total expenses incurred by the group. The sum thus calculated is multiplied by 100. The reports submitted by banks in Schedule IS (Bank Statistical Report – Narodne novine, Nos. 57/99 and 3/2001) are the source of data on expenses.
amounting to 2 percentage points. In Groups I, II, and IV, the share of interest income in total income also increased, whereas in Group III, this share was reduced.

Interest expenses with a share of 41.4 percent predominated in the structure of expenses. They were followed by general administrative expenses and depreciation at 36.3 percent, loan loss provision expenses at 13.2 percent, and non-interest expenses at 9.1 percent.

In 2000, the share of general administrative expenses and depreciation in the structure of expenses grew most in comparison with 1999, by 4.1 percentage points, and increased in nominal terms as well. This growth was mostly the result of an increase in the share of expenses for employees of 1.5 percentage points, an increase in other expenses of 1.4 percentage points, and depreciation of 1.2 percentage points.

The largest share fall in total expenses compared with 1999, of 5.9 percentage points, was recorded for loan loss provision expenses. This fall was mostly the result of a decrease of 0.5 billion kuna in provision expenses for identified losses, and a value adjustment of investments in shares which resulted in income growth of 0.3 billion kuna.

3.1.5 Return Indicators

In 2000, the average return on assets of the entire banking system amounted to 1.3 percent, an increase of 0.6 percentage points compared with 1999. At the same time, the average return on equity was 15.6 percent, an increase of 7.3 percentage points compared with 1999.

![FIGURE 11. Return on Assets](image)

At the level of individual groups of banks, both indicators increased compared to 1999; in Group I due to a 908 million kuna profit growth, or 141.5 percent, in Group IV due to a 25.5 million kuna profit growth, or 43.7 percent, and finally in Group III due to a recovery of losses and generation of profit amounting to 79.3 million kuna. At the same time, in Group II both indicators bear a negative sign, since a loss of 407.4 million kuna was incurred. Positive returns were reported in 2000 for Group I (2.4 percent on assets and 43.2 percent on equity), Group III (1.9 percent on assets and 13.5 percent on equity), and Group IV (1.6 percent on assets and 6.5 percent on equity), whereas Group II reported negative returns (1.4 percent on assets and 14.1 percent on equity).
The main reason for these developments in these indicators in 2000 was a reduction in provisions for losses, the same as in 1999. The causes of the provision reduction remained the same as in the previous year. However, it should be noted that the policy of fund placement improved, resulting in improved repayment quality, and that economic environment was somewhat more favorable in 2000.

Interest income and interest expenses in comparison with average net assets remained almost unchanged at the system level in 2000. While interest income rose by a minimal 0.2 percentage points, interest expenses recorded a slightly reduced ratio.

The changes were somewhat more pronounced at the level of individual bank groups. In Group I, interest income increased by 0.6 percentage points in 2000, and interest expenses fell by 0.1 percentage point. In Group II, interest income rose by 0.2 percentage points and interest expenses increased by 0.3 percentage points. In Group III, interest income increased by 3.4 percentage points and interest expenses grew by 1.4 percentage points. In Group IV, interest income fell by 4.2 percentage points and interest expenses fell by 1.8 percentage points. Positive movements of these indicators were recorded for Group I (growth in interest income, along with a fall in interest expenses), and for Group III (interest income growth larger than the increase in interest expenses). Negative movements were recorded for Group II (interest income growth smaller than the increase in interest expenses), and for Group IV (in-
As a result of the resolution of the banking system problems in mid-1999, lending and deposits interest rates stabilized. Since then, interest rates have been on a slow but continuous decline. Throughout almost the entire reporting period, until mid-2000, lending interest rates on loans without a foreign currency clause were higher than the interest rates on loans with a foreign currency clause. The reason lies in a high level of overdraft facilities based on giro and current accounts, both for juridical and natural persons, on which interest rates are very high. Due to a considerable liquidity improvement of juridical persons by mid-2000 and their decreased demand for short-term loans, weighted interest rates on loans without a currency clause were also reduced, so that the level of these interest rates fell below that of loans with a currency clause.

Throughout the entire period of falling interest rates on foreign exchange deposits, from the second half of 1998 to the second quarter of 2000, interest rates on deposits without currency clauses were higher than on foreign exchange deposits. The improved liquidity of the system resulted in an increased level of corporate and household deposits in giro and current accounts, on which interest rates are very low. As a consequence of their increased share in total kuna deposits, average weighted interest rates on deposits without currency clauses were reduced.
Average interest rates in the banking system at the end of 2000 stood at 10.5 percent on loans without currency clauses, 10.7 percent on loans with currency clauses, 3.4 percent on deposits without currency clauses and 3.5 percent on foreign exchange deposits.

At the end of 2000, the banking system employed 16,193 persons, a decrease of 665 employees (3.9 percent) compared to the end of 1999, and a decrease of 324 employees (1.9 percent) compared to mid-2000. Measured at the level of the banking system, there were 7 million kuna in assets per employee. This ratio was, on average, higher for larger banks, so that Group I recorded 7.7 million kuna in assets per employee, Group II 6.4 million kuna, Group III 5.2 million kuna, and Group IV 4.1 million kuna. In 2000, Group I recorded the highest nominal growth in the above stated indicator, amounting to 1.9 million kuna per employee, or 32.4 percent, whereas Group III in the same period recorded the highest relative growth of this indicator – 45.3 percent or 1.6 million kuna per employee.

In 2000, the share of non-interest expenses in the assets of the banking system also indicates the improved operation of banks. At the end of 2000, this share stood at 0.8 percent, an increase of 0.2 percentage point compared to the end of the previous year. According to this indicator, at the end 2000, Group III was the most successful (0.6 percent), with the largest increase compared to Group II.

Each bank group ratio between non-interest expenses and average assets is calculated in the following manner. First, the non-interest expenses incurred in a relevant period by all banks in an individual bank group are added up. Second, the amounts of average assets of each bank group are added up. The sums thus calculated are mutually divided and multiplied by 100. The average assets are calculated as the arithmetic mean of the balance in assets at the beginning and at the end of period for which the average is calculated.

Schedule BS is the source of data on the amount of assets (Bank Statistical Report – Narodne novine, Nos. 57/99 and 3/2001), while the audited reports of banks are the source of data on the number of persons employed.
to the end of 1999 (0.4 percentage points) by which it reached the level of Group I. Group IV recorded a lower increase (0.1 percentage point) and Group II recorded a mild deterioration.

At the end of 2000, total placements of the banking system amounted to 123.9 billion kuna. In comparison with end 1999, this is an increase of 16.8 billion kuna or 15.7 percent.

In 2000, the quality structure of total placements varied. The share of performing assets in total assets slightly decreased in the first half of the year – from 89.7 to 89.5 percent – whereas it increased to 90.5 percent in the second half of the year. The downward trend of the share of these placements in total placements from 1997 to 2000 was thus reversed in 2000. At the same time, the share of placements that are classified into highest-risk categories (D and E) rose by a minimal 0.2 percentage points, reaching 7 percent at the end of 2000.

**3.1.6 Credit Activity**

At the end of 2000, total placements of the banking system amounted to 123.9 billion kuna. In comparison with end 1999, this is an increase of 16.8 billion kuna or 15.7 percent.

In 2000, the quality structure of total placements varied. The share of performing assets in total assets slightly decreased in the first half of the year – from 89.7 to 89.5 percent – whereas it increased to 90.5 percent in the second half of the year. The downward trend of the share of these placements in total placements from 1997 to 2000 was thus reversed in 2000. At the same time, the share of placements that are classified into highest-risk categories (D and E) rose by a minimal 0.2 percentage points, reaching 7 percent at the end of 2000.

**TABLE 11. Classification of Placements by Risk Categories, end of period, in million kuna and %**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>91,706.8</td>
<td>97,227.9</td>
<td>92,061.5</td>
<td>108,490.1</td>
</tr>
<tr>
<td>B</td>
<td>5,454.5</td>
<td>6,377.8</td>
<td>4,507.0</td>
<td>3,723.0</td>
</tr>
<tr>
<td>C</td>
<td>3,413.4</td>
<td>5,574.8</td>
<td>3,749.9</td>
<td>3,090.8</td>
</tr>
<tr>
<td>D</td>
<td>871.7</td>
<td>2,718.1</td>
<td>3,393.6</td>
<td>3,834.0</td>
</tr>
<tr>
<td>E</td>
<td>1,856.7</td>
<td>2,359.6</td>
<td>3,093.3</td>
<td>4,808.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>103,303.1</td>
<td>114,258.2</td>
<td>107,615.4</td>
<td>123,946.7</td>
</tr>
</tbody>
</table>

This movement can also be illustrated through the ratio between provisions and placements. Until mid-2000, this ratio continuously deteriorated, reaching the level of 8.9 percent. In the second half of 2000, the ratio improved and stood at 8.2 percent.

