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Contents

1 IAS 39: Financial Instruments – Recognition and Measurement

Author: Tomislav Katić

1.1 Introductory Observations

International Accounting Standard 39: Financial Instruments - Recognition and Measurement (hereinafter IAS 39) establishes, in a comprehensive and systematic manner, principles for recognizing, measuring and disclosing information about financial assets and financial liabilities. The reasons for the issuance of this standard arise from the fact that most countries lack a comprehensive standard regarding accounting for financial instruments, although such instruments are frequent in transactions at the global level. Former accounting practices have not adequately followed the development of activities in derivatives markets, although derivatives caused a number of global companies to fail or incur severe losses in the 1990s. There is also a lack of experience in the application of principles similar to those defined in IAS 39. The United States of America is one of a few countries that have adopted a standard (within the US Generally Accepted Accounting Principles, Financial Accounting Standard 133: Accounting for Derivative Instruments and Hedging Activities) that is similar to IAS 39 in terms of scope and the principles it establishes.

After a long process of standard development, the International Accounting Standards Committee (hereinafter IASC) approved IAS 39 in December 1998, and it was officially issued in March 1999. IAS 39 is applied to financial statements covering financial years beginning on or after 1 January 2001. To improve specific sections of the standard and help ensure that IAS 39 is applied consistently, IASC approved limited revisions to IAS 39, which became effective when the standard came into force and when enterprises applied it for the first time.

Although some issues within the scope of IAS 39 have been addressed in other standards, IAS 39 is the first standard that, in a comprehensive and systematic manner, deals with the issues of recognizing, measuring and disclosing information about financial instruments. Thus, IAS 39 effectively supplements the provisions of IAS 32: Financial Instruments: Disclosure and Presentation.

A consensus was reached at the level of the European Community on the obligation to apply IAS 39 and on its full integration in the national accounting systems by 2005. It is also important to mention that *Euronext*, an integration platform of the exchanges in Amsterdam, Brussels and Paris, prescribes that all companies wishing to be included in the two newly established index segments, *Next Economy* and *Next Prime*, are obliged to apply all International Accounting Standards (including IAS 39) from 1 January 2004.

IAS 39 is still subject to discussion by relevant expert bodies, and a special group (Implementation Guidance Committee) has been formed to collect questions on IAS 39 and provide interpretations that clarify certain debatable areas. Hence, further revisions to the text of IAS 39 are to be expected.

1.2 The Scope of IAS 39

The need to introduce a new standard that will encompass financial instruments is largely the consequence of not only the reasons mentioned in the introduction but also the existing practice that allows different valuation methods to be applied to these instruments. These differences reduce the comparability of financial statements and so hinder the users of these reports when making business decisions. The uniform implementation of the standard should make financial statements more comparable and reliable.

If one views this issue from the position of banks and the structure of their balance sheets, which is dominated by financial instruments, it is clear why banks should pay particular attention to a better understanding of the standards and their application in preparing financial statements.

However, there are some financial instruments to which IAS 39 is not applied but are covered by other standards; for example: IAS 27 - interests in subsidiaries; IAS 28 - interests in associates; IAS 31 - interests in joint ventures; IAS 17 - rights and obligations under leases; IAS 37 - financial guarantee contracts; IAS 19 - employers' assets and liabilities under employee benefit plans; IAS 32 - rights and obligations under insurance contracts; and IAS 22 - contracts for contingent consideration in a business combination. IAS 39 is also not applied to equity instruments issued by the reporting enterprise, and contracts that require a payment based on climatic, geological or other physical variables.

One of the major contributions of IAS 39 to existing accounting practices is that it extends the scope of financial instruments that are measured at fair value. Hence, the former practice of measuring financial instruments at acquisition cost has almost entirely been abandoned. Thereby, the IASC goal that all financial instruments be measured at fair value is being gradually achieved. In accordance with IAS 39, most investments in equity securities and debt securities, which were formerly measured and reported at acquisition cost or amortized cost, are to be measured at fair value.

Under IAS 39, a financial asset covered by this standard can be classified into one of the following investment categories: assets held for trading, available-for-sale financial assets, held-to-maturity investments and loans originated by the enterprise. The method applied in evaluating an individual type of financial asset depends on the investment category to which the asset belongs. Thus assets classified as assets held for trading and available-for-sale financial assets are measured at fair value. In contrast, assets classified as held-to-maturity investments and loans originated by the enterprise are measured at amortized cost.

It should be noted that banks have an option with regard to reporting unrealized gains or losses from financial assets classified as available-for-sale assets. The bank's management may decide to report an unrealized gain or loss resulting from the change in the fair value of an asset either in the net profit or loss for the period or in equity, but only until the financial asset is sold, at which time the realized gain or loss is reported in net profit or loss.

IAS 39 establishes strict limits regarding financial assets classified as held-to-maturity investments. The limits are as follows: should an enterprise decide to sell this asset or transfer it into another category prior to maturity, it is obliged to transfer all other assets within this category into either available-for-sale assets or held-for-trading investments, and re-measure it at fair value. Afterwards, the enterprise may not classify the existing or newly acquired financial assets into held-to-maturity investments during the current year and the next two reporting years.

In addition, IAS 39 stresses the management's obligation to assess at each balance sheet date whether there is any objective evidence, referred to in paragraph 110 of IAS 39, that a financial asset may be impaired. If any such evidence exists, impairment of a financial asset is measured by estimating the asset's present value of expected future cash flows discounted at the financial instrument's original effective interest rate. The obtained amount is the asset's recoverable amount. The loss, which is the difference between the asset's carrying amount and recoverable amount, is reported in the net profit or loss for the period as the cost of the asset's value adjustment.

IAS 39 establishes for the first time the conditions which a financial instrument must meet in order to be considered a derivative (according to IAS 39). IAS 39 also establishes the rules for measuring and reporting on derivatives, which prescribe that all derivatives must be measured at fair value, and that gains or losses resulting from the change in their fair value are recognized in the net profit or loss for the period, since derivatives are considered as held-for-trading instruments as long as they are not designated as hedging instruments.

Financial practice has shown that derivatives have often been components of combined contracts and not accounted for as separate financial instruments. By failing to separate derivatives from their host contracts, banks and other companies whose business practices included such contracts avoided recognizing and measuring derivatives as separate financial instruments and adequately quantifying the risks that may arise from embedded derivatives and influence business results. In the newly created conditions of applying IAS 39, embedded derivatives must be separated from the host contract and, under certain conditions, reported as independent financial instruments.

A substantial part of IAS 39 is aimed at improving the existing accounting practices related to the establishment of uniform criteria for hedge accounting. Under IAS 39, hedging means designating one or more hedging instruments (a derivative or non-derivative financial instrument) so that the change in fair value is an offset, in whole or in part, to the change in the fair value or cash flows of a hedged item. However, hedge accounting is allowed only in certain circumstances related to the fulfillment of criteria established in IAS 39, which require that the relation between a hedging instrument and a hedged item is predefined, measurable and actually effective. It should be stressed that hedge accounting is allowed only when a company designates in advance that a specific hedging instrument is for the purpose of hedging the change in fair value or cash flows of a hedged item, which excludes the possibility of hedging the overall net balance sheet position. For example, an enterprise may not apply hedge accounting to its overall net exposure to interest rate risk but only to individual balance sheet items that are at a similar level of interest rate risk.

In contrast to other standards, IAS 39 will require substantial resources, both internal and external, for its application. Co-ordination and co-operation between accounting, treasury and tax experts is expected in order to ensure that the standard is effectively and efficiently applied in practice.

1.3 Normative Framework of the Republic of Croatia for Applying IAS 39

The application of IAS 39 in the Republic of Croatia has become relevant because the Croatian normative framework related to the preparation of financial statements requires the application of International Accounting Standards, and thus of IAS 39. In the area of banking operations, this is supported by Articles 52 and 53 of the Banking Law[1], which determine that banks are obliged to prepare financial statements in accordance with accounting regulations and accounting standards. Article 15 of the Accounting Law[2] stipulates the obligation to apply the International Accounting Standards. Therefore, the Croatian National Bank adopted the Decision on the Form, Minimum Scope and Content of an Audit and Reports on Audits of Banks[3], which requires that financial statements of banks be compiled in conformity with the Accounting Law and International Accounting Standards.

1 *Narodne novine*, No. 161/1998.

2 *Narodne novine*, No. 90/1992.

3 *Narodne novine*, No. 64/1999.

