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1 Competition in the Croatian Banking System

1.1 Introduction

In accordance with the provisions of the Banking Act (official gazette *Narodne novine*, No. 84/2002) the Croatian National Bank has assumed an active role in regulating competition in the banking market. The said provisions defined the responsibilities for developing the criteria for measuring concentration and competition, for preventing excessive concentration and sanctioning anti-competitive behaviour. Although the number of banks operating in Croatia has decreased substantially since 1998 (in June 1998 there were 61 banks and 36 savings banks in operation compared with only 35 banks left at end-March 2005), casual evidence suggests increased competition over the same period: for example, interest rates have fallen, banks seem to continually be offering new products and bank advertising constantly seems to escalate. This report examines this apparent paradox, starting from the regulatory framework in connection with the competition law and in the context of competition policy implementation, by studying the effects of increased concentration on the Croatian banking market and providing empirical evidence on the evolution of competition in the market.

To anticipate the findings reviewed below, thus far increased concentration seems to have given rise to increased competition by creating a larger number of strong players on the market. The crucial aspect of this positive effect of increased concentration on competition is the formation of several new nation-wide competitors.

When measured by traditional structural indicators such as the 5-bank concentration ratio (CR5) or the Herfindahl-Hirschman Index, Croatia's banking system is near the average of transition economies. At the same time, according to the Panzar-Rosse measure of achieved competition, Croatia's banking system is near the average level of competitiveness of European banking systems. Thus, while there are many important tasks to be performed in the area of protection of competition, including investigation of particular anti-competitive practices, the conclusion of this report is that Croatian banking system does not suffer from problems of excessive concentration at this time.

A short description of the competition policy and law in Croatia and their relationship to EU standards will be followed by a brief review of the main empirical findings regarding concentration and competition in the Croatian banking system and a short conclusion.

1.2 Competition Policy and Law

Motta (2004) defines competition policy as the set of policies and laws which ensure that competition in the marketplace is not restricted in such a way as to reduce economic welfare. Competition policy consists of the entirety of measures and rules passed and implemented by an individual country in the field of market competition.

In the majority of modern countries the basic rule of market competition policy is expressed as prevention of distortions upon free market competition arising from various forms of prevention or restriction of entrepreneurial freedoms relating to the trade of goods and services in the market. Cerovac (2004) confirms that in this sense market competition policy is inseparable from market competition law (competition law) and differs from country to country. The purpose of such regulations is to ensure free market competition and protect the consumer from unfair and anti-competitive practices.

The Sherman Antitrust Act of 1890 was the first and fundamental antitrust act in the USA. However, in the sense of formal antitrust activity, banking operations in the US are thought to have been outside the reach of antitrust acts of federal governments (the Sherman Act and the Clayton Act) until 1944. The European Union incorporated the competition policy into Articles 85 and 86 of the Treaty of Rome (Article 81 and 82 of the Amsterdam Treaty). The European Commission, as a body responsible for protection of market competition at European Union level (supranational level), had for a long time (as in the US) been striving to prove that Articles 81 and 82 of the Amsterdam Treaty apply to the banking as well as the insurance sector, which was confirmed by the Court of Justice in the 1980s. Croatia enacted the first regulation in this domain – The Competition Act – in 1995. The new Competition Act (official gazette *Narodne novine*, No. 122/2003; hereinafter: CA), as the fundamental national regulation in the field of market competition, is applied as of 1 October 2003. The CA is a part of the system of market competition protection “in the narrow sense”, regulating relations among undertakings. In addition to market competition “in the narrow sense” (agreements, abuses and concentrations) there is also a system of market competition protection in the broad sense, falling outside the scope of the CA, which includes all forms of government interventions carried out at the market for the benefit of individual undertakings (regulations on public procurement, granting special or exclusive rights, i.e. regulations on government subsidies). Rules falling within the scope of market competition law are not to be found only in the CA. There is an array of other regulations that may be considered as sources of market competition law in Croatia. In addition to competition law, which exists in Croatia ever since the CA has been adopted, in the application of rules on the protection of free market and competition in all systems, including the banking system, there are European Union (EU) rules to be considered, as well as the decisions of the Court of Justice. Therefore, in solving competition issues that fall within the scope of market competition protection, Croatian authorities for market competition protection, including the Croatian National Bank (CNB), should not only apply the Croatian competition law but also take into account the EU competition law.

The provision of Article 3(2) of the Croatian National Bank Act (official gazette *Narodne novine*, No. 36/2001) stipulates that without prejudice to its primary objective the CNB will support the economic policy of the Republic of Croatia, thereby acting in accordance with the principles of the open market economy and free competition. In the Banking Act of July 2002, market competition is regulated by Article 40, which stipulates that Croatian National Bank is authorised to monitor the operations of banks and banking groups that might result in preventing or restraining competition in the provision of banking services. Pursuant to the provisions of the said article, while monitoring the freedom of market competition and establishing whether it has been limited, the CNB may request the body authorised for protection of market competition to express its views. In the event that it establishes that the freedom of market competition has been limited during the provision of banking services, the Croatian National Bank is obliged to implement measures to secure the freedom of market competition. Article 40(4) of the Banking Act obliges the CNB to stipulate the method and criteria for establishing whether the freedom of market competition in the banking market in the Republic of Croatia

has been limited, as well as the measures to secure the freedom of market competition. For this reason, the CNB adopted the Decision Regulating Market Competition within the Banking Sector (official gazette *Narodne novine*, No. 48/2003; hereinafter: the Decision). It stipulates rules and measures to be followed in the event of three major forms of preventing, restricting and distorting market competition within the banking sector:

- ❑ prohibited agreements,
- ❑ abuses and
- ❑ prohibited concentrations.

When discussing responsibility for protection of market competition within the banking sector, comparative practice points to several institutional organisation models, of which the following three may be singled out as fundamental:

- ❑ the body responsible for protection of market competition in the banking system is a “general” body established in accordance with the regulation on protection of market competition and is responsible for protection of market competition in all other sectors as well;
- ❑ the body responsible for protection of market competition in the banking system is a “general” body established in accordance with the regulation on protection of market competition and is responsible for protection of market competition in other sectors as well, requesting opinion of the central bank or a body (agency) for supervision of financial institutions in cases which involve banks, i.e. the banking system;
- ❑ the body responsible for protection of the market competition in the banking system is the central bank.

Croatia opted for the model where market competition in the banking system is under the control of the Croatian National Bank. The Croatian model is closest to the model applied in Italy where the Italian central bank (Banca d’Italia) is responsible for protection of market competition in the Italian banking system. In the organisational sense, in both cases market protection is regulated in the same way – both central banks have individual organisational units that perform tasks and duties related to protection of market competition in the banking system. In the Croatian National Bank such tasks are performed by the Licensing and Market Competition Department of the Prudential Regulation and Bank Supervision Area. Within the same department, a team for protection of market competition has been formed, consisting of lawyers and economists, who, in addition to general knowledge, possess specialist knowledge in the field of protection of market competition and are constantly improving it. In both institutions organisational units for protection of market competition closely cooperate with other organisational units within the supervision area as well as other organisational units in the bank.

Comprehensive databases on banks, experience and extensive knowledge on the evolution of financial markets as well as ongoing analyses of the changes in the banking services market enable both central banks to efficiently protect market competition, i.e. foster competition in the banking system. All this is generally one of the key reasons for choosing this model of institutional organisation of market competition protection in the banking system. Specific characteristics of banking system competition require specific competences for its protection, especially if it is taken into consideration that bank behaviour significantly affects the level of competition in other sectors. It is worth noting in this context that information availability and possibility of continued monitoring of market participants plays the crucial role in the protection of market competition.

Until late in 2003, competition policy in the Croatian banking market was largely carried out by controlling concentrations. Until 2002, the body responsible for protection of market competition in the banking system was the Croatian Competition Agency (hereinafter: the Agency) and examinations it conducted, which included banks as undertakings, belonged primarily to the realm of concentration control. Although when the CNB became responsible for market competition in the banking system in mid-2002 and after it adopted the Decision on 13 March 2003 examinations were carried out also in connection with agreements and abuses, concentrations remained the most prominent aspect of market competition protection in the banking system.

Petrović (1998) established that concentration is a term belonging to competition law so he classifies provisions regulating concentrations as part of regulations protecting the free market competition. Concentration of undertakings is defined differently by different legislations. Petrović explains that concentrations denote different ways in which companies are connected, provided they are allowed and valid under the companies law. They are subject to control and potentially prohibited only if they meet additional thresholds as regards their economic importance that are laid down by the rules on protection of free market competition. Further, Petrović defines concentrations as ways of companies (undertakings) merging or becoming otherwise connected, which are prohibited because they, as a result of the economic unity of thus far independent companies, create new or strengthen the existing monopolistic position of an undertaking in a market and thus significantly or permanently restrict or prohibit free market competition.

Concentrations may be horizontal, vertical or conglomerate.¹ Bank concentrations are usually horizontal because there are several undertakings (banks) engaged in the same activities which are merging. However, concentrations of large financial institutions resulting in large groups engaged in different sectors of financial activity are the new trend in the world. Boundaries separating different segments of the financial sector are disappearing, especially those between retail banking, investment banking and insurance. Financial conglomerates emerge in result of breaking out from national boundaries and legislative restrictions. In practice, when bank concentrations are involved, the most numerous cases of concentrations are those by merger, acquisition or takeover. When reviewing horizontal concentrations from the point of view of a body for protection of market competition, it may be concluded that precisely such concentrations by which market competitors are removed from the market are potentially the most “dangerous” and may have the most disruptive anti-competitive effects.

In accordance with the literature in developed countries, motives for bank concentrations may be summarised as follows: cost benefits (economies of scale, organisational efficiency, risk diversification, etc.), income benefits (economies of scope, entering large deals, etc.), economic conditions (concentrations after crises or during an upturn in a business cycle) and other motives (for instance, defence against a takeover). One of the consequences of such concentrations is system consolidation.² In this connection, the question arises as regards the effects of “the concentration wave” on competition.

Defining the relevant market is very important from the aspect of a body for protection of market

1 In addition to horizontal, vertical and conglomerate concentrations some authors list diagonal concentrations.

2 Although it may come to banking system consolidation in other ways and not only by horizontal concentration, consolidation may be a consequence of existing undertakings combining as well as growth of the leading undertakings, possible exits from the market or institutions becoming weaker. As regards combinations among existing undertakings there are several possibilities: mergers, takeovers, joint ventures and strategic alliances. See Group of Ten, *Report on consolidation in the financial sector*, January 2001, pp. 31; www.bis.org.

competition. The European Commission explained the methodology for defining the relevant market in the Note on the definition of the relevant market issued on 9 December 1997³ (hereinafter: the Note), which says that the concept of “relevant market” is different from other definitions of market often used in other contexts and that the definition of the relevant market in both its product and its geographic dimensions often has a decisive influence on the assessment of a given competition issue. The Note defines the relevant product market as comprising all those products and/or services which are regarded as interchangeable or substitutable by the consumer, by reason of the products’ characteristics, their prices and their intended use. The relevant geographic market comprises the area in which the undertakings concerned are involved in the supply and demand of products or services, in which the conditions of competition are sufficiently homogeneous and which can be distinguished from neighbouring areas because the conditions of competition are appreciably different in those areas. The relevant market within which to assess a given competition issue is therefore established by the combination of the product and geographic markets.

The definition of the product and geographic dimensions of the relevant market is the key point in the appraisal of bank concentrations. Banking operations are very complex. Substitutability of financial products and services, their overlapping and innovations in this field are on the rise. The stance of the European Commission as regards defining the relevant market of banking and financial services is that they may be divided into three main product/service categories, which may be separate product markets: retail banking, corporate banking and activities connected with financial markets. In this context, it is important to underscore the experiences of the Italian central bank. Within the process of examining concentrations from the aspect of market competition protection it defines the product market as the market of sources of funds and the market for placement of funds. If deemed necessary (as part of the concentration appraisal proceedings) the definition of the product dimension of the relevant market may further be broken down by product dimensions and characteristics. By applying the criteria of preponderant area of activity, the Italian central bank selected the province as the basic geographical unit both for generating sources of funds as well as placing funds. Indirectly, it has been decided that regions be accepted as the relevant geographical market for placement of funds.

Taking into account the practice and peculiarities in the Croatian banking market, the CNB has in connection with bank concentration issues thus far defined the relevant market in its product dimension as universal banking market. In the geographic sense, the relevant market has been defined either as the national market or as the market of one or more counties (indirectly: regions). There will probably be no need to narrow down the definition of the geographic dimension of the relevant market or take it below the county level, however, it would be wise to contemplate a more detailed definition of the relevant market’s product dimension in case of specialisation of banks operating in the territory of the Republic of Croatia.

The provisions of item 6.1 of the Decision define when a concentration is deemed to have arisen. Pursuant to the provisions of item 7 banks undertake to notify the CNB of their intention to concentrate. Notification of concentration is submitted to the CNB in accordance with the provisions of item 8 of the Decision. Item 1 of the Decision prohibits concentrations creating or strengthening the dominant position of one or more banks individually or as a group, as a result of which market competition is significantly prevented, restricted or distorted.

3 Commission Notice on the definition of the relevant market for the purposes of Community competition law, Official Journal C 372, 09/12/1997.

Following its receipt, the CNB examines the notification of concentration and within 30 days from the date of receipt of a complete concentration notification:

- ❑ issues a decision declaring the notified concentration compatible with the market or
- ❑ adopts a conclusion on the initiation of a concentration appraisal proceedings.

Where concentration appraisal proceedings have been initiated there are three possible outcomes:

- ❑ a concentration may be declared compatible with the market,
- ❑ a concentration may be declared compatible with the market under certain conditions,
- ❑ a concentration may be declared incompatible with the market.

In line with the provisions of the Decision, the CNB may attach to its decision declaring a concentration compatible with the market conditions and obligations as well as deadlines for their fulfilment to ensure that the concentration does not have as its effect a significant prevention, restriction or distortion of competition in the banking and financial services market in the Republic of Croatia or any of its segments. Such conditions and obligations may, for instance, include: monitoring interest rates (and in some cases restrictions on increasing deposit rates/reducing lending rates), selling daughter companies, closing or selling specific branches or sub-branches as well as prohibition of opening further branches and sub-branches.

If a concentration has been put into effect contrary to a CNB decision declaring it incompatible with the market or if a concentration has been put into effect without notification of the CNB, the CNB issues a special decision ordering a separation of the parties to the concentration or a disposal of the acquired shares or stakes and imposes other appropriate measures and deadlines to ensure that an effective market competition is reinstated.

It is noteworthy that so far all planned concentrations in the Croatian banking market were put into effect (until 2002 they were approved by the Agency and as from 2002 they have been approved by the CNB). The only concentration that was declared not compatible with the market was the takeover of Zagrebačka banka d.d. by UniCredito Italiano S.p.A. and the insurance company Allianz AG. However, when UniCredito Italiano S.p.A. sold its majority stake in the share capital of Splitska banka d.d., the concentration was approved.

1.3 Empirical Evidence on Concentration and Competition in the Croatian Banking Market

One of the consequences of bank concentrations within the Croatian banking system is its consolidation. For the purpose of examining the effects of “the concentration wave” on competition in the banking system, the system structure has been analysed both on national level and county level. The structure of the Croatian banking market on national level has been analysed with the help of two market concentration measures: 1) the concentration ratio (hereinafter: CR) and 2) the Herfindahl-Hirschman Index (hereinafter: HHI). The structure of the Croatian banking market on county level has been analysed according to market shares of individual banks in total received deposits, total granted loans as well as total number of business units in the relevant county.

In addition to the HHI, CR is the most common measure of market concentration. It shows the market share of two or more largest undertakings operating in the relevant market. Depending on the number of undertakings with their market shares being included in the examination of concentration, the market concentration ratio is marked as CR2 (the two largest undertakings), CR3 (the three largest undertakings), CR4 (the four largest undertakings), etc. This report analyses the CR2 and CR5 of the Croatian banking system.

The market leader in Croatia's banking system is Zagrebačka banka d.d., as part of UniCredit Group, immediately followed by Privredna banka Zagreb d.d., as part of Intesa.BCI Group. Although Zagrebačka banka d.d. held larger market shares than Privredna banka Zagreb d.d. during the observed period, it is evident that the difference between their market shares reduced, with market shares of Zagrebačka banka d.d. declining and market shares of Privredna banka Zagreb d.d. rising. On 30 June 2004, the CR2 by assets and deposits was lower than at the end of 1999 due to the larger reduction in market shares of Zagrebačka banka d.d. compared with the increase in market shares of Privredna banka Zagreb d.d. This decline in the CR2 by assets and deposits may be explained by several large banks and banking groups gaining strength in the period between 1999 and 30 June 2004. This has been confirmed by the analysis of the movement of CR5 by assets.⁴ Comparing the CR2 and CR5 movements by assets confirms that the two largest banks saw their market shares declining (primarily due to the decline in the market share of Zagrebačka banka d.d.) in favour of other large banks in the period between 1999 and 30 June 2004, i.e. that market shares of the two largest banks were redistributed and their domination weakened. CR2 and CR5 indicators calculated for banking groups indicate higher values than the CR2 and CR5 indicators for individual banks because indicators for banking groups include market shares of daughter banks which operated within the banking group during the observed year but as individual legal entities.

TABLE 1.1 Concentration Ratios, 1999 – 30 June 2004, in %

Year	CR2		CR5	
	Banks	Banking groups	Banks	Banking groups
1999	43.52	44.98	61.89	64.54
2000	47.35	48.56	66.12	68.37
2001	46.06	50.93	66.12	70.99
2002	44.08	48.93	64.56	73.82
2003	42.50	47.00	70.73	75.03
30 June 2004	42.53	45.40	71.55	75.08

HHI is one of the best known and most commonly used measures (indices) of market concentration. The HHI movement has been analysed in two ways:

- ❑ HHI is obtained by summing the squares of market shares of all banks by assets (hereinafter: HHI 1) and
- ❑ HHI is obtained by summing the squares of market shares of all banks by assets, taking into account the existing capital ties, i.e. the existence of banking groups, so as to add the market share of a bank which is the daughter company of a group to the market share of the bank which is the parent company of the group (hereinafter: HHI 2).

⁴ Note: Discussed here are market shares of banks and not banking groups.

HHI 2 gives a more accurate picture of Croatia's banking system concentration because it takes into account the capital ties among individual banks, although some of them operated as independent legal entities during the observed period or part of the observed period. As a result, during some parts of the observed period the movements of HHI 1 did not coincide with the movements of HHI 2. Nevertheless, the movement of HHI 1 followed the movement of CR5. As the said indicators reflect, Croatia's banking market is moderately concentrated.

TABLE 1.2 HHI for Individual Financial Institutions and Banking Groups, 1999 – 30 June 2004

Year	HHI 1	HHI 2
1999	1181.56	1246.69
2000	1359.61	1416.76
2001	1301.19	1552.28
2002	1237.52	1522.28
2003	1270.95	1495.04
30 June 2004	1290.58	1458.26

At national level banking groups and large banks dominate. However, at county level the situation is slightly different because in some counties, in addition to large banks and banking groups, there are other banks which may be considered dominant under certain criteria.⁵ This report made use of the official administrative division of the Republic of Croatia into 20 counties (with the City of Zagreb as a part of the Zagreb County), with the analysed bank data as per 30 June 2004 being delivered to the CNB.

It may be seen that in some counties individual banks "dominate" under all three criteria, the number of business units criteria, the total received deposits criteria and the total granted loans criteria, while in others two or three banks established themselves as market leaders under one of the criteria. One bank dominates in 12 counties under all three criteria, while two banks share the first place in the remaining eight counties.

Zagrebačka banka d.d. (the City of Zagreb, the Zagreb County and the County of Krapina-Zagorje) and Erste & Steiermärkische Bank d.d. (the County of Primorje-Gorski Kotar and the County of Bjelovar-Bilogora) established themselves as individual leaders in two counties under all three criteria. In addition, eight more banks individually dominate in different counties: Karlovačka banka d.d., Jadranska banka d.d., HVB Splitska banka d.d., Dubrovačka banka d.d. (that merged with Nova banka d.d. in the meantime), Privredna banka Zagreb d.d., Slavonska banka d.d., Međimurska banka d.d., Varaždinska banka d.d. (that merged with Zagrebačka banka d.d. in the meantime).

By the number of business units in a county Zagrebačka banka d.d. established its dominance over the County of Krapina-Zagorje (with more than a 50%-share in the total number of business units in the county). Varaždinska banka d.d. received the most deposits in a county, accounting for more than 60% of total received deposits in the County of Varaždin. Under the total granted loans criteria, Privredna banka Zagreb d.d. dominated in the County of Lika-Senj, with more than 50% of total granted loans.

⁵ The dominant position of a bank in the context of this analysis should not be understood as the dominant position in the sense of CA provisions. The term "dominant position" is used here in the sense of the largest market share of an individual bank in the relevant county under one of the chosen criteria.

TABLE 1.3 CR5 in Selected Transition Countries, in %

Country	CR 5				
	1999	2000	2001	2002	2003
Estonia	99.75	99.72	99.70	99.80	99.86
Lithuania	94.00	....	....	91.24	89.36
Montenegro	....	72.40	85.80	79.76	77.70
Macedonia	71.40	72.40	....	....	70.83
CROATIA	61.89	66.12	66.12	64.56	70.73
Slovenia	65.50	62.50	68.80	69.50	67.20
Czech Republic	....	66.09	68.38	65.75	65.77
Latvia	61.30	62.80	66.20	65.30	63.10
Romania	....	....	....	....	61.70
Hungary	56.10	55.80	61.20	59.30	....
Poland	47.70	46.50	54.70	53.40	52.30

In Croatia, as well as in the majority of analysed transition countries, the number of banks reduced with their assets increasing during the observed period. Larger countries also have more banks. In the majority of selected countries CR5 and HHI trended upwards during the observed period, which is understandable since all analysed countries were covered by the “concentration wave”. Larger countries and countries with the more developed financial sectors where there are more participants (not only banks) generally have less concentrated banking markets.

This data suggest that the level of concentration in Croatia, although high, is not out of line with concentration in other countries. Similarly, when we look at HHI indices, we find that Croatia is neither at the top nor the bottom of the table. The CR5 increased only in Croatia, by nearly 9 percentage points, in the period between 1999 and 2003. Of all other selected countries only Poland and Montenegro recorded a significant rise in CR5, by roughly 5 percentage points, which signifies that the concentration wave was obviously stronger in Croatia than other countries. However, we are not to expect fast HHI growth to continue.

TABLE 1.4 HHI 1 Movements in Selected Transition Countries, 1999 – 2003

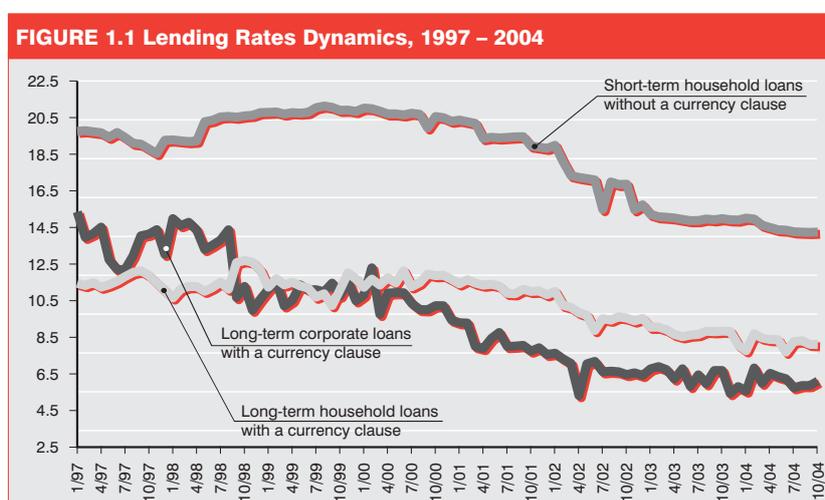
Country	HHI				
	1999	2000	2001	2002	2003
Estonia	4,405.76	4,601.08	4,656.30	4,726.61	4,733.54
Lithuania	2,255.39	....	2,611.00	2,604.94	2,490.85
Macedonia	....	....	1,738.00	1,667.00	1,842.00
Montenegro	....	....	2,039.61	1,551.76	1,530.77
CROATIA	1,181.56	1,359.61	1,301.19	1,237.52	1,270.95
Hungary	999	965	1,048.00	1,016.00	....
Poland	731	705	821	792	754

Note: The HHI indices in this table are for individual banks, not banking groups, since data for banking groups were available only for Croatia.

However, theory and international evidence suggests that the connection between competition and concentration is not straightforward. After strong reliance on the idea that market structure determines behaviour and that oligopolistic markets are necessarily less competitive than markets with many small players, in the 1970s and 1980s new ways of thinking emerged. These perspectives emphasised the possible efficiencies of large scale and the possibilities for effective competition even with a small number of firms. In addition, with the introduction of game theoretical approaches in the 1980s, economists came to recognise that many outcomes, from strong competition to tacit collusion, are possible in a given market structure. Thus, from a theoretical point of view, economists are no longer so quick to equate high levels of concentration with low levels of competition.

Regarding empirical research, Claessens and Laeven (2003), in a study on a large sample of countries, show that there is no significant correlation between conventional concentration measures and the Panzar-Rosse statistic, a theoretically grounded measure of the degree of competition. Countries with highly concentrated markets may have high or low degrees of competition. Croatia's experience also reflects this. Casual empiricism tells us that interest rates have fallen substantially in recent years, and that somehow the market is more competitive than before, even though the CR5 and HHI have risen since 1999.

Increased competition is illustrated by the two figures below. The first shows three of the most important interest rates, short-term household loans without a currency clause and long-term household loans with a currency clause as well as long-term corporate loans with a currency clause. The remaining category, short-term loans without a currency clause, is omitted because of a methodological break at the beginning of 2002 that obscures the trend somewhat. To make the trends visible, the series are analysed as from 1997.

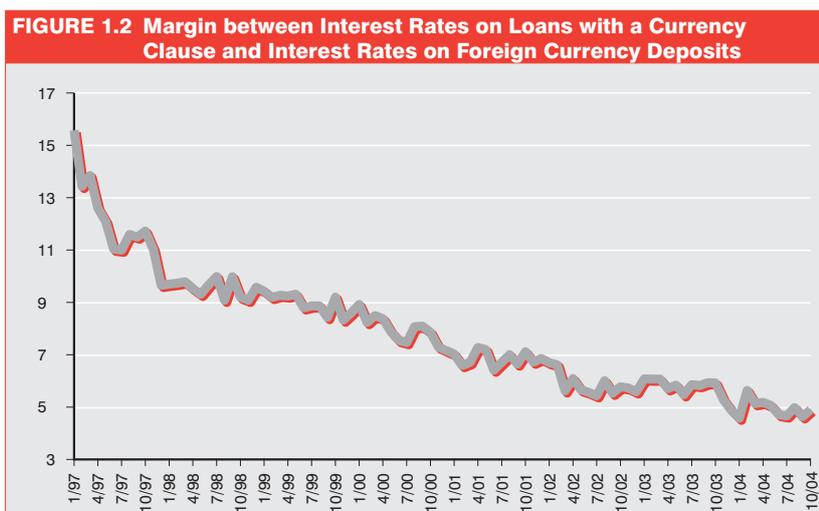


Lending rates show a very strong downward trend. Interest rates on long-term corporate loans had fallen by more than 60% by October 2004 and the other two interest rates had each fallen about 30%.

Also, as the following figure shows, the margin between lending and deposit rates fell by almost 70%. While this margin had been far above that in EU countries in 1997, in late 2004 the margin in Croatia was about roughly comparable to that in the new member states of the EU and only mildly above that seen in older EU member states.

But we must be careful here. There are many determinants of the level of interest rates. Monetary policy plays a central role here as does fiscal policy (the extent of government domestic borrowing). Thus, the level of interest rates by itself is not an adequate indicator of the degree of competition. The evidence shown above, especially the evidence on margins, strongly suggests increasing competition. But it does not prove the case conclusively.

Rather than examining the structure of the market through indicators of concentration, the most fruitful way to study competition is to find measures of market outcomes. That is, the degree of competition of a market can be seen by the degree to which firms exhibit pricing power in their behaviour.



Even if there are very few firms, if the mark-up above cost is very low and stable and if efficiency gains are largely passed on to consumers one should consider a market to be competitive.

One method for measuring the actual degree of competition in markets is the Panzar-Rosse h-statistic. This statistic reflects the degree to which changes in input prices are reflected in output prices. The statistic takes a value of 1 in perfectly competitive markets and 0 in monopolistic markets. Thus, the statistic provides a very clear measure of the degree of competition.

In line with the study by Claessens and Laeven (2003) mentioned above, we performed the Panzar-Rosse test on the Croatian banking system for the years 1994 through 2003. The results, shown below, for two econometric estimation techniques (ordinary least squares and fixed effects models), place Croatia roughly in the middle of European banking markets as regards the level of competition.

Unfortunately, efforts to use the Panzar-Rose test to study whether competition has increased in recent years in Croatia were inconclusive. To overcome this, we turned to a different model, the Lerner index. This index provides an estimate of the mark-up above marginal cost in banking.

TABLE 1.5 Panzar-Rosse h-statistic Estimates for Selected European Countries		
Country	OLS	Fixed effects
Croatia (CNB)	0.57	0.59
Croatia (C&L)	0.52	0.58
Czech Republic	0.56	0.80
Denmark	0.41	0.53
France	0.59	0.63
Germany	0.39	0.60
Greece	0.89	0.85
Hungary	0.83	0.48
Italy	0.48	0.58
Latvia	0.58	0.42
Poland	0.77	0.79
Great Britain	0.60	0.73

Source: Claessens and Laeven (2003).

What we were able to see is that the Lerner index or markup fell to a minimum in 2000 and stayed near this level through 2002. The substantial increase in the markup in 2003 was undoubtedly due to the credit-restricting measures of the central bank, which encouraged banks to focus only on the most profitable, high mark-up products.

In addition, it came to a modest and uneven decrease in marginal cost of the period, which suggests some increases in efficiency, especially in 2001, notwithstanding increased concentration.

Finally, using a decomposition of bank profits proposed by Jeon and Miller (2005), we find that the two main sources of efficiency growth in the 1994-2003 period were increased market shares of efficient banks and the exit of inefficient banks, especially in 1999. This suggests that the competition, both by pressuring efficient banks to become more efficient and by weeding out inefficient banks, has contributed to overall efficiency growth over time. This also means that banking system consolidation has contributed to efficiency.

To summarize all the empirical evidence presented, we can only offer cautious conclusions. While survey evidence, the trend in interest rates and the growth in the number of national competitors would seem to provide strong evidence of increased competition, more rigorous tests are less conclusive. According to the Panzar-Rosse *h*-statistic, Croatia's banking system is roughly as competitive as those of many EU member states and similar to the other transition countries with the exception of Poland, which appears to have a more competitive system. However, the Panzar-Rosse test does not provide evidence of increased competitiveness since 1999 or 2000.

According to the Lerner Index method, some improvement in competition appears to have been achieved in the 2000-2002 period. The restrictive measures of the CNB probably account for the decrease in measured competition in 2003. Importantly, marginal costs have fallen. The Jeon-Miller decomposition suggests that the efficiency gain implied by falling marginal costs has mostly come from improvements in efficiency at existing banks, supplemented in 1999 by the exit of inefficient banks.

In light of the high and even rising profitability of Croatian banks, perhaps the best way to summarize the situation is that competition seems to be intensifying but that banks have managed to avoid passing all the efficiency gains to customers. Interest rates have fallen and the quality and extent of services have improved but banks seem to have managed to keep margins large enough to secure high profits. A crucial area for further analysis is what measures might be needed, if any, to further increase competition and improve the price and quality of banking services offered to customers without endangering the safety and stability of the banking system.

1.4 Conclusion

The Croatian banking market is by no means isolated, which means that global developments in connection with globalisation and integration have not gone around it. The concentration wave hit the Croatian market as well as the markets of other transition countries. One of the results of bank concentrations has been system consolidation. The banking market structure arising therefrom shows the "domination" of large banks and banking groups (at the national and county level) which is largely a reflection of concentration in the banking market of other transition countries.

It seems that competition is intensifying but also that banks managed to avoid transferring all the gains from increased efficiency to their clients. Considering the high or increasing profitability of Croatian banks, it needs stressing that high profits are not necessarily a sign of the increase in monopolistic power. If efficiency rises and marginal costs decline as a result, it is possible for interest margins to reduce while profits remain the same or even increase. It seems that precisely this type of gain in efficiency characterises the recent history of Croatia's banking system.

Further, it has been established that there is no optimum banking concentration level. There are differences among the analysed countries both in relation to defining a bank's leading position in the relevant market and in relation to choosing the model of responsibility for market competition protection in the banking system. In any case, it is very important to implement competition policy in the banking system because the factors affecting it spill over to other sectors.

It is noteworthy that this report and analyses established that competition among banks exists in the system and that no greater restrictions of market competition have been noticed thus far (for instance, agreements on pricing or division of the market). However, this does not mean that such negative market structures will not take place in Croatia's banking system in the future. Should this be the case, the CNB must be ready and equipped to respond in the most efficient possible way in order to remove the adverse effects of these events, punish the perpetrators and protect, i.e. restore market competition.