**TABLE 12. Ratio between Provisions and Placements (A, B, C, D and E), end of period, in million kuna and %**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total provisions for identified and unidentified losses</td>
<td>5,111.3</td>
<td>7,645.6</td>
<td>9,476.2</td>
<td>10,182.9</td>
</tr>
<tr>
<td>1.1 Provisions for identified losses</td>
<td>4,539.8</td>
<td>6,951.6</td>
<td>8,673.6</td>
<td>9,361.7</td>
</tr>
<tr>
<td>1.2 Provisions for unidentified losses</td>
<td>571.5</td>
<td>694.0</td>
<td>802.6</td>
<td>821.2</td>
</tr>
<tr>
<td>2. Total gross placements (A, B, C, D and E)</td>
<td>103,303.1</td>
<td>114,258.2</td>
<td>107,165.1</td>
<td>123,946.7</td>
</tr>
<tr>
<td>3. The relative ratio between total provisions and total gross placements</td>
<td>4.9%</td>
<td>6.7%</td>
<td>8.8%</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

The improvement in banks’ credit policies in 1999 and 2000 and their more strict application, as well as the improved liquidity of the economy in the second half of 2000, had the greatest influence on the improvement in these indicators, i.e. credit risk reduction.

At the end of 2000, out of 51.2 billion kuna placed in loans granted within the banking system, 22.3 billion kuna, or 43.6 percent of total loans, were placed with other enterprises. Household loans amounting to 20.8 billion kuna (40.6 percent) had the second-largest share, followed by loans to government units totaling 4.1 billion kuna (8.4 percent).
At the level of individual bank groups in the loan portfolio structure, Group I banks granted the largest share of loans to government units, Groups I and III banks granted the largest share of household loans, and Group II and IV banks granted the largest share of loans to other enterprises.

### 3.1.7 Liquidity Ratios

In 2000, and particularly in the second half of 2000, the liquidity of the banking system improved. This resulted in a considerable reduction in bank borrowing from the Croatian National Bank, increased bank placements in liquid instruments of the CNB and Ministry of Finance, and a reduction in deposit and lending interest rates.

At the end of 2000, the amount of CNB and central government bills purchased at the level of the banking system stood at 6 billion kuna, which represents 5.3 percent of the total assets of the system. Of this amount, 2.3 billion kuna (38.3 percent) were placed in kuna denominated CNB bills, 1.9 billion kuna (31.7 percent) in treasury bills of the Ministry of Finance, 1.8 billion kuna (29.8 percent) in foreign currency CNB bills and 0.01 billion kuna (0.2 percent) in money market instruments of the central government.

| TABLE 13. Structure of Loans by Institutional Sectors, end of period, in million kuna |
|---------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Group I | Group II | Group III | Group IV | Total |
| 1. Government units | 2,443.4 | 3,608.6 | 387.2 | 360.4 | 53.0 | 96.9 | 105.6 | 36.9 | 2,989.1 | 4,102.8 |
| 2. Financial institutions | 559.6 | 562.5 | 299.5 | 379.3 | 34.8 | 24.7 | 230.4 | 28.0 | 1,124.2 | 994.4 |
| 3. Public enterprises | 1,309.6 | 1,767.2 | 316.2 | 391.8 | 2.7 | 44.7 | 112.4 | 152.1 | 1,740.9 | 2,355.8 |
| 4. Other enterprises | 10,996.3 | 11,230.0 | 8,914.8 | 8,637.5 | 811.9 | 1,213.6 | 2,101.5 | 1,244.2 | 22,824.5 | 22,325.4 |
| 5. Non-profit institutions | 136.3 | 227.4 | 46.4 | 54.2 | 4.7 | 7.8 | 11.9 | 1.5 | 199.4 | 290.9 |
| 6. Households | 9,655.9 | 13,938.6 | 5,668.4 | 5,012.8 | 734.5 | 1,170.3 | 1,090.1 | 666.3 | 17,148.9 | 20,788.0 |
| 7. Nonresidents | 136.3 | 227.4 | 46.4 | 54.2 | 4.7 | 7.8 | 11.9 | 1.5 | 199.4 | 290.9 |
| Total | 25,449.1 | 31,414.7 | 15,824.6 | 15,067.2 | 1,643.1 | 2,599.5 | 3,720.9 | 2,145.8 | 46,637.7 | 51,227.3 |

The credit exposure to an individual institutional sector is reported for each bank group as well as all banks. The reports submitted by banks in Schedule BS/LOA (Bank Statistical Report – Narodne novine, Nos. 57/99 and 3/2001) are the source of data.

### 3.1.8 Loans to Other Zones

Of the total placements in the above-stated securities, Group I made the largest relative placement\(^{10}\) in kuna denominated CNB bills (43.8 percent) compared to the other groups of banks. On the other hand, Group IV made the largest relative placement in foreign currency denominated CNB bills (52.7 percent) and in money market instruments of the central government (0.7 percent). Group III made the largest relative placement in treasury bills of the Ministry of Finance (40 percent).

In 2000, the total borrowing of all banks from the CNB amounted to 0.4 billion kuna, 66.7 percent less than the average in 1999. The banks’ total borrowing from the central bank continuously decreased over 2000. Thus average total borrowing in the fourth quarter of 2000 amounted to 0.2 billion kuna, which is 27.6 percent less than in the third quarter of the same year.
In the reporting period, all four groups of banks recorded the highest ratio between free reserves and calculated required reserves at the end of 2000.

In the period until the third quarter of 1999, this ratio was negative in Groups II and III (apart from the third quarter of 1998 in Group II). In the two remaining groups of banks, a fall in this indicator was recorded in the same period. Following the initiation of bankruptcy proceedings in the insolvent banks in Groups II and III in 1999, the trend was reversed, and this indicator has been growing continuously since then. The accelerated liquidity growth in 2000 was also influenced by a reduction in government debts to the economy and a reduction in the reserve requirement rate.

### TABLE 15. CNB Loans, in million kuna, annual average

<table>
<thead>
<tr>
<th></th>
<th>Group I</th>
<th>Group II</th>
<th>Group III</th>
<th>Group IV</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lombard loans</td>
<td>107.1</td>
<td>51.8</td>
<td>33.5</td>
<td>5.2</td>
<td>10.4</td>
</tr>
<tr>
<td>2. Intervention loans</td>
<td>0.0</td>
<td>0.0</td>
<td>21.5</td>
<td>3.3</td>
<td>0.0</td>
</tr>
<tr>
<td>3. Liquidity loans</td>
<td>0.0</td>
<td>0.0</td>
<td>791.8</td>
<td>274.9</td>
<td>70.9</td>
</tr>
<tr>
<td>4. Repo CNB bills</td>
<td>71.9</td>
<td>12.9</td>
<td>154.8</td>
<td>59.3</td>
<td>150.8</td>
</tr>
<tr>
<td>Total</td>
<td>179.1</td>
<td>64.8</td>
<td>898.2</td>
<td>287.3</td>
<td>83.7</td>
</tr>
</tbody>
</table>

The quarterly and annual averages of used secondary liquidity sources of the CNB are reported for each bank group and for all banks. These sources include Lombard loans, liquidity loans, intervention loans and funds borrowed at CNB repo auctions.


Each bank group ratio between free reserves and reserve requirements is calculated in the following manner. First, free reserves allocated on a certain date by banks that are in an individual bank group are added up and than the amounts of reserve requirements of each bank group are added up.

Free reserves are calculated on the basis of the following formula:

\[
\text{free reserves} = (\text{actual kuna reserves} + \text{actual foreign currency reserves} + \text{additional reserves}) - (\text{reserve requirements} + \text{foreign currency reserves}) - \text{borrowed reserves}
\]

- Actual kuna reserves = balance in giro accounts + balance in the vault + allocated reserves
- Actual foreign currency reserves = liquid foreign currency claims (including CNB bills in foreign currency) + allocated reserves
- Additional reserves = CNB bills in domestic currency + treasury bills of the MoF of the Republic of Croatia + promissory notes of the MoF of the Republic of Croatia + short-term placements in the money market
- Borrowed reserves = Lombard loan + repurchased CNB bills + intervention loan + special loans + pre-rehabilitation loan + overnight loan + other loans with maturity up to 7 days

Reserve requirements are regulated by the Decisions on Reserve Requirements (Narodne novine, No. 46/2001).