For the purpose of adjusting the current CNB subordinate legislation to IAS 39, the CNB enacted the Decision on the Method of Improving the Compliance of the Croatian National Bank Subordinate Legislation with the International Accounting Standards[4]. The Decision supersedes the provisions of the CNB subordinate legislation that are not in compliance with the International Accounting Standards. At the same time, the Decision requires the direct application of the International Accounting Standards and of the CNB subordinate legislation that is not contrary to the International Accounting Standards. The Decision prescribes that financial statements for 2001 and following years have to be compiled in accordance with IAS 39 and other International Accounting Standards, as well as the CNB subordinate legislation that is not contrary to the International Accounting Standards. This solution was accepted because the new Banking Law had not been adopted at the time of enactment of the Decision on the Method of Improving the Compliance of the Croatian National Bank Subordinate Legislation with the International Accounting Standards. As the subordinate legislation must comply with the stated Law, it would not have been appropriate to make the necessary adjustments twice in a very short period of time (first, to adjust legislation to the International Accounting Standards, and second, to adjust it to the Law). To provide banks with a better understanding of relevant areas, and to ensure a consistent application of particular subordinate legislation in the conditions of applying IAS 39, the Croatian National Bank adopted on 15 January 2002 a document entitled: The Opinion of the Croatian National Bank on the Application of the Croatian National Bank Subordinate Legislation in the Conditions of Applying IAS 39 (hereinafter Opinion).

4 *Narodne novine*, No. 107/2001.

1.4 Application of the Croatian National Bank Subordinate Legislation in the Conditions of Applying IAS 39

One of the most important areas covered by the Opinion relates to the method of classifying bank placements. The former Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank

Exposure[5] makes a distinction between two groups of assets depending on their performance. In accordance with the Decision, the first group - performing assets - encompassed placements graded A and B, which are considered fully recoverable under IAS 39. The second group - non-performing assets - encompassed placements graded C, D and E. In view of the application of IAS 39, placements that were formerly classified into the second group have been divided so that placements categorized into risk categories C and D are now considered partly recoverable (pursuant to paragraph 116 of IAS 39, they are considered performing assets), and the basis for recognizing interest income is the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Placements that were formerly categorized as E are considered irrecoverable and are, as before, categorized as non-performing assets.

The Opinion also explains the concept of an asset's value impairment, which in IAS 39 appears in the context of assessing the recoverable amount of a financial instrument. This term largely corresponds to the terms "specific reserves for identified losses" and "losses arising from doubtful debts", but there is an important difference. The difference is not only conceptual, but also methodological, in the part related to calculating losses. According to the former Decision, losses arising from doubtful debts were calculated by applying an appropriate percentage to the principal amount, depending on the risk category of the placement. In contrast, according to IAS 39, impairment loss on a financial asset is determined as the difference between the asset's carrying amount and recoverable amount (which equals the present value of expected future cash flows discounted at the financial instrument's original effective interest rate).

Impairment is determined according to the criterion of placement recoverability. Of course, no impairment is determined for fully recoverable placements but only for partly recoverable placements, and the value adjustment applied to irrecoverable placements amounts to 100%.

Hence, specific reserves are formed for placements deemed partly recoverable and irrecoverable, whereas general reserves for unidentified losses are formed for recoverable placements. In accordance with the Decision, placements classified in risk group B are considered fully recoverable and are not subject to impairment. Instead, they are included in the basis for calculating general reserves for unidentified losses together with the placements classified in risk group A.

The recoverability criterion is also important in the process of recognizing income on placements. Thus interest income for fully recoverable placements is recognized in the balance sheet and income statement in its full amount.

In accordance with paragraph 116 of IAS 39, interest income on the recoverable amount of partly recoverable placements is recognized in the income statement, and it is recognized in the balance sheet not as an increase in assets in the form of a receivable but as a decrease in the asset's impairment value. Interest on these placements according to the contract is recorded in off-balance sheet records.

Interest income on irrecoverable placements is completely removed from the balance sheet and income statement and recorded in off-balance sheet records.

5 *Narodne novine*, Nos. 32/1999 and 101/2000.

A significant change from the former Decision has also been made with regard to the treatment of placements to a group of related persons. Starting from the view expressed in IAS 39 that each instrument should be assessed separately with regard to its value impairment, it is possible for losses from several placements to a single debtor to be classified into different risk categories, whereas the Decision required that all placements to a single borrower be classified into the same risk category.

The Opinion of the Croatian National Bank regarding the classification and measurement of securities was aimed at showing how investments, which were classified in trading and investment portfolios according to the former Decision, should be adjusted to investment categories defined in IAS 39. The correspondence between IAS 39 and the Decision on the Classification of Placements with regard to securities is shown in the table below.

Classification of Securities Investments

According to the Decision on the Classification of Placements ...		According to IAS 39
Trading portfolio of equity securities and debt securities (measured at fair value)	=	Assets held for trading (measured at fair value)
Investment portfolio of equity securities (measured at the lower of investment cost or market value/LOCOM)	=	Available-for-sale assets (measured at fair value or investment cost if market value is unavailable, reviewed for an indication of impairment in accordance with paragraphs 109-119 of IAS 39)
Investment portfolio of debt securities (classification in risk categories and allocation of reserves)	=	Held-to-maturity investments (measured at amortized cost) or: Available-for-sale assets (measured at fair value or investment cost if market value is unavailable, reviewed for an indication of impairment in accordance with paragraphs 109-119 of IAS 39) or: Loans originated by the bank: in case the bank decides to classify into this portfolio debt securities directly purchased from the issuer (measured at amortized cost)

As pointed out in the Opinion, the newly arising conditions of applying IAS 39 do not require changes in the balance sheet scheme, and all provisions of IAS 30 related to disclosure of data in financial statements of banks and similar financial institutions remain applicable. In addition, there are no urgent reasons at the moment to adjust the existing Chart of Accounts for Banks to the classification of financial assets stipulated by IAS 39, since the existing schedule of accounts enables the recognition of all four categories of financial assets defined in IAS 39.

Subordinate legislation to be enacted by the Croatian National Bank on the basis of the new Banking Law will be systematically and completely adjusted to the International Accounting Standards and directives of the European Union. The adjustment of the normative framework in the area of banking will result in its further harmonization and convergence with the EU legislative standards.

2 Indicators of Banking Institution Operations

2.1 Banks

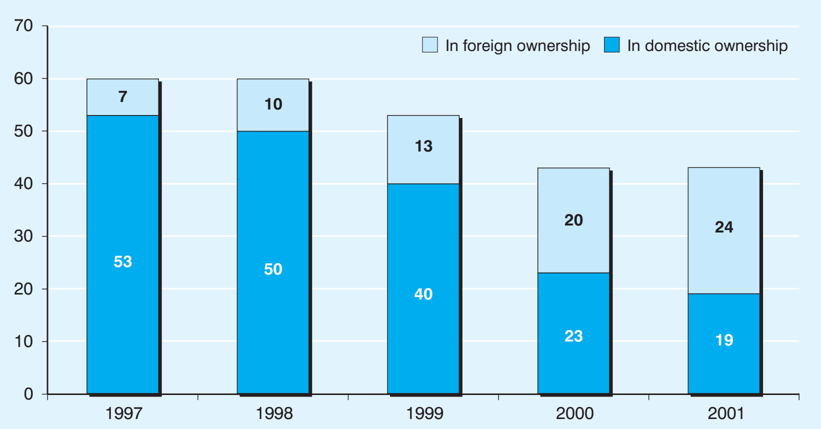
2.1.1 Structure of the Banking Sector of the Republic of Croatia

At end-2001, 43 commercial banks were operating in the Republic of Croatia, the same number as at the end of 2000[1]. One bank exited the banking system in 2001[2], and one savings bank, which increased its share capital in accordance with the Banking Law[3], was granted a bank operating licence[4].

In 2001, the number of banks in majority foreign ownership increased from 20 to 24. Their share in the total assets of the system grew from 84.1% at end-2000 to 89.3% at end-2001, whereas it stood at 6.7% at end-1998 and 39.9% at end-1999.

1 Since October 2001, institutions from which the CNB Council revoked their operating licenses have been excluded from the statistical processing by the Bank Supervision Area, along with banks and savings banks under bankruptcy proceedings. The data series for the previous period has been corrected in accordance with this change.
2 The operating licence was revoked for Kaptol banka d.d., Zagreb on 7 March 2001.
3 *Narodne novine*, No. 161/1998.
4 Primorska štedionica d.d., Rijeka was granted a bank operating licence on 5 September 2001 and was entered in the Register of Companies as Primorska banka d.d. on 25 September 2001.

FIGURE 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 legal and natural persons or as a foreign bank if it is in majority foreign ownership. The total number of banks is the sum of the banks in domestic and foreign ownership.
The Croatian National Bank statistics is the source of data on the number of banks.

For the purpose of simplified comparison, the banks are classified into four groups in the text below. The classification criterion was the amount of assets. 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 less than 500 million kuna.

TABLE 1. Peer Groups of Banks, end of period, in thousand kuna

Group	Classification criterion	Dec. 1998	Dec. 1999	Dec. 2000	Dec. 2001
I	Assets (A)>5,000,000	4	4	5	6
II	1,000,000<A<5,000,000	19	15	13	14
III	500,000<A<1,000,000	9	5	8	7
IV	A<500,000	28	29	17	16

⇦ In accordance with the selected criterion – the size of assets – the table 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. 57/99 and 3/2001).