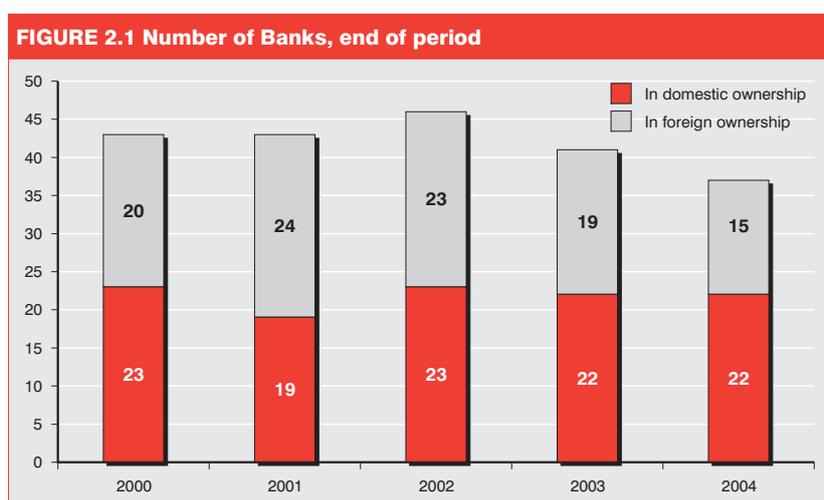
2 Indicators of Banking Institution Operations

Data on banks and housing savings banks operations in 2004, as shown below, are based on unconsolidated audited financial reports submitted by banks and housing savings banks to the Croatian National Bank.

2.1 Banks

2.1.1 Structure of the Banking Sector in the Republic of Croatia

At end-2004, 37 banking institution operated in the Republic of Croatia or 4 banking institutions less than at end-2003. During the course of 2004 three banks merged with other banks, while one bank became subject to winding-up proceedings⁶ (Figure 2.1). As these four banks were the banks in (majority) foreign ownership, the number of banks in (majority) foreign ownership fell to 15, while the number of banks in (majority) domestic ownership remained unchanged at 22 (accounting for 59.5% of the total number of banks).



In 2004, there were five banking groups operating in the banking sector of the Republic of Croatia and reporting to the CNB on their operations in accordance with the provisions of the Decision on Consol-

6 Privredna banka Zagreb d.d. merged with Riadria banka d.d. on 1 January 2004, Zagrebačka banka d.d. merged with Varaždinska banka d.d. on 1 July 2004, and Nova banka d.d. merged with Dubrovačka banka d.d. on 1 October 2004. Primus banka d.d. opened the winding-up proceedings on 23 December 2004 because its operating license was revoked by the CNB.

idated Financial Reports of a Banking Group.⁷ The fifth banking group was formed in 2004. Each banking group structure of operations is dominated by the superordinate bank, while the number of subordinate banks is on a downward trend. The reason for this is to be found in the continuation of the consolidation process in the banking sector.

Standing at 91.3%, the share of assets of banks in (majority) foreign ownership in the total banking system assets grew slightly at end-2004 compared with end-2003. Although the share of banks in (majority) foreign ownership has gone to 40.5% of the total number of banks, their share in the total banking system assets rose by 0.3%, continuing years-long upward trend.

To facilitate comparison, banks have been classified into four groups based on their asset size. Group I consists of banks with assets exceeding 5 billion kuna, Group II of banks with assets between 1 billion and 5 billion kuna, Group III of banks with assets between 500 million and 1 billion kuna, and Group IV of banks with assets below 500 million kuna (Table 2.1). A list of banks by peer groups is given in Attachment I.

TABLE 2.1 Bank Groups by Asset Size, end of period, in thousand kuna

Group	Bank assets (A)	Number of banks			
		Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004
I	Assets (A) > 5,000,000	6	9	8	9
II	1,000,000 < A < 5,000,000	14	12	11	7
III	500,000 < A < 1,000,000	7	7	8	10
IV	A < 500,000	16	18	14	11
	Total	43	46	41	37

In the course of 2004, the number of banks in Groups I and III increased by one and two respectively, while the number of banks in Groups II and IV fell by four and three respectively.

The increase in the number of banks in Groups I and III was the result of the change in the balance sheet total of some banks and the resultant movement of banks to other groups. In addition to the reasons stated above, the decrease in the number of banks in Groups II and IV was also caused by the merger between three banks from Group II and other banks and the opening of winding-up proceedings against one bank from Group IV.⁶

The shares of individual bank groups in the total banking system assets changed as well. The increase in Group I banks' assets to 90.0% of the total banking system assets, i.e. the increase in its share by 7.11 percentage points, almost equals the share of assets which banks participating in merger proceedings and the bank that moved to the this group had in the total banking system at end-2003 (6.9%). The share of Group II banks' assets thus fell from 12.5% to 5.7%, while the share of Group III banks' assets rose by 0.5 percentage points (to 3.2%), accounting for a fall in the share of Group IV banks' assets from 1.9% to 1.1%.

The difference between the asset size of the largest bank and the smallest bank in Group I, which also comprises the banks with very different asset sizes, continued to widen in 2004. Hence, the assets of the largest bank in Group I were 10.4 times the size of assets of the smallest bank in the group. The

7 See Attachment II.

assets of the largest banks in other groups were 1.7 to 4.2 times larger than the assets of the smallest bank in respective bank groups. In terms of balance sheet total, the assets of the largest bank in the banking system were more than 580 times the size of assets of the smallest bank in the system.

2.1.2 Territorial Distribution of Banks' Operating Network and Concentration of the Banking System

1037 branches⁸ and sub-branches operated in the country at end-2004, which was an increase of 15 compared with end-2003 (Table 2.2).

129 new operating units were opened and 114 were closed during 2004. More than two-thirds of the new branches and sub-branches (89 or 69%) were opened by four banks from Group I. No branch or sub-branch was opened by 11 banks. The number of closed branches and sub-branches was impacted by the above-described merger of three banks and the opening of winding-up proceedings against one bank which had 7 branches and sub-branches at end-2003.⁶

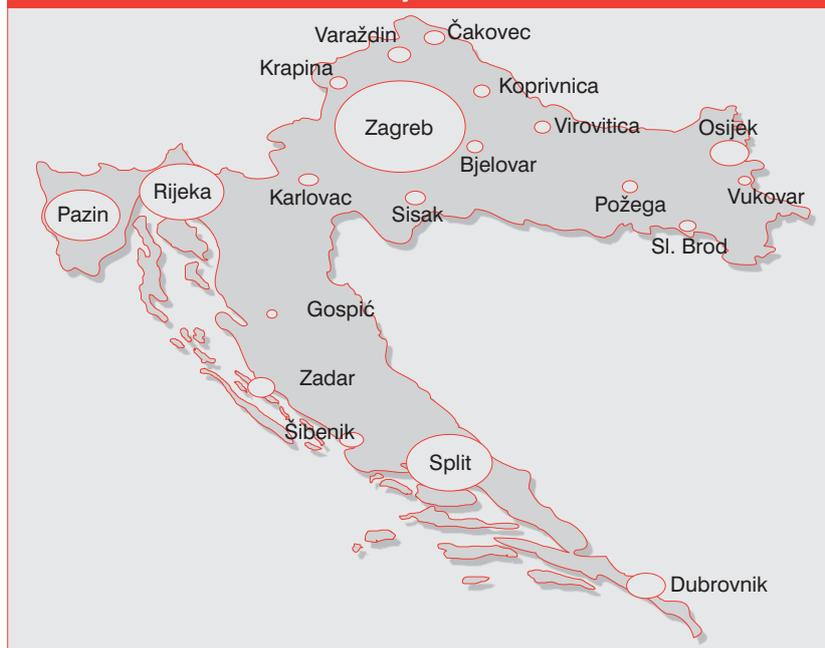
TABLE 2.2 Territorial Distribution of Branches and Sub-Branches, end of period

Counties	Number of branches and sub-branches			
	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004
County of Zagreb and City of Zagreb	162	188	190	201
County of Krapina-Zagorje	19	23	23	24
County of Sisak-Moslavina	18	25	29	29
County of Karlovac	19	23	24	27
County of Varaždin	23	29	33	38
County of Koprivnica-Križevci	25	26	28	31
County of Bjelovar-Bilogora	23	25	27	27
County of Primorje-Gorski Kotar	103	108	124	114
County of Lika-Senj	10	14	14	14
County of Virovitica-Podravina	16	16	23	26
County of Požega-Slavonia	16	20	23	24
County of Slavonski Brod-Posavina	17	20	21	23
County of Zadar	41	38	39	44
County of Osijek-Baranya	50	50	55	56
County of Šibenik-Knin	30	30	33	33
County of Vukovar-Srijem	16	15	18	22
County of Split-Dalmatia	111	123	124	121
County of Istria	99	103	110	103
County of Dubrovnik-Neretva	56	56	56	54
County of Međimurje	25	24	28	26
Total	879	956	1022	1037

At end-2004, the concentration of operating units rose in the County of Zagreb and the City of Zagreb (from 18.5% to 19.4%) (Figure 2.2). The next largest increase in the concentration of operating units was registered in the County of Split-Dalmatia (11.7%), the County of Primorje-Gorski Kotar (11.0%) and the County of Istria (9.9%). More than a half of the total number of branches and sub-branches operated in these counties (52.0%). In contrast, the smallest number of branches and sub-branches operated in the County of Lika-Senj (1.4%), while the concentration of operating units in other counties ranged between 2.1% to 5.4%.

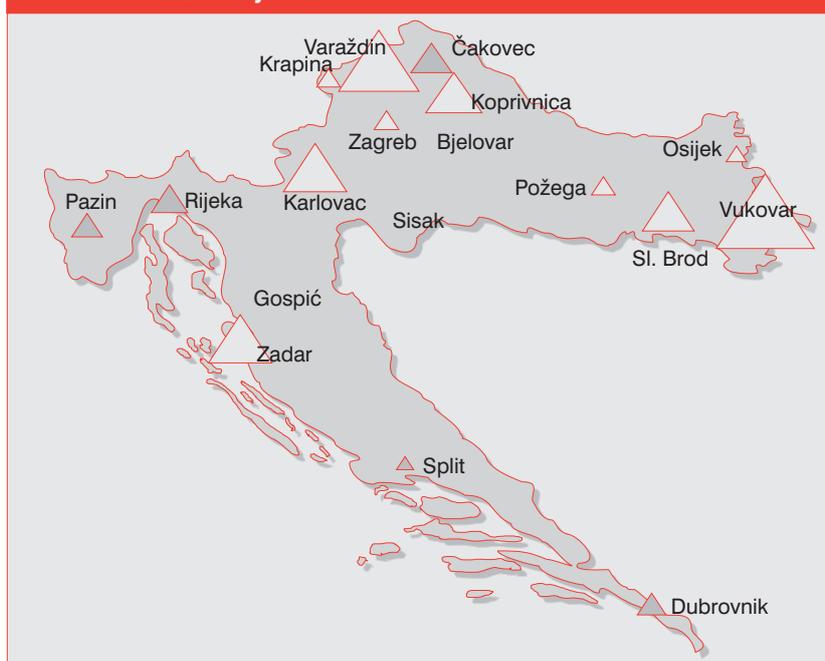
⁸ For the purpose of analysis, a bank operating unit shall be considered a branch.

FIGURE 2.2 Geographical Concentration of Branches and Sub-Bran­ches as at 31 December 2004 by Counties



The number of branches and sub-branches at end-2004 grew in eleven counties, remained the same as at end-2003 in five counties and fell in four counties (Figure 2.3). The largest relative increase in the number of branches and sub-branches was recorded in the County of Vukovar-Srijem (22.2%), while the increase in the number of operating units exceeding 10% was recorded in another five counties. The largest absolute increase in the number of operating units during the same period was recorded in the County of Zagreb and the City of Zagreb (11). The number of operating units fell in five

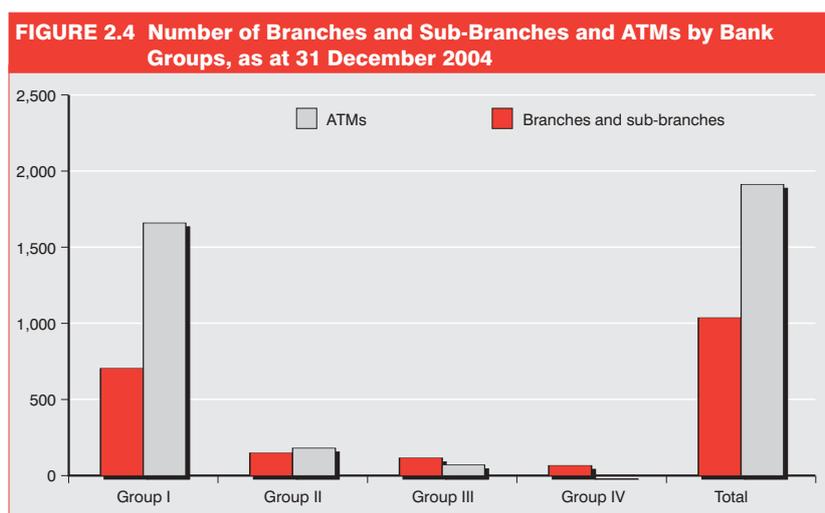
FIGURE 2.3 Relative Change in the Number of Branches and Sub-Bran­ches in 2004 by Counties



counties. The decreases were most pronounced in the County of Primorje-Gorski Kotar (down by 8.1% or by 10 branches and sub-branches) and in the County of Istria (down by 6.4% or by 7 branches and sub-branches).

At end-2004, each bank had on average branches and sub-branches in seven counties, as compared with end-2003 when each bank had on average branches and sub-branches in six counties. Only one bank operated in all twenty counties, while five banks operated in fifteen or more counties. Twenty banks operated in less than five counties (of which, eight banks operated only in one county). More than three-quarters of banks (75.7% or 28 banks) had operating units in the County of Zagreb and the City of Zagreb, while 23 banks (62.2%) had operating units in the County of Primorje-Gorski Kotar. In contrast, only four banks (10.8%) operated in the County of Lika-Senj.

Group I had the largest number of branches and sub-branches at end-2004 (704 operating units or 67.9%) (Figure 2.4). Groups II, III and IV followed with 150, 116 and 67 operating units respectively. During the observed period, the number of branches and sub-branches went up in Group I and Group III (by 22.6% and 78.5%), while it fell in Group II and Group IV (by 44.4% or 40.7%), mostly on account of the changes in the composition of bank groups.



The number of ATMs owned by banks increased to 1913 in 2004 (or by 302 units), which was an increase of 18.75% (Table 2.3).

Group I banks had the largest number of ATM units (1659). Continuing to trend upward, this group's share in the total number of ATM units reached 86.7% at end-2004. Banks from Groups II, III and IV followed with 181, 70 and 3 units respectively.

Reflecting the changes in the composition of bank groups, the number of ATMs grew in Groups I and III and fell in Groups II and IV during the observed period.

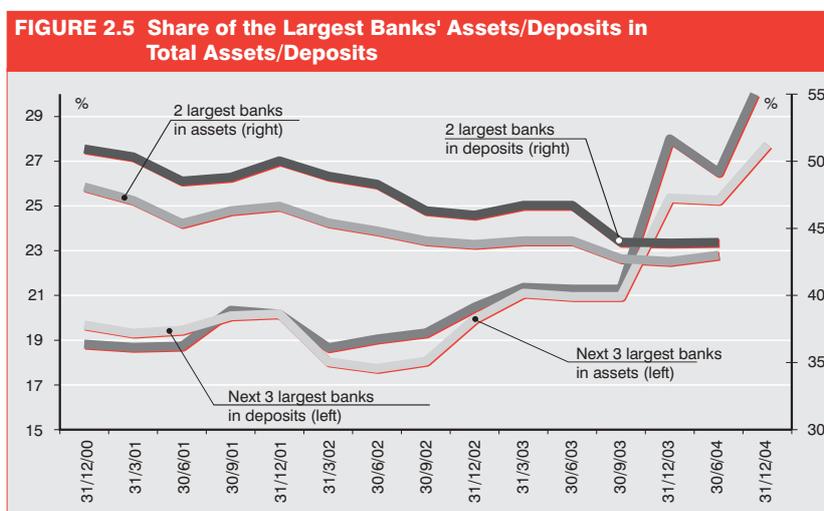
In 2004, the number of ATMs remained unchanged in nineteen banks but grew in eighteen banks. This increase ranged between 1 and 98 ATM units. Fifteen banks did not have any ATMs at end-2004.

The number of installed ATMs at end-2004 increased in all twenty counties compared with end-2003.

The largest increases in the number of ATMs were recorded in the County of Zagreb and the City of Zagreb (88 units or 29.1% of the total increase). In 2004, this county accounted for 28.9% of all ATMs (552 units), and was followed by the County of Split-Dalmatia with 214 units (11.2%), the County of Primorje-Gorski Kotar with 199 units (10.4%) and the County of Istria with 170 units (8.9%). The largest relative increases in the number of ATMs took place in the County of Karlovac (40.0%) and the County of Zadar (37.3%).

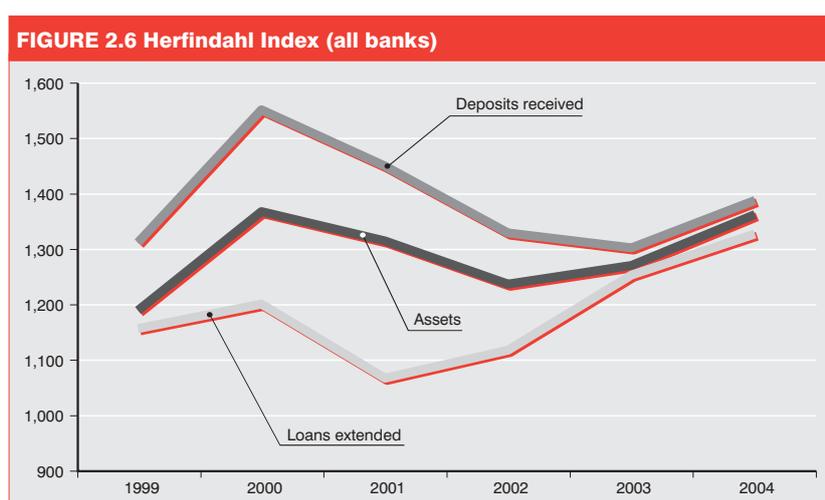
Counties	Number of ATMs			
	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004
County of Zagreb and City of Zagreb	307	394	464	552
County of Krapina-Zagorje	19	23	27	32
County of Sisak-Moslavina	20	27	36	47
County of Karlovac	21	26	30	42
County of Varaždin	31	62	54	67
County of Koprivnica-Križevci	16	21	31	35
County of Bjelovar-Bilogora	19	28	39	45
County of Primorje-Gorski Kotar	120	149	177	199
County of Lika-Senj	9	17	22	24
County of Virovitica-Podravina	11	11	15	19
County of Požega-Slavonia	8	9	17	22
County of Slavonski Brod-Posavina	14	18	24	31
County of Zadar	40	53	67	92
County of Osijek-Baranya	48	58	74	87
County of Šibenik-Knin	18	35	61	65
County of Vukovar-Srijem	11	19	29	38
County of Split-Dalmatia	108	148	188	214
County of Istria	102	129	141	170
County of Dubrovnik-Neretva	47	59	64	74
County of Međimurje	30	44	51	58
Total	999	1330	1611	1913

The years-long downward trend in the concentration of two major banks' share of assets/deposits in total assets/deposits was halted in 2004, while the share of assets/deposits of the next three largest banks in total assets/deposits grew considerably (Figure 2.5). On a downward trend since 2000, the share of assets of two largest banks in the total banking system assets grew modestly in 2004, from 42.7% to 43.0%. Their share of deposits in the total banking system deposits remained unchanged at



44.0% in 2004 compared to the previous year. Note should be taken of the fact that both banks merged with other banks in 2004.⁶

The share of assets/deposits of the next three largest banks in total assets/deposits rose significantly in 2004 over 2003. Their shares of assets and deposits in total assets/deposits grew by 31.3% and 27.7% respectively in 2004 compared with end-2003 when these shares stood at 28.0% and 25.4%.



The concentrations of assets, deposits and loans trended upwards in 2004 (Figure 2.6). The value of the Herfindahl index for the concentration of assets grew to 1363 points (up 92 points). In addition, the concentrations of received deposits and extended loans grew at a somewhat moderate pace in 2004, by 86 points and 74 points respectively. At end-2004, they totalled 1389 points and 1328 points respectively.

2.1.3 Banks' Balance Sheet

The new regulations, introducing the new balance sheet items such as derivative financial assets, derivative financial liabilities and other financial liabilities held for trading, have been in force as of 1 January 2004. These items are reported in the balance sheet at their fair value.⁹ The starting point in their creation was harmonisation with EU directives, compliance with guidelines of the Basel Committee for Bank Supervision and International Accounting Standards regulating the valuation and presentation of financial assets. As a result, the balance sheet shows the financial assets (securities and derivative financial assets in particular) in accordance with the new reporting form. Securities and other financial instruments held for trading and securities and other financial instruments available for sale, that are in accordance with IAS 39 disclosed at their fair value, are shown in the balance sheet as individual items. The same principle is also applied to securities and other financial instruments held to maturity and to securities and other financial instruments bought on issue directly from the issuer, with the exception that these items are disclosed at amortised cost in accordance with IAS 39.

⁹ Decision on Supervisory Reports of Banks (official gazette *Narodne novine*, No. 115/2003), Decision on the Capital Adequacy of Banks (official gazette *Narodne novine*, Nos. 17/2003 and 120/2003), and Decision on the Classification of Placements and Contingent Liabilities of Banks (official gazette *Narodne novine*, No. 17/2003).

The capital adequacy ratio, defined in the Banking Act, was regulated in detail in the Decisions on the Capital Adequacy of Banks. In addition, the harmonisation with the provisions of IAS 39: Financial Instruments – Recognition and Measurement and IAS 37: Provisions, Contingent Liabilities and Contingent Assets was achieved by adopting the Decision on the Classification of Placements and Contingent Liabilities of Banks. Pursuant to this decision, the bank exposure to credit risk is classified into three basic risk categories instead of five risk categories prescribed by the old decisions.

For comparability purposes, the value of balance sheet items reported in figures and tables in the previous period has been presented, to the extent possible, in accordance with the new reporting form.

In July 2004, the CNB also adopted the Decision on Marginal Reserve Requirement. The marginal reserve requirement allocations are based on an increase in net foreign liabilities of banks.¹⁰ This requirement is another in a line of measures introduced by the central bank to encourage prudent business policies of banks in terms of their foreign borrowing. Moreover, at end-2003, the CNB adopted the new Decisions on Reserve Requirements,¹¹ i.e. the part of the reserve requirements allocated to special accounts with the CNB was increased and banks were required to allocate the foreign exchange parts of the reserve requirements calculated on foreign exchange sources of funds of non-residents and on foreign currency deposits of persons in a special relationship with the bank at the rate of 100%. This Decision was amended in the second half of 2004 when the reserve requirement rate was cut from the previous 19% to 18%. The lower reserve requirement rate is applied as of October 2004.

TABLE 2.4 Structure of Bank Assets, end of period, in million kuna and %

	Dec. 2001		Dec. 2002			Dec. 2003			Dec. 2004		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	22,196.3	15.0	21,387.9	12.3	-3.6	28,002.6	13.7	30.9	34,891.3	15.2	24.6
1.1. Money assets	7,822.5	5.3	2,236.9	1.3	-71.4	2,955.6	1.4	32.1	3,062.1	1.3	3.6
1.2. Deposits with the CNB	14,373.9	9.7	19,151.0	11.0	33.2	25,047.0	12.3	30.8	31,829.2	13.9	27.1
2. Deposits with banking institutions	23,996.5	16.2	20,146.2	11.6	-16.0	31,186.6	15.3	54.8	33,351.2	14.5	6.9
3. MoF treasury bills and CNB bills	9,687.2	6.5	10,116.7	5.8	4.4	7,820.7	3.8	-22.7	3,580.6	1.6	-54.2
4. Securities and other financial instruments held for trading and available for sale	5,669.0	3.8	9,023.2	5.2	59.2	7,784.9	3.8	-13.7	16,484.7	7.2	111.8
4.1. Securities and other financial instruments held for trading	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6,566.1	2.9	-
4.2. Securities and other financial instruments available for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9,918.6	4.3	-
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	12,062.9	8.1	12,531.7	7.2	3.9	10,773.3	5.3	-14.0	7,551.6	3.3	-29.9
5.1. Securities and other financial instruments held to maturity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6,557.3	2.9	-
5.2. Securities and other financial instruments bought on issue directly from the issuer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	994.3	0.4	-
6. Derivative financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	152.0	0.1	-
7. Loans to financial institutions	1,479.6	1.0	2,157.8	1.2	45.8	3,057.0	1.5	41.7	3,289.5	1.4	7.6
8. Loans to other clients	64,111.1	43.2	89,673.9	51.5	39.9	106,730.6	52.3	19.0	121,912.6	53.2	14.2
9. Investments in subsidiaries and associates	2,199.8	1.5	2,448.2	1.4	11.3	2,456.0	1.2	0.3	1,687.5	0.7	-31.3
10. Foreclosed and repossessed assets	446.8	0.3	375.4	0.2	-16.0	355.4	0.2	-5.3	358.1	0.2	0.7
11. Tangible assets (net of depreciation)	3,501.2	2.4	3,755.4	2.2	7.3	4,094.6	2.0	9.0	3,786.9	1.7	-7.5
12. Interest, fees and other assets	4,273.5	2.9	4,042.3	2.3	-5.4	3,603.6	1.8	-10.9	4,255.4	1.9	18.1
13. Net of: Specific reserves for unidentified losses	1,195.7	0.8	1,519.4	0.9	27.1	1,750.2	0.9	15.2	1,996.1	0.9	14.0
TOTAL ASSETS	148,428.3	100.0	174,139.2	100.0	17.3	204,115.0	100.0	17.2	229,305.2	100.0	12.3

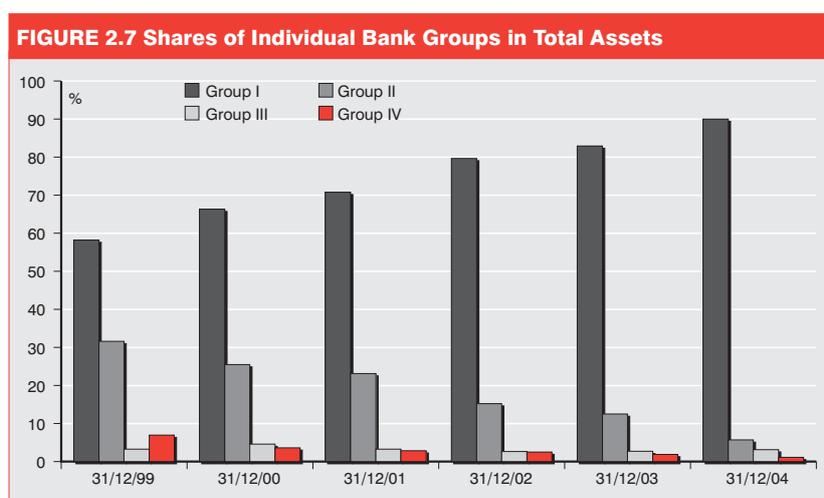
¹⁰ Official gazette *Narodne novine*, No. 99/2004.

¹¹ Official gazette *Narodne novine*, No. 203/2003.

Total bank assets stood at HRK 229.3bn at 31 December 2004, up HRK 25.2bn or 12.3% compared with end-2003 (Table 2.4).

Stimulated by the nominal growth of HRK 15.2bn, the share of loans to other clients grew by 0.9 percentage points in 2004, reaching 53.2% of the total banking system assets at year-end. Despite the higher growth of 7.6% at the end of 2004 than at the end of 2003, the share of loans to financial institutions in the total banking system assets fell by a negligible 0.1 percentage point. Standing at 54.8% at end-2003, deposits with banking institutions rose by 6.9% in 2004 and thereby continued their upward trend from previous years. Their share in the total banking system assets dipped by 0.7 percentage points at end-2004 compared with end-2003, and amounted to 14.5%. Due to the continued growth in the allocated reserve requirement, deposits with the CNB rose by a considerable 27.1% at end-2004 compared with the previous year, while their share in the total banking system assets amounted to 13.9%.

During the observed period, T-bills fell by a strong 54.2%. Concurrently, the CNB issued no bills in 2004. Securities and other financial instruments held to maturity and securities and other financial instruments bought on issue directly from the issuer fell by 29.9% in 2004 on account of the repayment of a portion of bonds issued by the Republic of Croatia. Viewed by asset items, securities and other financial instruments held for trading and available for sale declined the most in relative terms, by 111.8%, while their share in the total banking system assets rose by 3.4 percentage points and stood at 7.2% at the end of 2004.

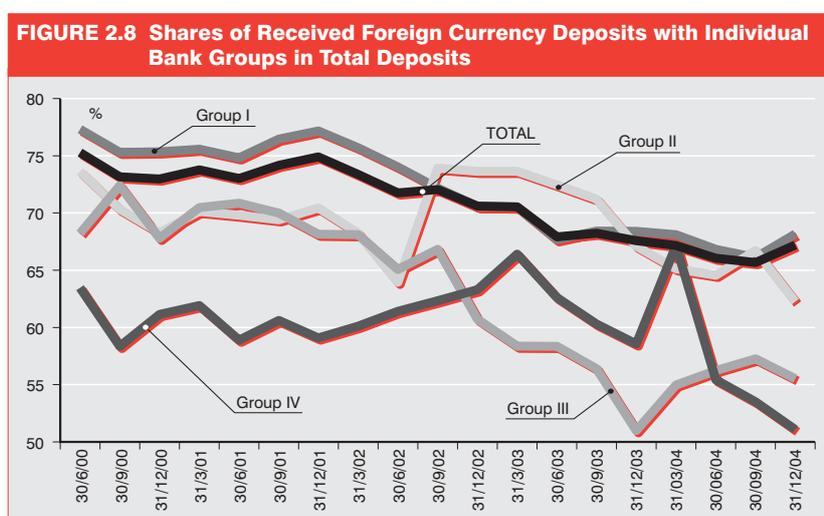


The share of Group I assets in total bank assets continued to trend upward (Figure 2.7). Standing at 90.0% at end-2004, the share of Group I assets rose by 7.1 percentage points during the observed period. This increase is to be attributed to the merger between one bank from Group II and one bank from Group I and to the movement of one bank to the group comprising the largest banks in the banking system. The share of Group II assets fell by 6.8 percentage points for more or less the same reasons. As a result, its share in total bank assets stood at 5.7% at the end of the observed period. The fall in the share of assets was also recorded in Group IV (to 1.1%), while the share of Group III assets grew by 0.5 percentage points, accounting for 3.2% of total bank assets at end-2004.

Notwithstanding the annual growth of 8.1%, the share of total received deposits in total bank liabilities

TABLE 2.5 Structure of Bank Liabilities, end of period, in million kuna and %											
	Dec. 2001		Dec. 2002			Dec. 2003			Dec. 2004		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	3,629.1	2.4	4,084.6	2.3	12.6	7,112.9	3.5	74.1	8,462.0	3.7	19.0
1.1. Short-term loans	595.7	0.4	1,184.4	0.7	98.8	3,689.1	1.8	211.5	3,592.1	1.6	-2.6
1.2. Long-term loans	3,033.3	2.0	2,900.2	1.7	-4.4	3,423.8	1.7	18.1	4,869.9	2.1	42.2
2. Deposits	104,697.2	70.5	124,471.8	71.5	18.9	143,692.8	70.4	15.4	155,277.9	67.7	8.1
2.1. Giro account and current account deposits	16,548.6	11.1	23,272.3	13.4	40.6	25,285.1	12.4	8.6	25,561.2	11.1	1.1
2.2. Savings deposits	26,373.9	17.8	23,980.0	13.8	-9.1	24,770.7	12.1	3.3	25,223.3	11.0	1.8
2.3. Time deposits	61,774.6	41.6	77,219.6	44.3	25.0	93,637.0	45.9	21.3	104,493.4	45.6	11.6
3. Other loans	15,947.7	10.7	19,492.6	11.2	22.2	25,080.3	12.3	28.7	31,368.3	13.7	25.1
3.1. Short-term loans	594.0	0.4	4,451.2	2.6	649.4	3,429.0	1.7	-23.0	5,265.3	2.3	53.6
3.2. Long-term loans	15,353.7	10.3	15,041.4	8.6	-2.0	21,651.3	10.6	43.9	26,103.0	11.4	20.6
4. Derivative financial liabilities and other financial liabilities held for trading	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	238.8	0.1	-
5. Debt securities issued	19.4	0.0	24.7	0.0	27.6	97.0	0.0	292.1	3,535.1	1.5	3,543.9
5.1. Short-term debt securities issued	0.0	0.0	5.2	0.0	0.0	0.0	0.0	-100.0	0.0	0.0	0.0
5.2. Long-term debt securities issued	19.4	0.0	19.6	0.0	1.0	97.0	0.0	395.3	3,535.1	1.5	3,543.9
6. Subordinated instruments issued	339.4	0.2	641.3	0.4	89.0	813.6	0.4	26.9	818.3	0.4	0.6
7. Hybrid instruments issued	2,316.4	1.6	2,268.9	1.3	-2.1	2,261.6	1.1	-0.3	1,642.8	0.7	-27.4
8. Interest, fees and other liabilities	7,783.0	5.2	6,646.4	3.8	-14.6	6,899.4	3.4	3.8	8,280.3	3.6	20.0
TOTAL LIABILITIES	134,732.1	90.8	157,630.4	90.5	17.0	185,957.6	91.1	18.0	209,623.4	91.4	12.7
TOTAL CAPITAL	13,696.2	9.2	16,508.8	9.5	20.5	18,157.3	8.9	10.0	19,681.8	8.6	8.4
TOTAL LIABILITIES AND CAPITAL	148,428.3	100.0	174,139.2	100.0	17.3	204,115.0	100.0	17.2	229,305.2	100.0	12.3

fell from 70.4% at end-2003 to 67.7% at end-2004 (Table 2.5). Their higher growth rate in 2004 was brought about by the growth in time deposits of HRK 10.9bn or 11.6%. In the same period, savings deposits and deposits in giro and current accounts rose by 1.8% and 1.1% respectively. The weakening of the domestic currency against the euro, observed in 2004, influenced to some extent the growth in the level of deposits. Although the share of foreign currency deposits in total deposits remained almost unchanged at end-2004 compared to end-2003 (67.2% vs. 67.6%) (Figure 2.8), the share of foreign currency time deposit in total time deposits grew to 76.84% (up 0.64 percentage points). In addition, foreign currency savings deposits, which accounted for 91.1% of total savings deposits at the end of the observed period, rose by 0.3 percentage points. The kuna/euro exchange rate strengthened by 0.02 percentage points at end-2004, while the kuna/US dollar exchange rate weakened by 0.48 percentage points.