The Croatian National Bank is the source of data.

Each bank group ratio between total loans and total deposits is calculated in the following manner. First, total loans on a certain date of all banks in an individual bank group are added up. Second, the amounts of total deposits of each bank group are also added up. The sums thus calculated are mutually divided and the amount thus obtained is multiplied by 100. The same procedure is applied to the calculation of this indicator for all banks.

Loans include kuna and foreign currency loans in net amounts, i.e. decreased by the amount of formed specific reserves for identified losses. Deposits also include frozen household foreign exchange deposits. Since deposits received from the CNB are considered liabilities based on loans, they are not included.

The reports submitted by banks in Schedule BS/LOA (Bank Statistical Reports – Narodne novine, Nos. 57/99 and 3/2001) are the source of data on loans, while banks’ reports in Schedule BS/DEP are the source of data on deposits (Bank Statistical Report).
In the second half of 2000, the credits to deposits ratio was reduced in all four groups of banks, as a result of a significant deposit growth along with a moderate credit growth. The largest reduction (improvement) of 12 percentage points was reported for Group IV, followed by Group III with a 6.4 percentage point reduction, Group I with a 4.6 percentage point reduction, and Group II with a 4.3 percentage point reduction.

At the end 2000, the credit/deposit ratio in the banking system stood at 70.5 percent, which is a 6.6 percentage point fall compared to mid-2000. At the same time, at the level of individual groups of banks, the ratio amounted to: 62 percent in Group I, 90 percent in Group II, 85.7 percent in Group III, and 97.1 percent in Group IV.

The movements of the ratio between short-term assets and short-term liabilities also indicates the banks’ liquidity improvement in 2000. At the end of 2000, the ratio in the banking system amounted to 91.6 percent, which is an increase of 2.7 percentage points compared to end 1999.

At the level of individual bank groups, this ratio increased in 2000: by 3.4 percentage points in Group I, 8 percentage points in Group II and 8.9 percentage points in Group III, while remaining unchanged in Group IV.

Naturally, the continuation of the upward trend is also a consequence of the changes in the regulation\(^\text{11}\) which decreased the level of permitted currency risk exposure from 30 to 25 percent of regulatory capital.\(^\text{12}\)

Nevertheless, irrespective of the positive developments in the banking system, it should be noted that certain difficulties and non-compliance still exist regarding currency risk exposure in particular groups of banks (Groups I and II). This refers only to individual banks within the stated groups, and mainly to those that underwent rehabilitation and generally reported a short foreign exchange position prior to rehabilitation and a long position after rehabilitation.

\(^{11}\) Decision on the Prevention of Authorized Banks’ and Savings Banks’ Foreign Exchange Position Exposure to Currency Risk (Narodne novine, Nos. 134/97 and 94/2000) which has been applied since December 1, 2000.

\(^{12}\) Even prior to the reduction in the percentage of permitted exposure, banks were generally maintaining their foreign exchange position below the permitted one, for the purpose of their own protection. This additionally facilitated the procedures of a further adjustment of measuring foreign exchange position exposure to currency risk to the standards of the Basel Committee on Banking Supervision, which attempt to reduce this percentage.
26 savings banks, including 4 housing savings banks, were in operation at the end of 2000. During 2000, operating licenses were revoked for 7 savings banks, and bankruptcy proceedings were initiated in one savings bank.

On December 31, 2000, savings bank assets amounted to 1.6 billion kuna, a 22.7 percent increase compared to the total assets of savings banks at the end of 1999, or a 19.7 percent increase compared to total assets in mid-2000. Housing savings banks accounted for 36.6 percent of the total assets of savings banks at the end of 2000, which is a 17.2 percentage point increase in the share of housing savings banks compared to the end of 1999. This development was influenced by a strong growth in the assets of housing savings banks amounting to 363.5 million kuna, or 171.7 percent, and a reduction in the number of savings banks due to license withdrawals.

As at December 31, 2000, loans to other clients prevailed in the savings bank asset structure, amounting to 39.7 percent. They were followed by Ministry of
Finance treasury bills and CNB bills with 15 percent, and investment portfolio of securities with 12.1 percent. In 2000, the largest asset growth (of 9.6 percentage points) was recorded in investment portfolio of securities, whereas the largest fall in share (of 11.8 percentage points) was recorded in loans to other clients, whose total amount fell in absolute terms as well, indicating reduced credit activities of savings banks over this period.

Housing savings banks had a different asset structure from other savings banks. At the end of 2000, 91.2 percent of total assets were placed in securities. In time, when an increasingly larger number of savers meet the conditions for taking out a housing loan, the structure of housing savings bank assets will change as well.

According to the data for end 2000, deposits had the largest share in the structure of savings bank liabilities – 75.9 percent. Capital had the second-largest share of capital in the balance sheet.

### Table 16. Structure of Savings Bank Assets, end of period, in million kuna and %

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>Share</td>
</tr>
<tr>
<td>1. Money assets and deposits with the CNB</td>
<td>89.8</td>
</tr>
<tr>
<td>1.1 Money assets</td>
<td>24.3</td>
</tr>
<tr>
<td>1.2 Deposits</td>
<td>65.5</td>
</tr>
<tr>
<td>2. Deposits with banking institutions</td>
<td>93.1</td>
</tr>
<tr>
<td>3. Treasury bills and CNB bills</td>
<td>126.4</td>
</tr>
<tr>
<td>4. Trading portfolio of securities</td>
<td>3.1</td>
</tr>
<tr>
<td>5. Loans to financial institutions</td>
<td>50.5</td>
</tr>
<tr>
<td>6. Loans to other clients</td>
<td>662.3</td>
</tr>
<tr>
<td>7. Investment portfolio of securities</td>
<td>32.4</td>
</tr>
<tr>
<td>8. Investments in subsidiaries and companies</td>
<td>1.4</td>
</tr>
<tr>
<td>9. Foreclosed and repossessed assets</td>
<td>25.8</td>
</tr>
<tr>
<td>10. Tangible assets and software (net of depreciation)</td>
<td>66.5</td>
</tr>
<tr>
<td>11. Interests, fees and other assets</td>
<td>142.5</td>
</tr>
<tr>
<td>12. Net of: Specific reserves for unidentified losses</td>
<td>7.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,286.2</strong></td>
</tr>
</tbody>
</table>

The share of each balance sheet item of assets in total assets is calculated on the basis of data from the Bank Statistical Report (Narodne novine, Nos. 57/99 and 3/2001 – Schedule BS) and the derived aggregated report of the same type on the banking system in the observed periods. The change in the balance is the percentage change in comparison with the previous period.

### Table 17. Structure of Savings Bank Liabilities, end of period, in million kuna and %

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>Share</td>
</tr>
<tr>
<td>1. Loans from financial institutions</td>
<td>28.8</td>
</tr>
<tr>
<td>1.1 Short-term loans</td>
<td>24.8</td>
</tr>
<tr>
<td>1.2 Long-term loans</td>
<td>4.1</td>
</tr>
<tr>
<td>2. Deposits</td>
<td>826.3</td>
</tr>
<tr>
<td>2.1 Giro account and current account deposits</td>
<td>6.6</td>
</tr>
<tr>
<td>2.2 Savings deposits</td>
<td>38.6</td>
</tr>
<tr>
<td>2.3 Time deposits</td>
<td>781.1</td>
</tr>
<tr>
<td>3. Other loans</td>
<td>84</td>
</tr>
<tr>
<td>3.1 Short-term loans</td>
<td>7.8</td>
</tr>
<tr>
<td>3.2 Long-term loans</td>
<td>0.6</td>
</tr>
<tr>
<td>4. Debt securities issued</td>
<td>0.0</td>
</tr>
<tr>
<td>4.1 Short-term debt securities issued</td>
<td>0.0</td>
</tr>
<tr>
<td>4.2 Long-term debt securities issued</td>
<td>0.0</td>
</tr>
<tr>
<td>5. Supplementary capital</td>
<td>52.0</td>
</tr>
<tr>
<td>5.1 Subordinated instruments issued</td>
<td>12.8</td>
</tr>
<tr>
<td>5.2 Hybrid instruments issued</td>
<td>39.2</td>
</tr>
<tr>
<td>6. Interest, fees and other liabilities</td>
<td>53.0</td>
</tr>
<tr>
<td>7. Profit/loss for the current year</td>
<td>-41.4</td>
</tr>
<tr>
<td>8. Capital</td>
<td>359.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,286.2</strong></td>
</tr>
</tbody>
</table>

These are calculated in the same manner as in Table 16., i.e. the share of each balance sheet item of liabilities in total liabilities is calculated on the basis of data from the Bank Statistical Report (Narodne novine, Nos. 57/99 and 3/2001 – Schedule BS) and the derived aggregated report of the same type on the banking system in the observed periods. The change in the balance is the percentage change in comparison with the previous period.
share at 19.8 percent, followed by supplementary capital at 3.3 percent. In 2000, the share of deposits in liabilities grew most by 11.6 percentage points, whereas capital recorded the largest fall in share, amounting to 8.2 percentage points. Deposits of housing savings banks accounted for 46.2 percent of total deposit growth in the stated period.