In 2001, one bank shifted from Group II to Group I, two banks shifted from Group III to Group II and one bank shifted from Group IV to Group III. One bank exited Group IV due to its exit from the banking system, and one bank entered Group IV due to its transformation from a savings bank to a bank. With the exception of the last mentioned changes in Group IV, all these changes reflect one of the major characteristics of 2001 – a steep growth in the total assets of the banking system, along with an exceptionally strong asset growth in some banks. The asset growth rate of 14 banks exceeded 40% in 2001[5].

5 The asset growth of Primorska banka d.d., Rijeka was related to the increase in its share capital caused by its transformation into a bank, while the asset growth of HVB Bank Croatia d.d., Zagreb was partially the result of its takeover of Bayerische Hypo– und Vereinsbank AG, Glavna podru nica Zagreb.

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

The operating network is analyzed here at the county level, on the basis of changes in the number of operating units (branches and sub-branches) and the number of ATMs. At end-2001, the number of operating units increased by 67 (8.9%) compared to 2000. In this period, the number of operating units of 16 banks remained unchanged, 8 banks closed down 26 operating units[6], and 19 banks established 93 operating units. In 2001, the largest numbers of new operating units were in the County of Zagreb and the City of Zagreb (18), followed by the County of Split-Dalmatia (11), and other coastal counties. The number of operating units remained at its 2000 level in 5 counties, whereas it fell in the County of Sisak-Moslavina (6).

6 Of which 8 units refer to Kaptol banka d.d., Zagreb, whose operating licence was revoked in 2001.

In 2001, 6 banks established 5 or more operating units each, which accounts for 75.3% of all newly established operating units. One bank established as many as 22 operating units (23.7% of all newly established operating units), of which 6 in the County of Zagreb and the City of Zagreb. 29 banks had operating units in the County of Zagreb and the City of Zagreb, whereas 22 banks had operating units in the County of Primorje and Gorski Kotar. The Counties of Krapina-Zagorje, Lika-Sinj and Karlovac had the smallest number of banks – 3 banks each.

Five banks operated in 10 or more counties, 9 operated in 5 to 10 counties, 16 in 2 to 5 counties, and 10 in only one (parent) county. Three banks have neither a branch nor sub-branch[7].

7 A branch is considered here to be a bank's organizational part that is not a legal person (defined in Article 7 of the Company Law).

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

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

Counties	Dec. 1998	Dec. 1999	Dec. 2000	Dec. 2001
County of Zagreb and City of Zagreb	159	157	140	158
County of Krapina-Zagorje	18	18	18	19
County of Sisak-Moslavina	30	27	24	18
County of Karlovac	19	20	18	18
County of Varaždin	24	26	23	23
County of Koprivnica-Križevci	25	24	23	25
County of Bjelovar-Bilogora	25	22	20	23
County of Primorje and Gorski Kotar	46	55	57	63
County of Lika-Senj	9	8	8	8
County of Virovitica-Podravina	18	18	14	16
County of Požega-Slavonija	16	15	16	16
County of Slavonski Brod-Posavina	12	12	13	17
County of Zadar	40	39	32	40
County of Osijek-Baranya	59	59	47	50
County of Šibenik-Knin	30	28	28	30
County of Vukovar-Srijem	19	22	15	16
County of Split-Dalmatia	104	106	100	111
County of Istria	83	86	85	90
County of Dubrovnik and Neretva	54	55	49	56
County of Međimurje	23	25	26	26
Total	813	822	756	823

In 2001, the number of installed ATMs increased by 234 units, or 31.8% compared with 2000, which is a lower growth rate than in the previous years.

The County of Zagreb and the City of Zagreb and the County of Split-Dalmatia were best covered by the ATM network and recorded the highest growth in the number of ATMs in 2001 (65 and 45 units, respectively). Thanks to a steep increase in its number of ATMs (21 units), the County of Osijek-Baranya joined the coastal counties, which (apart from the County of Šibenik-Knin) are the most attractive counties with regard to the spread of the ATM network, along with the leading County of Zagreb and the City of Zagreb.

In 2001, 18 banks increased the number of their ATMs, of which 2 banks installed ATMs for the first time. One bank reduced the number of its ATMs, 6 banks retained the same number of ATMs, and 18 banks have no ATMs.

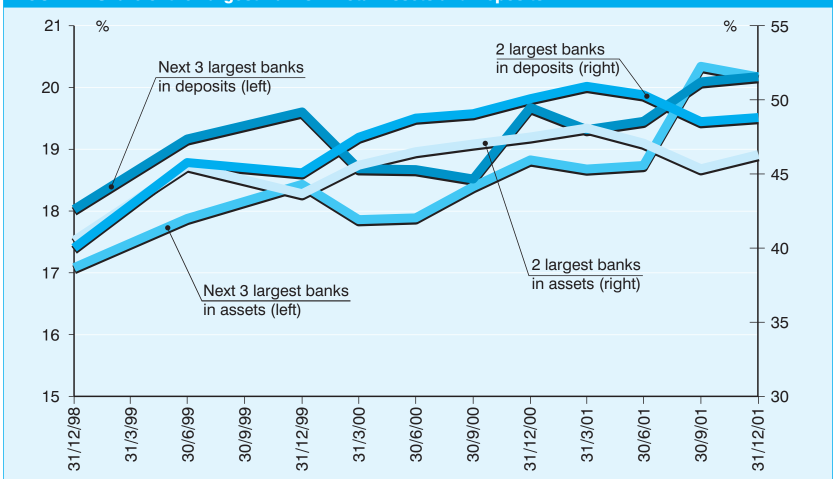
TABLE 3. Territorial Distribution of ATMs, end of period

Counties	Dec. 1998	Dec. 1999	Dec. 2000	Dec. 2001
County of Zagreb and City of Zagreb	89	181	237	302
County of Krapina-Zagorje	3	6	14	19
County of Sisak-Moslavina	2	6	14	20
County of Karlovac	7	12	21	22
County of Varaždin	12	16	23	31
County of Koprivnica-Križevci	10	12	14	16
County of Bjelovar-Bilogora	7	9	18	19
County of Primorje and Gorski Kotar	35	68	95	90
County of Lika-Senj	2	6	7	9
County of Virovitica-Podravina	3	7	8	11
County of Požega-Slavonija	3	4	6	8
County of Slavonski Brod-Posavina	2	4	10	14
County of Zadar	12	17	26	40
County of Osijek-Baranya	12	19	27	48
County of Šibenik-Knin	2	8	13	18
County of Vukovar-Srijem	3	4	5	11
County of Split-Dalmatia	14	31	63	108
County of Istria	48	80	84	102
County of Dubrovnik and Neretva	7	15	32	47
County of Međimurje	12	18	19	35
Total	285	523	736	970

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

At the end of 2001, the share of the two largest banks in the total assets and total deposits of the system decreased to 46.3% and 48.8%, respectively. In 2001, the average growth rates of assets and deposits of these two banks were 29.4% and 40.4%, respectively.

FIGURE 2. Share of the Largest Banks in Total Assets and 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 two largest banks (the next three banks) in 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. Their share 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. 57/99 and 3/2001), while Schedule BS/DEP is the source of data on total deposits (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001).

8 The next three largest banks include the third, fourth and fifth banks according to asset size.

The share of the next three largest banks in the total assets and total deposits of the system grew slightly, reaching 20.2% at the end of 2001[8]. The average growth rates of assets and deposits of these three banks in 2001 were 42.2% and 47.7%, respectively. The average asset growth rate of 42.2% was the result of an 87.7% upturn in assets recorded in one of these banks.

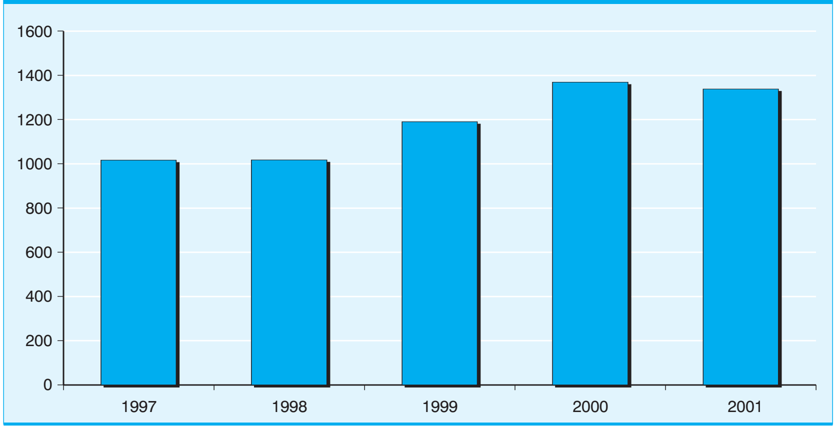
The value of the Herfindahl index calculated for the two largest banks, the next three largest banks and all the banks in the banking system was somewhat lower in 2001 than in 2000, which indicates a decreased concentration of the banking system. At the system level, this index stood at 1316 points at end-2001, 52 points less than in 2000.