With the exception of Group III, all bank groups recorded a decline in the share of foreign currency deposits in total received deposits during the observed period. Group III registered the increase in the share of 4.5 percentage points. The largest fall in the share (7.5 percentage points) and the smallest share of foreign currency deposits in total deposits (51.1%) were registered by Group IV. Group I saw the smallest change in the share of foreign currency deposits in total received deposits (the fall of 0.2 percentage points). As in the previous year, this group had the highest share of foreign currency deposits in total received deposits at the end of 2004 (68.2%).

The high growth rate of total received loans, brought about by the rise in loans from financial institutions (19.0%) and other loans (25.1%), was also recorded in 2004 (23.7%). In addition, both categories of loans increased their shares in total bank liabilities. Viewed by liability items, the major contributor to the growth in total loans was other long-term loans, which grew by HRK 4.5bn or 20.6% during the observed period.

The issued long-term debt securities were HRK 3.5bn at end-2004, which was a considerable increase compared with previous periods. Negligible in previous years, their share in total bank liabilities stood at 1.5% at the end of 2004. Three banks from Group I collected funds through the issuance of long-term debt securities. The collection of funds through the issuance of long-term debt securities is a novelty in domestic banks' operations since these instruments were not largely used in previous periods.

2.1.4 Banks' Capital

Total bank capital was HRK 19.7bn at 31 December 2004, up 8.4% over 31 December 2003 (Table 2.6). The higher current year profit and retained earnings contributed the most to total capital growth in 2004. Total capital fell in six banks in 2004 but grew in all other banks. The total banking system capital structure at end-2004 shows the increase in all capital items as well as the decrease in previous year loss.

Although HRK 167.5m (1.7%) higher at the end of 2004 than at the end of 2003, total share capital continued to trend downward in 2004, accounting for 51.4% of total bank capital at year-end. Twelve

	Dec. 2001.		Dec. 2002.			Dec. 2003.			Dec. 2004		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	8,966.5	65.5	9,772.1	59.2	9.0	9,945.6	54.8	1.8	10,113.1	51.4	1.7
2. Current year profit/loss	570.0	4.2	1,925.5	11.7	237.8	2,351.6	13.0	22.1	3,036.8	15.4	29.1
3. Retained earnings (loss)	77.8	0.6	860.3	5.2	1,006.0	1,415.0	7.8	64.5	1,899.0	9.6	34.2
4. Legal reserves	853.3	6.2	583.5	3.5	-31.6	711.2	3.9	21.9	718.1	3.6	1.0
5. Total reserves provided for by the articles of association and other capital reserves	3,228.7	23.6	3,367.4	20.4	4.3	3,824.0	21.1	13.6	3,915.5	19.9	2.4
5.1. Reserves provided for by the articles of association and other capital reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3,918.2	19.9	-
5.2. Unrealised gains/losses on value adjustment of financial assets available for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-2.8	0.0	-
5.3. Reserves arising from hedging transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
6. Previous year profit/loss	0.0	0.0	0.0	0.0	0.0	-90.1	-0.5	0.0	-0.7	0.0	-99.2
TOTAL CAPITAL	13,696.2	100.0	16,508.8	100.0	20.5	18,157.3	100.0	10.0	19,681.8	100.0	8.4

banks contributed to the increase in total share capital. Compared to the previous year, Group I and III banks recorded higher share capital at the end of 2004. In contrast, share capital fell in Group II and IV banks during the observed period. Moreover, Group II banks recorded the largest fall in share capital at the end of 2004, down 55.1% compared with end-2003. This decrease was brought about by the fall in the number of banks in this bank group, i.e. by the merger of three banks with their mother banks in Group I in 2004 and the movement of one bank to Group I due to the increase in its assets. The Group IV decrease in share capital was also caused by the decrease in the number of banks comprised by that group.

Group I banks accounted for the largest share in the total banking system capital at end-2004, 85.4%. Group II and III banks followed with the shares of 5.5% and 5.8% respectively, while Group IV banks had the smallest share of 3.2%.

At end-2004, nine banks allocated reserves for general banking risks in the total amount of HRK 214.4m.¹² Of this amount, 91.95% were allocated by four banks from Group I, 4.79% by one bank from Group II, 2.9% by three banks from Group III and 0.35% by one bank from Group IV. Allocated reserves for general banking risks comprise other capital reserves and are reported under item reserves provided for by the articles of association and other capital reserves.

Total regulatory capital stood at HRK 21.1bn at end-2004, up 9.6% compared with end-2003 (Table 2.7). This increase was accounted for by the growth in core capital net of deduction items, up HRK 1.6bn compared with end-2003. The core capital increase was the result of the growth in retained earnings by 38.3% and in reserves formed against income after tax of 14.2%.

The described changes in total capital of individual bank groups were also reflected in the change of shares of individual bank groups in total bank regulatory capital at end-2004 compared with end-2003. At end-2004, the largest share in total bank regulatory capital was accounted for by Group I banks (86.0%), up 25.9%. The share of regulatory capital of Group III banks also grew in 2004, by 12.1%. Group II banks' share of regulatory capital fell by as much as 60.7%, from 16.3% to 5.9%. Group IV banks followed with the decrease of 14.0%, while their share in total bank regulatory capital fell from 3.7% to 2.9%.

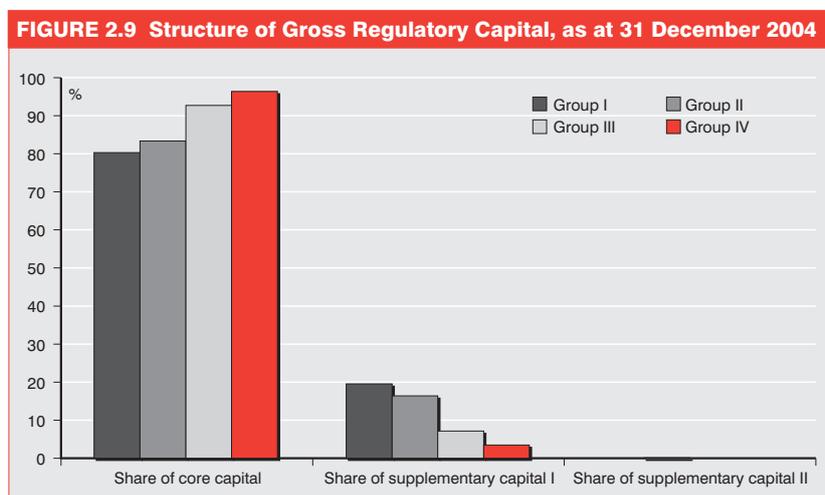
TABLE 2.7 Changes in Regulatory Capital, end of period, in million kuna and %

	Dec. 2001		Dec. 2002			Dec. 2003			Dec. 2004		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Group I	8,116.5	58.1	11,776.2	70.0	45.1	14,423.4	74.8	22.5	18,157.6	86.0	25.9
Group II	4,046.2	28.9	3,276.0	19.5	-19.0	3,150.0	16.3	-3.8	1,239.4	5.9	-60.7
Group III	768.0	5.5	793.2	4.7	3.3	987.7	5.1	24.5	1,107.3	5.2	12.1
Group IV	1,049.2	7.5	965.8	5.7	-7.9	710.9	3.7	-26.4	611.7	2.9	-14.0
Total	13,979.7	100.0	16,811.2	100.0	20.3	19,272.0	100.0	14.6	21,115.9	100.0	9.6

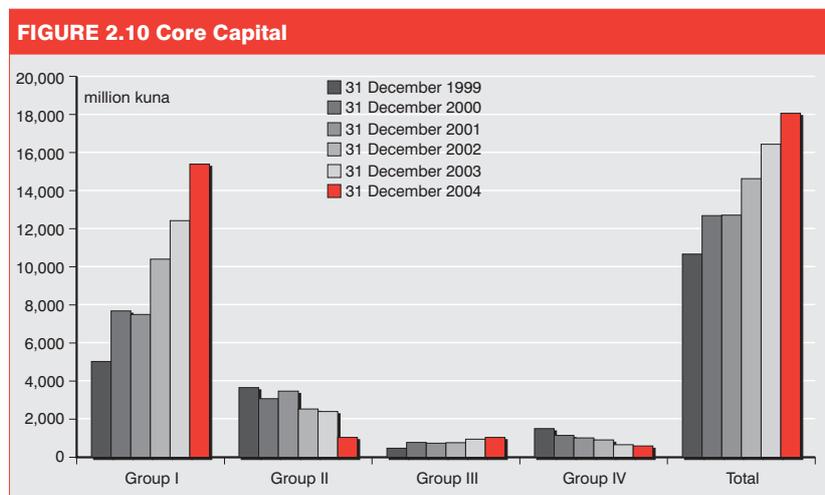
As compared with previous years in which the share of core capital net of items deducted in gross regulatory capital was on a downward trend, the said share grew in 2004, from 80.8% at end-2003 to 81.7% at end-2004. Despite the HRK 1.9bn increase in supplementary capital that is included in regulatory capital (supplementary capital I) during the observed period, the share of supplementary capital in gross regulatory capital fell from 19.2% at end-2003 to 18.3% at end-2004. The share of supple-

¹² Official gazette *Narodne novine*, No. 17/2003.

mentary capital II in gross regulatory capital of all banks was negligible in 2004 (0.01%). Group IV had the largest share of core capital in gross regulatory capital (96.52%). Groups III, II and I followed with the shares of 92.85%, 83.48% and 80.41% respectively (Figure 2.9). Gross regulatory capital stood at HRK 22.1bn at end-2004, which was an increase of 8.8% compared with end-2003.

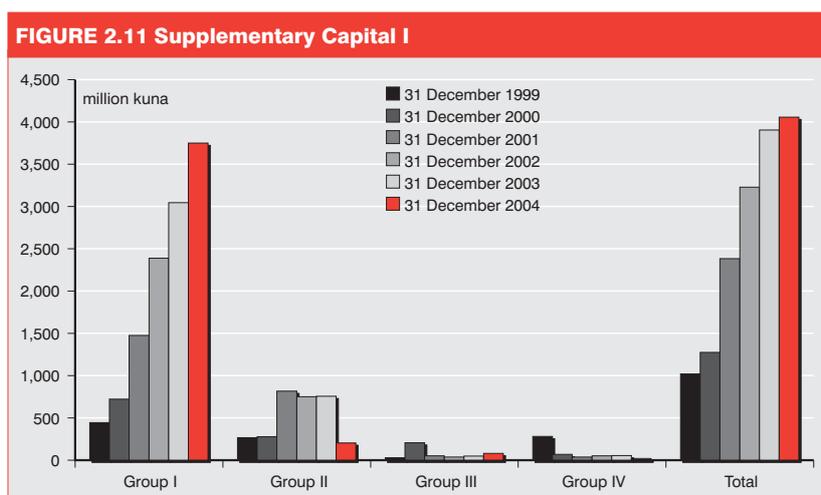


Total bank core capital, net of items deducted, stood at HRK 18.1bn at end-2004, up 9.9% compared with end-2003. Core capital grew in Group I banks, by 24.0% and in Group III banks, by 9.2%. However, it fell in Group II and IV banks by 56.9% and by 10.2% respectively.

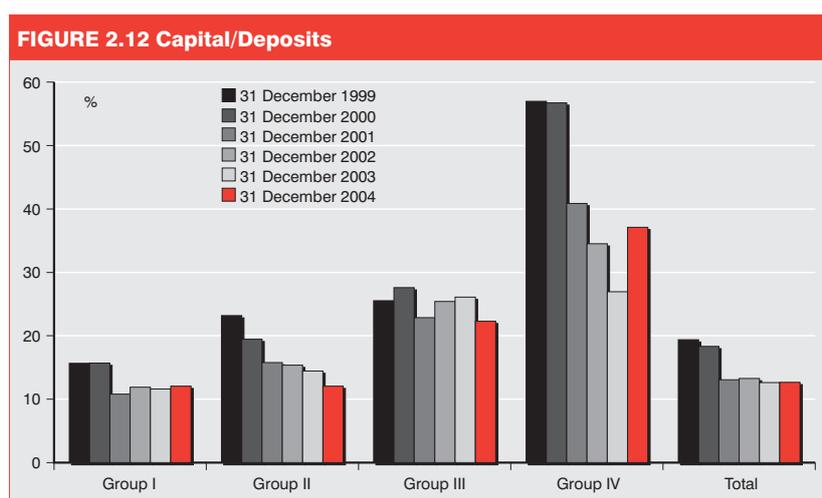


Total supplementary capital I (before deductions made for the purpose of regulatory capital calculation) stood at HRK 4.7bn at end-2004 (Figure 2.11). Regulatory capital calculated at end-2004 included HRK 4.1bn of supplementary capital I. The largest amount of total bank supplementary capital I (92.5%) was accounted for by Group I supplementary capital I, which grew by 23.1% compared with the end of 2003.

Supplementary capital II was negligible at end-2004. Measured at the banking system level, it stood at HRK 6.0m, while only HRK 1.4m was, in accordance with the relevant regulation, included in the calculation of regulatory capital.



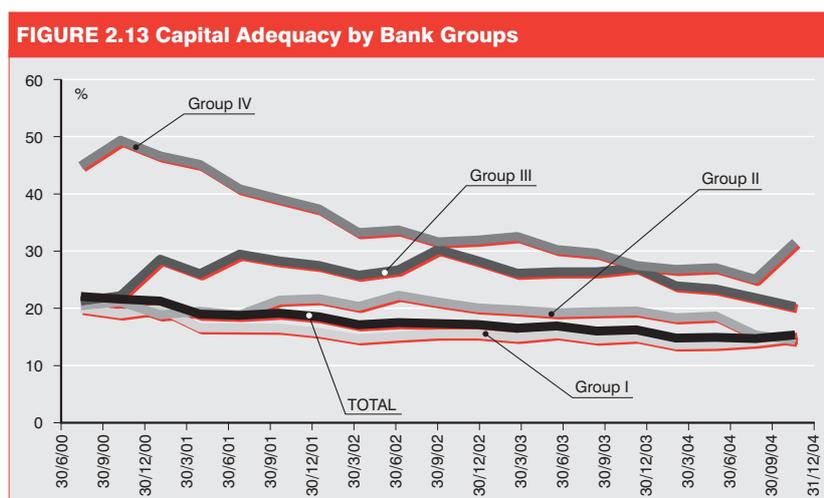
Due to higher increase in bank capital (8.4%) than in deposit (8.1%) in 2004, their ratio was somewhat higher at end-2004 (12.7%) than at-end 2003 (12.6%) (Figure 2.12). Compared with the previous year, this ratio grew in Group I and IV banks but fell in Group II and III banks.



At end-2004, total bank capital adequacy ratio was 15.33%; it declined by 0.91 percentage points compared with end-2003. Notwithstanding the growth in regulatory capital, the fall in capital adequacy ratio was stimulated by a higher growth in risk-weighted assets than in regulatory capital and the introduction of capital requirements for currency risk, market risks and risk of exceeding the permissible exposure limits (Decision on the Capital Adequacy of Banks¹³). With exception of Group IV banks, which recorded a 4.05 percentage points increase in the capital adequacy ratio at end-2004 (to 31.54%), all other bank groups registered decreases in their ratios. The capital adequacy ratio of Group I banks fell by a modest 0.07 percentage points at end-2004, reaching 14.91%. Standing at 14.40% and 20.29% at end-2004, this ratio also fell by 5.16 percentage points and 6.83 percentage points respectively in Groups II and III.

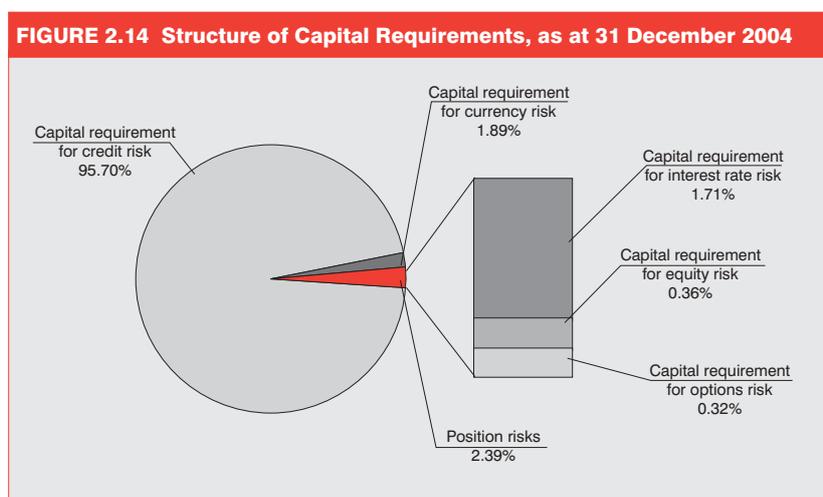
Total capital requirements stood at HRK 13.8bn at end-2004, up 16.1% compared with end-2003.

13 Official gazette *Narodne novine*, Nos. 17/2003, 120/2003, 195/2003 and 39/2004.



This increase is to be attributed to the application of the new regulation in 2004, i.e. to the introduction of capital requirements for currency risk, market risks and risk of exceeding the permissible exposure limits.

Accounting for 95.7% at end-2004, the capital requirement for credit risk predominated in the structure of total capital requirements at end-2004 (Figure 2.14). Capital requirements for position risks and currency risk followed with 2.4% and 1.9% respectively. At end-2004, no bank reported the exposure to commodity risk, settlement risk and risk of exceeding the permissible exposure limits.



2.1.5 Income Statement

In accordance with the new regulation, the new method of reporting is also applied to income statement items. As opposed to the old reporting form, income from commissions and fees, expenses on commissions and fees, other non-interest income and other non-interest expenses are now shown separately within the income statement. The structure of other non-interest income is shown in compliance with International Accounting Standards, i.e. International Financial Reporting Standards.

For comparability purposes, the value of income statement items reported in figures and tables in the previous period has been presented, to the extent possible, in accordance with the new reporting form.

Income before taxes stood at HRK 3,634.3m in 2004, up 20.7% compared with 2003 (Table 2.8). Total income before taxes grew on account of income generated by 34 banks (totalling HRK 3,680.5m), reduced by total loss incurred by three banks (totalling HRK 46.2m). The rise in total income before taxes was, to a large extent, influenced by the increase in net non-interest income and, to a lesser extent, by the growth in net interest income. Net non-interest income went up by 31.3% (with the growth in other net non-interest income amounting to as much as 73.9%). In addition, although 2.2 times larger in absolute terms, net interest income growth of 2.0% contributed significantly less to the growth in total income before taxes. The reason behind the modest growth in net interest income was relatively high growth in total interest expenses (of 12.1%) relative to a more modest growth in total interest income (of 6.4%). The stated large growth in other non-interest income of 73.9% was brought about by the concurrent increase in other net non-interest income by 23.6% and the fall in other non-interest expenses by 21.5%. The impact of the decrease in total expenses on loss provisions of 5.6% should also be mentioned.

TABLE 2.8 Income Statement, in million kuna										
	Group I		Group II		Group III		Group IV		Total	
	Jan.–Dec. 2003	Jan.–Dec. 2004								
1. Net interest income	4,969.0	5,579.5	929.5	411.2	205.3	310.8	205.7	136.7	6,309.5	6,438.2
1.1. Total interest income	8,784.0	10,279.9	1,586.0	749.6	369.7	543.2	353.9	229.7	11,093.7	11,802.5
1.2. Total interest expenses	3,815.1	4,700.5	656.5	338.4	164.4	232.4	148.2	93.1	4,784.2	5,364.3
2. Net income from commissions and fees	1,251.9	1,467.9	156.2	91.3	55.2	65.0	18.8	20.5	1,482.1	1,644.8
2.1. Total income from commissions and fees	2,560.4	2,777.8	313.3	155.2	96.7	110.5	40.1	39.4	3,010.5	3,082.9
2.2. Total expenses on commissions and fees	1,308.5	1,309.8	157.1	63.9	41.5	45.5	21.3	18.9	1,528.4	1,438.1
3. Net other non-interest income	475.5	1,048.0	136.2	95.1	64.3	59.7	29.7	24.4	705.6	1,227.3
3.1. Other non-interest income	1,133.6	1,548.2	223.9	142.1	86.4	103.8	49.9	51.8	1,493.8	1,846.0
3.2. Other non-interest expenses	658.1	500.2	87.7	47.0	22.1	44.1	20.2	27.5	788.2	618.8
4. Net non-interest income	1,727.4	2,515.9	292.4	186.5	119.5	124.8	48.5	44.9	2,187.8	2,872.0
5. General administrative expenses and depreciation	3,702.2	4,217.7	752.7	426.1	190.6	249.1	186.2	164.8	4,831.8	5,057.7
6. Net operating income before loss provisions	2,994.1	3,877.7	469.1	171.7	134.2	186.5	68.1	16.8	3,665.5	4,252.6
7. Total expenses on loss provisions	464.0	470.7	72.7	54.8	47.2	55.9	71.0	36.9	654.8	618.3
7.1. Expenses on value adjustment and provisions for identified losses	291.6	250.6	32.0	41.2	46.3	65.3	65.7	45.0	435.6	402.1
7.2. Expenses on provisions for unidentified losses	172.4	220.1	40.7	13.6	0.9	-9.4	5.3	-8.1	219.3	216.2
8. Income/loss before taxes	2,530.1	3,407.0	396.4	116.9	87.0	130.5	-2.9	-20.1	3,010.7	3,634.3
9. Income tax	408.3	546.6	67.3	21.4	19.6	24.3	8.8	5.2	504.0	597.4
10. Current year profit/loss	2,121.8	2,860.4	329.2	95.5	67.4	106.3	-11.7	-25.3	2,506.7	3,036.8

Three banks from Group IV reported HRK 46.2m in loss before taxes at end-2004 (HRK 26.4m, HRK 19.6m and HRK 0.1m respectively). Group IV loss before taxes was 6.9 times larger at end-2004 than at end-2003; it grew from HRK 2.9m to HRK 20.1m.

Growing at the rate of 34.7%, Group I income before taxes reached HRK 3,407.0m at end-2004. Although Group I assets account for 90.0% of total bank assets, the increase in income before taxes of the system as a whole (20.7%) was lower than that recorded in Group I banks due to a significant fall in Group II income and, to a lesser extent, the increase in loss of Group IV banks. Movements in total

income of Group I resembled those recorded in the system as a whole, which is understandable taking into account the size of this group share in the system. The described increase in income was for the most part contributed by the increase in net non-interest income of 45.7% (other net non-interest income grew by as much as 120.4%), while net interest income rose by 12.3%.

Significant changes in the composition of Group II (merger between three banks from this group with banks from Group I) resulted in its fall of income before taxes, by 70.5% (from HRK 396.4m to HRK 116.9m). Group II assets fell thus by 48.8% (net interest income went down by 55.7% and net non-interest income by 36.2%), and the said fall in income before taxes was also contributed by the decline in total expenses on loss provisions of only 24.6%.

Group III income before taxes was 50.0% larger at end-2004 than at end-2003. This was brought about by the increase in the number of banks in that group by two, which in turn resulted in the increase of net interest income (51.4%), accompanied by a somewhat lower growth in general administrative expenses and depreciation (30.7%) and expenses on loss provisions (18.5%).

Only Group IV banks recorded loss before taxes at end-2004 (HRK 20.1m) on account of a significant decrease in net interest income (33.6%). Accompanied by the fall in general administrative expenses and depreciation (of 11.5%), net operating income before provisions for losses fell by as much as 75.3% at end-2004 compared with end-2003. The decrease in total expenses on loss provisions of 48.0% was not sufficient to prevent the strong growth in loss before taxes.

The share of other non-interest income in total income grew to 11.0% or by 1.4 percentage points, while the share of interest income and income from commissions and fees fell.

The share of interest income, which as a rule accounts for the largest portion of total income, also fell, from 71.1% to 70.5%. The share of income from commissions and fees also trended downward, from 19.3% to 18.4%. The fall in the share of interest income was for the most part the result of the decrease in interest income from debt securities, 5.6% compared with the previous period. Concurrently, their share in total income fell from 8.4% to 7.4%. Income from commissions and fees grew at a much slower rate than total income (2.4% vs. 7.3%), causing their share in total income to fall from 19.3% to 18.4%. Total income from equity investments grew the most in relative terms, 1,211.9%. As a result, their share in total income reached 2.2% at year-end (Table 2.9).

The decrease in the share of interest income in total income was the result of the fall in Group II and IV shares. These bank groups' interest income also fell in absolute terms (to 47.3%, as compared with 64.9% in 2003). The share of Group I, which accounted for the largest share of interest income (79.2%), remained unchanged.

Group I and III banks saw the decrease in their shares of income from commissions and fees in total income (from 20.5% to 19.0% and from 17.5% to 14.6%). With the exception of Group III, all other bank groups recorded the increase in the share of other non-interest income in total income. Despite the 20.2% growth in absolute terms, Group III share went down due to faster growth in total income (37.0%). Total income grew at a faster rate also in Group I (17.1%), but fell in the remaining two groups. During the observed period, total bank income rose by 7.3%.

The structure of bank expenses as at end-2004 shows the growth in the share of interest expenses in total expenses, and the decrease in the share of expenses on commissions and fees and the share of

	Group I		Group II		Group III		Group IV		Total	
	Jan.-Dec. 2003	Jan.-Dec. 2004	Jan.-Dec. 2003	Jan.-Dec. 2004	Jan.-Dec. 2003	Jan.-Dec. 2004	Jan.-Dec. 2003	Jan.-Dec. 2004	Jan.-Dec. 2003	Jan.-Dec. 2004
1. INTEREST INCOME	70.4	70.4	74.7	71.6	66.9	71.7	79.7	71.6	71.1	70.5
1.1. Interest on loans and placements	54.7	56.3	62.8	59.7	56.7	63.9	73.7	59.9	56.4	57.0
1.2. Interest income from deposits	5.0	5.7	4.6	5.3	3.4	2.9	2.4	3.8	4.8	5.5
1.3. Interest income from debt securities	9.0	7.7	6.6	6.0	5.3	4.0	3.6	7.6	8.4	7.4
1.4. Net balances on exchange rate fluctuations related to interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0
1.5. Interest income from previous years	0.6	0.3	0.3	0.6	0.5	0.9	0.0	0.0	0.5	0.3
1.6. Other interest income	1.1	–	0.3	–	0.8	–	0.0	–	0.9	–
2. NET INTEREST INCOME	39.8	38.2	43.8	39.3	37.1	41.0	46.3	42.6	40.5	38.5
3. INCOME FROM COMMISSIONS AND FEES	20.5	19.0	14.8	14.8	17.5	14.6	9.0	12.3	19.3	18.4
3.1. Income from fees for payment operation services	–	11.2	–	7.2	–	9.1	–	7.3	–	10.8
3.2. Income from fees for other banking services	–	7.8	–	7.6	–	5.5	–	5.0	–	7.6
3.3. Net balances on exchange rate fluctuations related to claims based on fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. NET INCOME FROM COMMISSIONS AND FEES	10.0	10.1	7.4	8.7	10.0	8.6	4.2	6.4	9.5	9.8
5. OTHER NON-INTEREST INCOME	9.1	10.6	10.5	13.6	15.6	13.7	11.2	16.2	9.6	11.0
5.1. Gains/losses from investment in subsidiaries, associates and joint ventures	–0.3	0.2	0.3	–0.1	0.2	–0.2	0.3	0.0	–0.1	0.1
5.2. Gains/losses from trading activities	–	5.6	–	6.0	–	9.1	–	10.8	–	5.9
5.3. Gains/losses from activities related to assets available for sale	–	0.2	–	2.4	–	0.4	–	–0.5	–	0.4
5.4. Gains/losses from activities related to assets held to maturity	–	0.0	–	0.0	–	0.2	–	0.0	–	0.0
5.5. Gains/losses from activities related to assets held for trading, assets available for sale, assets held to maturity and value adjustment of these portfolios	4.5	–	6.2	–	12.4	–	5.9	–	5.1	–
5.6. Gains/losses from hedging transactions	–	0.0	–	0.0	–	0.0	–	0.3	–	0.0
5.7. Income from investments in subsidiaries and associates	–	2.4	–	0.2	–	0.0	–	0.0	–	2.1
5.8. Income from other equity investments	–	0.0	–	0.5	–	0.0	–	0.1	–	0.1
5.9. Total income from equity investments (dividends)	0.2	2.5	0.0	0.7	0.0	0.0	0.1	0.1	0.2	2.2
5.10. Gains/losses from calculated exchange rate differentials	0.6	0.2	0.1	0.2	1.3	–0.4	1.7	–0.7	0.6	0.1
5.11. Other income	3.2	1.9	3.9	3.9	1.8	1.3	3.2	1.6	3.2	2.0
5.12. Extraordinary income	0.1	0.1	0.2	0.5	0.1	3.3	0.6	4.6	0.1	0.3
6. NET NON-INTEREST INCOME	13.8	17.2	13.8	17.8	21.6	16.5	10.9	14.0	14.0	17.2
7. NET OPERATING INCOME BEFORE LOSS PROVISIONS	24.0	26.5	22.1	16.4	24.3	24.6	15.3	5.2	23.5	25.4
TOTAL INCOME	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

other non-interest expenses (Table 2.10). Interest expenses rose by 2.8 percentage points over the end of 2003, and accounted for 41.0% of total expenses at the end of 2004. Standing at 11.0% and 4.7% at end-2004, the share of expenses on commissions and fees fell by 1.1 percentage points and the share of other non-interest expenses by 1.6 percentage points. The shares of general administrative expenses and expenses on loss provisions remained at their end-2003 levels of 38.6% and 4.7% respectively.

Group I share of interest expenses in total expenses was somewhat higher at end-2004 than at end-2003 (by 3.4 percentage points), while the share of expenses on commissions and fees and the share of other non-interest expenses were lower (by 1.5 percentage points and by 2.2 percentage points respectively). The shares of general administrative expenses and depreciation and expenses on loss provisions remained unchanged compared to their end-2003 levels. At end-2004, Group II had the largest share of general administrative expenses and depreciation (up 2.1 percentage points) and

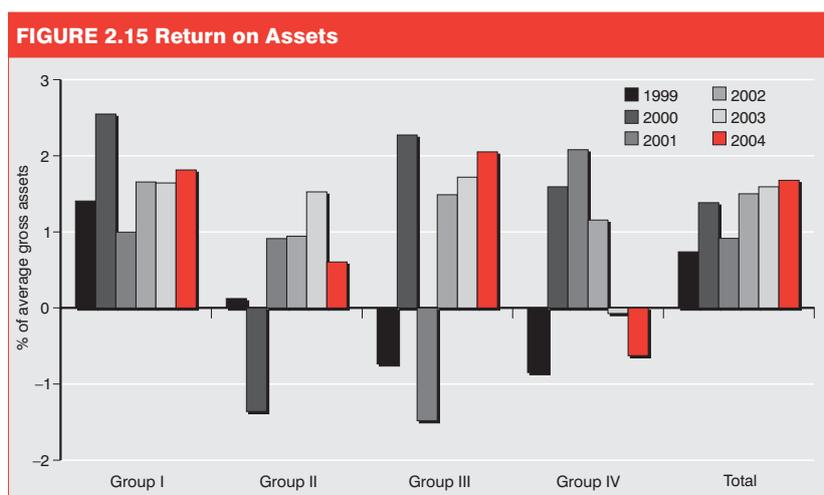
TABLE 2.10 Structure of Expenses, in %

	Group I		Group II		Group III		Group IV		Total	
	Jan.-Dec. 2003	Jan.-Dec. 2004								
1. INTEREST EXPENSES	38.6	42.0	38.1	36.4	35.3	37.1	33.1	27.3	38.2	41.0
1.1. Interest expenses on borrowings	8.4	9.0	5.4	6.5	4.6	3.3	2.0	3.1	7.6	8.4
1.2. Interest expenses on deposits	25.9	27.8	27.8	26.4	28.6	31.3	28.0	22.6	26.4	27.8
1.3. Interest expenses on debt securities	1.0	1.6	1.2	0.4	0.0	0.3	0.5	0.1	1.0	1.4
1.4. Premiums for the insurance of savings deposits	2.9	2.7	3.5	2.9	1.3	1.9	2.3	1.4	2.9	2.6
1.5. Net balances on exchange rate fluctuations related to interest expenses	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
1.6. Interest expenses from previous years	0.3	0.0	0.1	0.1	0.6	0.2	0.0	0.0	0.2	0.0
1.7. Other interest expenses	0.2	–	0.1	–	0.1	–	0.2	–	0.1	–
2. EXPENSES ON COMMISSIONS AND FEES	13.2	11.7	9.1	6.9	8.9	7.3	4.7	5.5	12.2	11.0
2.1. Expenses on fees/commissions for banking services	–	11.7	–	6.9	–	7.3	–	5.5	–	11.0
2.2. Net balances on exchange rate fluctuations related to liabilities based on fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. OTHER NON-INTEREST EXPENSES	6.7	4.5	5.1	5.1	4.7	7.0	4.5	8.1	6.3	4.7
3.1. Other expenses	6.6	4.4	4.9	5.0	4.7	4.6	4.0	6.4	6.2	4.5
3.2. Extraordinary expenses	0.0	0.0	0.2	0.1	0.0	2.4	0.5	1.7	0.1	0.2
4. GENERAL ADMINISTRATIVE EXPENSES AND DEPRECIATION	37.4	37.7	43.7	45.8	40.9	39.7	41.6	48.3	38.6	38.6
4.1. Expenses for employees	19.9	18.8	22.2	22.3	20.0	19.6	21.2	25.3	20.3	19.3
4.2. Depreciation	5.4	6.0	4.6	5.0	5.6	5.8	6.1	4.6	5.4	5.8
4.3. Other administrative expenses	12.1	12.9	16.9	18.5	15.3	14.2	14.3	18.4	12.9	13.5
5. LOSS PROVISION EXPENSES	4.1	4.2	3.9	5.9	10.1	8.9	16.1	10.8	4.7	4.7
5.1. Expenses on value adjustment and provisions for identified losses	2.9	2.2	1.9	4.4	9.9	10.4	14.7	13.2	3.5	3.1
5.2. Expenses on unidentified loss provisions	1.7	2.0	2.4	1.5	0.2	–1.5	1.2	–2.4	1.8	1.7
TOTAL EXPENSES	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

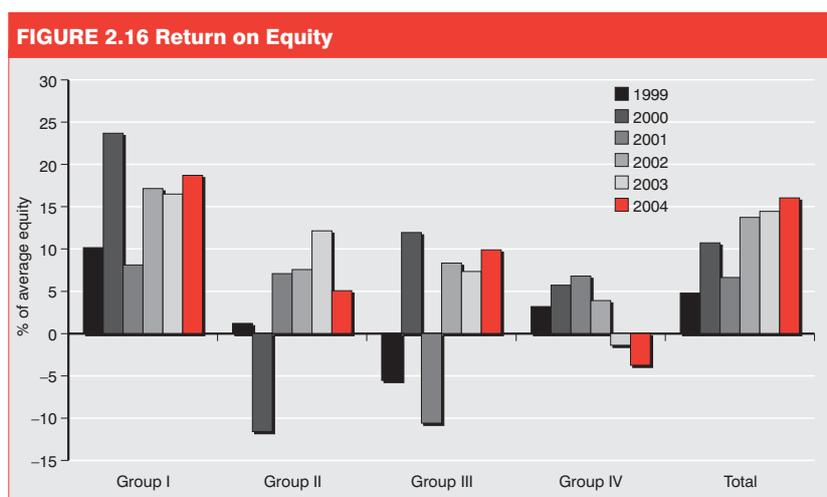
the share of expenses on loss provision (up 2.0 percentage points). In addition, this Group's share of interest expenses fell by 1.8 percentage points, mostly on account of the fall in interest expenses on deposits. Group III expenses grew mostly on account of the increase in the share of interest expenses (1.7 percentage points) and the share of other non-interest expenses (2.3 percentage points). This bank group's share of general administrative expenses and depreciation and share of expenses on loss provisions fell by 1.2 percentage points each. During the observed period, Group IV registered the largest decrease in interest expenses (5.8 percentage points) and in expenses on loss provisions (5.3 percentage points), and the largest increase in general administrative expenses and depreciation (6.8 percentage points).