Savings banks’ capital decreased by 13.2 percent in comparison with end 1999, partly due to a reduction in the number of savings banks in 2000, and partly due to increased losses of savings banks, or a reduction in legal reserves, reserves provided for by the articles of association and other reserves for covering losses.

The capital adequacy ratio of savings banks was 33.5 percent at the end of 2000, which is a 9.2 percentage point fall compared to end 1999.

In 2000, savings banks incurred operating losses of 66 million kuna, which, following a loss of 49.2 million kuna in 1999, indicates a further deterioration in savings banks’ operation during 2000. The amount of the reported loss was also influenced by the operational losses of individual housing savings banks that are not a result of poor performance but of the fact that these housing savings banks have only recently been established. Net interest income, net non-interest income and loan loss provision expenses were on the decrease, whereas general administrative expenses and depreciation were on the increase.

In the observed periods, each item from reports is stated cumulatively for all savings banks on the basis of data from the Bank Statistical Report (Narodne novine, Nos. 57/99 and 3/2001 - Schedule IS). The total amount for each item is the sum of the same items stated in the reports. Total amounts are calculated at the level of all savings banks.
The share of placements rated D and E thus fell from 7.4 percent at the end of 1999 to 5.8 percent at the end of 2000.

 Movements in the ratio between total provisions and total gross placements also indicate an improvement in asset quality. This ratio decreased (improved) from 10.6 percent at the end of 1999 to 6.9 at the end of 2000.
Data on individual banks’ addresses, telephone numbers, fax numbers, members of management and supervisory boards, shareholders who hold 3 percent or more of share in the bank’s equity capital, and on bank auditors for 2000.

As at December 31, 2000

**BANK AUSTRIA CREDITANSTALT CROATIA d.d.**
Jurjiševa 2, 10000 Zagreb
Phone: +385 1 4800-777
Fax: +385 1 4800-890
VBDI: 2502004

**BNP-DRESDNER BANK (CROATIA) d.d.**
Andrije Žaje 61, 10000 Zagreb
Phone: +385 1 3652-777
Fax: +385 1 3652-779
VBDI: 2504000

**BRODSKO-POSAVSKA BANKA d.d.**
Trg pobjede 29, 35000 Slavonski Brod
Phone: +385 35 445-800
Fax: +385 35 445-900
VBDI: 2489004

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**List of Banks**

**Management Board**
Goran Gazivoda – chairman, Ivo Bilić

**Supervisory Board**
Alois Steinbichler – chairman, Anton Knett, Wolfgang Helpa, Günter Ettenauer, Heinz Meidlinger, Friedrich Racher, Alistair Bruce Turnbull

**Shareholders**
1. Bank Austria AG 80.02
2. European Bank for Reconstruction and Development 19.98

Audit firm for 2000: Ernst & Young Auditors d.o.o., Zagreb

---

**Management Board**
Thomas Grosse – chairman, Dominique Menu

**Supervisory Board**
Francois Brunot – chairman, Cally Alain Francois, Wolfdieter Engel, Hans-Jürgen Haas-Wittmüß, Benoît Langelier

**Shareholders**
1. BNP Paribas S.A. 50.0
2. Dresdner Bank AG 50.0

Audit firm for 2000: PricewaterhouseCoopers d.o.o., Zagreb

---

**Management Board**
Gabrijel Sentić – chairman, Vesna Senjak, Anka Olić

**Supervisory Board**
Ivan Baković – chairman, Bartol Jerković, Vlatko Blekić, Mika Mimica, Marko Babić, Ante Ćilić, Antun Mlivić, Josip Galić, Marijan Mandić

**Shareholders**
1. Jurves d.o.o. 7.99
2. Nova Immobilišta d.o.o. 7.95
3. Mikser beton d.o.o. 7.35
4. Prospera d.o.o. 7.22
5. Kapitol banka d.d. 7.22
6. Duro Daković – Poljoprivredni strojevi i uređaji d.d. 6.76
7. Nord d.o.o. 6.48
8. Telecomp d.o.o. 4.26
9. Slavonska štedionica d.d. 4.16
10. Šoštaric d.o.o. 4.07
11. Duro Daković holding d.d. 3.35
12. Croatia osiguranje d.d. 3.07
13. Duro Daković – Termoenergetska postrojenja d.d. 3.07

Audit firm for 2000: Revicon d.d., Zagreb

---

1 Account number of depository institution.
CASSA DI RISPARMIO DI TRIESTE – BANCA d.d.  
Smičiklasova 23, 10000 Zagreb  
Phone: +385 1 4614-346  
Fax: +385 1 4552-603  
VBDI 2499000

Adriano Carisi – chairman, Jasna Mamić

Supervisory Board  
Giovanni Battista Ravido – chairman, Giorgio Cerutti, Giorgio Covacich, Tito Favaretto, Luca Savino, Milan Travčan

Shareholders  
1. Cassa di Risparmio di Trieste – Banca S.p.A.  72.06  
2. International Finance Corporation  14.00  
3. Finest S.p.A.  7.50  
4. Simest-Societa Italiana Per Le Imprese Miste All’Estero Simest S.p.A.  4.40

Audit firm for 2000: Pricewaterhouse Coopers d.o.o., Zagreb

CENTAR BANKA d.d.  
Junjiševa 3, 10000 Zagreb  
Phone: +385 1 4803-444  
Fax: +385 1 4803-441  
VBDI 2362001

Management Board  
Gordana Zrinščak – chairman, Ljiljana Podhраški, Ružica Vadić

Supervisory Board  
Dragutin Biondić – chairman, Igor Knežević, Irena Kovačević, Zoran Smiljanić, Žarko Kraljević

Shareholders  
1. Heruc d.d.  38.38  
2. Domus d.d.  6.02  
3. Heruc-izrada odjeće d.o.o.  6.02  
4. Lipa Mill d.d.  6.02  
5. Lovinčić d.d.  6.02  
6. Villa Dubrovnik d.d.  4.41  
7. Heruc Zug AG  4.22  
8. Diners club Adriatic d.d.  4.13

Audit firm for 2000: Deloitte & Touche d.o.o., Zagreb

CONVEST BANKA d.d.  
Gajeva 33, 10000 Zagreb  
Phone: +385 1 4922-333  
Fax: +385 1 4819-153  
VBDI 2496001

Management Board  
Ivan Maljevac – chairman, Drago Jakovčević, Franе Galzina

Supervisory Board  
Janos Müller – chairman, Imre Balogh, Pero Perišić

Shareholders  
1. Magyar Külkereskedelmi Bank R.t.  66.67  
2. Pero Perišić  33.33

Audit firm for 2000: KPMG Croatia d.o.o., Zagreb

CREDО BANKA d.d.  
Zrinsko-Frankopanska 58, 21000 Split  
Phone: +385 21 380-655,  
Fax: +385 21 380-660  
VBDI 2491005

Management Board  
Šime Luketin – chairman, Mato Mišić

Supervisory Board  
Mirko Vuković – chairman, Boris Barač, Dražen Bilić

Shareholders  
1. Ferocommerce d.o.o.  9.98  
2. Darko Gaurina  9.98  
3. Plastal d.o.o.  9.97  
4. Uvel d.o.o.  9.52  
5. Prima-auto d.o.o.  8.94  
6. Berman d.o.o.  7.47  
7. Arca Merkatus d.o.o.  6.98