⇨ This index is calculated for each bank on the basis of the following formula:

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

Schedule BS is the source of data on the amount of assets (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001).

FIGURE 3: Herfindahl Index (all banks)



2.1.3 Banks' Balance Sheet

9 Bayerishe Hypo– und Vereinsbank AG, Glavna podru nica Zagreb was not obliged to submit audited financial statements for 2001 because it was taken over by HVB Bank Croatia d.d., Zagreb.

All bank data for 2001 are based on the audited financial statements which the banks submitted to the Croatian National Bank. The statements of three banks received a qualified audit opinion, whereas the statements of all the other banks[9] received an unqualified audit opinion. Analysis of the audit reports showed that 22 banks fully complied with IAS 39 in preparing their financial statements for 2001, 9 banks partially complied with this standard, and 11 banks did not apply IAS 39.

As at 31 December 2001, total bank assets stood at 148.4 billion kuna, an increase of 36.6 billion kuna, or 32.7%, compared to the end of 2000. The strong growth in total bank assets was mostly the consequence of the conversion of the EMU member states currencies into the euro, that is, the depositing of household foreign exchange funds with banks for free-of-charge conversion into euros. Mostly owing to the introduction of the euro, total deposits with banks rose by 44.0% in 2001 compared with the end of 2000, with the highest growth rate recorded in the last quarter (20.5%).

The banks did not have enough time by the end of 2001 to strengthen their credit activity to an extent that would correspond to the growth in sources of funds – net credits grew by 28.6% at end-2001 compared with end-2000, but their share in bank assets fell from 45.8% to 44.4%.

The major portion of newly collected funds was channeled into more liquid asset items, whose share in the asset structure of banks grew. Hence, following net credits, deposits with banking institutions account for a major share of bank assets; they grew by 35.1%, reaching 16.1% of bank assets. Money assets and deposits with the CNB come next; they grew by 93.2% and their share in

TABLE 4. Structure of Bank Assets, end of period, in million kuna and %

	Dec. 1998		Dec. 1999			Dec. 2000			Dec. 2001		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	6,412.5	6.6	9,733.5	10.4	51.8	11,489.3	10.3	18.0	22,196.3	15.0	93.2
1.1. Money assets	815.2	0.8	1,245.9	1.3	52.8	1,506.3	1.3	20.9	7,822.5	5.3	419.3
1.2. Deposits	5,597.3	5.8	8,487.6	9.1	51.6	9,983.1	8.9	17.6	14,373.9	9.7	44.0
2. Deposits with banking institutions	11,459.9	11.8	10,312.5	11.0	–10.0	17,695.3	15.8	71.6	23,900.1	16.1	35.1
3. Treasury bills and CNB bills	1,070.8	1.1	3,139.5	3.4	193.2	6,059.0	5.4	93.0	9,687.2	6.5	59.9
4. Trading portfolio of securities	288.5	0.3	1,067.8	1.1	270.1	2,462.4	2.2	130.6	4,795.6	3.2	94.8
5. Loans to financial institutions	854.8	0.9	1,246.2	1.3	45.8	1,085.6	1.0	–12.9	1,479.6	1.0	36.3
6. Loans to other clients	49,591.8	51.2	45,391.5	48.5	–8.5	50,130.7	44.8	10.4	64,402.5	43.4	28.5
7. Investment portfolio of securities	17,747.1	18.3	15,477.1	16.5	–12.8	14,167.5	12.7	–8.5	12,741.3	8.6	–10.1
8. Investments in subsidiaries and associates	2,788.5	2.9	1,768.6	1.9	–36.6	2,411.0	2.2	36.3	2,199.8	1.5	–8.8
9. Foreclosed and repossessed assets	340.6	0.4	447.2	0.5	31.3	614.5	0.5	37.4	446.8	0.3	–27.3
10. Tangible assets and software (net of depreciation)	3,168.7	3.3	3,164.6	3.4	–0.1	3,252.5	2.9	2.8	3,501.2	2.4	7.6
11. Interest, fees and other assets	3,745.3	3.9	2,518.1	2.7	–32.8	3,169.2	2.8	25.9	4,273.5	2.9	34.8
12. Net of: Specific reserves for unidentified losses	691.3	0.7	743.6	0.8	7.6	699.4	0.6	–6.0	1,195.7	0.8	71.0
Total	96,777.0	100.0	93,522.9	100.0	–3.4	111,837.7	100.0	19.6	148,428.3	100.0	32.7

⇧ The share of each balance sheet item of assets in total bank assets is calculated on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 57/99 and 3/2001 – Schedule BS) and the derived aggregated report of the same type on the banking system 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.

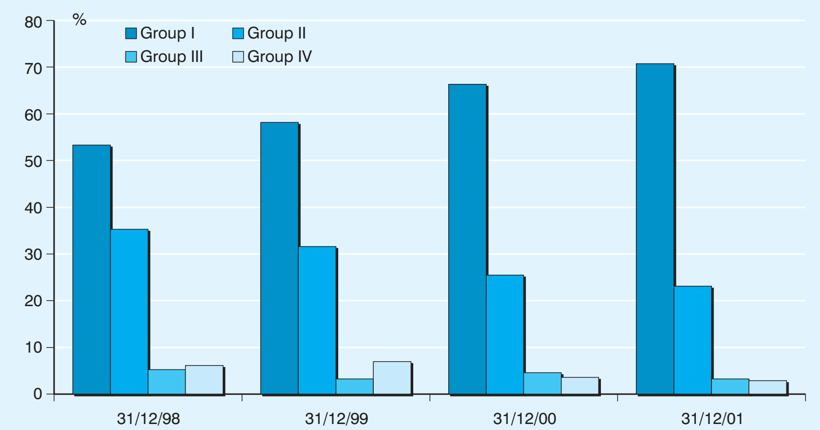
bank assets grew from 10.3% to 15.0%. Investment portfolio of securities and foreclosed and repossessed assets recorded negative growth in 2001, which may be attributed to a decreased utilization of secondary sources of loan collection.

In 2001, only Group I banks increased their share in total assets, from 66.3% to 70.7%. This was due to an exceptionally high increase in one bank's assets (87.7%) and the shift of one bank from Group II to Group I.

In the same period, the share of Group II banks in total assets fell from 25.5% to 23.1%. The shift of two banks from Group III into this group could not offset the shift of one bank into Group I.

Two banks left Group III, whereas one bank joined it, which resulted in a smaller share of this group's assets in total assets (3.3%) compared with 2000 (4.6%). The same situation in Group IV, as well as the fact that one of the banks had a negative asset growth rate in 2001 (–10.4%), led to a decline in this group's share in the total assets of the system from 3.6% to 2.9%.

FIGURE 4. Share of Individual Peer Groups of Banks in Total Assets



⇦ The share of assets of each stated bank group in total bank assets is calculated in the following manner. First, the total assets of all the banks in the bank group are added up. Second, the sum thus calculated is divided by total bank assets. Shares are stated in percent.
Schedule BS is the source of data on the amount of assets (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001).

TABLE 5. Structure of Bank Liabilities, end of period, in million kuna and %

	Dec. 1998		Dec. 1999			Dec. 2000			Dec. 2001		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	4,761.3	4.9	5,282.3	5.6	10.9	3,510.9	3.1	–33.5	3,629.1	2.4	3.4
1.1. Short-term loans	2,142.7	2.2	2,088.7	2.2	–2.5	1,130.8	1.0	–45.9	595.7	0.4	–47.3
1.2. Long-term loans	2,618.5	2.7	3,193.7	3.4	22.0	2,380.1	2.1	–25.5	3,033.3	2.0	27.4
2. Deposits	58,584.6	60.5	56,997.0	60.9	–2.7	72,683.4	65.0	27.5	104,697.2	70.5	44.0
2.1. Giro account and current account deposits	9,117.0	9.4	9,216.9	9.9	1.1	12,619.0	11.3	36.9	16,548.6	11.1	31.1
2.2. Savings deposits	13,564.2	14.0	13,678.0	14.6	0.8	17,689.3	15.8	29.3	26,373.9	17.8	49.1
2.3. Time deposits	35,903.4	37.1	34,102.1	36.5	–5.0	42,375.1	37.9	24.3	61,774.6	41.6	45.8
3. Other loans	17,028.9	17.6	15,007.5	16.0	–11.9	16,329.0	14.6	8.8	15,947.7	10.7	–2.3
3.1. Short-term loans	1,435.1	1.5	1,652.8	1.8	15.2	503.3	0.4	–69.6	594.0	0.4	18.0
3.2. Long-term loans	15,593.7	16.1	13,354.7	14.3	–14.4	15,825.7	14.2	18.5	15,353.7	10.3	–3.0
4. Debt securities issued	1.1	0.0	0.0	0.0	–95.9	0.0	0.0	–	19.4	0.0	–
4.1. Short-term debt securities issued	0.9	0.0	0.0	0.0	–94.8	0.0	0.0	–	0.0	0.0	–
4.2. Long-term debt securities issued	0.2	0.0	0.0	0.0	–100.0	0.0	0.0	–	19.4	0.0	–
5. Supplementary capital	492.8	0.5	343.1	0.4	–30.4	520.3	0.5	51.7	2,655.8	1.8	410.4
5.1. Subordinated instruments issued	–	–	105.5	0.1	–	282.9	0.3	168.1	339.4	0.2	20.0
5.2. Hybrid instruments issued	–	–	237.5	0.3	–	237.4	0.2	0.0	2,316.4	1.6	875.7
6. Interest, fees and other liabilities	6,553.3	6.8	4,849.2	5.2	–26.0	5,475.5	4.9	12.9	7,783.0	5.2	42.1
7. Profit/loss for the current year	–1,671.6	–1.7	466.4	0.5	–	1,123.2	1.0	140.8	570.0	0.4	–49.3
8. Capital (excl. profit/loss for the current year)	11,026.7	11.4	10,577.3	11.3	–4.1	12,195.5	10.9	15.3	13,126.3	8.8	7.6
Total	96,777.0	100.0	93,522.9	100.0	–3.4	111,837.7	100.0	19.6	148,428.3	100.0	32.7