2.1.6 Return Indicators

Trending upwards since 2002, total bank return on average gross assets stood at 1.7% at end-2004, up 0.1 percentage point compared with end-2003 (Figure 2.15). Return on assets grew the most in Group III banks (0.4 percentage points). In addition, the 0.2 percentage points growth in return on assets in Group I had far more significant effect on the system as a whole. By contrast, return on assets fell in Groups II and IV (by 0.9 percentage points and 0.5 percentage points respectively). The highest return on gross assets was registered by Group II (2.1%) and Group I (1.8%), while Group II recorded lower return of 0.6%. ROA of Group IV was negative at end-2004 (–0.6%) due to HRK 20.1 m in loss incurred by this group.



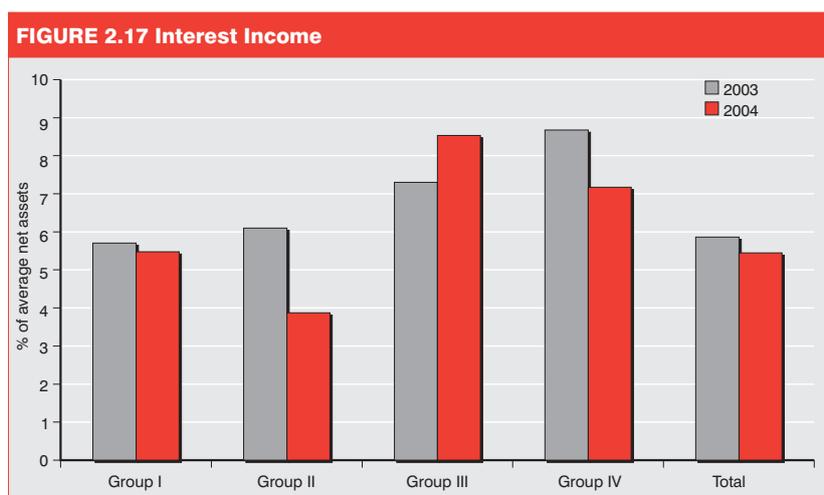
Standing at 16.1%, the rate of return on average equity grew for the third consecutive year in 2004 (Figure 2.16). Compared with end-2003, it grew by 1.6 percentage points. The rates of return on equity were the largest in Group I, III and II, accounting for 18.7%, 9.9% and 5.1% respectively at end-2004. This rate was negative in Group IV (-3.7%). The rate of return on average equity grew in Groups I and III, by 2.2 percentage points and 2.6 percentage points respectively and fell in Groups II and IV, by 7.0 percentage points and 2.3 percentage points respectively.



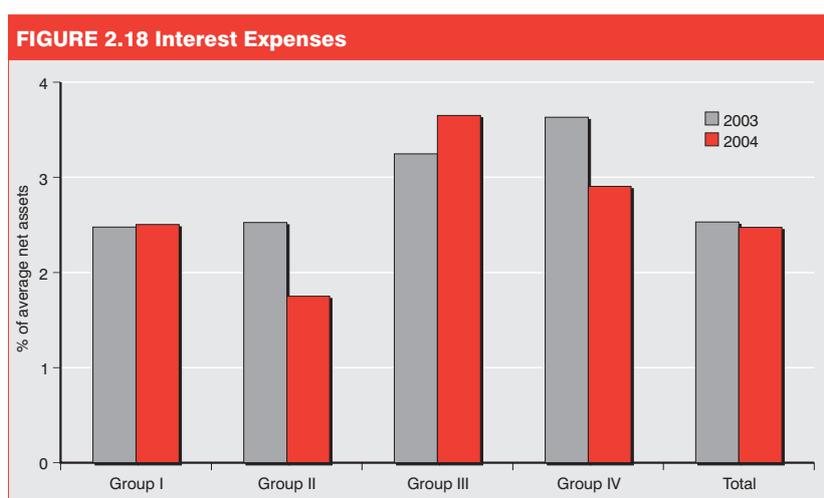
The ratio of average interest income to average net assets stood at 5.4% at end-2004, a decline of 0.5 percentage points compared with end-2003 (Figure 2.17). This decrease is attributed to the faster growth in average net assets than in interest income.

Group III had the largest ratio of average interest income to average net assets (8.5%). Groups IV, I and II followed with 7.2%, 5.5% and 3.9% respectively. Compared with 2003, this ratio diminished in Group I, II and IV (between 0.2 percentage points and 2.2 percentage points). However, it rose by 1.2 percentage points in Group III.

The ratio of average interest expenses to average net assets was 2.5% at end-2004, the level it also had at end-2003 (Figure 2.18). The same ratio was recorded by Group I, while Group III and IV ratios stood at 3.7% and 2.9% respectively. The ratio of average interest expenses to average net assets was



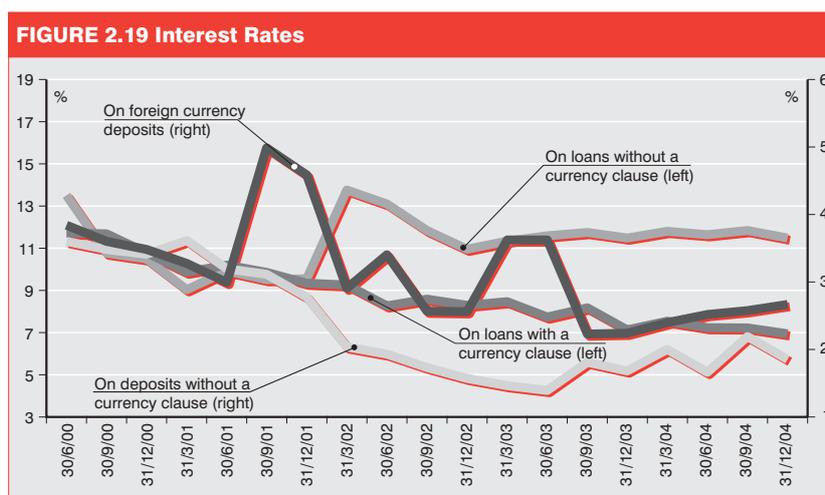
lower in Group II than in all banks in the system, and stood at 1.7% at-end 2004. During the observed period, this ratio remained unchanged in Group I, but fell in Groups II and IV (by 0.8 percentage points and 0.7 percentage points respectively). It grew only in Group III banks (by 0.5 percentage points).



Net interest spread fell by 0.4 percentage points and stood at 3.0% at end-2004¹⁴ on account of a faster growth in interest expenses (12.1%) than in interest income (6.4%). As regards individual bank groups, net interest spread grew by 0.1 percentage point in Group I and thus equalled net interest spread recorded by the system as a whole. Net interest spread grew to 4.9% or by 0.4 percentage points in Group III and fell to 2.1% or by 1.4 percentage points in Group II and to 4.3% or by 0.5 percentage points in Group IV.

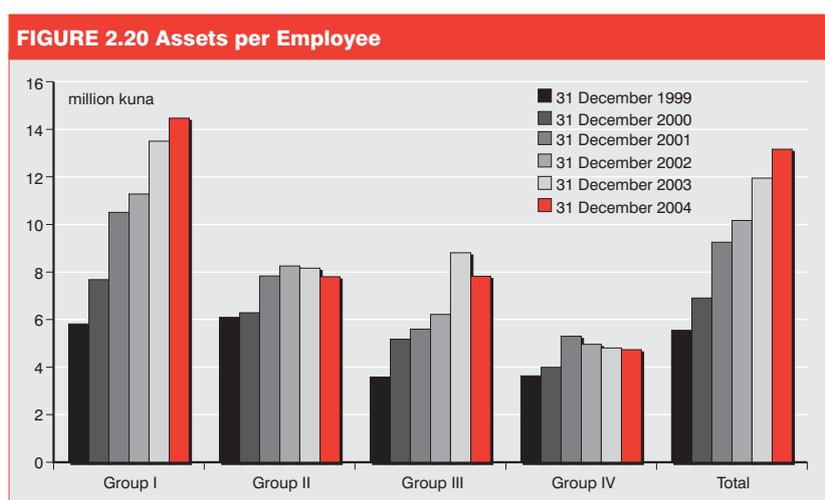
All bank interest rates were on a downward trend in 2004. The exception to this was a modest increase in interest rates on foreign currency deposits (0.1 percentage point). Interest rates on deposits with-

14 Net interest spread is calculated as the difference between interest income and interest expenses divided by the average assets.



out a currency clause fell by 0.4 percentage points to 1.8 %, while interest rates on foreign currency deposits grew by 2.7%. Interest rates on loans went down by 0.4 percentage points and by 0.3 percentage points respectively, standing at 11.4% on loans without a currency clause and at 6.9% on loans with a currency clause.

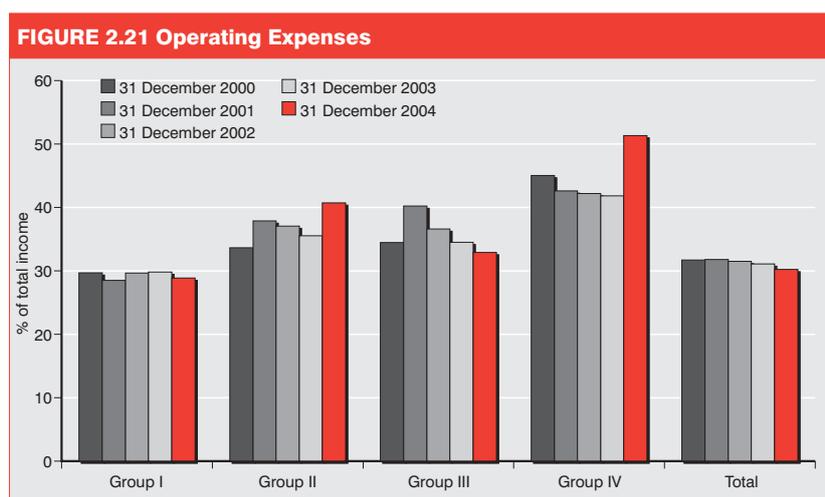
The number of persons employed by the banking system grew by 2.0% at end-2004 compared with end-2003, from 17,086 to 17,424. During the observed period, the number of employees rose in Group I by 1,731 or 13.8% and in Group III by 300 or 48.0%. It declined in other bank groups: by 46.5% in Group II and by 29.9% in Group IV. At end-2004, Group I banks employed 14,267 persons, accounting for 81.9% of the total number of persons working in the banking sector, while Groups II, III and IV employed 1,679, 925 and 553 persons, accounting for 9.6%, 5.3%, and 3.2%, respectively, of the total number of persons employed.



Assets per employee have been trending upward since end-2000. It stood at HRK 13.2m at end-2004, up 10.2% or HRK 1.3m compared with end-2003 (Figure 2.20). The growth of this ratio in Group I (7.1%) played a decisive role in the recorded increase, while its fall in other bank groups (it ranged from 1.5% to 11.3% in Group III) had no significant impact, which is understandable if the size of

assets of banks in Group I is taken into account. The growth in assets per employee can also be attributed to the faster growth in bank assets (12.34%) than in the number of employed in the banking system (1.98%).

Group I was the most efficacious group in terms of assets per employee at-end 2004; its average assets per employee stood at HRK 14.5m. Groups II and III followed with HRK 7.8m (each) and Group IV with HRK 4.7m.



The ratio of operating expenses to total income stood at 30.2% at end-2004, which was a decline of 0.9 percentage points compared with end-2003 (Figure 2.21). On a downward trend since 2002, this ratio fell in 2004 on account of a more rapid growth in total income (7.7%) than in operating expenses (4.7%).

In 2004, the ratio of operating expenses to total income decreased in two most efficacious bank groups: Group I ratio fell to 28.9% or by 0.9 percentage points (the same rate of decrease was recorded in the system as a whole), while Group III ratio fell to 32.9% or by 1.6 percentage points. In Group II, this ratio grew by 5.1 percentage points, reaching 40.7% at year-end. Group IV registered an increase of 9.5 percentage points, with the ratio totalling to 51.3%.

2.1.7 Credit Activity

Total placements and contingent liabilities were HRK 242.3bn at 31 December 2004, up HRK 31.3bn (14.8%) compared with end-2003 (Table 2.11). Their growth rates stood at 15.3% and 20.7% respectively at end-2003 and end-2002. The major contributors to the growth in total placements and contingent liabilities in 2004 were the increase in extended loans (gross), up by HRK 15.0bn (12.9%), and the increase in extended deposits (gross), up by HRK 13.6bn (26.6%). The growth in extended loans (gross) was the result of the increase in loans extended to households (by HRK 10.3bn or 19.0%), while the growth in extended deposits (gross) was the result of the increase in deposits with the CNB (by HRK 11.4bn or a high 57.5%). The significant growth in deposits with the CNB was brought about by the introduction of the monetary measure requiring the banks to allocate the foreign

exchange parts of the reserve requirements calculated on foreign exchange sources of funds of non-residents and on foreign currency deposits of persons in a special relationship with the bank at the rate of 100% as well as by the increase in the percentage of kuna and foreign exchange reserve requirement to be allocated in special accounts with the CNB.¹⁵

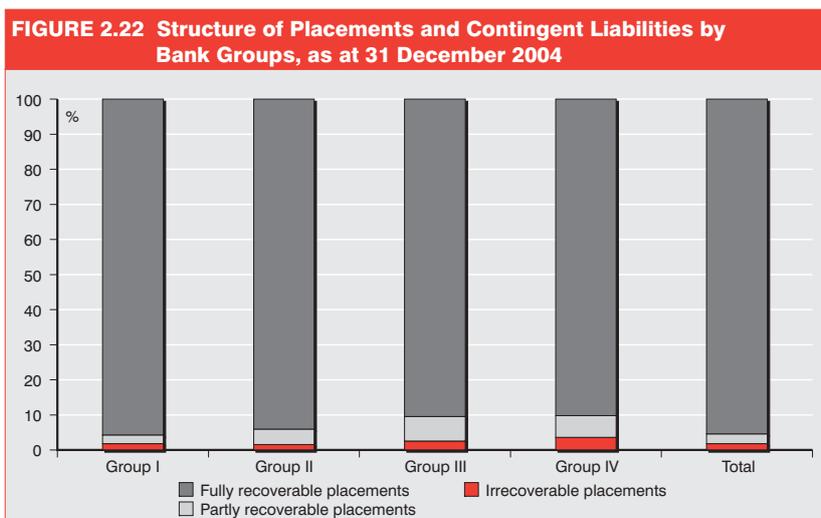
For the most part, the recorded growth in total placements and contingent liabilities was effected in the second half of 2004. Following the increase of HRK 9.4bn (4.4%) in the first half of 2004, total placements and contingent liabilities grew by an additional HRK 22.0bn (10.0%) in the second half of 2004, mostly on account of the rise in extended loans (gross) of HRK 12.0bn (10.0%). Within this, the growth in loans to households (gross) stood at HRK 7.5bn or 13.1% in the second half of 2004.

TABLE 2.11 Classification of Placements and Contingent Liabilities by Risk Categories, in million kuna and %

Placements	Dec. 2001		Dec. 2002		Dec. 2003		Dec. 2004	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
1. Fully recoverable placements (category A)	140,586.6	92.7	172,251.3	94.1	200,166.3	94.9	231,225.3	95.4
2. Partly recoverable placements (category B)	6,719.5	4.4	6,473.3	3.5	7,475.8	3.5	6,722.6	2.8
3. Irrecoverable placements (category C)	4,287.3	2.8	4,245.4	2.3	3,371.5	1.6	4,386.2	1.8
Total	151,593.3	100.0	182,970.0	100.0	211,013.6	100.0	242,334.1	100.0

Fully recoverable placements and contingent liabilities grew by 15.5% in 2004. Accordingly, their share in total placements and contingent liabilities grew from 94.9% at end-2003 to 95.4% at end-2004. Partly recoverable placements and contingent liabilities dropped by 10.1% at end-2004 compared with end-2003, accounting for 2.8% of total placements and contingent liabilities. Irrecoverable placements and contingent liabilities grew at a rate 30.1% in 2004. As a result, their share in total placements and contingent liabilities grew to 1.8% at the end of the observed period.

At end-2004, Group I banks had the best quality placements and contingent liabilities. This group's share of fully recoverable placements and contingent liabilities in total placements and contingent liabilities grew at a modest rate over the observed period (from 95.6% to 95.7%). In addition, this share



15 Decision on Reserve Requirements (official gazette *Narodne novine*, No. 203/2003).

grew also in Group II banks (from 91.9% to 94.0%), but it fell in Group III banks (from 91.5% to 90.4%) and in Group IV banks (from 93.5% to 90.2%).

The relative ratio of total placement value adjustment and provisions for contingent liabilities to total placements and contingent liabilities fell from 4.1% at end-2003 to 3.7% at end-2004 (Table 2.12). Total placement value adjustment and provisions for contingent liabilities went up by 3.5% during the observed period. However, the growth in total placements and contingent liabilities at the rate of 14.8% contributed to the further decrease in the ratio of total placement value adjustment and provisions for contingent liabilities to total placements and contingent liabilities.

In 2004, the placement value adjustment and provisions for identified losses from contingent liabilities exceeded by 1.5% and provisions for unidentified losses by as much as 9.8% their end-2003 values. Therefore, the structure of total provisions saw a decrease in the share of the placement value adjustment and provisions for identified losses from contingent liabilities, i.e. those provisions that are allocated against identified losses (from 76.3% to 74.9%). The share of provisions for unidentified losses went up from 23.7% to 25.1%.

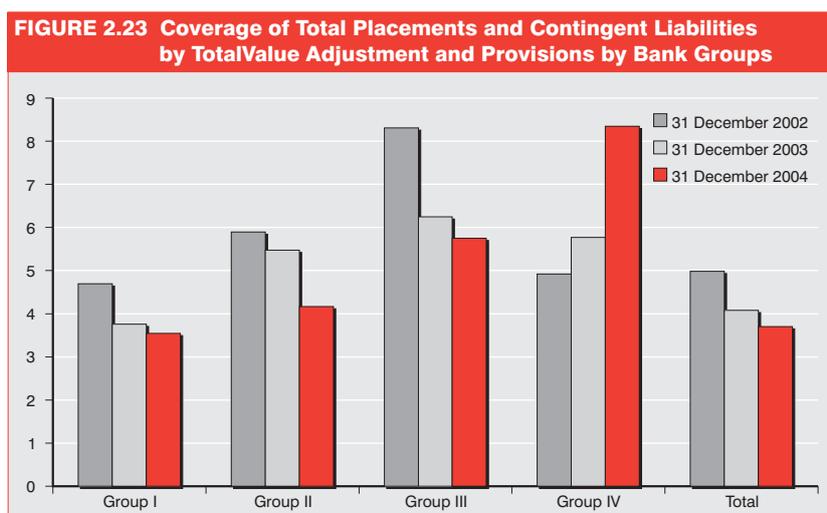
TABLE 2.12 Total Value Adjustment and Provisions to Total Placements and Contingent Liabilities Ratio, end of period, in million kuna and %

Placements	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004
1. Total value adjustment against placements and provisions for contingent liabilities	9,326.7	9,121.2	8,611.5	8,909.9
1.1. Value adjustment against placements and provisions for identified losses from contingent liabilities	7,912.1	7,303.4	6,573.8	6,672.5
1.2. Provisions for unidentified losses	1,414.6	1,817.9	2,037.7	2,237.3
2. Total placements and contingent liabilities	151,593.3	182,970.0	211,013.6	242,334.1
3. Relative ratio of total value adjustment and provisions to total placements and contingent liabilities	6.2	5.0	4.1	3.7

Compared with end-2003, the placement value adjustment and provisions for identified losses and the provisions for unidentified losses grew only in Group I banks at-end 2004. However, due to the growth in total placements and contingent liabilities of 24.9%, this bank group registered a decline in the ratio of placements and contingent liabilities to total provisions, from 3.8% to 3.5%, which was the lowest ratio level registered among all bank groups. Group III also registered an increase in placements and contingent liabilities (by 36.0%), which, despite an increase in total provisions by 25.3%, resulted in the fall in this group's ratio (from 6.2% to 5.7%). Groups II and IV registered the decrease in total placements and contingent liabilities, by 50.3% and 25.7% respectively. In addition, Group II saw a fall in the ratio to 4.2% due to a 62.2% decline in total provisions. The ratio grew in Group IV, from 5.8% to 8.3%, on account of a 7.4% increase in total provisions.

Total extended loans (net) stood at HRK 125.2bn at end-2004, an increase of HRK 15.1bn or 13.7% compared with end-2003¹⁶ (Table 2.13). Household loans contributed the most to the increase of total extended loans (net), HRK 10.1bn or 19.1%. Their share in total extended loans (net) rose to 50.0%, or by 2.3 percentage points. At end-2004, household loans had the largest share in the loan portfolio of all bank groups. This does not relate to Group III in whose sectoral distribution of loans (net) predominated loans to enterprises, accounting for a share of 54.5%.

¹⁶ Total loans (net) in Table 2.13 extended in 2003 include bought receivables and rights to receivables.



During the observed period, loans to public enterprises recorded the largest relative growth (22.4%), which, as in the case of loans to households, was the only registered increase of the share in the sectoral distribution of net loans (from 3.7% to 4.0%). Loans to other enterprises grew by 8.4%. However, their share in the sectoral distribution of net loans fell to 35.6% at end-2004. In addition, the shares of loans to government units fell to 7.2%, financial institutions to 2.6% and non-residents to 0.2%, while the share of loans to non-profit institutions remained at its 2003 level of 0.3%.

Accounting for a share of 44.9% at end-2004, other loans (cash loans, overdraft facility loans and the like) predominated in the structure of loans extended (net) to the household. After growing by 27.6% in 2004, housing loans increased their share in total loans extended to the household, from 31.4% at end-2003 to 33.7% at end-2004. Automobile loans accounted for a share of 12.8% at end-2004, and credit card loans a share of 4.5%. In contrast, the share of mortgage loans was the lowest and accounted for 4.2% of total loans extended (net) to the households.

TABLE 2.13 Structure of Net Loans by Institutional Sectors, end of period, in million kuna

	Group I		Group II		Group III		Group IV		Total	
	Dec. 2003	Dec. 2004	Dec. 2003	Dec. 2004	Dec. 2003	Dec. 2004	Dec. 2003	Dec. 2004	Dec. 2003	Dec. 2004
1. Government units	8,167.1	8,935.9	368.0	86.1	11.0	7.3	1.3	1.9	8,547.4	9,031.1
2. Financial institutions	2,385.5	2,841.1	408.2	320.7	143.7	109.9	119.5	17.7	3,057.0	3,289.5
3. Public enterprises	3,883.4	4,847.8	115.9	56.0	43.4	48.6	1.8	0.0	4,044.5	4,952.4
4. Other enterprises	32,256.1	38,915.9	5,943.0	2,614.3	2,041.2	2,415.1	890.4	638.5	41,130.7	44,583.7
5. Non-profit institutions	267.8	364.1	64.6	19.7	9.0	8.2	1.6	2.2	343.0	394.3
6. Households	42,659.0	56,012.4	7,622.1	3,975.2	962.1	1,933.6	1,343.7	721.6	52,586.9	62,642.8
7. Non-residents	302.0	305.3	34.4	1.9	41.3	1.0	13.7	0.0	391.3	308.2
Total	89,920.9	112,222.4	14,556.3	7,074.0	3,251.7	4,523.6	2,371.9	1,382.0	110,100.8	125,202.1

2.1.8 Liquidity Ratios

Total CNB bills and central government bills subscribed stood at HRK 13.6bn at end-2004, up 70.6 % over the end of 2003.

There were no subscriptions of kuna and foreign currency CNB bills since they were not issued during the observed period. 74.6% (or three quarters) of the subscribed CNB and central government bills were accounted for by money market instruments of the central government and 25.4% by T-bills.

TABLE 2.14 Purchased CNB and Central Government Bills, in million kuna and %, stock on 31 December 2004

	Group I		Group II		Group III		Group IV		Total	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share
1. CNB bills denominated in kuna	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. CNB bills denominated in foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. MoF treasury bills	3,206.4	25.4	318.5	38.1	49.9	65.5	13.7	29.4	3,580.6	26.4
4. Other money market instruments of the central government ^a	9,411.2	74.6	517.1	61.9	26.3	34.5	32.9	70.6	9,987.6	73.6
Total	12,617.6	100.0	835.7	100.0	76.2	100.0	46.6	100.0	13,568.1	100.0

^a Includes the instruments whose price is market determined.

Loan facilities extended by the CNB were half as large as loan facilities extended in the previous year (HRK 50.4m in 2004 vs. HRK 102.0m in 2003). In 2004, banks only used Lombard loans (Table 2.15).

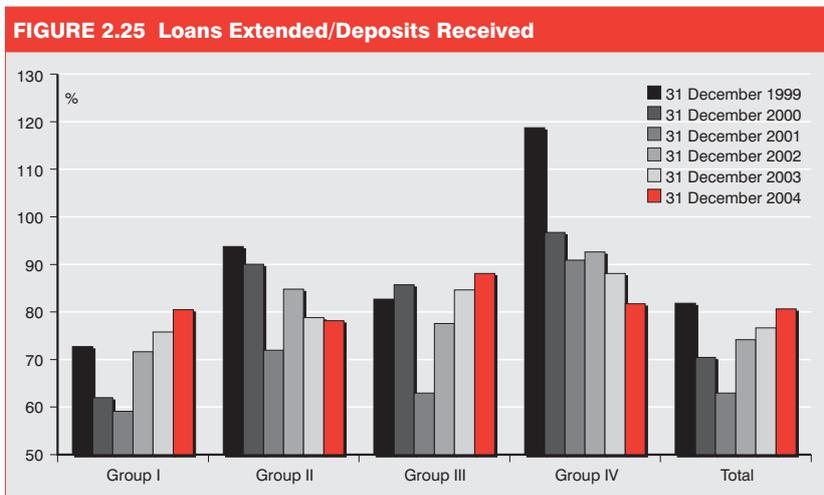
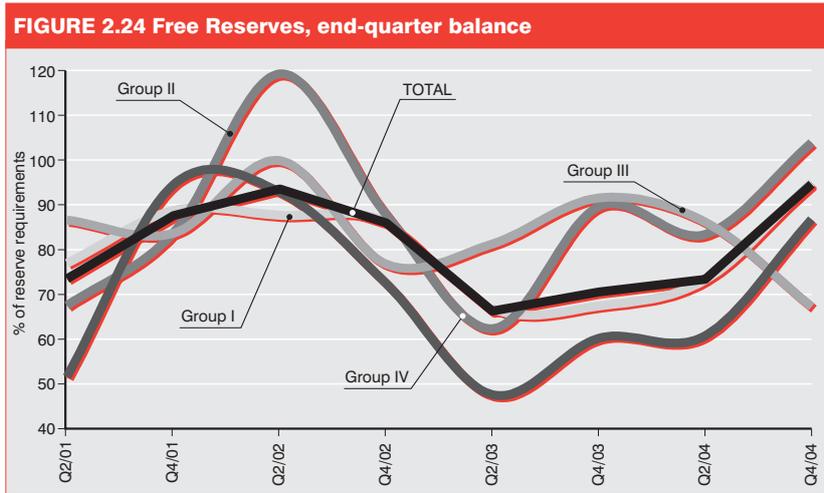
TABLE 2.15 CNB Loans, in million kuna, annual average

	Group I		Group II		Group III		Group IV		Total	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
1. Lombard loans	15.0	49.3	85.1	0.7	1.9	0.0	0.0	0.4	102.0	50.4
2. Liquidity loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Repo CNB bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

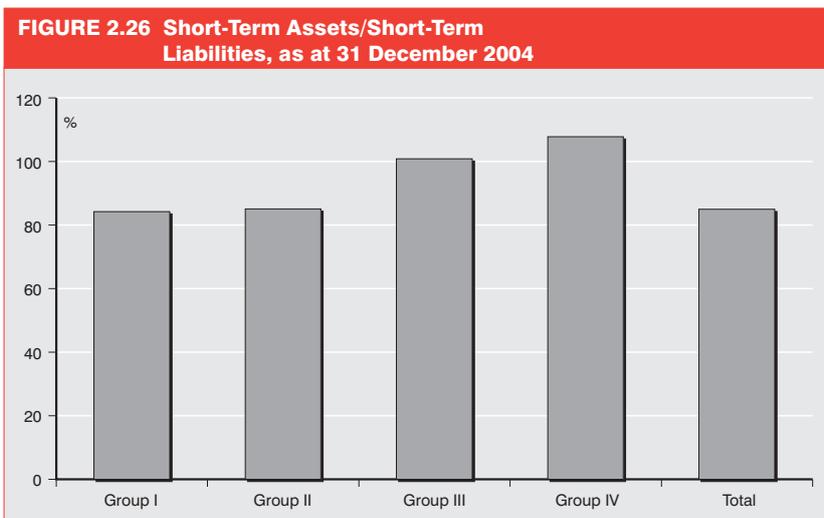
Standing at 94.6%, the ratio of average free reserves to average reserve requirements rose by 24.1 percentage points in the last quarter of 2004 over the same quarter previous year (Figure 2.24). Group II had the highest average free reserves to average reserve requirements ratio (103.9%) in the fourth quarter of 2004. Groups I and IV followed with the ratios of 95.0% and 86.8% respectively. The ratio was the smallest in Group IV, 67.2%. Compared with end-2003, the ratio grew in all bank groups. Group III was the exception with the fall in ratio of 26.6%.

The ratio of extended loans to received deposits went up by 4.0 percentage points at end-2004 compared with end-2003, reaching 80.6% (Figure 2.25). This increase was caused by extended loans growing faster (up 13.7%) than received deposits (up 8.1%). Viewed by individual bank groups, the ratio of extended loans to received deposits grew in Group I banks, by 4.7 percentage points, and in Group III banks, by 3.5 percentage points. In contrast, it fell in Group IV banks, by 6.3 percentage points and in Group II banks, by 0.6 percentage points. The ratio was the highest in Group III (88.1%) and the smallest in Group II (78.2%).

The ratio between short-term assets and short-term liabilities, calculated on the basis of data on their remaining maturity, stood at 85.0% at end-2004 (Figure 2.26).

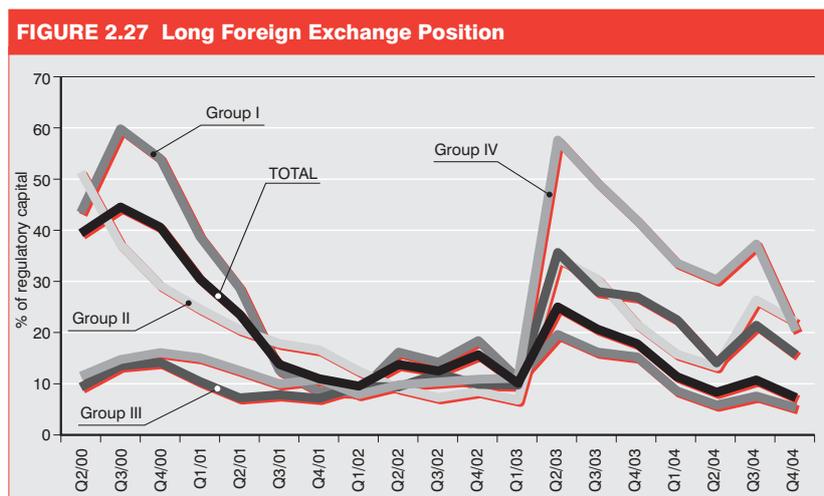


Both in Group I and Group II this ratio was lower than 100%, i.e. these groups' short-term liabilities exceeded their short-term assets, and stood at 84.2% and 85.0% respectively. However, the ratio was higher in Groups III and IV; it stood at 100.9% and 107.8% respectively.