Audit firm for 2000: Pricewaterhouse Coopers d.o.o., Zagreb
<table>
<thead>
<tr>
<th>BANK NAME</th>
<th>ADDRESS</th>
<th>PHONE</th>
<th>FAX</th>
<th>VBDI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CROATIA BANKA d.d.</strong></td>
<td>Kvaternikov trg 9, 10000 Zagreb</td>
<td>Phone: +385 1 2391-111</td>
<td>Fax: +385 1 2391-470</td>
<td>VBDI 2485003</td>
</tr>
<tr>
<td><strong>DALMATINSKA BANKA d.d.</strong></td>
<td>Marka Oreškovića 3, 23000 Zadar</td>
<td>Phone: +385 23 201-500</td>
<td>Fax: +385 23 201-774</td>
<td>VBDI 2407000</td>
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<tr>
<td><strong>ERSTE &amp; STEIERMÄRKISCHE BANK d.d.</strong></td>
<td>Varšavska 3-5, 10000 Zagreb</td>
<td>Phone: +385 1 4561-999</td>
<td>Fax: +385 1 4561-900</td>
<td>VBDI 2402006</td>
</tr>
<tr>
<td><strong>GOSPODARSKO KREDITNA BANKA d.d.</strong></td>
<td>Draškovićeva 58, 10000 Zagreb</td>
<td>Phone: +385 1 4802-666</td>
<td>Fax: +385 1 4802-571</td>
<td>VBDI 2381009</td>
</tr>
</tbody>
</table>

**LIST OF BANKS**

<table>
<thead>
<tr>
<th><strong>CROATIA BANKA d.d.</strong></th>
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<th></th>
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<tbody>
<tr>
<td><strong>Management Board</strong></td>
<td>Vadran Kuš – chairman, Nataša Marendić, Nikola Samaržija</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Supervisory Board</strong></td>
<td>Niko Šeremet – chairman, Ivan Tomljenović, Jure Šimović, Željko Pecek, Joško Milišić</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Shareholders</strong></td>
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<tr>
<td>1. State Agency for Bank Rehabilitation and Deposit Insurance</td>
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<td><strong>Audit firm for 2000:</strong></td>
<td>Delloite &amp; Touche d.o.o., Zagreb</td>
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<tr>
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</thead>
<tbody>
<tr>
<td><strong>Management Board</strong></td>
<td>Zdravko Bubalo – chairman, Darinko Pupovac, Jadranka Gotovac</td>
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<tr>
<td><strong>Supervisory Board</strong></td>
<td>Stanko Banić – chairman, Denko Peroš, Veljko Mašina, Stjepan Meštrović, Damir Vrhovnik, Ivo Mazić, Marko Vuksan</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Shareholders</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1. Reginter d.o.o.</td>
<td>57.74</td>
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<td></td>
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<tr>
<td>2. Ann Becerra</td>
<td>6.93</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3. Nick Bubalo</td>
<td>6.93</td>
<td></td>
<td></td>
<td></td>
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<td>4. Steve i Louise Bubalo</td>
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<td>5. SWR Investment Limited</td>
<td>6.87</td>
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<td>Pricewaterhouse Coopers d.o.o., Zagreb</td>
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</table>

| **ERSTE & STEIERMÄRKISCHE BANK d.d.** | Varšavska 3-5, 10000 Zagreb   | Phone: +385 1 4561-999          | Fax: +385 1 4561-900            | VBDI 2402006 |

| **GOSPODARSKO KREDITNA BANKA d.d.** | Draškovićeva 58, 10000 Zagreb   | Phone: +385 1 4802-666          | Fax: +385 1 4802-571            | VBDI 2381009 |

<p>| <strong>Management Board</strong>               | Izidor Sučić – chairman, Jasna Fumagalli |
| <strong>Supervisory Board</strong>              | Branko Josipović – chairman, Lovre Božina, Zdenko Prohaska |</p>
<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Share in equity capital (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Kristina Sučić</td>
<td>9.22</td>
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<tr>
<td>2. Ivan Sučić</td>
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<td>3. Josip Bašić</td>
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<td>4. Željko Koznarić</td>
<td>7.43</td>
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<tr>
<td>5. Veritas BH d.o.o.</td>
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<tr>
<td>6. Veritas d.o.o.</td>
<td>7.40</td>
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<tr>
<td>7. Kata Šparica</td>
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<td>8. Darko Gojčić</td>
<td>7.33</td>
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<tr>
<td>9. Branko Josipović</td>
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<td>10. Milan Zec</td>
<td>5.43</td>
</tr>
<tr>
<td>11. Gospodarsko kreditna banka d.d.</td>
<td>4.25</td>
</tr>
<tr>
<td>12. Vesna Mijović</td>
<td>3.57</td>
</tr>
</tbody>
</table>

Audit firm for 2000: Reviz-biro d.o.o., Split

**HRVATSKA POŠTANSKA BANKA d.d.**

Juniščeva 4, 10000 Zagreb
Phone: +385 1 4804-513
Fax: +385 1 4810-791
VBDI 2390001

**Management Board**
Josip Slade – chairman, Slavko Durmiš

**Supervisory Board**
Ivan Videka – chairman, Božidar Sever, Jarmila Bašić, Bosiljka Oman-Tintor, Petar Kriste, Emilija Vadila

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Share in equity capital (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Hrvatska pošta d.d.</td>
<td>51.00</td>
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<tr>
<td>2. Croatian Pension Insurance Institute</td>
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<td>3. Croatian Privatization Fund</td>
<td>4.25</td>
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</table>

Audit firm for 2000: KPMG Croatia d.o.o., Zagreb

**HYPOBANKA d.d.**

Vodovodna 20a, 10000 Zagreb
Phone: +385 1 3643-710
Fax: +385 1 3643-687
VBDI 2426005

**Management Board**
Antun Sermek – chairman, Mira Ausmann

**Supervisory Board**
Katarina Hodko – chairman, Petar Žaja, Damir Horvat

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Share in equity capital (%)</th>
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</thead>
<tbody>
<tr>
<td>1. Zagrebplesped d.o.o.</td>
<td>43.42</td>
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<tr>
<td>2. Rijekaplesped d.o.o.</td>
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<tr>
<td>3. Slavonijaplesped d.o.o.</td>
<td>9.66</td>
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<td>4. Hypocentar d.o.o.</td>
<td>7.34</td>
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<td>5. Intermoc d.o.o.</td>
<td>5.64</td>
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<tr>
<td>6. Servistransport d.d.</td>
<td>5.07</td>
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<tr>
<td>7. Agrozanje d.o.o.</td>
<td>4.60</td>
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<tr>
<td>8. Rudina d.o.o.</td>
<td>3.27</td>
</tr>
</tbody>
</table>

Audit firm for 2000: Revicon d.d., Zagreb

**HYPO ALPE-ADRIA-BANK d.d.**

Koturaška 47, 10000 Zagreb
Phone: +385 1 6103-666
Fax: +385 1 6103-555
VBDI 2500009

**Management Board**
Günther Striedinger – chairman, Heinz Truskaller, Igor Kodžoman

**Supervisory Board**
Wolfgang Kullerer – chairman, Jörg Schuster, Othmar Ederer, Roberto Marzanati, Gerd Pekner

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Share in equity capital (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Hypo Alpe-Adria-Bank AG</td>
<td>91.74</td>
</tr>
<tr>
<td>2. European Bank for Reconstruction and Development</td>
<td>8.26</td>
</tr>
</tbody>
</table>

Audit firm for 2000: Ernst & Young Audit d.o.o., Zagreb
**LIST OF BANKS**

**IMEX BANKA d.d.**
Tolstojeva 6, 21000 Split
Phone: +385 21 357-015
Fax: +385 21 583-849
VBDI 2492008

**Management Board**
Branko Buljan – chairman, Milivoj Delač, Ivka Mijić, Ružica Šarić

**Supervisory Board**
Marita Urlić-Radić – chairman, Mara Delale, Ante Čulić, Jure Svetić, Nevenka Buljan

**Shareholders**

<table>
<thead>
<tr>
<th>Share in equity capital (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Imex trgovina d.o.o.</td>
<td>47.48</td>
</tr>
<tr>
<td>2. Branko Buljan</td>
<td>21.99</td>
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<tr>
<td>3. Trajektna luka d.d.</td>
<td>18.92</td>
</tr>
</tbody>
</table>