⇧ Bank liabilities are calculated in the same manner as bank assets in Table 4., i.e. the share of each balance sheet item of liabilities in total bank liabilities is calculated on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 57/99 and 3/2001 – Schedule BS) and the derived aggregated report of the same type on the banking system 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. Item Profit/loss for the current year is excluded from item Capital and shown separately.

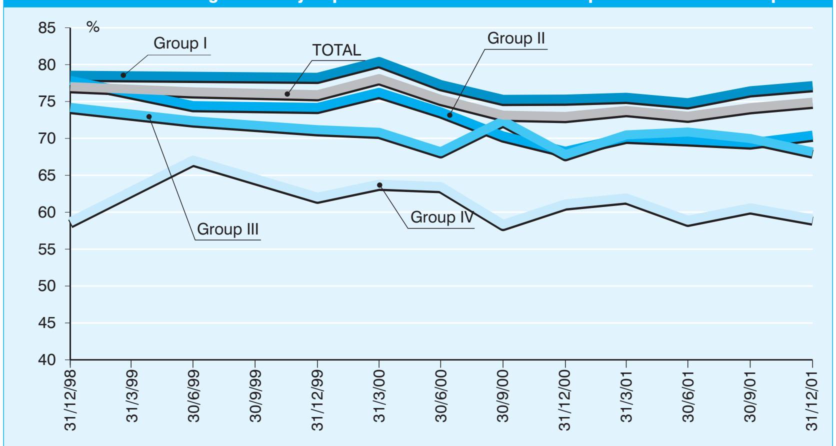
According to the data for 2001, deposits accounted for the largest share in the structure of bank liabilities (70.5%), of which savings deposits recorded the highest growth rate (49.1%). They were followed by other loans (loans from non-financial institutions and liabilities based on financial leasing) with 10.7%. The share of profit for the current year in bank liabilities fell from 1.0% to 0.4%.

Within bank liabilities, supplementary capital recorded the highest growth rate (410.4%) compared with 2000, primarily due to an 875.7% upturn in hybrid instruments issued. Nevertheless, the share of hybrid instruments in total liabilities was still a modest 1.8%.

The share of foreign currency deposits in total deposits stood at 74.9% at end-2001, which is a 1.9 percentage point increase compared with end-2000. It fell in Group IV banks by 2.1 percentage points to 59.1%, which was the lowest among all bank groups. The share of foreign currency deposits in total

⇨ The share of foreign currency deposits with an individual bank group in total bank deposits is calculated in the following manner. First, the foreign currency deposits of all the banks in the bank group, recorded in the relevant quarter, are added up. Second, 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 foreign currency deposits and total deposits (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001).

FIGURE 5. Share of Foreign Currency Deposits with Individual Peer Groups of Banks in Total Deposits



deposits grew in the other bank groups, reaching 77.2% in Group I, 70.4% in Group II and 68.2% in Group III.

2.1.4 Bank Capital

On 31 December 2001, bank capital stood at 13.7 billion kuna, 2.8% more than at end-2001. It had grown at considerably higher rates in 2000 (20.6%) and 1999 (18.1%). The reason for this slowdown lies in the fact that the rise in share capital and a considerable increase in reserves provided for by the articles of association and other capital reserves were unable to significantly exceed the fall in profit (loss) for the current year, the fall in retained income (loss) and a significant fall in legal reserves.

Reserves provided for by the articles of association and other capital reserves (of which the share of reserves for own shares stood at 8.4%) were 164.5% higher at end-2001 than at end-2000, and their share in the capital structure went up from 9.2% to 23.6%. Obviously, the banks had recognized the importance of allocating adequate reserves, and this upturn in reserves provided for by the articles of association and other capital reserves (which are allocated from profit) may be explained by caution on the part of banks and their efforts to mitigate the decline in total provisions for losses, which are formed by debiting expenses.

The share of legal reserves fell from 15.8% (end-2000) to 6.2% (end-2001) owing to several factors: some banks already reached the legally prescribed level of legal reserves, some banks had made lower profits in 2001, which decreased the reserve requirement calculation base, while others used these reserves to cover losses of the current year or previous years.

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

	Dec. 1998		Dec. 1999			Dec. 2000			Dec. 2001		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	8,944.7	95.6	8,219.7	74.4	–8.1	8,549.9	64.2	4.0	8,966.5	65.5	4.9
2. Profit/loss for the current year	–1,671.6	–17.9	466.4	4.2	–127.9	1,123.2	8.4	140.8	570.0	4.2	–49.3
3. Retained income/loss	16.7	0.2	73.7	0.7	341.0	326.2	2.4	342.7	77.8	0.6	–76.2
4. Legal reserves	1,165.5	12.5	1,540.2	13.9	32.2	2,098.8	15.8	36.3	853.3	6.2	–59.3
5. Reserves provided for by the articles of association and other capital reservese	899.8	9.6	743.8	6.7	–17.3	1,220.5	9.2	64.1	3,228.7	23.6	164.5
Total	9,355.1	100.0	11,043.7	100.0	18.1	13,318.6	100.0	20.6	13,696.2	100.0	2.8

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

The share of capital in the structure of bank liabilities declined from 11.9% at end-2000 to 9.2% on 31 December 2001. Share capital accounted for 65.5% of the capital structure. It was followed by reserves provided for by the articles of association and other capital reserves with 23.6%, legal reserves with 6.2%, and profit (loss) for the current year with 4.2%. The share of retained income (loss) fell by 1.9 percentage points to 0.6%.

After growing by 16.0% in 2000, regulatory capital grew at half this rate in 2001 (8.3%). Its structure also changed to a certain extent. Core capital accounted for 84.2% of gross regulatory capital at the end of 2001, 6.7 percentage points less than at the end of 2000.

At end-2001, Group I and Group II banks recorded a growth in regulatory capital, whereas Group III and Group IV banks recorded a decrease. The latter two groups recorded a decline in both core capital and supplementary capital compared with 2000.

⇨ The structure of regulatory capital is calculated as a ratio between the sum of the amounts of core capital of all the banks in an individual bank group and the sum of the amounts of regulatory capital of the same group of banks. The amount thus calculated is multiplied by 100. The share of the supplementary capital of an individual bank group in its regulatory capital is calculated in the same manner.
Schedule CAP, i.e. CAP1 is the source of data on core, supplementary and regulatory capital, and it forms an integral part of the Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 36/99 and 123/2000).