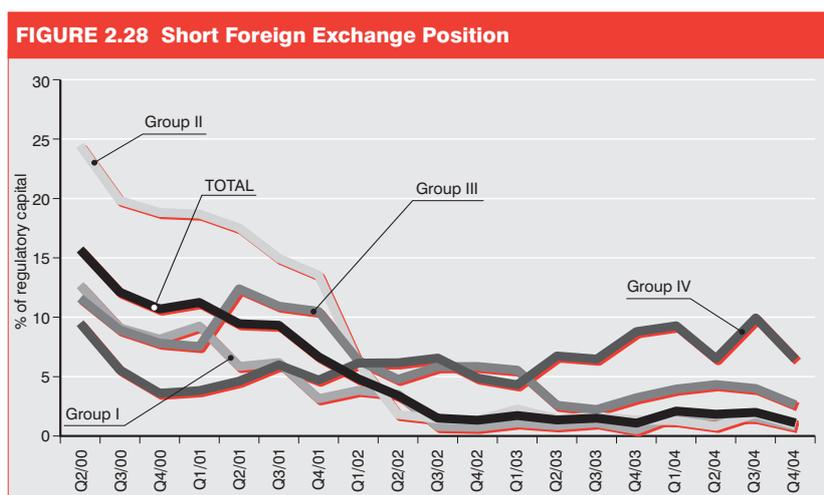


2.1.9 Currency Adjustment of Assets and Liabilities

The ratio of average long foreign exchange position and regulatory capital stood at 7.3% in the fourth quarter of 2004, which was considerably less than at end-2003 when it amounted to 17.8% (Figure 2.27). The largest average long foreign exchange position, expressed as a percentage of the regulatory capital, was recorded by Group II banks in the fourth quarter of 2004 (22.1%). Groups IV, III and I followed with 20.3%, 15.7% and 5.3% respectively.



The ratio of average short foreign exchange position to regulatory capital remained in the last quarter of 2004 at its previous year level of 1.1% (Figure 2.28). The largest ratio of total short foreign exchange position to regulatory capital was recorded in Group IV banks (6.4%). Groups III, II and I followed with 2.6%, 0.9% and 0.8% respectively.



2.2 Housing Savings Banks

There were four housing savings banks operating in Croatia in 2004.

2.2.1 Housing Savings Banks' Balance Sheet

Total housing savings bank assets stood at HRK 5.4bn at end-2004, up 52.01% compared with end-2003. Total housing savings bank assets accounted for 2.33% of total bank assets at end-2004.

Securities and other financial instruments available for sale accounted for the largest share of total housing savings bank assets at end-2004 (40.14%) (Table 2.16). The share of T-bills was the second largest (14.59%). Securities and other financial instruments held to maturity followed with 10.24%. Total investment in securities mostly comprised bonds and other long-term instruments of the Republic of Croatia (72.64%) and T-bills (20.54%), while the remaining portion was accounted for by the investment in bonds and other long-term instruments of central government funds (5.79%), banks (0.60%) and CBRD (0.42%).

Housing savings bank liabilities at end-2004 consisted mostly of deposits (88.36%), in particular time deposits (88.36%), and of interest, fees and other liabilities (8.46%) and capital (2.89%) (Table 2.17). Time deposits with housing savings banks rose by HRK 1.5bn or 44.81% at end-2004 com-

TABLE 2.16 Structure of Housing Savings Bank Assets, end of period, in million kuna and %

	Dec. 2001		Dec. 2002			Dec. 2003			Dec. 2004		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	15.48	1.19	19.15	0.88	23.73	0.01	0.00	-99.96	0.01	0.00	100.00
1.1. Money assets	0.02	0.00	0.02	0.00	-33.33	0.01	0.00	-56.25	0.01	0.00	100.00
1.2. Deposits with the CNB	15.45	1.19	19.13	0.88	23.82	0.00	0.00	-100.00	0.00	0.00	0.00
2. Deposits with banking institutions	9.28	0.71	27.19	1.24	192.90	25.86	0.73	-4.92	332.36	6.21	1,185.48
3. MoF treasury bills and CNB bills	404.90	31.17	561.52	25.68	38.68	748.89	21.27	33.37	780.79	14.59	4.26
4. Securities and other financial instruments held for trading and available for sale	468.74	36.08	1,149.60	52.58	145.25	766.81	21.78	-33.30	2,398.14	44.81	212.74
4.1. Securities and other financial instruments held for trading	-	-	-	-	-	-	-	-	250.18	4.68	-
4.2. Securities and other financial instruments available for sale	-	-	-	-	-	-	-	-	2,147.96	40.14	-
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	335.60	25.83	277.77	12.71	-17.23	1,527.89	43.40	450.05	623.14	11.64	-59.22
5.1. Securities and other financial instruments held to maturity	-	-	-	-	-	-	-	-	548.19	10.24	-
5.2. Securities and other financial instruments bought on issue directly from the issuer	-	-	-	-	-	-	-	-	74.96	1.40	-
6. Derivative financial assets	-	-	-	-	-	-	-	-	0.00	0.00	-
7. Loans to financial institutions	8.83	0.68	10.05	0.46	13.81	211.39	6.00	2,002.72	468.95	8.76	121.85
8. Loans to other clients	11.59	0.89	91.32	4.18	688.02	187.78	5.33	105.62	372.94	6.97	98.61
9. Investments in subsidiaries and associates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10. Foreclosed and repossessed assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
11. Tangible assets (net of depreciation)	19.94	1.53	20.51	0.94	2.84	18.98	0.54	-7.44	8.72	0.16	-54.04
12. Interest, fees and other assets	24.99	1.92	30.76	1.41	23.10	39.10	1.11	27.13	389.35	7.28	895.68
13. Net of: Specific reserves for unidentified losses	0.32	0.02	1.58	0.07	396.85	6.27	0.18	297.84	23.13	0.43	269.10
TOTAL ASSETS	1,299.03	100.00	2,186.31	100.00	68.30	3,520.43	100.00	61.02	5,351.29	100.00	52.01

	Dec. 2001		Dec. 2002			Dec. 2003			Dec. 2004		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	0.00	0.00	0.00	0.00	0.00	0.39	0.01	0.00	0.00	0.00	-100.00
1.1. Short-term loans	0.00	0.00	0.00	0.00	0.00	0.39	0.01	0.00	0.00	0.00	-100.00
1.2. Long-term loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Deposits	1,137.58	87.57	2,012.87	92.07	76.94	3,265.14	92.75	62.21	4,728.25	88.36	44.81
2.1. Giro account and current account deposits	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2.2. Savings deposits	0.00	0.00	0.00	0.00	0.00	0.13	0.00	13,000.00	0.09	0.00	-32.82
2.3. Time deposits	1,137.58	87.57	2,012.87	92.07	76.94	3,265.01	92.74	62.21	4,728.16	88.36	44.81
3. Other loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3.1. Short-term loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3.2. Long-term loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Derivative financial liabilities and other financial liabilities held for trading	-	-	-	-	-	-	-	-	4.87	0.09	-
5. Debt securities issued	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5.1. Short-term debt securities issued	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5.2. Long-term debt securities issued	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6. Subordinated instruments issued	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7. Hybrid instruments issued	10.00	0.77	0.00	0.00	-100.00	10.71	0.30	0.00	10.74	0.20	0.32
8. Interest, fees and other liabilities	37.18	2.86	36.30	1.66	-2.35	89.39	2.54	146.24	452.63	8.46	406.34
TOTAL LIABILITIES	1,184.75	91.20	2,049.17	93.73	72.96	3,365.63	95.60	64.24	5,196.48	97.11	54.40
TOTAL CAPITAL	114.28	8.80	137.14	6.27	20.01	154.81	4.40	12.88	154.81	2.89	0.00
TOTAL LIABILITIES AND CAPITAL	1,299.03	100.00	2,186.31	100.00	68.30	3,520.43	100.00	61.02	5,351.29	100.00	52.01

pared with end-2003, accounting for 79.92% of the total growth in housing savings banks liabilities during the observed period.

Total housing savings bank capital was HRK 154.81m at end-2004, and remained unchanged compared with end-2003. As regards individual capital items, the growth rates were recorded by share capital, current year profit and legal reserves. The growth in these capital items did not contribute to the growth in total capital due to a concurrent increase in retained loss. No housing savings bank reported reserves provided for by the articles of association and other capital reserves at end-2004.

Housing savings banks' capital adequacy ratio stood at 27.74% at end-2004, which was a decrease compared with end-2003 when it stood at 30.98%. Regulatory capital of housing savings banks was HRK 152.81m during the observed period.

	Dec. 2001		Dec. 2002			Dec. 2003			Dec. 2004		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	173.04	151.42	163.36	119.12	-5.59	193.36	124.91	18.36	203.36	131.36	5.17
2. Current year profit/loss	-14.99	-13.12	33.81	24.65	-325.52	-9.33	-6.03	-127.60	11.40	7.37	-222.22
3. Retained earnings (loss)	-55.41	-48.49	-73.20	-53.38	32.11	-51.46	-33.24	-29.71	-63.44	-40.98	23.28
4. Legal reserves	0.04	0.04	0.30	0.22	631.71	1.50	0.97	400.00	3.48	2.25	1 32.07
5. Total reserves provided for by the articles of association and other capital reserves	11.60	10.15	12.87	9.38	10.98	20.73	13.39	61.08	0.00	0.00	-100.00
5.1. Reserves provided for by the articles of association and other capital reserves	-	-	-	-	-	-	-	-	0.00	0.00	-
5.2. Unrealised gains/losses on value adjustment of financial assets available for sale	-	-	-	-	-	-	-	-	0.00	0.00	-
5.3. Reserves arising from hedging transactions	-	-	-	-	-	-	-	-	0.00	0.00	-
6. Previous year profit/loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL CAPITAL	114.28	100.00	137.14	100.00	20.01	154.81	100.00	12.88	154.81	100.00	0.00

2.2.2 Housing Savings Banks' Income Statement

Housing savings banks reported HRK 14.20m in income before taxes at end-2004, in contrast with HRK 9.05m in loss before taxes reported at end-2003 (Table 2.19). Of the four housing savings banks, three housing savings banks ended 2004 with HRK 19.59m in income before taxes, of which 54.48% were accounted for by one housing savings bank. During the same period, the remaining (fourth) housing savings bank reported loss before taxes of HRK 5.39m.

Interest income accounted for 60.18% or the largest share of total housing savings bank income at end-2004. It was followed by income from commissions and fees (26.45%) and other non-interest income (13.37%). The largest shares in total expenses were accounted for by interest expenses (43.89%), general administrative expenses and depreciation (36.13%), other non-interest expenses (12.47%), expenses on loss provisions (5.19%) and, finally, expenses on commissions and fees (2.33%).

TABLE 2.19 Housing Savings Bank Income Statement, in million kuna

	Dec. 2003	Dec. 2004
1. Net interest income	61.83	61.81
1.1. Total interest income	152.00	205.27
1.2. Total interest expenses	90.18	143.46
2. Net income from commissions and fees	63.23	82.60
2.1. Total income from commissions and fees	84.69	90.21
2.2. Total expenses on commissions and fees	21.45	7.61
3. Net other non-interest income	-32.53	4.87
3.1. Other non-interest income	-3.15	45.62
3.2. Other non-interest expenses	29.39	40.76
4. Net non-interest income	30.70	87.47
5. General administrative expenses and depreciation	96.68	118.10
6. Net operating income before loss provisions	-4.15	31.18
7. Total expenses on loss provisions	4.90	16.98
7.1. Expenses on value adjustment and provisions for identified losses	0.14	0.09
7.2. Expenses on provisions for unidentified losses	4.76	16.89
8. Income/loss before taxes	-9.05	14.20
9. Income tax	0.28	2.80
10. Current year profit/loss	-9.33	11.40

2.2.3 Credit Activity of Housing Savings Banks

Due to the change in the relevant regulations and the new method of reporting of placements in force as of the beginning of 2004, total placement and contingent liabilities of housing savings banks fell by 2.50% at end-2004 compared with end-2003 (Table 2.21). Investments in securities, which in accordance with the old regulations were included in placements, were re-entered by housing savings banks into the portfolio of securities available for sale. Although total placements and contingent liabilities fell in the observed period due to the said reasons, loans to other clients grew by 98.61% and their share went up from 5.33% to 6.97%.

At end-2004, fully recoverable placements and contingent liabilities accounted for 99.97% of total placements and contingent liabilities of housing savings banks, while the remaining share of 0.03% was accounted for by partly recoverable placements and contingent liabilities.

TABLE 2.20 Classification of Housing Savings Bank Placements and Contingent Liabilities by Risk Categories, in million kuna and %

Placements	Dec. 2001		Dec. 2002		Dec. 2003		Dec. 2004	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
1. Fully recoverable placements (category A)	800.99	100.00	889.35	100.00	2,717.31	99.99	2,648.84	99.97
2. Partly recoverable placements (category B)	0.03	0.00	0.00	0.00	0.24	0.01	0.68	0.03
3. Irrecoverable placements (category C)	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.00
Total	801.02	100.00	889.35	100.00	2,717.54	100.00	2,649.57	100.00

The relative ratio of total placement value adjustment and provisions for contingent liabilities to total placements and contingent liabilities of housing savings banks stood at 0.89% at end-2004, up 0.65 percentage points compared with end-2003 (Table 2.21). Compared with 2003, this ratio grew 3.6 times due to the decrease in total placements and the concurrent increase in total placement value adjustment and provisions for contingent liabilities.

Provisions for unidentified losses were HRK 23.26m at 31 December 2004 and accounted for 99.06% of total placement value adjustment and provisions for contingent liabilities of housing savings banks at-end 2004.

TABLE 2.21 Total Value Adjustment and Provisions to Total Placements and Contingent Liabilities Ratio of Housing Savings Banks, end of period, in million kuna and %

	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004
1. Total value adjustment against placements and provisions for contingent liabilities	0.02	0.00	6.50	23.48
1.1. Value adjustment against placements and provisions for identified losses from contingent liabilities	0.02	0.00	0.13	0.22
1.2. Provisions for unidentified losses	0.00	0.00	6.37	23.26
2. Total placements and contingent liabilities	801.02	889.35	2,717.54	2,649.57
3. Relative ratio of total value adjustment and provisions to total placements and contingent liabilities	0.00	0.00	0.24	0.89

3 Notes on Methodology

Figure 2.1 Number of Banks

With respect to ownership structure, the banks in the Republic of Croatia are divided into domestic and foreign banks. A bank is classified as a domestic bank if it is in majority ownership of domestic natural and legal persons or as a foreign bank if it is in majority ownership of foreign natural and legal persons. The total number of banks is the sum of the banks in domestic and foreign ownership. The CNB statistics is the source of data on the number of banks.

Table 2.1 Bank Groups by Asset Size

In accordance with the selected criterion – the size of assets – Table 2.1 shows the parameters for the classification of banks into individual groups. Schedule BS is the source of data on the size (amount) of assets (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Table 2.2 Territorial Distribution of Branches and Sub-Branches

The total number of branches and sub-branches of all banks in the Republic of Croatia is classified by counties. The County of Zagreb includes the data on the City of Zagreb. Banks are the source of data.

Figure 2.2 Geographical Concentration of Branches and Sub-Branches by Counties

The concentration of branches and sub-branches by counties is represented by cycles, which are positioned along the capitals of individual counties. The largest cycle shows the largest concentration of branches and sub-branches in relation to other counties. The size of other cycles is in the proportion to the largest cycle. For example, the largest number of branches and sub-branches is located in the County of Zagreb and the City of Zagreb and therefore represented by the largest cycle (100%). In comparison with this county, the number of branches and sub-branches located in the County of Istria is twice lower and therefore represented by the cycle which is almost half the size of the largest cycle (53%), etc.

Banks are the source of data.

Figure 2.3 Relative Change in the Number of Branches and Sub-Branches by Counties

The relative change in the number of branches and sub-branches in individual counties is represented by triangles, which are positioned along the capitals of individual counties. The largest triangle shows the largest relative change in the number of branches and sub-branches in relation to other counties. The size of other triangles is in the proportion to the largest triangle. For example, the relative change in the number of branches and sub-branches is the largest in the County of Varaždin and therefore represented by the largest triangle (100%). In comparison with this county, the relative change in the number of branches and sub-branches in the County of Slavonski Brod-Posavina is lower (31%) and therefore represented by the triangle which is 69% smaller than the largest triangle, etc. The underlined capitals of counties and shadowed triangles represent counties in which the relative number of branches and sub-branches has decreased in the observed period.

Banks are the source of data.

Figure 2.4 Number of Branches and Sub-Branches and ATMs by Bank Groups

This Figure shows the sum of all branches and sub-branches in an individual bank group. Banks are the source of data.

Table 2.3 Territorial Distribution of ATMs

The total number of installed ATMs of all banks in the Republic of Croatia is classified by counties. The County of Zagreb includes the data on the City of Zagreb. Banks are the source of data.

Figure 2.5 Share of the Largest Banks' Assets/Deposits in Total Assets/Deposits

The criterion for selecting the two largest and the next three largest banks in the banking system is the size of their assets. The share of the assets of the two largest banks (the next three banks) in the total assets is calculated as a ratio between the sum of the assets of the two largest banks (the next three banks) and the total assets of all banks, and is stated in percent. The share of their deposits in the total deposits of the banking system is calculated in the same manner.

Schedule BS is the source of data on the amount of assets (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004), while Schedule BS/DEP is the source of data on the total deposits (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Figure 2.6 Herfindahl Index (all banks)

The Herfindahl index, which is used to measure the degree of concentration of assets, is calculated for each bank on the basis of the following formula:

$$\left(\frac{\text{assets of a bank}}{\text{total assets of all banks}} \cdot 100 \right)^2$$

The Herfindahl index can vary from 0 (perfectly competitive industry) to 10,000 (monopoly). Extended loans/received deposits concentration indices are calculated by applying the same formula. Schedule BS is the source of data on the amount of assets (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Table 2.4 Structure of Bank Assets

The share of each balance sheet item of assets in the total banking system assets is calculated on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 166/2003 and 53/2004 – Schedule BS) and the derived aggregate report of the same type on the banking system at the end of the observed period. The change in the balance is the percentage change in comparison with the balance recorded at the end of the previous period. For comparability purposes, the value of asset items reported in the previous period has been presented in accordance with the new reporting form.

Figure 2.7 Shares of Individual Bank Groups in Total Assets

The share of assets of each stated bank group in the total banking system assets is calculated in the following manner. First, the total assets of all banks in an individual bank group are added up. Second, the sum thus calculated is divided by the total banking system assets. The respective shares are stated in percent.

Schedule BS is the source of data on the amount of assets (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Table 2.5 Structure of Bank Liabilities

Bank liabilities are calculated in the same manner as bank assets in Table 2.4, i.e. the share of each balance sheet item of liabilities in the total banking system liabilities is calculated on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 166/2003 and 53/2004 – Schedule BS) and the derived aggregate report of the same type on the banking system at the end of the observed period. The change in the balance is the percentage change in comparison with the balance recorded at the end of the previous period. For comparability purposes, the value of liability items reported in the previous period has been presented in accordance with the new reporting form.

Figure 2.8 Shares of Received Foreign Currency Deposits with Individual Bank Groups in Total Deposits

The share of received foreign currency deposits with an individual bank group in the total banking system deposits is calculated in the following manner. First, the received foreign currency deposits of all banks in an individual bank group, recorded in the relevant quarter, are added up. Second, the total deposits are added up. The sums thus calculated are mutually divided and multiplied by 100. Schedule BS/DEP is the source of data on the received foreign currency deposits and total deposits (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Table 2.6 Structure of Bank Capital

This Table shows in detail the structure of the bank capital (see also Table 2.5). The share of each stated capital item in the total banking system capital is calculated as a ratio between each capital item and the total banking system capital, and multiplied by 100. The change in the balance is the percentage change in comparison with the balance recorded at the end of the previous period.

Table 2.7 Changes in Regulatory Capital

The regulatory capital is calculated in accordance with the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 17/2003 and 120/2003) and the Instruction for the Uniform Implementation of the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 195/2003 and 39/2004). Schedule JK2 is the source of data on the regulatory capital and an integral part of the stated regulation.

Figure 2.9 Structure of Gross Regulatory Capital

The share of the core capital is calculated as a ratio between the sum of the core capital and the sum of the gross regulatory capital of all banks in an individual bank group, and multiplied by 100. The shares of the supplementary capital I and supplementary capital II of an individual bank group in the gross regulatory capital are calculated in the same manner.

Schedule JK2 is the source of data on the core capital, supplementary capital I, supplementary capital II and gross regulatory capital. This Schedule is an integral part of the Instruction for the Uniform Implementation of the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 195/2003 and 39/2004).

Figure 2.10 Core Capital

The core capital, which is an integral part of the regulatory capital, is calculated in accordance with the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 17/2003 and 120/2003) and the Instruction for the Uniform Implementation of the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 195/2003 and 39/2004).

This Figure shows the changes in the core capital in the observed period. The core capital of an individual bank group is the sum of the core capital of all banks in an individual bank group. Schedule JK2 is the source of data and an integral part of the stated regulation.

Figure 2.11 Supplementary Capital I

The supplementary capital I is calculated in accordance with the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 17/2003 and 120/2003) and the Instruction for the Uniform Implementation of the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 195/2003 and 39/2004). This Figure shows the changes in the supplementary capital I in the observed period. The supplementary capital I of an individual bank group is the sum of the supplementary capital I of all banks in an individual bank group. Schedule JK2 is the source of data and an integral part of the stated regulation.

Figure 2.12 Capital/Deposits

Each bank group ratio between the capital and the deposits is calculated in the following manner. First, the capital of all banks in an individual bank group is added up. Second, the deposits of all banks in an individual bank group are added up. The sums thus calculated are mutually divided and multiplied by 100.

Schedule BS is the source of data on the amount of capital (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

The deposits used in this calculation are giro and current account deposits, savings deposits and time deposits. Schedule BS/DEP is the source of data (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Figure 2.13 Capital Adequacy by Bank Groups

The capital adequacy ratio is calculated as a ratio between the regulatory capital and the sum of the credit risk-weighted assets and exposures to other risks. The capital adequacy ratio of an individual bank group is calculated in the following manner. First, the regulatory capital of all banks in an individual bank group is added up. Second, the total risk-weighted assets and exposures to other risks of all banks in an individual bank group are added up. The sums thus calculated are mutually divided and multiplied by 100.

The regulatory capital, credit risk-weighted assets and exposures to other risks are calculated in accordance with the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 17/2003 and 120/2003) and the Instruction for the Uniform Implementation of the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 195/2003 and 39/2004).

The data on the regulatory capital, credit risk-weighted assets and exposures to other risks are contained in Schedule A-SAK, and generated from Schedules JK2, PBA, PIRS, VR2, SK, OK1, VVP, RR, RPO, RN, RDS, and PDI, which form an integral part of the stated regulation.

Figure 2.14 Structure of Capital Requirements

The capital requirements required for the coverage of individual risk are calculated in accordance with the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 17/2003 and 120/2003) and the Instruction for the Uniform Implementation of the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 195/2003 and 39/2004). Schedule PKZ is the source of data and an integral part of the stated regulation.

Table 2.8 Income Statement

In the observed period, the income statement items are stated cumulatively for all banks and individual bank groups on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 166/2003 and

53/2004 – Schedule IS). For comparability purposes, the value of income statement items reported in the previous period has been presented in accordance with the new reporting form.

Table 2.9 Structure of Income

The share of each income item in the total income of an individual bank group is calculated as a ratio between the sum of the same income items from the reports of the banks in the group (Bank Statistical Report – Schedule IS, *Narodne novine*, Nos. 166/2003 and 53/2004) and the total income earned by the group, and multiplied by 100. The same principle is applied to the calculation made at the level of all banks, i.e. the amounts of the same income items from the reports of all banks are added up and expressed as the ratio between the sums thus calculated and the total income earned by all banks in the observed period, and multiplied by 100. For comparability purposes, the value of income items reported in the previous period has been presented in accordance with the new reporting form.

Schedule IS is the source of data on the income (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Table 2.10 Structure of Expenses

The structure of expenses is calculated in the same manner as the structure of income in Table 2.9, i.e. the share of each expense item in the total expenses of an individual bank group is calculated as a ratio between the sum of the same expense items from the reports of the banks in the group (Schedule IS) and the total expenses incurred by the group, and multiplied by 100. The same principle is applied to the calculation made for the banking system as a whole, i.e. the amounts of the same expense items from the reports of all banks are added up and expressed as the ratio between the sums thus calculated and the total expenses incurred by the banking system in the observed period, and multiplied by 100. For comparability purposes, the value of expense items reported in the previous period has been presented in accordance with the new reporting form.

Schedule IS is the source of data on the expenses (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Figure 2.15 Return on Assets

Each bank group ratio between the income before taxes and the average gross assets is calculated in the following manner. First, the income before taxes generated in the relevant period by all banks in an individual bank group is added up. Second, the amounts of the average gross assets are added up. The sums thus calculated are mutually divided and multiplied by 100.

The average gross assets are calculated as the arithmetic mean of the balance in the gross assets at the beginning and at the end of period for which the average is calculated.

Schedule IS is the source of data on the income before taxes (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004), Schedule BS is the source of data on the gross assets (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004) and Schedule RC is the source of data on the provisions. Schedule RC forms an integral part of the Instruction for the Preparation of Supervisory Reports (see the Decision on Supervisory Reports of Banks, *Narodne novine*, No. 115/2003).

Figure 2.16 Return on Equity

Each bank group ratio between the income after taxes and the average equity is calculated in the following manner. First, the income after taxes generated in the relevant period by all banks in an individual bank group is added up. Second, the amounts of the average equity are added up. The sums thus calculated are mutually divided and multiplied by 100.

The average equity is calculated as the arithmetic mean of the balance in the equity at the beginning and at the end of period for which the average is calculated.

Schedule IS is the source of data on the income after taxes (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004), while Schedule BS is the source of data on the average equity (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Figure 2.17 Interest Income

Each bank group ratio between the interest income and the average assets is calculated in the following manner. First, the interest income generated in the relevant period by all banks in an individual bank group is added up. Second, the amounts of the average assets 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 the assets at the beginning and at the end of period for which the average is calculated.

Schedule IS is the source of data on the interest income, while Schedule BS is the source of data on the amount of assets (both Schedules form an integral part of the Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Figure 2.18 Interest Expenses

Each bank group ratio between the interest expenses and the average assets is calculated in the following manner. First, the interest expenses incurred in the relevant period by all banks in an individual bank group are added up. Second, the amounts of the average assets 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 the assets at the beginning and at the end of period for which the average is calculated.

Schedule IS is the source of data on the interest expenses, while Schedule BS is the source of data on the amount of assets (both Schedules form an integral part of the Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Figure 2.19 Interest Rates

The basis for calculating the weighted averages is the amount of loans granted at a certain interest rate in the reporting month, with the exception of interest rates on overdraft facilities based on giro and current accounts. The weighted averages for such loans are calculated on the basis of their balances at the end of the reporting month.

Kuna deposits without a currency clause (sight deposits, savings deposits and time deposits) and foreign currency deposits are reported as the weighted averages of the monthly interest rates. The basis for calculating the weighted averages is the balance in the deposits at the end of the reporting month. The exceptions are kuna savings deposits and time deposits, whose weighted averages are calculated (since July 1995) on the basis of the amounts of deposits received in the reporting month. When the average interest rates on the total kuna deposits are calculated, all components are weighted on the basis of the balance in the relevant deposits at the end of reporting period.

The CNB statistics is the source of data.

Figure 2.20 Assets per Employee

The amounts of assets of all banks in an individual bank group are added up and then divided by the total number of persons employed by the banks in the group. The same procedure is applied to the calculation of this indicator for all banks.

Schedule BS is the source of data on the amount of assets (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004), while banks are the source of data on the number of persons employed.

Figure 2.21 Operating Expenses

Each bank group ratio between the operating expenses and the total income is calculated in the following manner. First, the operating expenses incurred in the relevant period by all banks in an individual bank group are added up. Second, the amounts of the total income are added up. The sums thus calculated are mutually divided and multiplied by 100. The same procedure is applied to the calculation of this indicator for all banks.

Schedule IS is the source of data on the operating expenses (general administrative expenses and depreciation) and the source of data on the total income (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Table 2.11 Classification of Placements and Contingent Liabilities by Risk Categories

Table 2.11 shows the amounts of placements and contingent liabilities classified by risk categories, as well as their shares in the total placements that are classified.

Schedule RC forms an integral part of the Instruction for the Preparation of Supervisory Reports (see the Decision on Supervisory Reports of Banks, *Narodne novine*, No. 115/2003).

Figure 2.22 Structure of Placements and Contingent Liabilities by Bank Groups

The structure of placements and contingent liabilities is calculated as follows. First, the amounts of the placements and contingent liabilities classified into a certain risk category of all banks in an individual bank group are added up. Second, the total classified placements of the banks in the group are added up. The sums thus calculated are mutually divided. The same procedure is applied to the calculation of this indicator for all banks.

The sources of data are the same as in Table 2.11.

Table 2.12 Total Value Adjustment and Provisions to Total Placements and Contingent Liabilities Ratio

The ratio between the total value adjustment and provisions and the total placements and contingent liabilities that are classified into risk categories is calculated in the following manner. The placement value adjustment, provisions for contingent liabilities and provisions for unidentified losses are added up and the sum thus calculated is divided by the amount of the total placements and contingent liabilities, and multiplied by 100.

Schedules PVA and RC are the source of data on the amounts of placement value impairment, provisions for contingent liabilities and provisions for unidentified losses. Schedules PVA and RC are an integral part of the Instruction for the Preparation of Supervisory Reports (see the Decision on Supervisory Reports of Banks, *Narodne novine*, No. 115/2003).

Figure 2.23 Coverage of Total Placements and Contingent Liabilities by Total Value Adjustment and Provisions by Bank Groups

The ratio between the total value adjustment and provisions and the total placements and contingent liabilities that are classified into risk categories is calculated in the following manner. The value adjustment and provisions of all banks in an individual bank group are added up and divided by the total placements and contingent liabilities of the banks in the group, and multiplied by 100.

The sources of data on the amounts of provisions and total placements are the same as in Table 2.12.

Table 2.13 Structure of Net Loans by Institutional Sectors

The credit exposure by an individual institutional sector is reported for each bank group, as well as for all banks.

Schedule BS/LOA is the source of data (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Table 2.14 Purchased CNB and Central Government Bills

The stock of CNB bills which are denominated in domestic and foreign currency and purchased on a certain date, and the stock of central government bills held by banks are reported in accordance with the statistical sources of the CNB.

CNB bills are purchased on the basis of the Decision on Issuing Croatian National Bank Bills Denominated in Kuna (*Narodne novine*, No. 48/98) and the Decision on Issuing Croatian National Bank Bills Denominated in Foreign Currency (*Narodne novine*, Nos. 48/98 and 7/99).

Table 2.15 CNB Loans

The annual averages (the reporting period ends on 31 December) or the semi-annual averages (the reporting period ends on 30 June) of the 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.

The utilisation of the stated secondary liquidity sources is regulated by the following decisions of the CNB: 1) Decision on the Terms and Conditions for Granting Short-Term Loans on the Basis of Pledged Securities (Lombard Loan) (*Narodne novine*, Nos. 160/98, 28/99, 32/99, 38/99, 131/2000 and 53/2001), 2) Decision on the Short-Term Liquidity Loan (*Narodne novine*, Nos. 132/99 and 53/2001) and 3) Decision on the Terms and Conditions for Granting Short-Term Intervention Loans (*Narodne novine*, No. 32/99).

Figure 2.24 Free Reserves

Each bank group ratio between the free reserves and the reserve requirements is calculated in the following manner. First, the free reserves allocated in a certain quarter by all banks in an individual bank group are added up. Second, the amounts of the reserve requirements of the banks in the group are added up. The sums thus calculated are mutually divided and multiplied by 100.

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

free reserves = (actual kuna reserves + actual foreign currency reserves + additional reserves) – (prescribed kuna reserves + prescribed foreign currency reserves) – 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

The CNB statistics is the source of data.

Figure 2.25 Loans Extended/Deposits Received

Each bank group ratio between the total loans granted and the total deposits received is calculated in the following manner. First, the total loans granted by all banks in an individual bank group at a certain date are added up. Second, the amounts of the total deposits received by the banks in the group are also added up. The sums thus calculated are mutually divided and 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 the frozen foreign currency savings deposits of individuals. Deposits received from the CNB, which are considered liabilities based on loans, are not included.

Schedule BS/LOA is the source of data on the loans (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004), while Schedule BS/DEP is the source of data on the deposits (Bank Statistical Report).

Figure 2.26 Short-Term Assets/Short-Term Liabilities

Each bank group ratio between the short-term assets (i.e. assets maturing in one year) and the short-term liabilities (i.e. liabilities maturing in one year) is calculated in the following manner. First, the short-term assets of all banks in an individual bank group in a certain quarter are added up. Second, the short-term liabilities of the banks in the group are added up. The sums thus calculated are mutually divided and multiplied by 100.

Schedule BS/ALM is the source of data on the short-term assets and the short-term liabilities (Bank Statistical Report – *Narodne novine*, Nos. 166/2003 and 53/2004).

Figure 2.27 Long Foreign Exchange Position

Each bank group ratio between the long foreign exchange position (f/c claims exceeding f/c liabilities) and the regulatory capital is calculated in the following manner. First, the average long foreign exchange positions reported in a certain quarter by all banks in an individual bank group are added up. Second, the regulatory capital of the banks in the group is added up. The sums thus calculated are mutually divided and multiplied by 100.