Audit firm for 2000: Maran d.o.o., Split

**ISTARSKA BANKA d.d.**
Dalmatinova 4, 52100 Pula
Phone: +385 52 527-101
Fax: +385 52 527-400
VBDI 2416000

**Management Board**
Milenko Vidulin – chairman, Anton Šuran

**Supervisory Board**
Anton Brajković – chairman, David Curl, Silvana Kostelić, David Mc Mahon, Margot Jacobs

**Shareholders**

<table>
<thead>
<tr>
<th>Share in equity capital (%)</th>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Dalmatinska banka d.d.</td>
<td>87.16</td>
</tr>
</tbody>
</table>

Audit firm for 2000: KPMG Croatia d.o.o., Zagreb

**ISTARSKA KREDITNA BANKA UMAG d.d.**
Ernesta Miloša 1, 52470 Umag
Phone: +385 52 702-300
Fax: +385 52 741-275
VBDI 2380006

**Management Board**
Miro Đosić – chairman, Anton Belušić

**Supervisory Board**
Milan Travan – chairman, Marijan Kovačić, Edo Ivančić, Marko Martinčić, Klaudio Belušić, Denio Radić, Vlado Kraljević

**Shareholders**

<table>
<thead>
<tr>
<th>Share in equity capital (%)</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>1. Intercommerce d.o.o.</td>
<td>16.86</td>
</tr>
<tr>
<td>2. Tvornica cementa d.d.</td>
<td>15.04</td>
</tr>
<tr>
<td>3. Hempel d.d.</td>
<td>15.00</td>
</tr>
<tr>
<td>4. Montpellier finance S.A.</td>
<td>10.00</td>
</tr>
<tr>
<td>5. Medias S.p.A.</td>
<td>7.63</td>
</tr>
<tr>
<td>6. Plava Laguna d.d.</td>
<td>3.56</td>
</tr>
</tbody>
</table>

Audit firm for 2000: Pricewaterhouse Coopers d.o.o., Zagreb

**JADRANSKA BANKA d.d.**
Ante Starčevića 4, 22000 Šibenik
Phone: +385 22 242-242
Fax: +385 22 335-881
VBDI 2411006

**Management Board**
Ivo Šrnik – chairman, Željko Kardum, Ankica Bandalović

**Supervisory Board**
Željko Deković – chairman, Mirjana Škugor, Josip Huljev, Miro Petric, Miholj Mioč, Petar Škender, Goran Žunić, Josip Stojanović, Branko Malenica, Ante Čobanov, Mirko Pralić

**Shareholders**

<table>
<thead>
<tr>
<th>Share in equity capital (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Jadranska banka d.d.</td>
<td>9.20</td>
</tr>
<tr>
<td>2. Atla d.d.</td>
<td>7.89</td>
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<tr>
<td>3. TLM TPP d.o.o.</td>
<td>5.00</td>
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<tr>
<td>4. Vinopolj-vinarija d.d.</td>
<td>4.99</td>
</tr>
<tr>
<td>5. TLM d.d.</td>
<td>4.84</td>
</tr>
<tr>
<td>6. Vodovod i odvodnja d.o.o.</td>
<td>4.62</td>
</tr>
<tr>
<td>7. Jolly JBS d.o.o.</td>
<td>4.26</td>
</tr>
<tr>
<td>8. Tiskara Kaćić d.d.</td>
<td>4.23</td>
</tr>
<tr>
<td>9. Rivijera d.d.</td>
<td>3.58</td>
</tr>
</tbody>
</table>

Audit firm for 2000: Pricewaterhouse Coopers d.o.o., Zagreb
KAPTOLE BANKA d.d.
Maksimirska 120, 10000 Zagreb
Phone: +385 1 2359-700
Fax: +385 1 2339-575
VBDI 2498007

Management Board
Dejan Košutić – chairman, Bosiljka Rihter

Supervisory Board
Goran Marić – chairman, Dubravka Klarić-Čosić, Bosiljka Rihter

Shareholders
<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Share in equity capital (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Kaptol banka d.d.</td>
<td>15.00</td>
</tr>
<tr>
<td>2. Brodsko-posavska banka d.d.</td>
<td>7.16</td>
</tr>
<tr>
<td>3. Lorber d.o.o.</td>
<td>6.58</td>
</tr>
<tr>
<td>4. Dejan Košutić</td>
<td>6.19</td>
</tr>
<tr>
<td>5. Urlich Seng</td>
<td>5.58</td>
</tr>
<tr>
<td>6. Školska knjiga d.d.</td>
<td>4.61</td>
</tr>
<tr>
<td>7. Agro croatia d.o.o.</td>
<td>4.38</td>
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<td>8. Petrač d.o.o.</td>
<td>3.68</td>
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<tr>
<td>9. Kaptol Petrač leasing</td>
<td>3.68</td>
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<tr>
<td>10. G.E.I. Istring d.o.o.</td>
<td>3.29</td>
</tr>
<tr>
<td>11. Bond d.o.o.</td>
<td>3.29</td>
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<tr>
<td>12. Snježana Herceg</td>
<td>3.12</td>
</tr>
<tr>
<td>13. Spomenka Curin</td>
<td>3.00</td>
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</tbody>
</table>

Audit firm for 2000: – in February 2001 the operating license was revoked for the bank, and on May 4, 2001 the bank General Assembly issued the Decision on the initiation of liquidation procedure.

KARLOVAČKA BANKA d.d.
I. G. Kovačića 1, 47000 Karlovac
Phone: +385 47 611-540
Fax: +385 47 614-206
VBDI 2400008

Management Board
Sanda Cvitešić – chairman, Stjepan Poljak, Marijana Trpčić-Reškovac

Supervisory Board
Želimir Fetić – chairman, Željko Mažuran, Marko Šimunović, Ivan Podvorac, Ivan Guerrero Devlahovich, Helena Lenac, Zoran Posinovac

Shareholders
<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Share in equity capital (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Lanzville Investments</td>
<td>5.37</td>
</tr>
<tr>
<td>3. Croatian Privatization Fund</td>
<td>5.27</td>
</tr>
<tr>
<td>4. Karlovačka pivovara d.d.</td>
<td>4.47</td>
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<tr>
<td>5. Hamowa d.o.o.</td>
<td>3.78</td>
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</table>

Audit firm for 2000: KPMG Croatia d.o.o., Zagreb

KREDITNA BANKA d.d.
Ul. grada Vukovara 74, 10000 Zagreb
Phone: +385 1 6167-333
Fax: +385 1 6116-466
VBDI 2481000

Management Board
Ante Todorović – chairman, Željko Jakuš

Supervisory Board
Ivica Todorović – chairman, Branko Bek, Tihomir Mikulić, Dane Gudelj, Ivica Sertić

Shareholders
<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Share in equity capital (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agrokor d.d.</td>
<td>15.88</td>
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<tr>
<td>2. Crodel d.o.o.</td>
<td>9.60</td>
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<tr>
<td>3. Investco vrijednosnice d.o.o.</td>
<td>8.94</td>
</tr>
<tr>
<td>4. Ledo d.d.</td>
<td>7.20</td>
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<tr>
<td>5. Jamnica d.d.</td>
<td>7.12</td>
</tr>
<tr>
<td>6. Konzum d.d.</td>
<td>5.98</td>
</tr>
<tr>
<td>7. Litograf d.o.o.</td>
<td>4.93</td>
</tr>
<tr>
<td>8. Živijedza d.d.</td>
<td>4.78</td>
</tr>
<tr>
<td>9. Solana Pag d.d.</td>
<td>4.73</td>
</tr>
<tr>
<td>10. Perunina Zagreb d.d.</td>
<td>4.73</td>
</tr>
<tr>
<td>11. Ceufin Brokers d.d.</td>
<td>4.30</td>
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</tbody>
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Audit firm for 2000: Deloitte & Touche d.o.o., Zagreb
**LIST OF BANKS**

**KVARNER BANKA d.d.**
Jadranski trg 4/l, 51000 Rijeka
Phone: +385 51 353-555
Fax: +385 51 353-566
VBDI 2488001

**Management Board**
Anton Butorac – chairman, Goran Rameša

**Supervisory Board**
Nikola Pavletić – chairman, Mirjana Petković, Ivan Prpić, Marijan Ključariček, Vito Svetina

**Shareholders**
- 1. Adriaconsulting S.R.L. 50.00%
- 2. Riječka banka d.d. 31.85%
- 3. Transadiaria d.d. 14.77%

Audit firm for 2000: Iris nova d.o.o., Rijeka

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**KVARNER BANKA d.d.**
Jadranski trg 4/l, 51000 Rijeka
Phone: +385 51 353-555
Fax: +385 51 353-566
VBDI 2488001