FIGURE 6. Structure of Regulatory Capital, as at 31 December 2001

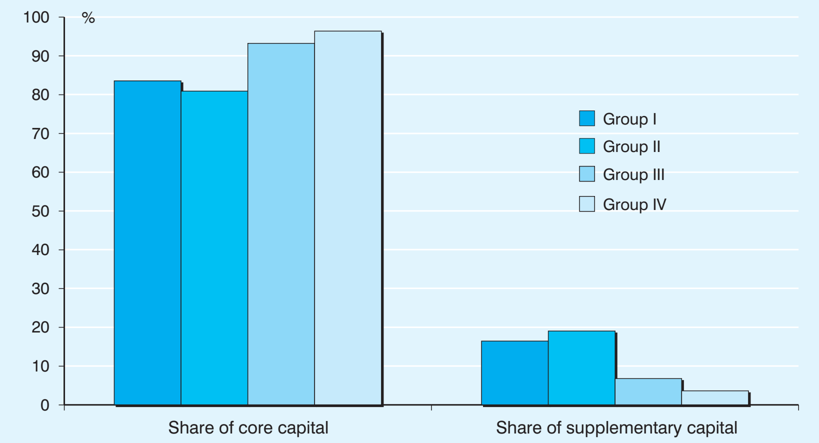


TABLE 7. Changes in Regulatory Capital, end of period, in million kuna and %

	Dec. 1998		Dec. 1999			Dec. 2000			Dec. 2001		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Group I	3,800.8	35.8	5,089.8	45.7	33.9	7,631.2	59.1	49.9	8,116.5	58.1	6.4
Group II	4,001.4	37.7	3,834.5	34.5	–4.2	3,144.6	24.4	–18.0	4,046.2	28.9	28.7
Group III	1,021.0	9.6	492.6	4.4	–51.8	924.5	7.2	87.7	768.0	5.5	–16.9
Group IV	1,796.5	16.9	1,711.9	15.4	–4.7	1,211.5	9.4	–29.2	1,049.2	7.5	–13.4
Total	10,619.7	100.0	11,128.8	100.0	4.8	12,911.9	100.0	16.0	13,979.7	100.0	8.3

⇧ The calculation of regulatory capital is regulated by the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 32/99 and 101/2000) and the Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 36/99 and 123/2000).
Schedule CAP, i.e. CAP1 is the source of data on regulatory capital, and it forms an integral part of the stated regulation.

At the system level, core capital[10] recorded a mild fall at end-2001, reaching 12.7 billion kuna. Compared with 2000, it increased in Group II (owing to the recapitalization of two banks), while it fell in the other bank groups.

Although supplementary capital rose by 87.1% at the system level in 2001, it still accounts for a small share in the gross regulatory capital of banks (15.8%).

An increase in supplementary capital was recorded in Groups I and II, whereas a decrease was recorded in Groups III and IV. The former was almost entirely the result of hybrid instruments issued by certain banks in majority foreign ownership. After the inclusion of received foreign currency loans into the reserve requirement calculation base, foreign owners redirected loans granted into the purchase of hybrid instruments of their subsidiary banks. As

10 On 1 January 2001, the amended Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, No. 123/2000) entered into force. As a result, the regulatory capital structure changed to a certain extent: certain positions are now included in supplementary rather than core capital.

⇨ The calculation of core capital is regulated by the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 32/99 and 101/2000) and the Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 36/99 and 123/2000).
This figure shows the changes in core capital in the observed period. The core capital of an individual bank group represents the sum of the amounts of core capital of all the banks in the group. Schedule CAP, i.e. CAP1 is the source of data, and it forms an integral part of the stated regulation.

FIGURE 7. Core Capital

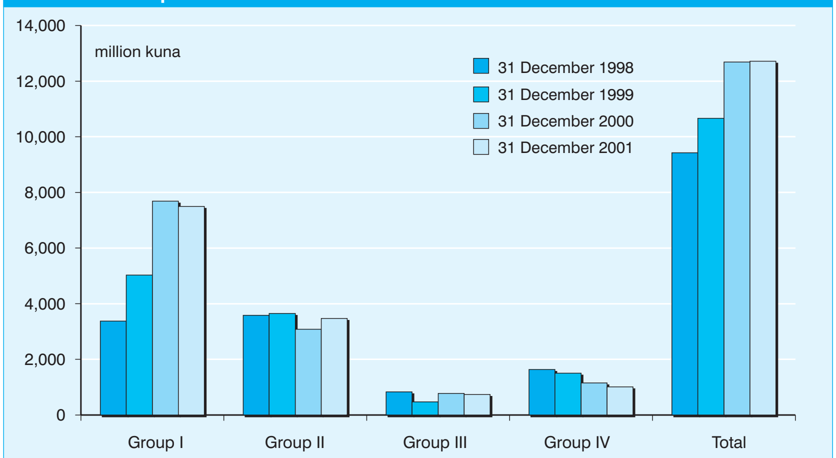
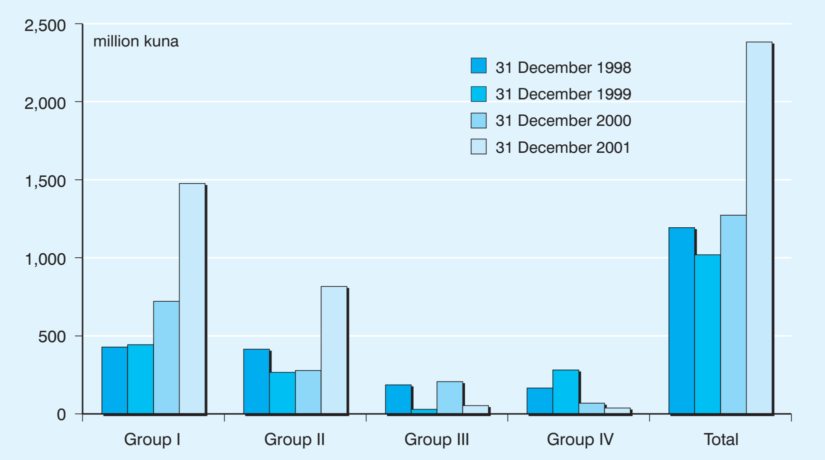


FIGURE 8. Supplementary Capital



⇦ The calculation of supplementary capital is regulated by the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 32/99 and 101/2000) and the Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 36/99 and 123/2000). This figure shows the changes in supplementary capital in the observed period. The supplementary capital of an individual bank group represents the sum of the amounts of supplementary capital of all the banks in the group. Schedule CAP, i.e. CAP1 is the source of data, and it forms an integral part of the stated regulation.

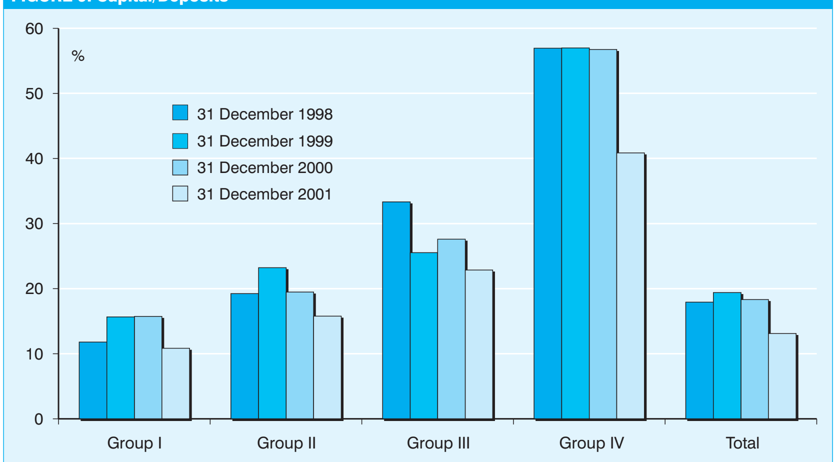
hybrid instruments were subsequently included into the foreign exchange part of the reserve requirement calculation base, their growth halted at the year end. In addition, since four banks had already reached the legally prescribed maximum (supplementary capital can be included into the calculation of regulatory capital up to the amount equal to that of core capital), they lacked incentives to issue further hybrid instruments for the purpose of increasing regulatory capital.

The capital to deposit ratio (Figure 9.) shows that the larger banks rely less on their capital and more on their deposit base as their source of financing placements, whereas smaller banks use more capital, i.e. own funds, and rely less on their deposit base to finance placements. On 31 December 2001, the capital/deposit ratio stood at 13.1% at the system level and ranged from 10.8% in Group I banks to 40.9% in Group IV banks.

The capital/deposit ratio fell in all bank groups in 2001; it fell in the first two groups because of a larger growth in deposits than in capital, whereas it fell in the other two groups because of a growth in deposits (at lower rates compared with the first two groups) and a fall in capital.

At the end of 2001, the capital adequacy ratios were as follows: 15.8% in Group I, 21.7% in Group II, 27.5% in Group III and 37.4% in Group IV. The

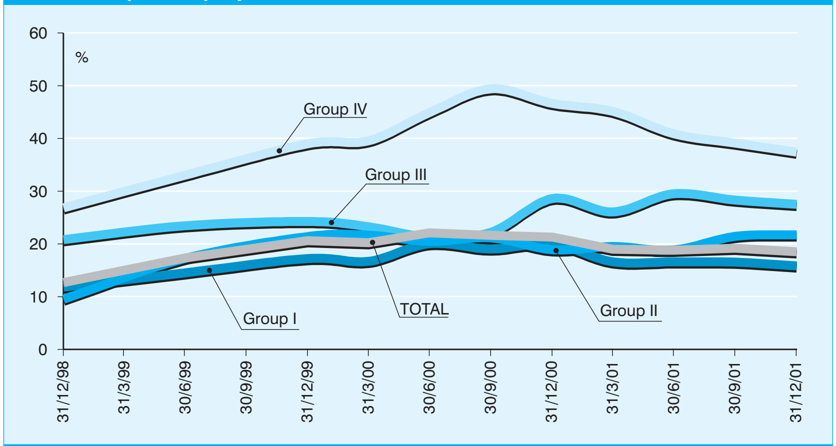
FIGURE 9. Capital/Deposits



⇦ Each bank group ratio between capital and deposits is calculated in the following manner. First, the amounts of capital of all the banks in the bank group are added up. Second, all deposits of the banks in the group are added up. The sum of capital thus calculated is divided by the sum of deposits and multiplied by 100.
Schedule BS is the source of data on the amount of capital (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001).
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. 57/99 and 3/2001).