The reports submitted by banks on the basis of the Decision on the Limitation of Banks' Exposure to Foreign Exchange Risk (*Narodne novine*, No. 17/2003) are the source of data on the long foreign exchange positions, while Schedule JK2 is the source of data on the regulatory capital. The regulatory capital is calculated in accordance with the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 17/2003 and 120/2003) and the Instruction for the Uniform Implementation of the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 195/2003 and 39/2004).

Figure 2.28 Short Foreign Exchange Position

Each bank group ratio between the short foreign exchange position (f/c liabilities exceeding f/c claims) and the regulatory capital is calculated in the following manner. First, the average short foreign exchange positions reported in a certain quarter by all banks in an individual bank group are added up. Second, the regulatory capital of the banks in the group is added up. The sums thus calculated are mutually divided and multiplied by 100.

The reports submitted by banks on the basis of the Decision on the Limitation of Banks' Exposure to Foreign Exchange Risk (*Narodne novine*, No. 17/2003) are the source of data on the short foreign exchange positions, while Schedule JK2 is the source of data on the regulatory capital. The regulatory capital is calculated in accordance with the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 17/2003 and 120/2003) and the Instruction for the Uniform Implementation of the Decision on the Capital Adequacy of Banks (*Narodne novine*, Nos. 195/2003 and 39/2004).

Table 2.16 Structure of Housing Savings Bank Assets

The share of each balance sheet item of assets in the total assets is calculated on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 166/2003 and 53/2004 – Schedule BS) and the derived aggregate report of the same type on the banking system at the end of the observed period. The change in the balance is the percentage change in comparison with the balance recorded at the end of the previous period. For comparability purposes, the value of asset items reported in the previous period has been presented in accordance with the new reporting form.

Table 2.17 Structure of Housing Savings Bank Liabilities

The liabilities of housing savings banks are calculated in the same manner as the assets of housing savings banks in Table 2.16, i.e. the share of each balance sheet item of liabilities in the total liabilities is calculated on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 166/2003 and 53/2004 – Schedule BS) and the derived aggregate report of the same type on the banking system at the end of the observed period. The change in the balance is the percentage change in comparison

with the balance recorded at the end of the previous period. For comparability purposes, the value of liability items reported in the previous period has been presented in accordance with the new reporting form.

Table 2.18 Structure of Housing Savings Bank Capital

This Table shows in detail the structure of the housing savings bank capital (see also Table 2.17). The share of each stated capital item in the total capital of housing savings banks is calculated as a ratio between each capital item and the total capital of housing savings banks, and multiplied by 100. The change in the balance is the percentage change in comparison with the balance recorded at the end of the previous period.

Table 2.19 Housing Savings Bank Income Statement

In the observed period, the income statement items are stated cumulatively for all housing savings banks on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 166/2003 and 53/2004 – Schedule IS). For comparability purposes, the value of income statement items reported in the previous period has been presented in accordance with the new reporting form.

Table 2.20 Classification of Housing Savings Bank Placements and Contingent Liabilities by Risk Categories

Table 2.20 shows the amounts of placements and contingent liabilities classified by risk categories, as well as their shares in the total placements that are classified.

Schedule RC forms an integral part of the Instruction for the Preparation of Supervisory Reports (see the Decision on Supervisory Reports of Banks, *Narodne novine*, No. 115/2003).

Table 2.21 Total Value Adjustment and Provisions to Total Placements and Contingent Liabilities Ratio of Housing Savings Banks

The ratio between the housing savings banks' total value adjustment and provisions and the total placements and contingent liabilities that are classified into risk categories is calculated in the following manner. The placement value adjustment, provisions for contingent liabilities and provisions for unidentified losses are added up and the sum thus calculated is divided by the amount of the total placements and contingent liabilities, and multiplied by 100.

Schedules PVA and RC are the source of data on the amounts of placement value impairment, provisions for contingent liabilities and provisions for unidentified losses. Schedules PVA and RC are an integral part of the Instruction for the Preparation of Supervisory Reports (see the Decision on Supervisory Reports of Banks, *Narodne novine*, No. 115/2003).

4 List of Banks

Data on individual banks' addresses, telephone numbers, fax numbers, members of management and supervisory boards and on bank auditors are shown in the list of banks.

Data on members of management and supervisory boards and shareholders who hold 3% or more of share in the bank's share capital are as at 31 March 2005.

Data on auditors relate to bank auditors for 2004.

BANKA BROD d.d.

Zajčeva 21, 35000 Slavonski Brod
 Phone: +385 35/445-711
 Fax: +385 35/445-755
 BAN¹ 4124003
 www.banka-brod.hr

Management Board

Zdenko Vidaković – chairman, Mićo Tomičić

Supervisory Board

Damir Kreso – chairman, Mara Tomičić,
 Maja Vidaković

Shareholders

	Share in share capital (%)
1. Damir Kreso	7.78
2. Razija Kreso	7.78
3. Slobodanka Kreso	7.78
4. Mara Tomičić	7.78
5. Mićo Tomičić	7.78
6. Karlo Tomičić	7.78
7. Maja Vidaković	7.78
8. Mirko Vidaković	7.78
9. Zdenko Vidaković	7.78
10. ŠKZ Brod na Savi	7.22
11. Neđo Jelčić	7.03
12. Ante Zdilar	7.03
13. Višnja Rački	3.94
14. Željko Rački	3.94

Audit firm for 2004:
 Alfa Revizija d.o.o., Slavonski Brod

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	10,159
1.1. Total interest income	16,487
1.2. Total interest expenses	6,328
2. Net income from commissions and fees	914
2.1. Total income from commissions and fees	1,736
2.2. Total expenses on commissions and fees	821
3. Net other non-interest income	1,390
3.1. Other non-interest income	1,969
3.2. Other non-interest expenses	580
4. Net non-interest income	2,304
5. General administrative expenses and depreciation	6,514
6. Net operating income before loss provisions	5,948
7. Total expenses on loss provisions	799
7.1. Expenses on value adjustment and provisions for identified losses	440
7.2. Expenses on provisions for unidentified losses	359
8. Income/loss before taxes	5,150
9. Income tax	986
10. Current year profit/loss	4,164

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	32,898
1.1. Money assets	21,199
1.2. Deposits with the CNB	11,700
2. Deposits with banking institutions	13,873
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	0
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	0
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	3,313
5.1. Securities and other financial instruments held to maturity	3,313
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	0
8. Loans to other clients	97,806
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	0
11. Tangible assets (net of depreciation)	2,910
12. Interest, fees and other assets	1,775
13. Net of: Specific reserves for unidentified losses	1,267
TOTAL ASSETS	151,309

Structure of Liabilities	
1. Loans from financial institutions	0
1.1. Short-term loans	0
1.2. Long-term loans	0
2. Deposits	110,301
2.1. Giro account and current account deposits	1,309
2.2. Savings deposits	2,750
2.3. Time deposits	106,242
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	5,251
9. CAPITAL	35,757
TOTAL LIABILITIES AND CAPITAL	151,309

1 Bank Account Number.

BANKA KOVANICA d.d.

P. Preradovića 29, 42000 Varaždin
 Phone: +385 42/403-403
 Fax: +385 42/212-148
 BAN 4133006
 www.kovanica.hr

Shareholders

1. Josip Samaržija
2. Gaj grupa d.o.o.
3. Banka Kovanica d.d.

Share in share capital (%)

76.25
 6.73
 5.57

Management Board

Lidija Hočurščak – chairwoman, Ratko Špirelja

Audit firm for 2004:

Revidicon d.o.o., Varaždin

Supervisory Board

Josip Samaržija – chairman, Dražen Dedi,
 Ivan Majdak, Božica Samaržija, Milan Štimac

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	32,975
1.1. Total interest income	65,293
1.2. Total interest expenses	32,318
2. Net income from commissions and fees	972
2.1. Total income from commissions and fees	1,657
2.2. Total expenses on commissions and fees	685
3. Net other non-interest income	994
3.1. Other non-interest income	6,129
3.2. Other non-interest expenses	5,136
4. Net non-interest income	1,966
5. General administrative expenses and depreciation	22,432
6. Net operating income before loss provisions	12,509
7. Total expenses on loss provisions	8,338
7.1. Expenses on value adjustment and provisions for identified losses	6,252
7.2. Expenses on provisions for unidentified losses	2,086
8. Income/loss before taxes	4,172
9. Income tax	76
10. Current year profit/loss	4,095

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	82,203
1.1. Money assets	23,207
1.2. Deposits with the CNB	58,996
2. Deposits with banking institutions	13,340
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	0
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	0
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	43,204
5.1. Securities and other financial instruments held to maturity	43,204
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	136
7. Loans to financial institutions	0
8. Loans to other clients	391,768
9. Investments in subsidiaries and associates	38
10. Foreclosed and repossessed assets	154
11. Tangible assets (net of depreciation)	20,281
12. Interest, fees and other assets	19,947
13. Net of: Specific reserves for unidentified losses	5,171
TOTAL ASSETS	565,900

Structure of Liabilities	
1. Loans from financial institutions	6,939
1.1. Short-term loans	6,090
1.2. Long-term loans	850
2. Deposits	465,799
2.1. Giro account and current account deposits	5,214
2.2. Savings deposits	13,876
2.3. Time deposits	446,709
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	20,118
8. Interest, fees and other liabilities	21,586
9. CAPITAL	51,459
TOTAL LIABILITIES AND CAPITAL	565,900

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Management Board

Anka Tomas – chairwoman, Goran Matanović

Supervisory Board

Branko Ostović – chairman, Tatjana Ostović,
 Robert Solomun

Shareholders

1. Branko Ostović	54.98
2. Ljiljana Ostović	6.83
3. Tatjana Ostović	6.71
4. Mirjana Ostović	6.06
5. Info-leasing d.o.o.	5.31

Share in share capital (%)

Audit firm for 2004:
 Concordia Audit d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	39,542
1.1. Total interest income	65,971
1.2. Total interest expenses	26,429
2. Net income from commissions and fees	6,294
2.1. Total income from commissions and fees	7,136
2.2. Total expenses on commissions and fees	842
3. Net other non-interest income	1,657
3.1. Other non-interest income	5,234
3.2. Other non-interest expenses	3,577
4. Net non-interest income	7,951
5. General administrative expenses and depreciation	29,099
6. Net operating income before loss provisions	18,393
7. Total expenses on loss provisions	4,944
7.1. Expenses on value adjustment and provisions for identified losses	4,033
7.2. Expenses on provisions for unidentified losses	911
8. Income/loss before taxes	13,449
9. Income tax	2,713
10. Current year profit/loss	10,737

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	76,602
1.1. Money assets	13,850
1.2. Deposits with the CNB	62,752
2. Deposits with banking institutions	119,269
3. MoF treasury bills and CNB bills	7,942
4. Securities and other financial instruments held for trading and available for sale	0
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	0
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	474
5.1. Securities and other financial instruments held to maturity	474
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	17
7. Loans to financial institutions	0
8. Loans to other clients	387,097
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	902
11. Tangible assets (net of depreciation)	9,625
12. Interest, fees and other assets	5,683
13. Net of: Specific reserves for unidentified losses	5,785
TOTAL ASSETS	601,826

Structure of Liabilities	
1. Loans from financial institutions	1,527
1.1. Short-term loans	0
1.2. Long-term loans	1,527
2. Deposits	502,155
2.1. Giro account and current account deposits	14,092
2.2. Savings deposits	20,783
2.3. Time deposits	467,279
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	17
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	25
7. Hybrid instruments issued	195
8. Interest, fees and other liabilities	31,548
9. CAPITAL	66,359
TOTAL LIABILITIES AND CAPITAL	601,826

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Management Board

Ivan Filipović – chairman, Ivo Krolo

Supervisory Board

Juroslav Buljubašić – chairman, Mirko Vukušić,
 Nataša Vuković

Shareholders

1. Juroslav Buljubašić
2. Mirko Vukušić
3. Jozo Vukušić
4. Jakiša Medić

Share in share capital (%)

- 61.62
- 9.19
- 7.22
- 5.53

Audit firm for 2004:
 SD Nika d.o.o., Split

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	8,893
1.1. Total interest income	14,693
1.2. Total interest expenses	5,799
2. Net income from commissions and fees	27
2.1. Total income from commissions and fees	588
2.2. Total expenses on commissions and fees	560
3. Net other non-interest income	340
3.1. Other non-interest income	1,384
3.2. Other non-interest expenses	1,045
4. Net non-interest income	367
5. General administrative expenses and depreciation	6,167
6. Net operating income before loss provisions	3,093
7. Total expenses on loss provisions	970
7.1. Expenses on value adjustment and provisions for identified losses	774
7.2. Expenses on provisions for unidentified losses	197
8. Income/loss before taxes	2,123
9. Income tax	442
10. Current year profit/loss	1,681

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	14,736
1.1. Money assets	3,065
1.2. Deposits with the CNB	11,671
2. Deposits with banking institutions	18,272
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	0
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	0
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	2,755
5.1. Securities and other financial instruments held to maturity	2,755
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	0
8. Loans to other clients	99,961
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	887
11. Tangible assets (net of depreciation)	4,708
12. Interest, fees and other assets	2,882
13. Net of: Specific reserves for unidentified losses	1,204
TOTAL ASSETS	142,998

Structure of Liabilities	
1. Loans from financial institutions	312
1.1. Short-term loans	0
1.2. Long-term loans	312
2. Deposits	107,041
2.1. Giro account and current account deposits	350
2.2. Savings deposits	2,151
2.3. Time deposits	104,539
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	392
8. Interest, fees and other liabilities	2,814
9. CAPITAL	32,439
TOTAL LIABILITIES AND CAPITAL	142,998

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Shareholders

1. Heruc d.d.
2. Heruc – izrada odjeće d.o.o.
3. Heruc Zug AG

Share in share capital (%)

- 64.46
 6.02
 4.22

Management Board

Gordana Zrinščak – chairwoman,
 Ljiljana Podhraški, Ružica Vadić,
 Darko Kosovec

Audit firm for 2004:

Deloitte & Touche d.o.o., Zagreb

Supervisory Board

Dragutin Biondić – chairman, Igor Knežević,
 Irena Kovačević, Žarko Kraljević

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	30,999
1.1. Total interest income	48,124
1.2. Total interest expenses	17,125
2. Net income from commissions and fees	10,849
2.1. Total income from commissions and fees	15,483
2.2. Total expenses on commissions and fees	4,634
3. Net other non-interest income	3,179
3.1. Other non-interest income	4,719
3.2. Other non-interest expenses	1,540
4. Net non-interest income	14,028
5. General administrative expenses and depreciation	28,680
6. Net operating income before loss provisions	16,347
7. Total expenses on loss provisions	5,867
7.1. Expenses on value adjustment and provisions for identified losses	3,243
7.2. Expenses on provisions for unidentified losses	2,623
8. Income/loss before taxes	10,481
9. Income tax	2,103
10. Current year profit/loss	8,378

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	79,321
1.1. Money assets	9,880
1.2. Deposits with the CNB	69,440
2. Deposits with banking institutions	66,394
3. MoF treasury bills and CNB bills	19,355
4. Securities and other financial instruments held for trading and available for sale	94,028
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	94,028
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	0
5.1. Securities and other financial instruments held to maturity	0
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	0
8. Loans to other clients	391,553
9. Investments in subsidiaries and associates	869
10. Foreclosed and repossessed assets	5,615
11. Tangible assets (net of depreciation)	9,012
12. Interest, fees and other assets	9,447
13. Net of: Specific reserves for unidentified losses	6,185
TOTAL ASSETS	669,409

Structure of Liabilities	
1. Loans from financial institutions	87,849
1.1. Short-term loans	11,917
1.2. Long-term loans	75,932
2. Deposits	423,902
2.1. Giro account and current account deposits	99,210
2.2. Savings deposits	26,813
2.3. Time deposits	297,879
3. Other loans	18,795
3.1. Short-term loans	18,795
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	3,928
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	21,579
9. CAPITAL	113,356
TOTAL LIABILITIES AND CAPITAL	669,409

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Management Board

Šime Luketin – chairman, Mato Mišić

Supervisory Board

Mirko Vuković – chairman, Boris Barač, Dražen Bilić

Shareholders

1. Boris Barač	24.97
2. Darko Gaurina	9.98
3. Bedem d.o.o.	9.50
4. Simag d.o.o.	8.96
5. Alkom Invest d.o.o.	8.01
6. Arca Merkatus d.o.o.	4.98
7. Plastal d.o.o.	3.52

Share in share capital (%)

Audit firm for 2004:
 Deloitte & Touche d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	28,488
1.1. Total interest income	55,278
1.2. Total interest expenses	26,790
2. Net income from commissions and fees	7,050
2.1. Total income from commissions and fees	9,907
2.2. Total expenses on commissions and fees	2,858
3. Net other non-interest income	-336
3.1. Other non-interest income	5,271
3.2. Other non-interest expenses	5,607
4. Net non-interest income	6,714
5. General administrative expenses and depreciation	24,296
6. Net operating income before loss provisions	10,906
7. Total expenses on loss provisions	1,285
7.1. Expenses on value adjustment and provisions for identified losses	222
7.2. Expenses on provisions for unidentified losses	1,063
8. Income/loss before taxes	9,621
9. Income tax	2,207
10. Current year profit/loss	7,414

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	113,232
1.1. Money assets	14,441
1.2. Deposits with the CNB	98,791
2. Deposits with banking institutions	57,437
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	7,361
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	7,361
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	27,795
5.1. Securities and other financial instruments held to maturity	27,795
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	1,507
7. Loans to financial institutions	10,000
8. Loans to other clients	545,002
9. Investments in subsidiaries and associates	1,360
10. Foreclosed and repossessed assets	10,405
11. Tangible assets (net of depreciation)	17,489
12. Interest, fees and other assets	19,507
13. Net of: Specific reserves for unidentified losses	6,974
TOTAL ASSETS	804,122

Structure of Liabilities	
1. Loans from financial institutions	135,117
1.1. Short-term loans	18,179
1.2. Long-term loans	116,938
2. Deposits	507,612
2.1. Giro account and current account deposits	99,315
2.2. Savings deposits	46,909
2.3. Time deposits	361,388
3. Other loans	28,004
3.1. Short-term loans	0
3.2. Long-term loans	28,004
4. Derivative financial liabilities and other financial liabilities held for trading	901
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	60,466
9. CAPITAL	72,022
TOTAL LIABILITIES AND CAPITAL	804,122

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Management Board

Krunoslav Brkljačić – chairman, Željka Prga,
 Dalibor Jandl

Supervisory Board

Krešo Barbarić – chairman, Jure Šimović,
 Ivan Tomljenović, Branka Grabovac, Ivan Bukarica

Shareholders

1. State Agency for Bank Rehabilitation and Deposit Insurance

Share in share capital (%)

100.00

Audit firm for 2004:

Revizija Zagreb d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	30,416
1.1. Total interest income	79,500
1.2. Total interest expenses	49,084
2. Net income from commissions and fees	4,634
2.1. Total income from commissions and fees	15,126
2.2. Total expenses on commissions and fees	10,493
3. Net other non-interest income	41,657
3.1. Other non-interest income	49,579
3.2. Other non-interest expenses	7,922
4. Net non-interest income	46,291
5. General administrative expenses and depreciation	64,167
6. Net operating income before loss provisions	12,540
7. Total expenses on loss provisions	9,901
7.1. Expenses on value adjustment and provisions for identified losses	9,157
7.2. Expenses on provisions for unidentified losses	743
8. Income/loss before taxes	2,640
9. Income tax	0
10. Current year profit/loss	2,640

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	178,337
1.1. Money assets	25,268
1.2. Deposits with the CNB	153,069
2. Deposits with banking institutions	248,171
3. MoF treasury bills and CNB bills	116,281
4. Securities and other financial instruments held for trading and available for sale	96,792
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	96,792
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	7,980
5.1. Securities and other financial instruments held to maturity	7,980
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	19,936
8. Loans to other clients	704,901
9. Investments in subsidiaries and associates	651
10. Foreclosed and repossessed assets	45,974
11. Tangible assets (net of depreciation)	44,956
12. Interest, fees and other assets	45,279
13. Net of: Specific reserves for unidentified losses	10,068
TOTAL ASSETS	1,499,190

Structure of Liabilities	
1. Loans from financial institutions	160,581
1.1. Short-term loans	0
1.2. Long-term loans	160,581
2. Deposits	1,083,384
2.1. Giro account and current account deposits	164,075
2.2. Savings deposits	117,211
2.3. Time deposits	802,098
3. Other loans	46,761
3.1. Short-term loans	19,178
3.2. Long-term loans	27,583
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	61,529
9. CAPITAL	146,935
TOTAL LIABILITIES AND CAPITAL	1,499,190

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Shareholders

1. Dresdner Bank AG

Share in share capital (%)

100.00

Audit firm for 2004:

KPMG Croatia d.o.o., Zagreb

Management Board

Hans-Joachim Gersmann – chairman, Mato Karačić

Supervisory Board

Erich Brogl – chairman, Gisbert Jockenhöfer,
 Felix Friedrich Carl von Joest

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	11,292
1.1. Total interest income	24,731
1.2. Total interest expenses	13,439
2. Net income from commissions and fees	5,155
2.1. Total income from commissions and fees	5,601
2.2. Total expenses on commissions and fees	446
3. Net other non-interest income	9,912
3.1. Other non-interest income	12,661
3.2. Other non-interest expenses	2,750
4. Net non-interest income	15,067
5. General administrative expenses and depreciation	38,194
6. Net operating income before loss provisions	-11,835
7. Total expenses on loss provisions	7,769
7.1. Expenses on value adjustment and provisions for identified losses	14,531
7.2. Expenses on provisions for unidentified losses	-6,762
8. Income/loss before taxes	-19,604
9. Income tax	0
10. Current year profit/loss	-19,604

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	25,576
1.1. Money assets	1,248
1.2. Deposits with the CNB	24,329
2. Deposits with banking institutions	84,729
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	0
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	0
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	0
5.1. Securities and other financial instruments held to maturity	0
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	233
7. Loans to financial institutions	0
8. Loans to other clients	5,335
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	0
11. Tangible assets (net of depreciation)	0
12. Interest, fees and other assets	2,652
13. Net of: Specific reserves for unidentified losses	1,119
TOTAL ASSETS	117,406

Structure of Liabilities	
1. Loans from financial institutions	0
1.1. Short-term loans	0
1.2. Long-term loans	0
2. Deposits	1,862
2.1. Giro account and current account deposits	1,696
2.2. Savings deposits	167
2.3. Time deposits	0
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	15,939
9. CAPITAL	99,605
TOTAL LIABILITIES AND CAPITAL	117,406

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Management Board

Petar Radaković – chairman, Tomislav Vuić,
 Boris Centner, Sava Dalbokov, Slađana Jagar

Supervisory Board

Reinhard Ortner – chairman, Bernhard Spalt,
 Franz Kerber, Josip Stanković, Karin Svoboda,
 Reinhold Schuster, Kristijan Schellander,
 Manfred Wimmer, Helmut Payer

Shareholders

1. Erste Bank der Österreichischen Sparkassen AG	51.00
2. Die Steiermärkische Bank und Sparkassen AG	43.81

Share in share capital (%)

Audit firm for 2004:
 Ernst & Young Croatia d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	639,038
1.1. Total interest income	1,166,317
1.2. Total interest expenses	527,279
2. Net income from commissions and fees	125,602
2.1. Total income from commissions and fees	247,562
2.2. Total expenses on commissions and fees	121,959
3. Net other non-interest income	86,750
3.1. Other non-interest income	140,001
3.2. Other non-interest expenses	53,251
4. Net non-interest income	212,352
5. General administrative expenses and depreciation	446,571
6. Net operating income before loss provisions	404,819
7. Total expenses on loss provisions	40,682
7.1. Expenses on value adjustment and provisions for identified losses	-5,206
7.2. Expenses on provisions for unidentified losses	45,888
8. Income/loss before taxes	364,137
9. Income tax	74,863
10. Current year profit/loss	289,274

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	3,267,878
1.1. Money assets	273,372
1.2. Deposits with the CNB	2,994,505
2. Deposits with banking institutions	5,787,751
3. MoF treasury bills and CNB bills	349,460
4. Securities and other financial instruments held for trading and available for sale	1,493,283
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	1,493,283
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	719,185
5.1. Securities and other financial instruments held to maturity	719,185
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	17,265
7. Loans to financial institutions	185,984
8. Loans to other clients	13,450,194
9. Investments in subsidiaries and associates	47,226
10. Foreclosed and repossessed assets	16,797
11. Tangible assets (net of depreciation)	458,039
12. Interest, fees and other assets	234,067
13. Net of: Specific reserves for unidentified losses	205,093
TOTAL ASSETS	25,822,036

Structure of Liabilities	
1. Loans from financial institutions	785,630
1.1. Short-term loans	121,027
1.2. Long-term loans	664,602
2. Deposits	17,991,174
2.1. Giro account and current account deposits	2,088,351
2.2. Savings deposits	2,633,378
2.3. Time deposits	13,269,446
3. Other loans	4,344,372
3.1. Short-term loans	29,197
3.2. Long-term loans	4,315,175
4. Derivative financial liabilities and other financial liabilities held for trading	21,948
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	317,202
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	685,450
9. CAPITAL	1,676,260
TOTAL LIABILITIES AND CAPITAL	25,822,036

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Management Board

Suzana Sučić – chairwoman, Krešimir Jerin

Supervisory Board

Izidor Sučić – chairman, Branko Josipović,
 Željko Krznarić

Shareholders

	Share in share capital (%)
1. Izidor Sučić	10.00
2. Suzana Sučić	9.89
3. Ivan Sučić	9.84
4. Kristina Sučić	9.82
5. Vesna Mijović	9.78
6. Željko Krznarić	8.51
7. Krešimir Jerin	8.50
8. Faktor banka d.d.	8.36
9. Josip Bašić	7.52
10. Gospodarsko kreditna banka d.d.	4.26
11. Branko Josipović	4.17
12. Branko Mijović	4.73

Audit firm for 2004:
 Repos d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	24,643
1.1. Total interest income	33,866
1.2. Total interest expenses	9,223
2. Net income from commissions and fees	3,332
2.1. Total income from commissions and fees	5,802
2.2. Total expenses on commissions and fees	2,470
3. Net other non-interest income	15,703
3.1. Other non-interest income	21,084
3.2. Other non-interest expenses	5,381
4. Net non-interest income	19,035
5. General administrative expenses and depreciation	23,007
6. Net operating income before loss provisions	20,671
7. Total expenses on loss provisions	15,987
7.1. Expenses on value adjustment and provisions for identified losses	15,987
7.2. Expenses on provisions for unidentified losses	0
8. Income/loss before taxes	4,684
9. Income tax	1,035
10. Current year profit/loss	3,650

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	58,497
1.1. Money assets	22,688
1.2. Deposits with the CNB	35,809
2. Deposits with banking institutions	39,449
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	0
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	0
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	30,422
5.1. Securities and other financial instruments held to maturity	30,422
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	5,000
8. Loans to other clients	182,142
9. Investments in subsidiaries and associates	9,085
10. Foreclosed and repossessed assets	653
11. Tangible assets (net of depreciation)	16,443
12. Interest, fees and other assets	8,719
13. Net of: Specific reserves for unidentified losses	3,686
TOTAL ASSETS	346,725

Structure of Liabilities	
1. Loans from financial institutions	42,692
1.1. Short-term loans	3,000
1.2. Long-term loans	39,692
2. Deposits	127,418
2.1. Giro account and current account deposits	17,952
2.2. Savings deposits	17,253
2.3. Time deposits	92,212
3. Other loans	58,493
3.1. Short-term loans	23,014
3.2. Long-term loans	35,479
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	16,148
9. CAPITAL	101,973
TOTAL LIABILITIES AND CAPITAL	346,725

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Shareholders

1. Croatian Privatisation Fund
2. Hrvatska pošta d.d.
3. Croatian Pension Insurance Institute

Share in share capital (%)

37.00
 33.56
 28.01

Management Board

Josip Protega – chairman, Ivan Sladonja

Audit firm for 2004:

Deloitte & Touche d.o.o., Zagreb

Supervisory Board

Ante Žigman – chairman, Zoran Bubaš,
 Dragan Kovačević, Drago Jakovčević, Vera Babić,
 Grga Ivezić, Branko Jakušić

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	236,456
1.1. Total interest income	324,741
1.2. Total interest expenses	88,285
2. Net income from commissions and fees	50,973
2.1. Total income from commissions and fees	584,979
2.2. Total expenses on commissions and fees	534,006
3. Net other non-interest income	11,886
3.1. Other non-interest income	28,123
3.2. Other non-interest expenses	16,237
4. Net non-interest income	62,859
5. General administrative expenses and depreciation	137,594
6. Net operating income before loss provisions	161,720
7. Total expenses on loss provisions	97,020
7.1. Expenses on value adjustment and provisions for identified losses	61,899
7.2. Expenses on provisions for unidentified losses	35,122
8. Income/loss before taxes	64,700
9. Income tax	5,871
10. Current year profit/loss	58,829

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	1,026,196
1.1. Money assets	248,596
1.2. Deposits with the CNB	777,601
2. Deposits with banking institutions	255,031
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	1,238,166
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	1,238,166
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	104,915
5.1. Securities and other financial instruments held to maturity	0
5.2. Securities and other financial instruments bought on issue directly from the issuer	104,915
6. Derivative financial assets	10,813
7. Loans to financial institutions	140,000
8. Loans to other clients	2,603,600
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	1,376
11. Tangible assets (net of depreciation)	142,920
12. Interest, fees and other assets	82,565
13. Net of: Specific reserves for unidentified losses	58,261
TOTAL ASSETS	5,547,321

Structure of Liabilities	
1. Loans from financial institutions	340,893
1.1. Short-term loans	0
1.2. Long-term loans	340,893
2. Deposits	3,559,192
2.1. Giro account and current account deposits	1,458,214
2.2. Savings deposits	1,082,920
2.3. Time deposits	1,018,058
3. Other loans	504
3.1. Short-term loans	0
3.2. Long-term loans	504
4. Derivative financial liabilities and other financial liabilities held for trading	8,049
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	989,668
9. CAPITAL	649,016
TOTAL LIABILITIES AND CAPITAL	5,547,321

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Shareholders

1. Bank Austria Creditanstalt AG

Share in share capital (%)

99.75

Audit firm for 2004:

KPMG Croatia d.o.o., Zagreb

Management Board

Wolfgang Peter – chairman, Goran Gazivoda, Ivo Bilić,
 Christoph Schöfböck, Vedrana Carević

Supervisory Board

Regina Prehofer – chairwoman, Helmut Bernkopf,
 Wolfgang Edelmüller, Wolfgang Helpa,
 Heinz Meidlinger, Ralf Cymanek, Josef Duregger

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	531,969
1.1. Total interest income	1,034,534
1.2. Total interest expenses	502,564
2. Net income from commissions and fees	139,862
2.1. Total income from commissions and fees	201,938
2.2. Total expenses on commissions and fees	62,076
3. Net other non-interest income	77,470
3.1. Other non-interest income	121,991
3.2. Other non-interest expenses	44,520
4. Net non-interest income	217,332
5. General administrative expenses and depreciation	435,601
6. Net operating income before loss provisions	313,700
7. Total expenses on loss provisions	72,867
7.1. Expenses on value adjustment and provisions for identified losses	46,213
7.2. Expenses on provisions for unidentified losses	26,655
8. Income/loss before taxes	240,833
9. Income tax	49,298
10. Current year profit/loss	191,535

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	3,163,153
1.1. Money assets	169,910
1.2. Deposits with the CNB	2,993,243
2. Deposits with banking institutions	2,162,206
3. MoF treasury bills and CNB bills	156,195
4. Securities and other financial instruments held for trading and available for sale	1,681,682
4.1. Securities and other financial instruments held for trading	1,627,512
4.2. Securities and other financial instruments available for sale	54,170
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	1,802,243
5.1. Securities and other financial instruments held to maturity	1,777,868
5.2. Securities and other financial instruments bought on issue directly from the issuer	24,375
6. Derivative financial assets	29,507
7. Loans to financial institutions	181,801
8. Loans to other clients	11,690,791
9. Investments in subsidiaries and associates	4,437
10. Foreclosed and repossessed assets	158
11. Tangible assets (net of depreciation)	219,094
12. Interest, fees and other assets	543,474
13. Net of: Specific reserves for unidentified losses	163,017
TOTAL ASSETS	21,471,723

Structure of Liabilities	
1. Loans from financial institutions	922,572
1.1. Short-term loans	218,161
1.2. Long-term loans	704,411
2. Deposits	10,310,713
2.1. Giro account and current account deposits	1,864,644
2.2. Savings deposits	2,017,328
2.3. Time deposits	6,428,741
3. Other loans	8,042,716
3.1. Short-term loans	3,461,801
3.2. Long-term loans	4,580,915
4. Derivative financial liabilities and other financial liabilities held for trading	76,692
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	710,404
9. CAPITAL	1,408,625
TOTAL LIABILITIES AND CAPITAL	21,471,723

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Shareholders

1. Hypo Alpe-Adria-Bank AG

Share in share capital (%)

100.00

Audit firm for 2004:

Confida revizija d.o.o., Zagreb

Management Board

Heinz Truskaller – chairman, Igor Kodžoman,
 Zoran Sikirica, Radojka Olić, Krešimir Starčević

Supervisory Board

Günter Striedinger – chairman, Othmar Ederer,
 Wolfgang Kulterer, Gerd Penkner,
 Thomas Morgl

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	414,397
1.1. Total interest income	876,086
1.2. Total interest expenses	461,688
2. Net income from commissions and fees	107,803
2.1. Total income from commissions and fees	143,514
2.2. Total expenses on commissions and fees	35,711
3. Net other non-interest income	82,000
3.1. Other non-interest income	122,895
3.2. Other non-interest expenses	40,895
4. Net non-interest income	189,803
5. General administrative expenses and depreciation	286,463
6. Net operating income before loss provisions	317,737
7. Total expenses on loss provisions	63,355
7.1. Expenses on value adjustment and provisions for identified losses	30,676
7.2. Expenses on provisions for unidentified losses	32,679
8. Income/loss before taxes	254,382
9. Income tax	35,551
10. Current year profit/loss	218,831