**Management Board**
Mladenka Gombar – chairman, Marija Ribić, Zdravko Babić

**Supervisory Board**
Mislav Blažič – chairman, Daniel Stepinac, Davorin Rimac, Stjepan Varga, Dragutin Lončarić

**Shareholders**
- 1. Privredna banka Zagreb d.d. 69.60%
- 2. Čakovčki mlinovi d.d. 5.95%

Audit firm for 2000: KPMG Croatia d.o.o., Zagreb

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**KAĐURSKA BANKA d.d.**
Tratinska 27, 10000 Zagreb
Phone: +385 1 3656-777
Fax: +385 1 3656-700
VBDI 2495009

**Management Board**
Stipan Pamuković – chairman, Željko Škalec

**Supervisory Board**
Jakov Gelo – chairman, Ivan Gudelj, Milanka Klanfar, Tomislav Klčko, Bruno-Zvonimir Orešar

**Shareholders**
- 1. Kemika d.d. 21.65%
- 2. GIP Pionir d.d. 8.86%
- 3. Stjepan Pamuković 5.85%
- 4. Željko Škalec 5.85%
- 5. A Ling j.t.d. 4.92%
- 6. Ivan Gudelj 4.33%
- 7. Ivan Leko 3.14%
- 8. Ante Pamuković 3.14%
- 9. Ante Samodol 3.14%

Audit firm for 2000: Rudan d.o.o., Zagreb

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**KAĐURSKA BANKA d.d.**
Tratinska 27, 10000 Zagreb
Phone: +385 1 3656-777
Fax: +385 1 3656-700
VBDI 2495009

**Management Board**
Marija Šola – chairman, Brana Oštrić

**Supervisory Board**
Božo Čulo – chairman, Igor Oppenheim, Ivan Čurković

**Shareholders**
- 1. Metroholding d.d. 75.90%
- 2. Andrija Matić 9.62%
- 3. INGRA d.d. 5.93%
- 4. Josip Kovač 4.07%

Audit firm for 2000: Pricewaterhouse Coopers d.o.o., Zagreb
PODRavska Banka d.d.
Opatička 1a, 48300 Koprivnica
Phone: +385 48 65-50
Fax: +385 48 622-542
VBGI 2386002

Management Board
Julio Kuruc – chairman, Drago Galović, Božica Širić, Vladimir Novak

Supervisory Board
Ivan Pavliček – chairman, Ivan Heneti, Nevenka Cerovsky, Jurica (Duro) Predović, Miljan Todorović

Shareholders
1. Eumetra AG 9.36
2. Cerere S.R.L. 9.35
3. Jurica (Duro) Predović 4.82
4. Giovanni Semerano 3.47
5. Antonia Gorgoni 3.04
6. Lorenzo Gorgoni 3.04
7. Andrea Montinari 3.04
8. Dario Montinari 3.04
9. Piero Montinari 3.04
10. Sigifredo Montinari 3.04

Audit firm for 2000: Revidicon d.o.o., Zagreb i Deloitte & Touche d.o.o., Zagreb

POžeška Banka d.d.
Republike Hrvatske 1b, 34000 Požega
Phone: +385 34 254-200
Fax: +385 34 254-258
VBGI 2405004

Management Board
Vinko Matijević – chairman, Mihovil Petrović, Goran Matanović

Supervisory Board
Vlado Zec – chairman, Željko Glavić, Luka Balenović, Đurđa Babić, Vlado Krauthaker

Shareholders
1. Požeška banka d.d. 28.25
2. TIM 2000 d.o.o. 4.65
3. JP Hrvatske šume p.o. 3.71

Audit firm for 2000: Deloitte & Touche d.o.o., Zagreb

Privredna Banka – Laguna Banka d.d.
Primorska 1a, 52410 Poreč
Phone: +385 52 416-777
Fax: +385 52 416-777
VBGI 2497004

Management Board
Zdravka Cukon – chairman, Roberto Drandić

Supervisory Board
Tomislav Lazarić – chairman, Ljiljana Horvat, Danijel Stepinac

Shareholders
1. Privredna banka Zagreb d.d. 100.00

Audit firm for 2000: Pricewaterhouse Coopers d.o.o., Zagreb

Privredna Banka Zagreb d.d.
Rakoga 6, 10000 Zagreb
Phone: +385 1 4723-344
Fax: +385 1 4723-131
VBGI 2340009

Management Board
Božo Prka – chairman, Franjo Filipović, Davor Holjevac, Ivan Gerovac, Ivan Krolo, Zvonko Agić, Nediljko Matić

Supervisory Board
Enrico Meucci – chairman, Adriano Bisogni, Gianfranco Mandelli, Adriano Arietti, Marijan-Marinko Filipović

Shareholders
1. Comit Holding International S.A. 66.30
2. State Agency for Bank Rehabilitation and Deposit Insurance 25.00

Audit firm for 2000: Pricewaterhouse Coopers d.o.o., Zagreb
RAIFFEISENBANK AUSTRIA d.d.
Petrinjska 59, 10000 Zagreb
Phone: +385 1 4566-466
Fax: +385 1 4819-459
VBDI 2484008

Management Board
Zdenko Adrović – chairman, Lovorka Penavić, Michael Müller, Velimir Šonje

Supervisory Board
Herbert Stepic – chairman, Renate Kattinger, Andreas Zakostelsky

Shareholders
1. Raiffeisen Zentralbank Österreich AG 62.71
2. Raiffeisenbank-Zagreb-Beteiligungsgesellschaft mbH 32.81
3. Raiffeisenlandesbank Kärnten reg. Ges. mbH 4.48

Audit firm for 2000: KPMG Croatia d.o.o., Zagreb

RIADRIA BANKA d.d.
Dure Špore 3, 51000 Rijeka
Phone: +385 51 339-111
Fax: +385 51 211-093
VBDI 2325004

Management Board
Vesna Badurina – chairman, Branka Junčev

Supervisory Board
Tomislav Lazarić – chairman, Loretta Jakovac, Mislav Blažić, Snježana Skilizović, Marinko Dumanić

Shareholders
1. Privredna banka Zagreb d.d. 74.20
2. Riadria banka d.d. 7.96

Audit firm for 2000: Pricewaterhouse Coopers d.o.o., Zagreb

RIJEČKA BANKA d.d.
Jadranski trg 3a, 51000 Rijeka
Phone: +385 51 208-211
Fax: +385 51 330-525
VBDI 2300007

Management Board
Ivan Štokić – chairman, Antun Jurman, Borislav Perožić

Supervisory Board
Dietrich Wolf – chairman, Marinko Užur, Jochen Bottermann, Klaus Rauscher, Vojko Obersnel

Shareholders
1. Bayerische Landesbank Girozentrale 59.90
2. State Agency for Bank Rehabilitation and Deposit Insurance 25.12

Audit firm for 2000: KPMG Croatia d.o.o., Zagreb

SAMOBORSKA BANKA d.d.
Trg kralja Tomislava 8, 10430 Samobor
Phone: +385 1 3361-530
Fax: +385 1 3361-523
VBDI 2403009

Management Board
Marijan Trusk – chairman, Verica Lindić, Višnja Jednačak

Supervisory Board
Želimir Kodrić – chairman, Dzemal Mešinović, Ante Tustonjić, Zvonko Palameta, Antun Štimac, Milan Penava, Ignacije Mardetić, Vladimir Mučnjak, Anica Vrbančić

Shareholders
1. Samoborka d.d. 9.35
2. Hrvatske šume p.o. 6.86
3. V.H. Trade d.o.o. 5.84
4. Sant d.o.o. 4.96
5. Tigrad o.o. 4.96
6. Chromos d.d. 4.92
7. Vajda elvit d.o.o. 4.34
8. Ozas 4.04
9. Končar d.d. 3.36

Audit firm for 2000: M.Z. Auditors d.o.o., Zagreb
### SISĂČKA BANKA d.d.
Trg Lj. Posavskoga 1, 44000 Sisak
Phone: +385 44 549-100
Fax: +385 44 549-101
VBDI 2419008