⇨ The capital adequacy ratio is calculated as a ratio between the regulatory capital and the risk-weighted assets. In this figure, the capital adequacy ratio for each bank group is calculated in the following manner. First, the amounts of regulatory capital of all the banks in the bank group are added up. Second, the amounts of total risk-weighted assets of all the banks in the group are added up. The calculated sum of regulatory capital is divided by the sum of total risk-weighted assets and multiplied by 100.
The calculation of regulatory capital is regulated by the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 32/99 and 101/2000) and the pertaining instruction for its implementation (*Narodne novine*, Nos. 36/99 and 123/2000).
Schedule CAP, i.e. CAP1 is the source of data on regulatory capital, and it forms an integral part of the instruction.
The calculation of total risk-weighted assets is regulated by the Decision on the Methodology for Calculating Capital Adequacy and Risk-Weighted Assets of Banks (*Narodne novine*, Nos. 32/99 and 101/2000) and the pertaining instruction for its implementation (*Narodne novine*, Nos. 36/99 and 123/2000).
Schedule RWA, i.e. RWA1 is the source of data on the risk-weighted assets, and it forms an integral part of the instruction.

FIGURE 10. Capital Adequacy



capital adequacy ratio of the banking system stood at 18.5% on 31 December 2001, which is a 2.8 percentage point decrease compared to end-2000.

The capital adequacy ratio fell in Group I because of a larger growth in risk-weighted assets than in regulatory capital. The situation was reversed in Group II – its capital adequacy ratio increased as a result of a larger growth in regulatory capital than in risk-weighted assets. Groups III and IV recorded a fall in the capital adequacy ratio. In Group III, the reduction in regulatory capital exceeded the reduction in risk-weighted assets; in Group IV, the fall in the capital adequacy ratio had two sources – a reduction in regulatory capital and a rise in risk-weighted assets.

It should be noted that the amendments to the decisions and instructions on the methodology for calculating capital adequacy and risk-weighted assets[11] may have influenced the 2001 developments in regulatory capital and risk-based assets, and thus the capital adequacy ratios.

11 *Narodne novine*, Nos. 101/2000 and 123/2000.

2.1.5 Income Statement

In 2001, the banks earned a total of 894.2 million kuna after-tax profit at the level of the entire banking system, which is a decrease of 411.9 million kuna, or as much as 31.5%, compared with 2000. A significant factor in this decline in bank profit was the losses of a bank in Group I, which accounted for 78.0% of total losses incurred by all banks with an operating loss. The substantial loss of this bank in 2001 was the consequence of cumulated non-interest expenses from previous periods. Six banks reported losses at end-2001 compared with seven in 2000. In 2000, all banks which incurred a loss were in Group II, whereas in 2001 there was at least one such bank in each group: one bank in both Group I and Group III, and two banks in both Group II and Group IV.

The income and expenses of all banks show a substantial decline in net non-interest income (36.6%) and an insufficient rise in net interest income (7.7%). Even a high 37.8% reduction in provision expenses in 2001 compared with 2000 did not lead to a rise in banks' after-tax profit. All bank groups except Group II recorded a downturn in after-tax profit, with the sharpest decline in Group III, which generated a profit in 2000 but recorded a loss at end-2001. In terms of the decline in profit, Group III was followed by Group I (57.8%) and Group IV (3.9%). In contrast to 2000, Group II generated a profit;

TABLE 8. Income Statement, in million kuna

	Group I		Group II		Group III		Group IV		Total	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
1. Net interest income	2,626.6	3,083.7	1,202.3	1,191.3	259.0	161.3	237.2	221.8	4,325.1	4,658.1
1.1. Interest income	5,091.1	6,009.5	2,475.3	2,269.4	462.5	338.0	369.2	356.7	8,398.0	8,973.6
1.2. Interest expenses	2,464.5	2,925.7	1,273.0	1,078.1	203.5	176.7	132.0	134.9	4,073.0	4,315.5
2. Net non-interest income	1,483.8	825.4	262.9	277.4	135.6	63.9	98.3	90.1	1,980.6	1256.7
2.1. Non-interest income	1,917.3	2,292.4	660.6	692.6	167.8	120.7	133.0	125.1	2,878.8	3,230.8
2.2. Non-interest expenses	433.6	1,467.0	397.6	415.3	32.2	56.8	34.7	35.0	898.1	1,974.1
3. General administrative expenses and depreciation	2,079.9	2,365.8	1.054.6	1,122.5	217.1	184.5	226.1	205.3	3,577.7	3,878.1
4. Net operating income before provisions	2,030.5	1,543.3	410.6	346.2	177.5	40.6	109.4	106.6	2,728.0	2,036.7
5. Loan loss provision expenses	381.2	622.6	808.4	48.5	84.0	118.5	25.1	18.4	1,298.6	807.9
6. Pre-tax profit/loss	1,649.3	920.6	–397.7	297.8	93.6	–77.8	84.3	88.2	1,429.4	1,228.8
7. Income tax	98.3	266.5	9.6	51.9	14.2	7.9	1.1	8.3	123.3	334.6
8. After-tax profit/loss	1,551.0	654.1	–407.4	245.9	79.3	–85.8	83.2	79.9	1,306.1	894.2

⇧ In the observed periods, each item from the reports is stated cumulatively for all banks and for an individual bank group on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 57/99 and 3/2001 – Schedule IS). The total amount for each item is the sum of the same items stated in the reports. Total amounts are calculated both at the level of all banks and at the level of an individual bank group.

this recovery may be mostly attributed to a 94.0% decrease in loan loss provision expenses in 2001 compared with 2000.

At the system level, total operating income calculated on the net principle (as a sum of net interest income and net non-interest income net of general administrative expenses and depreciation) fell by 691.3 million kuna in 2001 and was 25.3% lower than in 2000. In the same period, total operating income fell in all bank groups, by 77.1% in Group III, 24.0% in Group I, 15.7% in Group II and only 2.5% in Group IV.

The share of non-interest income in the income structure of the banking system grew by 0.9 percentage points in 2001 compared with 2000, with a corresponding 0.9 percentage point decline in the share of interest income. This trend was recorded in Groups I and II in the observed period, whereas the op-

TABLE 9. Structure of Income, in %

	Group I		Group II		Group III		Group IV		Total	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
1. Interest income	72.6	72.4	78.9	76.6	73.4	73.7	73.5	74.0	74.5	73.5
1.1. Interest income from loans	45.4	51.1	58.7	60.9	54.0	57.2	57.0	61.9	50.1	54.1
1.2. Interest income from deposits	12.4	9.0	7.4	8.1	7.5	8.7	7.4	5.6	10.5	8.6
1.3. Interest income from debt securities	11.9	11.5	4.8	5.7	6.5	7.4	5.5	4.8	9.4	9.7
1.4. Income from shares and other equity participation	0.4	0.3	1.4	0.2	0.2	0.2	0.2	0.3	0.7	0.3
1.5. Net balances on exchange rate fluctuations related to interest income	0.0	–0.2	1.3	–0.1	0.0	0.0	0.0	0.6	0.3	–0.1
1.6. Interest income from previous years	1.0	0.4	1.1	0.4	0.4	0.2	0.9	0.4	1.0	0.4
1.7. Other interest income	1.5	0.4	4.2	1.3	4.9	0.0	2.5	0.4	2.5	0.6
2. Non-interest income	27.4	27.6	21.1	23.4	26.6	26.3	26.5	26.0	25.5	26.5
2.1. Non-interest income from commissions or fees	14.3	14.7	12.0	13.0	12.3	12.4	12.7	11.7	13.5	14.0
2.2. Net balances on exchange rate fluctuations related to non-interest income	0.0	0.0	0.0	0.0	0.0	2.4	0.0	0.0	0.0	0.1
2.3. Income/loss from calculated exchange rate fluctuations	–0.8	–1.9	–1.6	–1.9	–0.1	–0.7	0.4	1.4	–0.9	–1.7
2.4. Income/loss from purchase/ sale of foreign exchange	7.3	8.4	6.2	8.0	7.9	8.5	8.3	10.1	7.1	8.3
2.5. Income/loss from purchase/sale of securities	1.3	3.2	–0.1	0.6	0.0	–0.5	0.0	0.2	0.8	2.3
2.6. Other income	4.4	3.1	3.3	2.3	6.5	4.0	4.8	2.4	4.2	2.9
2.7. Extraordinary income	0.7	0.1	1.3	1.4	0.1	0.4	0.2	0.1	0.8	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

⇦ The share of each item of income in the total income of an individual bank group is calculated as a ratio between the sum of the amounts of the same items from the reports of the banks in the group (Bank Statistical Report – Schedule IS, *Narodne novine*, Nos. 57/99 and 3/2001) and the total income earned by the group. The sum thus calculated is 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 items from the reports of all banks are added up and expressed as the ratio between the sum thus calculated and the total income earned by all banks in the observed period. The sum thus calculated is multiplied by 100.