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	2,606,170
1.1. Money assets	88,578
1.2. Deposits with the CNB	2,517,592
2. Deposits with banking institutions	2,983,436
3. MoF treasury bills and CNB bills	283,215
4. Securities and other financial instruments held for trading and available for sale	309,146
4.1. Securities and other financial instruments held for trading	161,525
4.2. Securities and other financial instruments available for sale	147,621
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	0
5.1. Securities and other financial instruments held to maturity	0
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	8,747
7. Loans to financial institutions	354,058
8. Loans to other clients	10,277,346
9. Investments in subsidiaries and associates	48,323
10. Foreclosed and repossessed assets	0
11. Tangible assets (net of depreciation)	71,299
12. Interest, fees and other assets	280,040
13. Net of: Specific reserves for unidentified losses	142,384
TOTAL ASSETS	17,079,397

Structure of Liabilities	
1. Loans from financial institutions	121,851
1.1. Short-term loans	27,000
1.2. Long-term loans	94,851
2. Deposits	14,060,262
2.1. Giro account and current account deposits	1,178,782
2.2. Savings deposits	1,219,390
2.3. Time deposits	11,662,090
3. Other loans	45,293
3.1. Short-term loans	0
3.2. Long-term loans	45,293
4. Derivative financial liabilities and other financial liabilities held for trading	4,347
5. Debt securities issued	84,878
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	84,878
6. Subordinated instruments issued	0
7. Hybrid instruments issued	1,012,619
8. Interest, fees and other liabilities	369,286
9. CAPITAL	1,380,860
TOTAL LIABILITIES AND CAPITAL	17,079,397

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Management Board

Branko Buljan – chairman, Milivoj Delač

Supervisory Board

Dušan Dadić – chairman, Ante Čulić, Branka Žaja

Shareholders

1. Imex trgovina d.o.o.	52.62
2. Trajektna luka Split d.d.	32.80
3. Branko Buljan	10.50
4. Ivka Mijić	4.08

Share in share capital (%)

Audit firm for 2004:
 Reviz-biro d.o.o., Split

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	17,670
1.1. Total interest income	30,871
1.2. Total interest expenses	13,201
2. Net income from commissions and fees	2,281
2.1. Total income from commissions and fees	2,839
2.2. Total expenses on commissions and fees	557
3. Net other non-interest income	-1,419
3.1. Other non-interest income	2,721
3.2. Other non-interest expenses	4,140
4. Net non-interest income	862
5. General administrative expenses and depreciation	11,825
6. Net operating income before loss provisions	6,707
7. Total expenses on loss provisions	-2,765
7.1. Expenses on value adjustment and provisions for identified losses	875
7.2. Expenses on provisions for unidentified losses	-3,640
8. Income/loss before taxes	9,472
9. Income tax	2,066
10. Current year profit/loss	7,406

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	96,731
1.1. Money assets	12,255
1.2. Deposits with the CNB	84,476
2. Deposits with banking institutions	72,394
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	0
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	0
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	27,418
5.1. Securities and other financial instruments held to maturity	27,418
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	260
7. Loans to financial institutions	15,032
8. Loans to other clients	292,391
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	0
11. Tangible assets (net of depreciation)	12,279
12. Interest, fees and other assets	4,589
13. Net of: Specific reserves for unidentified losses	4,693
TOTAL ASSETS	516,400

Structure of Liabilities	
1. Loans from financial institutions	24,397
1.1. Short-term loans	22,000
1.2. Long-term loans	2,397
2. Deposits	365,464
2.1. Giro account and current account deposits	55,624
2.2. Savings deposits	15,096
2.3. Time deposits	294,744
3. Other loans	46,027
3.1. Short-term loans	46,027
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	9,879
9. CAPITAL	70,632
TOTAL LIABILITIES AND CAPITAL	516,400

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Management Board

Miro Dodić – chairman, Anton Belušić

Supervisory Board

Milan Travan – chairman, Edo Ivančić,
Marijan Kovačić, Vlado Kraljević, Vlatko Reschner

Shareholders

1. Intercommerce d.o.o.	17.30
2. Tvornica cementa Umag d.o.o.	15.44
3. Hempel d.o.o.	15.40
4. Serfin d.o.o.	9.92
5. KB 1909 S.p.A.	7.83
6. Plava laguna d.d.	3.66

Share in share capital (%)

Audit firm for 2004:
Deloitte & Touche d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	47,697
1.1. Total interest income	81,688
1.2. Total interest expenses	33,991
2. Net income from commissions and fees	11,643
2.1. Total income from commissions and fees	19,684
2.2. Total expenses on commissions and fees	8,040
3. Net other non-interest income	16,108
3.1. Other non-interest income	18,129
3.2. Other non-interest expenses	2,021
4. Net non-interest income	27,751
5. General administrative expenses and depreciation	46,250
6. Net operating income before loss provisions	29,198
7. Total expenses on loss provisions	2,199
7.1. Expenses on value adjustment and provisions for identified losses	808
7.2. Expenses on provisions for unidentified losses	1,391
8. Income/loss before taxes	27,000
9. Income tax	5,693
10. Current year profit/loss	21,307

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	263,837
1.1. Money assets	29,604
1.2. Deposits with the CNB	234,233
2. Deposits with banking institutions	421,038
3. MoF treasury bills and CNB bills	19,715
4. Securities and other financial instruments held for trading and available for sale	73,590
4.1. Securities and other financial instruments held for trading	4,166
4.2. Securities and other financial instruments available for sale	69,425
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	32,506
5.1. Securities and other financial instruments held to maturity	743
5.2. Securities and other financial instruments bought on issue directly from the issuer	31,763
6. Derivative financial assets	247
7. Loans to financial institutions	46,000
8. Loans to other clients	663,241
9. Investments in subsidiaries and associates	20
10. Foreclosed and repossessed assets	14,719
11. Tangible assets (net of depreciation)	29,374
12. Interest, fees and other assets	15,135
13. Net of: Specific reserves for unidentified losses	12,249
TOTAL ASSETS	1,567,174

Structure of Liabilities	
1. Loans from financial institutions	7,548
1.1. Short-term loans	0
1.2. Long-term loans	7,548
2. Deposits	1,389,911
2.1. Giro account and current account deposits	211,756
2.2. Savings deposits	332,685
2.3. Time deposits	845,470
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	25,771
9. CAPITAL	143,943
TOTAL LIABILITIES AND CAPITAL	1,567,174

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Management Board

Ivo Šinko – chairman, Mate Šarić, Marija Trlaja

Supervisory Board

Ante Kulušić – chairman, Duje Stančić, Ivana Lemac,
 Mile Paić, Miro Petrić

Shareholders

1. Croatia osiguranje d.d.	9.75
2. Alfa d.d.	7.89
3. HVB Splitska banka d.d.	7.83
4. Importanne d.o.o.	4.81
5. Tiskara Kačić d.o.o.	4.23
6. Vodovod i odvodnja d.o.o.	4.20

Share in share capital (%)

Audit firm for 2004:
 Revicon Zagreb d.o.o.,
 Zagreb and Deloitte & Touche d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	31,224
1.1. Total interest income	81,837
1.2. Total interest expenses	50,613
2. Net income from commissions and fees	6,914
2.1. Total income from commissions and fees	16,371
2.2. Total expenses on commissions and fees	9,456
3. Net other non-interest income	16,031
3.1. Other non-interest income	20,083
3.2. Other non-interest expenses	4,052
4. Net non-interest income	22,945
5. General administrative expenses and depreciation	39,635
6. Net operating income before loss provisions	14,535
7. Total expenses on loss provisions	3,122
7.1. Expenses on value adjustment and provisions for identified losses	2,322
7.2. Expenses on provisions for unidentified losses	800
8. Income/loss before taxes	11,412
9. Income tax	678
10. Current year profit/loss	10,735

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	210,251
1.1. Money assets	31,448
1.2. Deposits with the CNB	178,802
2. Deposits with banking institutions	204,354
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	98,564
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	98,564
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	128,355
5.1. Securities and other financial instruments held to maturity	128,355
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	4,210
7. Loans to financial institutions	4,000
8. Loans to other clients	812,849
9. Investments in subsidiaries and associates	19,878
10. Foreclosed and repossessed assets	34,289
11. Tangible assets (net of depreciation)	25,418
12. Interest, fees and other assets	46,199
13. Net of: Specific reserves for unidentified losses	14,654
TOTAL ASSETS	1,573,713

Structure of Liabilities	
1. Loans from financial institutions	148,779
1.1. Short-term loans	0
1.2. Long-term loans	148,779
2. Deposits	1,220,892
2.1. Giro account and current account deposits	134,350
2.2. Savings deposits	314,992
2.3. Time deposits	771,550
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	4,448
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	10,356
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	11,235
9. CAPITAL	178,004
TOTAL LIABILITIES AND CAPITAL	1,573,713

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Management Board

Sanda Cvitešić – chairwoman, Stjepan Poljak,
 Marijana Trpčić-Reškovic

Supervisory Board

Želimir Feitl – chairman, Vesna Goluža,
 Slavka Vuković, Helena Lenac, Ivan Podvorac

Shareholders

1. Croatian Privatisation Fund	7.98
2. Lanzville Investments	5.46
3. Karlovačka pivovara d.d.	4.54
4. Munja d.d.	4.36
5. Lola Ribar d.d.	4.22
6. Validus d.d.	4.10
7. Ivan Jaime Guerrero Devlahovic	3.08

Share in share capital (%)

Audit firm for 2004:
 Deloitte & Touche d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	46,949
1.1. Total interest income	71,690
1.2. Total interest expenses	24,741
2. Net income from commissions and fees	9,607
2.1. Total income from commissions and fees	22,370
2.2. Total expenses on commissions and fees	12,763
3. Net other non-interest income	516
3.1. Other non-interest income	6,816
3.2. Other non-interest expenses	6,300
4. Net non-interest income	10,124
5. General administrative expenses and depreciation	41,687
6. Net operating income before loss provisions	15,386
7. Total expenses on loss provisions	10,448
7.1. Expenses on value adjustment and provisions for identified losses	7,892
7.2. Expenses on provisions for unidentified losses	2,556
8. Income/loss before taxes	4,938
9. Income tax	0
10. Current year profit/loss	4,938

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	169,471
1.1. Money assets	19,216
1.2. Deposits with the CNB	150,256
2. Deposits with banking institutions	190,593
3. MoF treasury bills and CNB bills	78,284
4. Securities and other financial instruments held for trading and available for sale	4,965
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	4,965
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	149,184
5.1. Securities and other financial instruments held to maturity	144,532
5.2. Securities and other financial instruments bought on issue directly from the issuer	4,652
6. Derivative financial assets	1,333
7. Loans to financial institutions	66,796
8. Loans to other clients	500,459
9. Investments in subsidiaries and associates	18,667
10. Foreclosed and repossessed assets	968
11. Tangible assets (net of depreciation)	33,133
12. Interest, fees and other assets	12,757
13. Net of: Specific reserves for unidentified losses	10,026
TOTAL ASSETS	1,216,584

Structure of Liabilities	
1. Loans from financial institutions	79,810
1.1. Short-term loans	137
1.2. Long-term loans	79,673
2. Deposits	970,382
2.1. Giro account and current account deposits	286,796
2.2. Savings deposits	243,721
2.3. Time deposits	439,865
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	1,380
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	2,110
7. Hybrid instruments issued	14,115
8. Interest, fees and other liabilities	80,248
9. CAPITAL	68,540
TOTAL LIABILITIES AND CAPITAL	1,216,584

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Management Board

Ivan Purgar – chairman, Željko Jakuš

Supervisory Board

Rudo Mikulić – chairman, Tomislav Lučić, Ivica Sertić

Shareholders

	Share in share capital (%)
1. Agrokor d.d.	18.83
2. Crodel d.o.o.	11.38
3. Investco vrijednosnice d.o.o.	9.27
4. Ledo d.d.	8.54
5. Jamnica d.d.	8.44
6. Mondo-Tera d.o.o.	7.61
7. Konzum d.d.	7.09
8. Zvijezda d.d.	5.66
9. Ivalim d.o.o.	5.61
10. Solana Pag d.d.	5.61

Audit firm for 2004:
 Deloitte & Touche d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	23,708
1.1. Total interest income	49,806
1.2. Total interest expenses	26,098
2. Net income from commissions and fees	9,205
2.1. Total income from commissions and fees	26,686
2.2. Total expenses on commissions and fees	17,481
3. Net other non-interest income	26,262
3.1. Other non-interest income	28,753
3.2. Other non-interest expenses	2,491
4. Net non-interest income	35,467
5. General administrative expenses and depreciation	30,800
6. Net operating income before loss provisions	28,375
7. Total expenses on loss provisions	16,637
7.1. Expenses on value adjustment and provisions for identified losses	15,812
7.2. Expenses on provisions for unidentified losses	825
8. Income/loss before taxes	11,739
9. Income tax	0
10. Current year profit/loss	11,739

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	156,021
1.1. Money assets	30,208
1.2. Deposits with the CNB	125,813
2. Deposits with banking institutions	120,831
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	7,628
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	7,628
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	4,987
5.1. Securities and other financial instruments held to maturity	4,987
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	2,345
7. Loans to financial institutions	39,707
8. Loans to other clients	470,362
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	0
11. Tangible assets (net of depreciation)	39,059
12. Interest, fees and other assets	11,565
13. Net of: Specific reserves for unidentified losses	6,012
TOTAL ASSETS	846,493

Structure of Liabilities	
1. Loans from financial institutions	56,024
1.1. Short-term loans	10,000
1.2. Long-term loans	46,024
2. Deposits	623,489
2.1. Giro account and current account deposits	125,951
2.2. Savings deposits	54,830
2.3. Time deposits	442,708
3. Other loans	12,104
3.1. Short-term loans	11,123
3.2. Long-term loans	981
4. Derivative financial liabilities and other financial liabilities held for trading	800
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	22,051
9. CAPITAL	132,025
TOTAL LIABILITIES AND CAPITAL	846,493

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Undergoing winding-up proceedings!

Audit firm for 2004:
 Revidicon d.o.o., Varaždin

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	25,850
1.1. Total interest income	39,055
1.2. Total interest expenses	13,205
2. Net income from commissions and fees	493
2.1. Total income from commissions and fees	1,352
2.2. Total expenses on commissions and fees	859
3. Net other non-interest income	-1,087
3.1. Other non-interest income	1,663
3.2. Other non-interest expenses	2,750
4. Net non-interest income	-594
5. General administrative expenses and depreciation	13,870
6. Net operating income before loss provisions	11,386
7. Total expenses on loss provisions	11,530
7.1. Expenses on value adjustment and provisions for identified losses	10,688
7.2. Expenses on provisions for unidentified losses	842
8. Income/loss before taxes	-144
9. Income tax	0
10. Current year profit/loss	-144

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	40,220
1.1. Money assets	4,094
1.2. Deposits with the CNB	36,126
2. Deposits with banking institutions	52,513
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	0
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	0
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	0
5.1. Securities and other financial instruments held to maturity	0
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	0
8. Loans to other clients	141,919
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	0
11. Tangible assets (net of depreciation)	8,577
12. Interest, fees and other assets	2,007
13. Net of: Specific reserves for unidentified losses	1,956
TOTAL ASSETS	243,279

Structure of Liabilities	
1. Loans from financial institutions	0
1.1. Short-term loans	0
1.2. Long-term loans	0
2. Deposits	213,689
2.1. Giro account and current account deposits	0
2.2. Savings deposits	6,036
2.3. Time deposits	207,653
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	1,590
9. CAPITAL	28,000
TOTAL LIABILITIES AND CAPITAL	243,279

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Management Board

Goran Rameša – chairman, Milivoj Debelić

Supervisory Board

Nikola Pavletić – chairman, Vito Svetina,
 Marijan Ključariček, Mirjana Petković, Dušan Todorović

Shareholders

1. Adria Consulting S.R.L.	50.00
2. Erste & Steiermärkische bank d.d.	31.85
3. Transadria d.d.	14.77

Share in share capital (%)

Audit firm for 2004:

PricewaterhouseCoopers d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	11,614
1.1. Total interest income	15,417
1.2. Total interest expenses	3,803
2. Net income from commissions and fees	4,498
2.1. Total income from commissions and fees	9,199
2.2. Total expenses on commissions and fees	4,701
3. Net other non-interest income	2,131
3.1. Other non-interest income	3,086
3.2. Other non-interest expenses	955
4. Net non-interest income	6,630
5. General administrative expenses and depreciation	12,939
6. Net operating income before loss provisions	5,304
7. Total expenses on loss provisions	-1,218
7.1. Expenses on value adjustment and provisions for identified losses	270
7.2. Expenses on provisions for unidentified losses	-1,488
8. Income/loss before taxes	6,523
9. Income tax	1,365
10. Current year profit/loss	5,158

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	39,274
1.1. Money assets	2,016
1.2. Deposits with the CNB	37,258
2. Deposits with banking institutions	33,717
3. MoF treasury bills and CNB bills	11,796
4. Securities and other financial instruments held for trading and available for sale	9,751
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	9,751
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	23,229
5.1. Securities and other financial instruments held to maturity	23,229
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	251
7. Loans to financial institutions	0
8. Loans to other clients	143,782
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	1,010
11. Tangible assets (net of depreciation)	25,375
12. Interest, fees and other assets	3,086
13. Net of: Specific reserves for unidentified losses	2,795
TOTAL ASSETS	288,476

Structure of Liabilities	
1. Loans from financial institutions	27,227
1.1. Short-term loans	0
1.2. Long-term loans	27,227
2. Deposits	185,505
2.1. Giro account and current account deposits	76,557
2.2. Savings deposits	17,574
2.3. Time deposits	91,374
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	373
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	5,787
9. CAPITAL	69,583
TOTAL LIABILITIES AND CAPITAL	288,476

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Shareholders

1. Privredna banka Zagreb d.d.

Share in share capital (%)

96.39

Audit firm for 2004:

Ernst & Young Croatia d.o.o., Zagreb

Management Board

Nenad Jeđud – chairman, Siniša Radiković

Supervisory Board

Ivan Krolo – chairman, Mislav Blažić, Gordan Miler,
 Ivanka Petrović, Nenad Štimac

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	74,766
1.1. Total interest income	129,553
1.2. Total interest expenses	54,787
2. Net income from commissions and fees	24,144
2.1. Total income from commissions and fees	27,991
2.2. Total expenses on commissions and fees	3,847
3. Net other non-interest income	2,733
3.1. Other non-interest income	13,825
3.2. Other non-interest expenses	11,092
4. Net non-interest income	26,877
5. General administrative expenses and depreciation	52,082
6. Net operating income before loss provisions	49,561
7. Total expenses on loss provisions	14,941
7.1. Expenses on value adjustment and provisions for identified losses	12,688
7.2. Expenses on provisions for unidentified losses	2,252
8. Income/loss before taxes	34,620
9. Income tax	7,370
10. Current year profit/loss	27,250

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	297,684
1.1. Money assets	46,169
1.2. Deposits with the CNB	251,516
2. Deposits with banking institutions	335,216
3. MoF treasury bills and CNB bills	99,266
4. Securities and other financial instruments held for trading and available for sale	127,614
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	127,614
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	11,067
5.1. Securities and other financial instruments held to maturity	11,067
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	21,988
8. Loans to other clients	1,130,400
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	692
11. Tangible assets (net of depreciation)	41,810
12. Interest, fees and other assets	18,847
13. Net of: Specific reserves for unidentified losses	15,564
TOTAL ASSETS	2,069,019

Structure of Liabilities	
1. Loans from financial institutions	180,486
1.1. Short-term loans	0
1.2. Long-term loans	180,486
2. Deposits	1,587,219
2.1. Giro account and current account deposits	250,718
2.2. Savings deposits	356,833
2.3. Time deposits	979,669
3. Other loans	30,685
3.1. Short-term loans	0
3.2. Long-term loans	30,685
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	68,763
9. CAPITAL	201,866
TOTAL LIABILITIES AND CAPITAL	2,069,019

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Management Board

Stipan Pamuković – chairman, Ante Samodol,
 Željko Škalec

Supervisory Board

Jakov Gelo – chairman, Višnjica Mališa, Ivan Gudelj,
 Daniel Hrnjak, Anđelko Ivančić

Shareholders

	Share in share capital (%)
1. Kemika d.d.	21.65
2. GIP Pionir d.d.	8.86
3. Dragica Predović	6.80
4. Stipan Pamuković	5.85
5. Željko Škalec	5.85
6. Aling J.T.D.	4.92
7. Ivan Gudelj	4.33
8. Ante Pamuković	3.14
9. Ante Samodol	3.14

Audit firm for 2004:
 Revizija Zagreb d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	10,215
1.1. Total interest income	23,640
1.2. Total interest expenses	13,426
2. Net income from commissions and fees	1,870
2.1. Total income from commissions and fees	3,566
2.2. Total expenses on commissions and fees	1,696
3. Net other non-interest income	2,803
3.1. Other non-interest income	3,654
3.2. Other non-interest expenses	851
4. Net non-interest income	4,673
5. General administrative expenses and depreciation	8,821
6. Net operating income before loss provisions	6,067
7. Total expenses on loss provisions	2,654
7.1. Expenses on value adjustment and provisions for identified losses	1,918
7.2. Expenses on provisions for unidentified losses	736
8. Income/loss before taxes	3,413
9. Income tax	684
10. Current year profit/loss	2,729

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	53,732
1.1. Money assets	5,509
1.2. Deposits with the CNB	48,223
2. Deposits with banking institutions	24,438
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	9,779
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	9,779
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	29,144
5.1. Securities and other financial instruments held to maturity	29,144
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	940
7. Loans to financial institutions	10,000
8. Loans to other clients	224,802
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	0
11. Tangible assets (net of depreciation)	6,256
12. Interest, fees and other assets	5,106
13. Net of: Specific reserves for unidentified losses	2,846
TOTAL ASSETS	361,352

Structure of Liabilities	
1. Loans from financial institutions	29,397
1.1. Short-term loans	15,703
1.2. Long-term loans	13,694
2. Deposits	271,718
2.1. Giro account and current account deposits	53,416
2.2. Savings deposits	8,037
2.3. Time deposits	210,264
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	708
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	8,328
9. CAPITAL	51,201
TOTAL LIABILITIES AND CAPITAL	361,352

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Shareholders

1. OTP Bank RT

Share in share capital (%)

93.63

Audit firm for 2004:

Deloitte & Touche d.o.o., Zagreb

Management Board

Damir Odak – chairman, Zorislav Vidović,
 Sanja Martinko

Supervisory Board

Robert Hans van Griethuysen – chairman, David Curl,
 Ronald Drake, Marijan Kostrenčić, David McMahon

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	239,034
1.1. Total interest income	421,701
1.2. Total interest expenses	182,668
2. Net income from commissions and fees	52,303
2.1. Total income from commissions and fees	94,792
2.2. Total expenses on commissions and fees	42,489
3. Net other non-interest income	42,782
3.1. Other non-interest income	72,420
3.2. Other non-interest expenses	29,637
4. Net non-interest income	95,085
5. General administrative expenses and depreciation	283,229
6. Net operating income before loss provisions	50,890
7. Total expenses on loss provisions	-41,603
7.1. Expenses on value adjustment and provisions for identified losses	-53,692
7.2. Expenses on provisions for unidentified losses	12,089
8. Income/loss before taxes	92,493
9. Income tax	-50,280
10. Current year profit/loss	142,773

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	1,180,098
1.1. Money assets	92,733
1.2. Deposits with the CNB	1,087,364
2. Deposits with banking institutions	1,313,484
3. MoF treasury bills and CNB bills	146,191
4. Securities and other financial instruments held for trading and available for sale	1,114,358
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	1,114,358
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	75,772
5.1. Securities and other financial instruments held to maturity	75,772
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	7,827
7. Loans to financial institutions	58,157
8. Loans to other clients	3,663,120
9. Investments in subsidiaries and associates	22,174
10. Foreclosed and repossessed assets	2,838
11. Tangible assets (net of depreciation)	162,057
12. Interest, fees and other assets	213,673
13. Net of: Specific reserves for unidentified losses	62,087
TOTAL ASSETS	7,897,662

Structure of Liabilities	
1. Loans from financial institutions	391,529
1.1. Short-term loans	42,842
1.2. Long-term loans	348,687
2. Deposits	6,351,993
2.1. Giro account and current account deposits	1,042,880
2.2. Savings deposits	1,487,230
2.3. Time deposits	3,821,883
3. Other loans	196,426
3.1. Short-term loans	39,965
3.2. Long-term loans	156,460
4. Derivative financial liabilities and other financial liabilities held for trading	7,927
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	39,222
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	182,299
9. CAPITAL	728,266
TOTAL LIABILITIES AND CAPITAL	7,897,662

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Shareholders

1. Metroholding d.d.
2. INGRA d.d.

Share in share capital (%)

86.93
 8.83

Management Board

Marija Šola – chairwoman, Branka Oštrić

Audit firm for 2004:

Deloitte & Touche d.o.o., Zagreb

Supervisory Board

Borislav Škegro – chairman, Ivan Lovrinović,
 Igor Oppenheim

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	44,295
1.1. Total interest income	61,668
1.2. Total interest expenses	17,373
2. Net income from commissions and fees	10,426
2.1. Total income from commissions and fees	18,145
2.2. Total expenses on commissions and fees	7,719
3. Net other non-interest income	4,813
3.1. Other non-interest income	9,619
3.2. Other non-interest expenses	4,806
4. Net non-interest income	15,239
5. General administrative expenses and depreciation	34,883
6. Net operating income before loss provisions	24,651
7. Total expenses on loss provisions	4,934
7.1. Expenses on value adjustment and provisions for identified losses	1,463
7.2. Expenses on provisions for unidentified losses	3,471
8. Income/loss before taxes	19,717
9. Income tax	4,121
10. Current year profit/loss	15,596

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	113,119
1.1. Money assets	8,397
1.2. Deposits with the CNB	104,722
2. Deposits with banking institutions	103,545
3. MoF treasury bills and CNB bills	6,834
4. Securities and other financial instruments held for trading and available for sale	29,302
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	29,302
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	0
5.1. Securities and other financial instruments held to maturity	0
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	733
7. Loans to financial institutions	0
8. Loans to other clients	502,229
9. Investments in subsidiaries and associates	1,370
10. Foreclosed and repossessed assets	3,181
11. Tangible assets (net of depreciation)	36,614
12. Interest, fees and other assets	14,837
13. Net of: Specific reserves for unidentified losses	8,696
TOTAL ASSETS	803,068

Structure of Liabilities	
1. Loans from financial institutions	51,992
1.1. Short-term loans	0
1.2. Long-term loans	51,992
2. Deposits	565,868
2.1. Giro account and current account deposits	152,731
2.2. Savings deposits	56,317
2.3. Time deposits	356,821
3. Other loans	26,243
3.1. Short-term loans	0
3.2. Long-term loans	26,243
4. Derivative financial liabilities and other financial liabilities held for trading	467
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	31,889
9. CAPITAL	126,608
TOTAL LIABILITIES AND CAPITAL	803,068

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Management Board

Julio Kuruc – chairman, Marijan Marušić

Supervisory Board

Sigilfredo Montinari – chairman, Dario Montinari,
 Jurica (Đuro) Predović, Dolly Predović,
 Miljan Todorović

Shareholders

	Share in share capital (%)
1. Antonia Gorgoni	9.98
2. Lorenzo Gorgoni	9.97
3. Cerere S.R.L.	9.93
4. Jurica (Đuro) Predovic	9.33
5. Miljan Todorovic	8.73
6. Liaci Luigi	5.14
7. Dario Montinari	5.12
8. Sigilfredo Montinari	5.12
9. Andrea Montinari	5.12
10. Piero Montinari	5.12
11. Giovanni Semeraro	4.39
12. Giuliano Chersi	3.06

Audit firm for 2004:
 Deloitte & Touche d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	58,090
1.1. Total interest income	100,800
1.2. Total interest expenses	42,711
2. Net income from commissions and fees	17,831
2.1. Total income from commissions and fees	30,620
2.2. Total expenses on commissions and fees	12,790
3. Net other non-interest income	13,065
3.1. Other non-interest income	20,401
3.2. Other non-interest expenses	7,336
4. Net non-interest income	30,896
5. General administrative expenses and depreciation	66,074
6. Net operating income before loss provisions	22,911
7. Total expenses on loss provisions	6,464
7.1. Expenses on value adjustment and provisions for identified losses	3,957
7.2. Expenses on provisions for unidentified losses	2,507
8. Income/loss before taxes	16,447
9. Income tax	3,193
10. Current year profit/loss	13,254

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	267,135
1.1. Money assets	37,383
1.2. Deposits with the CNB	229,752
2. Deposits with banking institutions	151,733
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	131,397
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	131,397
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	57,244
5.1. Securities and other financial instruments held to maturity	12,678
5.2. Securities and other financial instruments bought on issue directly from the issuer	44,566
6. Derivative financial assets	0
7. Loans to financial institutions	50,000
8. Loans to other clients	840,988
9. Investments in subsidiaries and associates	2,939
10. Foreclosed and repossessed assets	308
11. Tangible assets (net of depreciation)	36,772
12. Interest, fees and other assets	31,783
13. Net of: Specific reserves for unidentified losses	11,950
TOTAL ASSETS	1,558,348

Structure of Liabilities	
1. Loans from financial institutions	101,988
1.1. Short-term loans	76,027
1.2. Long-term loans	25,960
2. Deposits	1,212,465
2.1. Giro account and current account deposits	164,519
2.2. Savings deposits	165,843
2.3. Time deposits	882,103
3. Other loans	39,422
3.1. Short-term loans	0
3.2. Long-term loans	39,422
4. Derivative financial liabilities and other financial liabilities held for trading	698
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	47,504
9. CAPITAL	156,272
TOTAL LIABILITIES AND CAPITAL	1,558,348

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Management Board

Davorka Jakir – chairwoman,
 Andrea Zemljić-Modronja

Supervisory Board

Josip Medunić – chairman, Marina Žarković,
 Đuro Šimić, Karlo Gregurić, Branko Štulić

Shareholders

	Share in share capital (%)
1. Vrijednosnice Osijek d.o.o.	10.11
2. Podravska banka d.d.	9.42
3. KB 1909-Societa Finanziaria per	8.93
4. Abba d.o.o.	8.35
5. Kamen-Ingrad d.d.	7.65
6. JP Hrvatske šume p.o.	6.87
7. Zvonko Potnik	4.71
8. Zvečevo PI d.d.	3.57
9. Croatia osiguranje d.d.	3.18

Audit firm for 2004:
 Revicon Zagreb d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	13,050
1.1. Total interest income	26,532
1.2. Total interest expenses	13,482
2. Net income from commissions and fees	2,891
2.1. Total income from commissions and fees	5,657
2.2. Total expenses on commissions and fees	2,766
3. Net other non-interest income	-10,459
3.1. Other non-interest income	955
3.2. Other non-interest expenses	11,414
4. Net non-interest income	-7,568
5. General administrative expenses and depreciation	26,418
6. Net operating income before loss provisions	-20,936
7. Total expenses on loss provisions	5,504
7.1. Expenses on value adjustment and provisions for identified losses	8,013
7.2. Expenses on provisions for unidentified losses	-2,509
8. Income/loss before taxes	-26,440
9. Income tax	0
10. Current year profit/loss	-26,440

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	42,598
1.1. Money assets	4,705
1.2. Deposits with the CNB	37,894
2. Deposits with banking institutions	55,967
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	4,109
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	4,109
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	40,134
5.1. Securities and other financial instruments held to maturity	40,134
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	1,147
7. Loans to financial institutions	2,745
8. Loans to other clients	245,616
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	5,406
11. Tangible assets (net of depreciation)	6,723
12. Interest, fees and other assets	9,709
13. Net of: Specific reserves for unidentified losses	3,206
TOTAL ASSETS	410,948

Structure of Liabilities	
1. Loans from financial institutions	38,014
1.1. Short-term loans	12,000
1.2. Long-term loans	26,014
2. Deposits	300,140
2.1. Giro account and current account deposits	45,743
2.2. Savings deposits	17,542
2.3. Time deposits	236,855
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	338
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	8,808
9. CAPITAL	63,649
TOTAL LIABILITIES AND CAPITAL	410,948

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Management Board

Duško Miculinić – chairman, Dražen Kurpis

Supervisory Board

Francesco Signorio – chairman, Carlo Cattaneo,
 Gordana Pavletić, Domenico Petrella,
 Daniele Sinosich

Shareholders

1. Francesco Signorio	50.35
2. Carlo Di Dato	8.14
3. J.L.L. Marc Jourdan	7.31
4. Domenico Petrella	7.19
5. Svitlana Bondareva	6.75
6. Franco Guidantoni	4.88
7. Gordana Pavletić	4.18
8. Cofisi S.A.	4.10

Share in share capital (%)

Audit firm for 2004:
 Revidicon d.o.o., Varaždin

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	6,221
1.1. Total interest income	8,019
1.2. Total interest expenses	1,799
2. Net income from commissions and fees	97
2.1. Total income from commissions and fees	724
2.2. Total expenses on commissions and fees	627
3. Net other non-interest income	573
3.1. Other non-interest income	797
3.2. Other non-interest expenses	223
4. Net non-interest income	670
5. General administrative expenses and depreciation	6,628
6. Net operating income before loss provisions	263
7. Total expenses on loss provisions	139
7.1. Expenses on value adjustment and provisions for identified losses	-6
7.2. Expenses on provisions for unidentified losses	145
8. Income/loss before taxes	123
9. Income tax	0
10. Current year profit/loss	123

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	6,912
1.1. Money assets	2,186
1.2. Deposits with the CNB	4,725
2. Deposits with banking institutions	16,705
3. MoF treasury bills and CNB bills	1,917
4. Securities and other financial instruments held for trading and available for sale	0
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	0
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	1,755
5.1. Securities and other financial instruments held to maturity	1,755
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	0
8. Loans to other clients	65,848
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	1,200
11. Tangible assets (net of depreciation)	389
12. Interest, fees and other assets	4,912
13. Net of: Specific reserves for unidentified losses	767
TOTAL ASSETS	98,870

Structure of Liabilities	
1. Loans from financial institutions	0
1.1. Short-term loans	0
1.2. Long-term loans	0
2. Deposits	54,444
2.1. Giro account and current account deposits	4,521
2.2. Savings deposits	7,136
2.3. Time deposits	42,787
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	1,783
9. CAPITAL	42,644
TOTAL LIABILITIES AND CAPITAL	98,870

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Merged!