**Management Board**
Davorka Jakir – chairman, Mirjana Vipotnik, Andrea Zemljić-Modronja

**Supervisory Board**
Dinko Pintarić – chairman, Zoran Gobac, Miroslav Matić

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Share in equity capital (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Prvipromet d.o.o.</td>
<td>8.78</td>
</tr>
<tr>
<td>2. Madison d.o.o.</td>
<td>8.64</td>
</tr>
<tr>
<td>3. Blok usluge d.o.o.</td>
<td>8.59</td>
</tr>
<tr>
<td>4. Sklop promet d.o.o.</td>
<td>8.54</td>
</tr>
<tr>
<td>5. State Agency for Bank Rehabilitation and Deposit Insurance</td>
<td>4.70</td>
</tr>
<tr>
<td>6. Croatian Pension Insurance Institute</td>
<td>3.84</td>
</tr>
<tr>
<td>7. GE-ZE d.o.o.</td>
<td>3.64</td>
</tr>
</tbody>
</table>

Audit firm for 2000: Pricewaterhouse Coopers d.o.o., Zagreb

### SLATINSKA BANKA d.d.
Vladimira Nazora 2, 33520 Slatina
Phone: +385 33 551-526
Fax: +385 33 551-566
VBDI 2412009

**Management Board**
Vera Radaš – chairman, Angelina Horvat

**Supervisory Board**
Ante Šimara – chairman, Josip Koleno, Marija Maleković, Ljiljana Katavić, Ružica Šimara

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Share in equity capital (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Pronekinvest d.d</td>
<td>7.42</td>
</tr>
<tr>
<td>2. State Agency for Bank Rehabilitation and Deposit Insurance</td>
<td>7.33</td>
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<tr>
<td>3. Ante Šimara</td>
<td>6.85</td>
</tr>
<tr>
<td>4. Sloper d.o.o.</td>
<td>5.56</td>
</tr>
<tr>
<td>5. Rima-promet d.o.o.</td>
<td>5.59</td>
</tr>
<tr>
<td>6. Ljiljana Katavić</td>
<td>5.36</td>
</tr>
<tr>
<td>7. Lustrin d.o.o.</td>
<td>4.61</td>
</tr>
</tbody>
</table>

Audit firm for 2000: Pricewaterhouse Coopers d.o.o., Zagreb

### SLAVONSKA BANKA d.d.
Kapucinska 29, 31000 Osijek
Phone: +385 31 231-231
Fax: +385 31 201-039
VBDI 2393000

**Management Board**
Ivan Mihaljević – chairman, Alma Jukić

**Supervisory Board**
Marija Crnjac – chairman, Wolfgang Kulterer, Victor Pastor, Walter Bleyer, Ernst Fanzott

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Share in equity capital (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Hypo Alpe-Adria-Bank d.d./ Hypo Alpe-Adria-Bank AG</td>
<td>45.14</td>
</tr>
<tr>
<td>2. European Bank for Reconstruction and Development</td>
<td>26.98</td>
</tr>
<tr>
<td>3. Slavonska banka d.d.</td>
<td>6.63</td>
</tr>
</tbody>
</table>

Audit firm for 2000: Ernst & Young Audit d.o.o., Zagreb

### SPLITSKA BANKA d.d.
R. Boškovića 16, 21000 Split
Phone: +385 21 370-500
Fax: +385 21 370-541
VBDI 2330003

**Management Board**
Tomo Bolotin – chairman, Stjepan Kolovrat, Jerislaw Kuštera, Darko Medak, Pero Vrdoljak

**Supervisory Board**
Fausto Pettini – chairman, Giovanni Battista Ravida, Luigi Lovaglio, Alessandro Maria Decio, Mate Kosović

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Share in equity capital (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. UniCredito Italiano S.p.A.</td>
<td>62.59</td>
</tr>
<tr>
<td>2. State Agency for Bank Rehabilitation and Deposit Insurance</td>
<td>25.00</td>
</tr>
</tbody>
</table>

Audit firm for 2000: Pricewaterhouse Coopers d.o.o., Zagreb
LIST OF BANKS

**ŠTETDBANKA d.d.**
Slavonska avenija 3, 10000 Zagreb
Phone: +385 1 6306-666
Fax: +385 1 6187-015
VBDI 2483005

**VARAŽDINSKA BANKA d.d.**
Kapucinski trg 5, 42000 Varaždin
Phone: +385 42 400-000
Fax: +385 42 400-112
VBDI 2391004

**VOLKSBANK d.d.**
Varšavska 9, 10000 Zagreb
Phone: +385 1 801-300
Fax: +385 1 4801-365
VBDI 2503007

**ZAGREBAČKA BANKA d.d.**
Paromlinska 2, 10000 Zagreb
Phone: +385 1 6104-000
Fax: +385 1 6110-555
VBDI 236000

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**Management Board**
Željko Udovičić – chairman, Ante Babić, Josip Ševerdija

**Supervisory Board**
Ivo Andrijanić – chairman, Duro Benček, Franjo Škoda

**Shareholders**

<table>
<thead>
<tr>
<th>Share in equity capital (%)</th>
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<tr>
<td>1. Šted – Invest d.d.</td>
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<td>2. Finer &amp; Kolenc d.o.o.</td>
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<td>3. Redip d.o.o.</td>
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Audit firm for 2000: Revizija d.o.o., Zagreb

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**Management Board**
Mato Lukinić – chairman, Borna Zane, Pavao Parat

**Supervisory Board**
Tea Martinčić – chairman, Renata Babić, Ines Dabić, Dragutin Drk, Duilio Belić

**Shareholders**

<table>
<thead>
<tr>
<th>Share in equity capital (%)</th>
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<tbody>
<tr>
<td>1. Zagrebačka banka d.d.</td>
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<tr>
<td>2. Varaždinska banka d.d.</td>
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Audit firm for 2000: KPMG Croatia d.o.o., Zagreb

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**Management Board**
Heinrich Angelides – chairman, Julio Krevelj

**Supervisory Board**
Klaus Thalhammer – chairman, Hans Janeschitz, Klaus Störzbach, Gerhard Wöber, Fausto Maritan, Ekkehard Fugl, Pierre-Yves Tarneaud

**Shareholders**

<table>
<thead>
<tr>
<th>Share in equity capital (%)</th>
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<tbody>
<tr>
<td>1. VBB International holding AG</td>
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<td>2. Banque Federale des Banques Populaires</td>
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<tr>
<td>3. GZ Bank AG</td>
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<td>4. WGZ Bank AG</td>
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Audit firm for 2000: KPMG Croatia d.o.o., Zagreb

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**Management Board**
Franjo Luković – chairman, Milivoj Goldštajn, Zvonimir Jurjević, Nikola Klinič, Sanja Rendulić, Damir Odak, Tomica Pustišek

**Supervisory Board**
Petar Dukan – chairman, Jakša Barbić, Milan Artuković, Vladimir Bogatec, Klaus Junker, Charles McWeigh III, Friedrich van Schwarzenberg, Miljenko Živaljić, Ante Vlahović

**Shareholders**

<table>
<thead>
<tr>
<th>Share in equity capital (%)</th>
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<tbody>
<tr>
<td>1. Bankers Trust Company</td>
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<td>2. UniCredito Italiano S.p.A.</td>
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<td>3. Allianz AG</td>
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<td>4. Caisse Nationale du Credit Agricole</td>
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Audit firm for 2000: KPMG Croatia d.o.o., Zagreb
Management Board
Andelka Čavlek – representative, Vesna Garapić – representative

Supervisory Board

Shareholders

<table>
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<tr>
<th>Shareholders</th>
<th>Share in equity capital (%)</th>
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<tr>
<td>1. Bayerische Hypo- und Vereinsbank AG</td>
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Audit firm for 2000: KPMG Croatia d.o.o., Zagreb
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</table>

1 Banks in bankruptcy proceedings.
2 Operating license was not renewed for the bank, in accordance with Articles 35, 36, and 37 of the Banking Law.
3 Merged with Privredna banka Zagreb d.d., Zagreb.
4 Merged with Zagrebačka banka d.d., Zagreb.
5 Trgovačka banka d.d., Zagreb and Čakovečka banka d.d., Čakovec merged with Bješovarska banka d.d., Bješovar, and have been operating as Erste & Steiermärkische Bank d.d., Zagreb since then.
6 It was sold, and its operations were taken over by Bayerische Hypo- und Vereinsbank AG, Glavna područnica Zagreb.