Audit firm for 2004:

Ernst & Young Croatia d.o.o., Zagreb

Income Statement, as at 31 December 2004, in thousand kuna

1. Net interest income	26,495
1.1. Total interest income	47,674
1.2. Total interest expenses	21,179
2. Net income from commissions and fees	5,350
2.1. Total income from commissions and fees	9,952
2.2. Total expenses on commissions and fees	4,602
3. Net other non-interest income	7,422
3.1. Other non-interest income	9,375
3.2. Other non-interest expenses	1,954
4. Net non-interest income	12,772
5. General administrative expenses and depreciation	21,450
6. Net operating income before loss provisions	17,817
7. Total expenses on loss provisions	3,842
7.1. Expenses on value adjustment and provisions for identified losses	2,354
7.2. Expenses on provisions for unidentified losses	1,488
8. Income/loss before taxes	13,975
9. Income tax	2,886
10. Current year profit/loss	11,089

Balance Sheet, as at 31 December 2004, in thousand kuna

Structure of Assets	
1. Money assets and deposits with the CNB	59,942
1.1. Money assets	25,727
1.2. Deposits with the CNB	34,215
2. Deposits with banking institutions	170,315
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	30
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	30
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	0
5.1. Securities and other financial instruments held to maturity	0
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	0
8. Loans to other clients	443,569
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	5,369
11. Tangible assets (net of depreciation)	23,374
12. Interest, fees and other assets	74,678
13. Net of: Specific reserves for unidentified losses	6,283
TOTAL ASSETS	770,994

Structure of Liabilities	
1. Loans from financial institutions	77,479
1.1. Short-term loans	0
1.2. Long-term loans	77,479
2. Deposits	580,494
2.1. Giro account and current account deposits	60,955
2.2. Savings deposits	107,010
2.3. Time deposits	412,529
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	12,927
9. CAPITAL	100,093
TOTAL LIABILITIES AND CAPITAL	770,994

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Management Board

Božo Prka – chairman, Ivan Gerovac, Davor Holjevac,
 Tomislav Lazarić, Giancarlo Miranda,
 Draženko Pavlinić, Gabriela Pace

Supervisory Board

György Surányi – chairman, Adriano Arietti, Luigi de
 Puppi de Puppi, Claudio Viezzoli, Giovanni Boccolini,
 Massimo Pierdicchi, Massimo Malagoli

Shareholders

1. Intesa Bci Holding International S.A.	76.30
2. European Bank for Reconstruction and Development (EBRD)	20.08

Share in share capital (%)

Audit firm for 2004:
 Ernst & Young Croatia d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	1,277,167
1.1. Total interest income	2,271,528
1.2. Total interest expenses	994,361
2. Net income from commissions and fees	300,891
2.1. Total income from commissions and fees	518,055
2.2. Total expenses on commissions and fees	217,163
3. Net other non-interest income	220,790
3.1. Other non-interest income	362,607
3.2. Other non-interest expenses	141,817
4. Net non-interest income	521,682
5. General administrative expenses and depreciation	867,286
6. Net operating income before loss provisions	931,562
7. Total expenses on loss provisions	97,785
7.1. Expenses on value adjustment and provisions for identified losses	39,840
7.2. Expenses on provisions for unidentified losses	57,945
8. Income/loss before taxes	833,777
9. Income tax	156,028
10. Current year profit/loss	677,749

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	6,773,582
1.1. Money assets	675,030
1.2. Deposits with the CNB	6,098,552
2. Deposits with banking institutions	4,804,764
3. MoF treasury bills and CNB bills	362,484
4. Securities and other financial instruments held for trading and available for sale	2,989,894
4.1. Securities and other financial instruments held for trading	2,964,226
4.2. Securities and other financial instruments available for sale	25,668
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	1,873,866
5.1. Securities and other financial instruments held to maturity	1,873,866
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	31,761
7. Loans to financial institutions	670,824
8. Loans to other clients	22,164,772
9. Investments in subsidiaries and associates	347,792
10. Foreclosed and repossessed assets	89,348
11. Tangible assets (net of depreciation)	697,280
12. Interest, fees and other assets	718,384
13. Net of: Specific reserves for unidentified losses	405,020
TOTAL ASSETS	41,119,732

Structure of Liabilities	
1. Loans from financial institutions	2,596,784
1.1. Short-term loans	1,667,118
1.2. Long-term loans	929,666
2. Deposits	27,480,317
2.1. Giro account and current account deposits	4,518,962
2.2. Savings deposits	5,160,116
2.3. Time deposits	17,801,239
3. Other loans	5,197,896
3.1. Short-term loans	39,774
3.2. Long-term loans	5,158,121
4. Derivative financial liabilities and other financial liabilities held for trading	29,823
5. Debt securities issued	20,187
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	20,187
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	1,880,496
9. CAPITAL	3,914,229
TOTAL LIABILITIES AND CAPITAL	41,119,732

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Management Board

Zdenko Adrović – chairman, Lovorka Penavić,
 Vlasta Žubrinić-Pick, Jasna Širola

Supervisory Board

Herbert Stepic – chairman, Heinz Hoedl, Franz Rogi

Shareholders

	Share in share capital (%)
1. Raiffeisen International Beteiligungs AG	75.00
2. Raiffeisenbank-Zagreb Beteiligungsgesellschaft mbH	25.00

Audit firm for 2004:
 KPMG Croatia d.o.o., Zagreb

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	502,394
1.1. Total interest income	1,125,186
1.2. Total interest expenses	622,791
2. Net income from commissions and fees	173,435
2.1. Total income from commissions and fees	257,725
2.2. Total expenses on commissions and fees	84,290
3. Net other non-interest income	90,412
3.1. Other non-interest income	158,389
3.2. Other non-interest expenses	67,977
4. Net non-interest income	263,847
5. General administrative expenses and depreciation	457,575
6. Net operating income before loss provisions	308,665
7. Total expenses on loss provisions	91,892
7.1. Expenses on value adjustment and provisions for identified losses	24,572
7.2. Expenses on provisions for unidentified losses	67,320
8. Income/loss before taxes	216,773
9. Income tax	42,631
10. Current year profit/loss	174,142

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	3,867,376
1.1. Money assets	183,045
1.2. Deposits with the CNB	3,684,331
2. Deposits with banking institutions	4,775,327
3. MoF treasury bills and CNB bills	338,659
4. Securities and other financial instruments held for trading and available for sale	1,652,824
4.1. Securities and other financial instruments held for trading	1,482,753
4.2. Securities and other financial instruments available for sale	170,071
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	0
5.1. Securities and other financial instruments held to maturity	0
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	19,272
7. Loans to financial institutions	761,570
8. Loans to other clients	12,296,961
9. Investments in subsidiaries and associates	207,445
10. Foreclosed and repossessed assets	8,495
11. Tangible assets (net of depreciation)	323,527
12. Interest, fees and other assets	333,048
13. Net of: Specific reserves for unidentified losses	186,063
TOTAL ASSETS	24,398,441

Structure of Liabilities	
1. Loans from financial institutions	862,150
1.1. Short-term loans	756,712
1.2. Long-term loans	105,438
2. Deposits	14,770,299
2.1. Giro account and current account deposits	2,358,855
2.2. Savings deposits	1,915,729
2.3. Time deposits	10,495,715
3. Other loans	6,234,393
3.1. Short-term loans	302,678
3.2. Long-term loans	5,931,714
4. Derivative financial liabilities and other financial liabilities held for trading	28,575
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	445,453
7. Hybrid instruments issued	217,863
8. Interest, fees and other liabilities	653,176
9. CAPITAL	1,186,533
TOTAL LIABILITIES AND CAPITAL	24,398,441

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Shareholders

1. Strahinjčica d.d.
2. Samoborka d.d.
3. JP Hrvatske šume p.o.

Share in share capital (%)

79.34
 5.15
 3.78

Management Board

Marijan Kantolić – chairman, Marijan Trusk

Audit firm for 2004:

Revidicon d.o.o., Varaždin

Supervisory Board

Dragutin Plahutar – chairman, Želimir Kodrić,
 Branko Varjačić, Martin Jazbec, Milan Penava

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	10,822
1.1. Total interest income	17,365
1.2. Total interest expenses	6,543
2. Net income from commissions and fees	842
2.1. Total income from commissions and fees	3,886
2.2. Total expenses on commissions and fees	3,044
3. Net other non-interest income	2,909
3.1. Other non-interest income	3,533
3.2. Other non-interest expenses	624
4. Net non-interest income	3,752
5. General administrative expenses and depreciation	12,268
6. Net operating income before loss provisions	2,306
7. Total expenses on loss provisions	-804
7.1. Expenses on value adjustment and provisions for identified losses	-1,203
7.2. Expenses on provisions for unidentified losses	398
8. Income/loss before taxes	3,110
9. Income tax	662
10. Current year profit/loss	2,448

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	41,799
1.1. Money assets	9,367
1.2. Deposits with the CNB	32,432
2. Deposits with banking institutions	129,986
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	195
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	195
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	2,033
5.1. Securities and other financial instruments held to maturity	2,033
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	0
8. Loans to other clients	126,576
9. Investments in subsidiaries and associates	52
10. Foreclosed and repossessed assets	2,832
11. Tangible assets (net of depreciation)	13,717
12. Interest, fees and other assets	1,425
13. Net of: Specific reserves for unidentified losses	2,488
TOTAL ASSETS	316,126

Structure of Liabilities	
1. Loans from financial institutions	5,149
1.1. Short-term loans	4,000
1.2. Long-term loans	1,149
2. Deposits	229,778
2.1. Giro account and current account deposits	42,963
2.2. Savings deposits	76,513
2.3. Time deposits	110,303
3. Other loans	47
3.1. Short-term loans	47
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	15,213
9. CAPITAL	65,939
TOTAL LIABILITIES AND CAPITAL	316,126

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Management Board

Angelina Horvat – chairwoman, Elvis Mališ

Supervisory Board

Ante Šimara – chairman, Ljiljana Katavić,
 Marija Maleković, Ružica Šimara, Sandra Šimara

Shareholders

	Share in share capital (%)
1. State Agency for Bank Rehabilitation and Deposit Insurance	11.12
2. Lust-prom d.o.o.	9.96
3. Rima promet d.o.o.	9.96
4. Sloper d.o.o.	9.96
5. Slop-prom d.o.o.	9.96
6. Ante Šimara	9.96
7. Lustrin d.o.o.	9.95
8. Ružica Šimara	3.50
9. Sandra Šimara	3.42

Audit firm for 2004:
 Revidicon d.o.o., Varaždin

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	36,245
1.1. Total interest income	59,736
1.2. Total interest expenses	23,491
2. Net income from commissions and fees	6,232
2.1. Total income from commissions and fees	9,481
2.2. Total expenses on commissions and fees	3,249
3. Net other non-interest income	1,825
3.1. Other non-interest income	3,738
3.2. Other non-interest expenses	1,912
4. Net non-interest income	8,057
5. General administrative expenses and depreciation	33,529
6. Net operating income before loss provisions	10,773
7. Total expenses on loss provisions	-1,369
7.1. Expenses on value adjustment and provisions for identified losses	-1,834
7.2. Expenses on provisions for unidentified losses	465
8. Income/loss before taxes	12,142
9. Income tax	2,753
10. Current year profit/loss	9,389

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	98,538
1.1. Money assets	13,865
1.2. Deposits with the CNB	84,673
2. Deposits with banking institutions	110,150
3. MoF treasury bills and CNB bills	7,824
4. Securities and other financial instruments held for trading and available for sale	0
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	0
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	38,764
5.1. Securities and other financial instruments held to maturity	38,764
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	15,170
8. Loans to other clients	458,787
9. Investments in subsidiaries and associates	6,834
10. Foreclosed and repossessed assets	2,552
11. Tangible assets (net of depreciation)	32,179
12. Interest, fees and other assets	8,991
13. Net of: Specific reserves for unidentified losses	5,906
TOTAL ASSETS	773,884

Structure of Liabilities	
1. Loans from financial institutions	36,799
1.1. Short-term loans	0
1.2. Long-term loans	36,799
2. Deposits	575,674
2.1. Giro account and current account deposits	71,041
2.2. Savings deposits	88,728
2.3. Time deposits	415,904
3. Other loans	8,220
3.1. Short-term loans	0
3.2. Long-term loans	8,220
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	109
8. Interest, fees and other liabilities	19,892
9. CAPITAL	133,190
TOTAL LIABILITIES AND CAPITAL	773,884

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Shareholders

1. Hypo Alpe-Adria-Bank AG

Share in share capital (%)

94.74

Audit firm for 2004:

Confida revizija d.o.o., Zagreb

Management Board

Ivan Mihaljević – chairman, Tadija Vrdoljak

Supervisory BoardGünter Striedinger – chairman, Wolfgang Kulterer,
Othmar Ederer, Gerd Penkner, Zlata Vrdoljak**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	162,116
1.1. Total interest income	280,517
1.2. Total interest expenses	118,401
2. Net income from commissions and fees	32,090
2.1. Total income from commissions and fees	53,892
2.2. Total expenses on commissions and fees	21,802
3. Net other non-interest income	7,517
3.1. Other non-interest income	18,089
3.2. Other non-interest expenses	10,572
4. Net non-interest income	39,607
5. General administrative expenses and depreciation	148,165
6. Net operating income before loss provisions	53,558
7. Total expenses on loss provisions	7,950
7.1. Expenses on value adjustment and provisions for identified losses	77,469
7.2. Expenses on provisions for unidentified losses	-69,519
8. Income/loss before taxes	45,608
9. Income tax	13,640
10. Current year profit/loss	31,968

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	748,859
1.1. Money assets	64,682
1.2. Deposits with the CNB	684,177
2. Deposits with banking institutions	700,728
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	213,377
4.1. Securities and other financial instruments held for trading	29,920
4.2. Securities and other financial instruments available for sale	183,457
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	0
5.1. Securities and other financial instruments held to maturity	0
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	5,458
8. Loans to other clients	3,653,928
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	58,881
11. Tangible assets (net of depreciation)	53,215
12. Interest, fees and other assets	150,719
13. Net of: Specific reserves for unidentified losses	40,400
TOTAL ASSETS	5,544,765

Structure of Liabilities	
1. Loans from financial institutions	199,393
1.1. Short-term loans	25,000
1.2. Long-term loans	174,393
2. Deposits	4,109,297
2.1. Giro account and current account deposits	597,658
2.2. Savings deposits	413,297
2.3. Time deposits	3,098,342
3. Other loans	70,783
3.1. Short-term loans	0
3.2. Long-term loans	70,783
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	304,246
8. Interest, fees and other liabilities	127,073
9. CAPITAL	733,974
TOTAL LIABILITIES AND CAPITAL	5,544,765

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Management Board

Ante Babić – chairman, Josip Ševerdija,
Zdravko Zrinušić

Supervisory Board

Ivo Andrižanić – chairman, Đuro Benček,
Petar Ćurković

Shareholders

- Šted-Invest d.d.
- Paveko 2000 d.o.o.

Share in share capital (%)

89.71
5.50

Audit firm for 2004:

Revizija Spajić d.o.o., Zagreb

Income Statement, as at 31 December 2004, in thousand kuna

1. Net interest income	30,426
1.1. Total interest income	58,809
1.2. Total interest expenses	28,384
2. Net income from commissions and fees	6,369
2.1. Total income from commissions and fees	9,261
2.2. Total expenses on commissions and fees	2,892
3. Net other non-interest income	15,333
3.1. Other non-interest income	28,278
3.2. Other non-interest expenses	12,945
4. Net non-interest income	21,702
5. General administrative expenses and depreciation	12,119
6. Net operating income before loss provisions	40,009
7. Total expenses on loss provisions	14,235
7.1. Expenses on value adjustment and provisions for identified losses	32,889
7.2. Expenses on provisions for unidentified losses	-18,654
8. Income/loss before taxes	25,774
9. Income tax	5,344
10. Current year profit/loss	20,430

Balance Sheet, as at 31 December 2004, in thousand kuna

Structure of Assets	
1. Money assets and deposits with the CNB	67,296
1.1. Money assets	3,595
1.2. Deposits with the CNB	63,701
2. Deposits with banking institutions	118,723
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	0
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	0
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	36,856
5.1. Securities and other financial instruments held to maturity	36,856
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	0
7. Loans to financial institutions	30,000
8. Loans to other clients	530,966
9. Investments in subsidiaries and associates	2,354
10. Foreclosed and repossessed assets	6,231
11. Tangible assets (net of depreciation)	77,380
12. Interest, fees and other assets	15,002
13. Net of: Specific reserves for unidentified losses	8,008
TOTAL ASSETS	876,799

Structure of Liabilities	
1. Loans from financial institutions	5,000
1.1. Short-term loans	0
1.2. Long-term loans	5,000
2. Deposits	524,602
2.1. Giro account and current account deposits	60,843
2.2. Savings deposits	48,193
2.3. Time deposits	415,566
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	0
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	67,169
9. CAPITAL	280,028
TOTAL LIABILITIES AND CAPITAL	876,799

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Management Board

Josip Šeremet – chairman, Marinko Benić,
 Marica Orlović

Supervisory Board

Milan Horvat – chairman, Mika Mimica, Stjepan Bunić,
 Vladimir Koščec, Željko Filipović

Shareholders

1. Validus d.d.	57.62
2. Tar d.d.	9.20
3. Fima holding d.d.	7.85
4. Retis d.o.o.	9.20
5. Croatia osiguranje d.d.	4.60

Share in share capital (%)

Audit firm for 2004:
 DTTC d.o.o., Varaždin

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	3,937
1.1. Total interest income	9,941
1.2. Total interest expenses	6,004
2. Net income from commissions and fees	393
2.1. Total income from commissions and fees	1,255
2.2. Total expenses on commissions and fees	862
3. Net other non-interest income	144
3.1. Other non-interest income	1,055
3.2. Other non-interest expenses	911
4. Net non-interest income	537
5. General administrative expenses and depreciation	9,953
6. Net operating income before loss provisions	-5,479
7. Total expenses on loss provisions	-6,416
7.1. Expenses on value adjustment and provisions for identified losses	-6,416
7.2. Expenses on provisions for unidentified losses	0
8. Income/loss before taxes	938
9. Income tax	0
10. Current year profit/loss	938

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	13,903
1.1. Money assets	1,521
1.2. Deposits with the CNB	12,382
2. Deposits with banking institutions	3,035
3. MoF treasury bills and CNB bills	0
4. Securities and other financial instruments held for trading and available for sale	30,000
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	30,000
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	0
5.1. Securities and other financial instruments held to maturity	0
5.2. Securities and other financial instruments bought on issue directly from the issuer	0
6. Derivative financial assets	90
7. Loans to financial institutions	0
8. Loans to other clients	30,457
9. Investments in subsidiaries and associates	37,924
10. Foreclosed and repossessed assets	8,287
11. Tangible assets (net of depreciation)	16,367
12. Interest, fees and other assets	556
13. Net of: Specific reserves for unidentified losses	495
TOTAL ASSETS	140,126

Structure of Liabilities	
1. Loans from financial institutions	6,011
1.1. Short-term loans	6,011
1.2. Long-term loans	0
2. Deposits	89,011
2.1. Giro account and current account deposits	14,816
2.2. Savings deposits	4,250
2.3. Time deposits	69,944
3. Other loans	0
3.1. Short-term loans	0
3.2. Long-term loans	0
4. Derivative financial liabilities and other financial liabilities held for trading	44
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	8,201
9. CAPITAL	36,859
TOTAL LIABILITIES AND CAPITAL	140,126

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Shareholders

1. VB International AG

Share in share capital (%)

94.10

Audit firm for 2004:

PricewaterhouseCoopers d.o.o., Zagreb

Management Board

Tomasz Jerzy Taraba – chairman, Andrea Kovacs,
 Dieter Hornbacher

Supervisory Board

Wolfgang Perdich – chairman, Gerhard Wöber,
 Herbert Hartl, Hans Janeschitz, Denis Le Moullac,
 Fausto Maritan

**Income Statement,
as at 31 December 2004 in thousand kuna**

1. Net interest income	122,098
1.1. Total interest income	204,560
1.2. Total interest expenses	82,461
2. Net income from commissions and fees	16,570
2.1. Total income from commissions and fees	23,037
2.2. Total expenses on commissions and fees	6,467
3. Net other non-interest income	5,030
3.1. Other non-interest income	13,311
3.2. Other non-interest expenses	8,280
4. Net non-interest income	21,601
5. General administrative expenses and depreciation	116,159
6. Net operating income before loss provisions	27,541
7. Total expenses on loss provisions	7,725
7.1. Expenses on value adjustment and provisions for identified losses	4,356
7.2. Expenses on provisions for unidentified losses	3,369
8. Income/loss before taxes	19,816
9. Income tax	4,456
10. Current year profit/loss	15,360

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	565,119
1.1. Money assets	30,659
1.2. Deposits with the CNB	534,460
2. Deposits with banking institutions	654,881
3. MoF treasury bills and CNB bills	4,983
4. Securities and other financial instruments held for trading and available for sale	63,104
4.1. Securities and other financial instruments held for trading	0
4.2. Securities and other financial instruments available for sale	63,104
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	4,826
5.1. Securities and other financial instruments held to maturity	0
5.2. Securities and other financial instruments bought on issue directly from the issuer	4,826
6. Derivative financial assets	1,115
7. Loans to financial institutions	112,000
8. Loans to other clients	2,100,484
9. Investments in subsidiaries and associates	0
10. Foreclosed and repossessed assets	0
11. Tangible assets (net of depreciation)	15,585
12. Interest, fees and other assets	128,980
13. Net of: Specific reserves for unidentified losses	33,087
TOTAL ASSETS	3,617,990

Structure of Liabilities	
1. Loans from financial institutions	46,614
1.1. Short-term loans	34,000
1.2. Long-term loans	12,614
2. Deposits	1,583,704
2.1. Giro account and current account deposits	238,906
2.2. Savings deposits	208,593
2.3. Time deposits	1,136,205
3. Other loans	1,533,119
3.1. Short-term loans	0
3.2. Long-term loans	1,533,119
4. Derivative financial liabilities and other financial liabilities held for trading	1,103
5. Debt securities issued	0
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	0
6. Subordinated instruments issued	0
7. Hybrid instruments issued	73,145
8. Interest, fees and other liabilities	184,127
9. CAPITAL	196,179
TOTAL LIABILITIES AND CAPITAL	3,617,990

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Shareholders

1. UniCredito Italiano S.p.A.
2. Allianz AG

Share in share capital (%)

82.16
 13.75

Management Board

Franjo Luković – chairman, Milivoj Goldštajn,
 Zvonimir Jurjević, Nikola Kalinić, Tomica Pustišek,
 Sanja Rendulić, Alois Steinbichler, Tea Martinčić

Audit firm for 2004:

KPMG Croatia d.o.o., Zagreb

Supervisory Board

Andrea Moneta – chairman, Paolo Fiorentino,
 Klaus Junker, Torsten Leue, Marina Monassi,
 Guiseppe Vovk, Jakša Barbić

**Income Statement,
as at 31 December 2004, in thousand kuna**

1. Net interest income	1,576,880
1.1. Total interest income	2,779,303
1.2. Total interest expenses	1,202,423
2. Net income from commissions and fees	484,951
2.1. Total income from commissions and fees	675,301
2.2. Total expenses on commissions and fees	190,350
3. Net other non-interest income	428,417
3.1. Other non-interest income	523,710
3.2. Other non-interest expenses	95,294
4. Net non-interest income	913,367
5. General administrative expenses and depreciation	1,155,238
6. Net operating income before loss provisions	1,335,010
7. Total expenses on loss provisions	40,718
7.1. Expenses on value adjustment and provisions for identified losses	28,831
7.2. Expenses on provisions for unidentified losses	11,887
8. Income/loss before taxes	1,294,292
9. Income tax	219,015
10. Current year profit/loss	1,075,277

**Balance Sheet,
as at 31 December 2004, in thousand kuna**

Structure of Assets	
1. Money assets and deposits with the CNB	8,993,011
1.1. Money assets	813,430
1.2. Deposits with the CNB	8,179,581
2. Deposits with banking institutions	6,937,371
3. MoF treasury bills and CNB bills	1,570,187
4. Securities and other financial instruments held for trading and available for sale	5,003,764
4.1. Securities and other financial instruments held for trading	296,027
4.2. Securities and other financial instruments available for sale	4,707,738
5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer	2,272,136
5.1. Securities and other financial instruments held to maturity	1,492,924
5.2. Securities and other financial instruments bought on issue directly from the issuer	779,212
6. Derivative financial assets	12,241
7. Loans to financial institutions	483,296
8. Loans to other clients	29,580,583
9. Investments in subsidiaries and associates	908,078
10. Foreclosed and repossessed assets	28,551
11. Tangible assets (net of depreciation)	1,053,658
12. Interest, fees and other assets	1,173,377
13. Net of: Specific reserves for unidentified losses	540,621
TOTAL ASSETS	57,475,631

Structure of Liabilities	
1. Loans from financial institutions	883,433
1.1. Short-term loans	515,182
1.2. Long-term loans	368,251
2. Deposits	40,770,732
2.1. Giro account and current account deposits	7,997,476
2.2. Savings deposits	6,916,079
2.3. Time deposits	25,857,178
3. Other loans	5,387,982
3.1. Short-term loans	1,273,692
3.2. Long-term loans	4,114,290
4. Derivative financial liabilities and other financial liabilities held for trading	50,169
5. Debt securities issued	3,430,016
5.1. Short-term debt securities issued	0
5.2. Long-term debt securities issued	3,430,016
6. Subordinated instruments issued	0
7. Hybrid instruments issued	0
8. Interest, fees and other liabilities	1,814,429
9. CAPITAL	5,138,869
TOTAL LIABILITIES AND CAPITAL	57,475,631

Attachment I

Bank name and headquarter		Peer group number			
		Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004
1.	Banka Brod d.d., Slavonski Brod	–	IV	IV	IV
2.	Banka Kovanica d.d., Varaždin	–	IV	IV	III
3.	Banka Sonic d.d., Zagreb	–	IV	IV	III
4.	Banka Splitsko-dalmatinska d.d., Split	–	IV	IV	IV
	Bayerische Hypo- und Vereinsbank AG, Glavna podružnica Zagreb ¹	IV	–	–	–
	Cassa di Risparmio di Trieste - Banca d.d., Zagreb ²	IV	IV	–	–
5.	Centar banka d.d., Zagreb	IV	IV	III	III
	Convest banka d.d., Zagreb ³	IV	IV	–	–
6.	Credo banka d.d., Split	IV	IV	III	III
7.	Croatia banka d.d., Zagreb	II	II	II	II
	Dalmatinska banka d.d., Zadar ⁴	II	–	–	–
8.	Dresdner Bank Croatia d.d., Zagreb	III	II	III	IV
	Dubrovačka banka d.d., Dubrovnik ⁵	II	II	II	–
9.	Erste & Steiermärkische Bank d.d., Zagreb	II	I	I	I
10.	Gospodarsko kreditna banka d.d., Zagreb	IV	IV	IV	IV
11.	Hrvatska poštanska banka d.d., Zagreb	II	I	I	I
	HVB Bank Croatia d.d., Zagreb ⁶	II	II	–	–
12.	HVB Splitska banka d.d., Split ⁷	I	I	I	I
13.	Hypo Alpe-Adria-Bank d.d., Zagreb	I	I	I	I
14.	Imex banka d.d., Split	IV	IV	IV	III
	Istarska banka d.d., Pula ⁴	II	–	–	–
15.	Istarska kreditna banka Umag d.d., Umag	II	II	II	II
16.	Jadranska banka d.d., Šibenik	II	II	II	II
17.	Karlovačka banka d.d., Karlovac	III	III	II	II
18.	Kreditna banka Zagreb d.d., Zagreb	III	III	III	III
19.	Križevačka banka d.d., Križevci	–	IV	IV	IV
20.	Kvarner banka d.d., Rijeka	IV	IV	IV	IV
21.	Međimurska banka d.d., Čakovec	II	II	II	II
22.	Nava banka d.d., Zagreb	IV	IV	IV	IV
23.	Nova banka d.d., Zagreb	–	I	I	I
24.	Partner banka d.d., Zagreb	IV	III	III	III
25.	Podravska banka d.d., Koprivnica	III	II	II	II
26.	Požeška banka d.d., Požega	IV	III	IV	IV
27.	Primorska banka d.d., Rijeka	IV	IV	IV	IV
	Primus banka d.d., Zagreb ⁸	IV	IV	IV	–
28.	Privredna banka – Laguna banka d.d., Poreč	IV	III	III	III
29.	Privredna banka Zagreb d.d., Zagreb	I	I	I	I
30.	Raiffeisenbank Austria d.d., Zagreb	I	I	I	I
	Riadria banka d.d., Rijeka ⁹	II	II	II	–
	Riječka banka d.d., Rijeka ¹⁰	I	I	–	–
31.	Samoborska banka d.d., Samobor	IV	IV	IV	IV
	Sisačka banka d.d., Sisak ⁴	III	–	–	–
32.	Slatinska banka d.d., Slatina	III	III	III	III
33.	Slavonska banka d.d., Osijek	II	II	II	I
34.	Štedbanka d.d., Zagreb	III	III	III	III
35.	Vaba d.d. banka Varaždin, Varaždin ¹¹	IV	IV	IV	IV
	Varaždinska banka d.d., Varaždin ¹²	II	II	II	–
36.	Volksbank d.d., Zagreb	II	II	II	II
	Zagorska banka d.d., Krapina ¹³	–	IV	–	–
37.	Zagrebačka banka d.d., Zagreb	I	I	I	I

¹ Bayerische Hypo- und Vereinsbank AG, Glavna podružnica Zagreb transferred its operations to HVB Bank Croatia d.d., Zagreb. ² Cassa di Risparmio di Trieste - Banca d.d., Zagreb transferred its operations to Zagrebačka banka d.d., Zagreb. ³ Convest banka d.d., Zagreb initiated winding-up proceedings.

⁴ Istarska banka d.d., Pula and Sisačka banka d.d., Sisak merged with Dalmatinska banka d.d., Zadar, that has since operated under a new name of Nova banka d.d., Zagreb. ⁵ Dubrovačka banka d.d., Dubrovnik merged with Nova banka. ⁶ HVB Bank Croatia d.d., Zagreb merged with Splitska banka d.d., Split.

⁷ Splitska banka d.d., Split operates now under a new name of HVB Splitska banka d.d., Split. ⁸ Its operating license was revoked on 22 December 2004. The bank was created through the merger of Prva obrtnička banka d.d., Zagreb and Hypobanka d.d., Zagreb in July 2002. As of this date, it operated under the name of Primus banka d.d., Zagreb. ⁹ Riadria banka d.d., Rijeka merged with Privredna banka Zagreb d.d., Zagreb. ¹⁰ Erste & Steiermärkische Bank d.d., Zagreb merged with Riječka banka d.d., Rijeka, that has since operated under a new name of Erste & Steiermärkische Bank d.d., Rijeka. ¹¹ Brodsko-posavska banka d.d., Slavonski Brod changed its name into Vaba d.d. banka Varaždin on 27 December 2004. ¹² Varaždinska banka merged with Zagrebačka banka.

¹³ Zagorska banka d.d., Krapina merged with Samoborska banka d.d., Samobor.

Attachment II

Banking Groups, as at 31 December 2004		
Banking group	Superordinate institution	Banking group members
1. NOVA BANKA	Reginter d.o.o., Zagreb	Nova banka d.d., Zagreb
2. PRIVREDNA BANKA ZAGREB	Privredna banka Zagreb d.d., Zagreb	Invest Holding Karlovac d.o.o., Karlovac Međimurska banka d.d., Čakovec PBZ American Express d.o.o., Skoplje PBZ American Express d.o.o., Zagreb PBZ Croatia osiguranje d.d., Zagreb (mandatory pension fund) PBZ Invest d.o.o., Zagreb PBZ Kapital d.o.o., Zagreb PBZ Leasing d.o.o., Zagreb PBZ Nekretnine d.o.o., Zagreb (real estate) PBZ Stambena štedionica d.d., Zagreb Privredna banka – Laguna banka d.d., Poreč
3. RAIFFEISENBANK AUSTRIA	Raiffeisenbank Austria d.d., Zagreb	Raiffeisen consulting d.o.o., Zagreb Raiffeisen Invest d.o.o., Zagreb Raiffeisen leasing d.o.o., Zagreb Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.o.o., Zagreb (mandatory pension fund) Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondom d.o.o., Zagreb (voluntary pension fund) Raiffeisen poslovni prostori d.o.o., Zagreb (business premises) Raiffeisen stambena štedionica d.d., Zagreb Raiffeisen upravljanje nekretninama d.o.o., Zagreb (real estate)
4. ZAGREBAČKA BANKA	Zagrebačka banka d.d., Zagreb	Allianz ZB društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o., Zagreb (voluntary pension fund) Allianz ZB mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.o.o., Zagreb (mandatory pension fund) Pominvest d.d., Split Prva stambena štedionica d.d., Zagreb UniCredit Zagrebačka banka d.d., Mostar Zagreb nekretnine d.o.o., Zagreb (real estate) ZB Invest d.o.o., Zagreb
5. CENTAR BANKA	Centar banka d.d., Zagreb	Centar leasing d.o.o., Zagreb