⇨ The structure of expenses is calculated in the same manner as the structure of income in Table 9., i.e. the share of each item of expenses in the Income Statement of an individual bank group in total expenses of the group is calculated as a ratio between the sum of these items from the report of each bank in the group and total expenses incurred by the group. The sum thus calculated is multiplied by 100. The same principle applies to the calculation made for the banking system as a whole, i.e. the amounts of each item of expenses from the reports of all banks are added up and expressed as the ratio between the sum thus calculated and total expenses incurred by the banking system in the observed period. The sum thus calculated is also multiplied by 100.
Schedule IS is the source of data on expenses (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001).

TABLE 10. Structure of Expenses, in %

	Group I		Group II		Group III		Group IV		Total	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
1. Interest expenses	46.0	39.6	36.0	40.5	37.9	32.9	31.6	34.3	41.4	39.3
1.1. Interest expenses on loans	12.6	10.3	10.7	11.2	8.6	4.8	5.7	5.9	11.4	10.1
1.2. Interest expenses on deposits	30.6	26.7	20.9	25.6	22.3	21.8	23.0	23.6	26.3	26.1
1.3. Interest expenses on debt securities	0.0	0.0	0.1	0.7	5.2	3.9	1.2	0.3	0.4	0.4
1.4. Premiums for the insurance of savings deposits	2.7	2.6	1.5	2.7	1.6	1.4	1.1	1.2	2.1	2.5
1.5. Net balances on exchange rate fluctuations related to interest expenses	0.0	–0.2	1.0	–0.1	0.0	–0.1	0.4	2.3	0.4	–0.1
1.6. Interest expenses from previous years	0.1	0.2	0.6	0.4	0.1	0.1	0.1	0.9	0.3	0.3
1.7. Other interest expenses	0.0	0.0	1.2	0.0	0.1	0.9	0.1	0.2	0.4	0.1
2. Non-interest expenses	8.1	19.9	11.3	15.6	6.0	10.6	8.3	8.9	9.1	18.0
2.1. Non-interest expenses for commissions or fees	3.2	2.5	5.7	7.6	2.8	3.2	4.1	3.5	4.1	3.8
2.2. Net balances on exchange rate fluctuations related to non-interest expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.3. Other expenses	4.9	6.3	5.0	7.5	3.1	7.2	3.9	5.0	4.8	6.6
2.4. Extraordinary expenses	0.0	11.1	0.6	0.5	0.1	0.2	0.3	0.4	0.2	7.6
3. General administrative expenses and depreciation	38.8	32.1	29.8	42.1	40.4	34.4	54.1	52.1	36.3	35.3
3.1. Expenses for employees	22.9	17.7	14.5	19.7	20.0	17.1	28.9	27.0	20.0	18.5
3.2. Depreciation	3.6	3.8	5.2	7.5	4.3	4.4	6.9	7.6	4.4	4.8
3.3. Other expenses	12.2	10.6	10.1	14.9	16.1	12.8	18.4	17.5	12.0	12.0
4. Loan loss provision expenses	7.1	8.4	22.9	1.8	15.6	22.1	6.0	4.7	13.2	7.4
4.1. Provision expenses for identified losses	11.4	0.2	17.2	–8.2	12.4	16.2	5.2	–1.5	13.3	–1.1
4.2. Value adjustment of investments in subsidiaries and associates	1.8	3.0	0.3	0.5	0.5	1.9	0.7	0.0	1.2	2.2
4.3. Value adjustment of investments in shares and equity participation in investment portfolio	–8.5	0.7	4.7	1.2	0.5	0.4	–0.8	1.4	–2.9	0.9
4.4. Provision expenses for unidentified losses	2.3	4.6	0.7	8.3	2.3	3.6	0.8	4.9	1.6	5.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

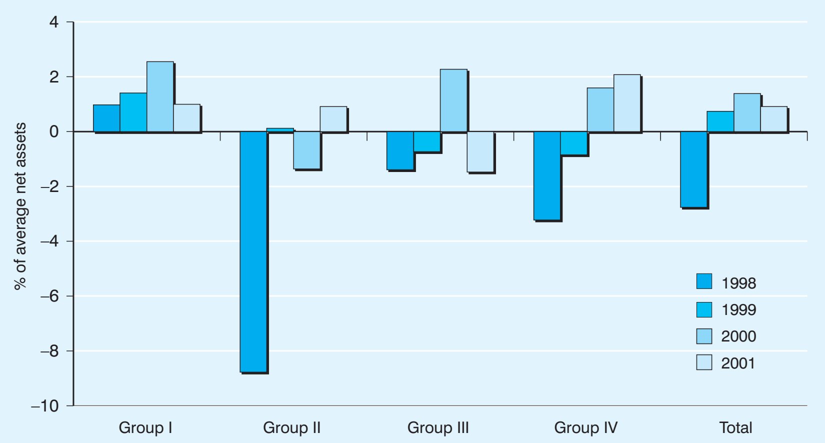
posite trend was recorded in Groups III and IV, i.e. the share of interest income in total income grew, with a corresponding decline in the share of non-interest income. At the system level, the share of all components of interest income declined, with the exception of interest income from loans, which grew significantly in all bank groups.

In 2001, interest expenses predominated in the structure of expenses at the system level, with a share of 39.3%. They were followed by general administrative expenses and depreciation at 35.3%, non-interest expenses at 18.0% and loan loss provision expenses at 7.4%. Compared with 2000, the share of non-interest expenses doubled, the share of loan loss provision expenses halved, and the share of interest expenses and general administrative costs and depreciation slightly fell. This significant increase in the share of non-interest expenses was largely due to a rise in the share of extraordinary non-interest expenses (7.3 percentage points), while the decline in the share of total provision expenses was largely due to a fall in provision expenses for identified losses (14.4 percentage points).

2.1.6 Return Indicators

In 2001, the average return on assets of the entire banking system amounted to 0.9%, which is a decrease of 0.5 percentage points compared with 2000. This can be attributed to a decline in after-tax profit (31.5%), which had recovered in 2000 (an 82.8% growth) but which in 2001 neared the level attained at end-1999 (894.2 million kuna and 714.6 million kuna, respectively). On the other hand, it should be noted that average gross assets were even

FIGURE 11. Return on Assets

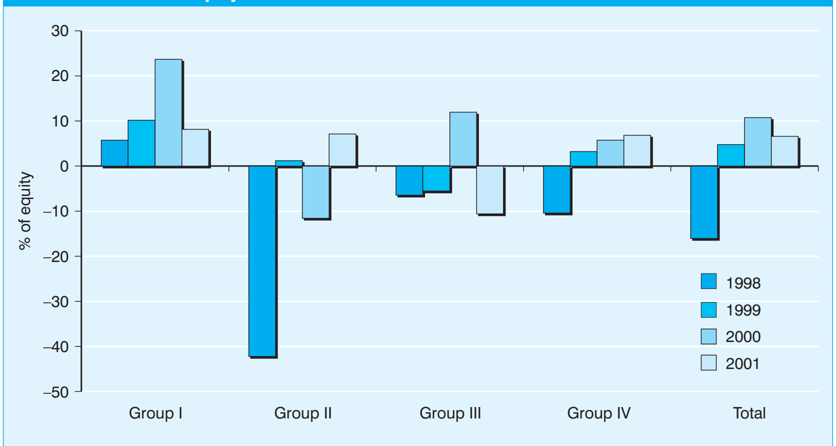


⇦ Each bank group ratio between pre-tax profit and average assets is calculated in the following manner. First, the pre-tax profit generated in the relevant period by all the banks in the bank group is added up. Second, the amounts of average assets are added up. The sum of pre-tax profit thus calculated is divided by the sum of average assets and multiplied by 100.
Average assets are calculated as the arithmetic mean of the balance in assets at the beginning and at the end of period for which the average is calculated.
Schedule IS is the source of data on pre-tax profit (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001), while Schedule BS is the source of data on assets (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001).

30.0% higher at end-2001 than at-end 2000, due to the increase in liquid assets in the last quarter of 2001 prior to the introduction of the euro. However, since this increase occurred in a very short period of time, it could not be reflected in a rise in income, which is to be expected during 2002.

The average return on equity stood at 6.6% in 2001, or 4.1 percentage points less than in 2000. This decline can be ascribed to the mentioned decline in profit and also to a growth in average equity of 10.9% in 2001.

FIGURE 12. Return on Equity



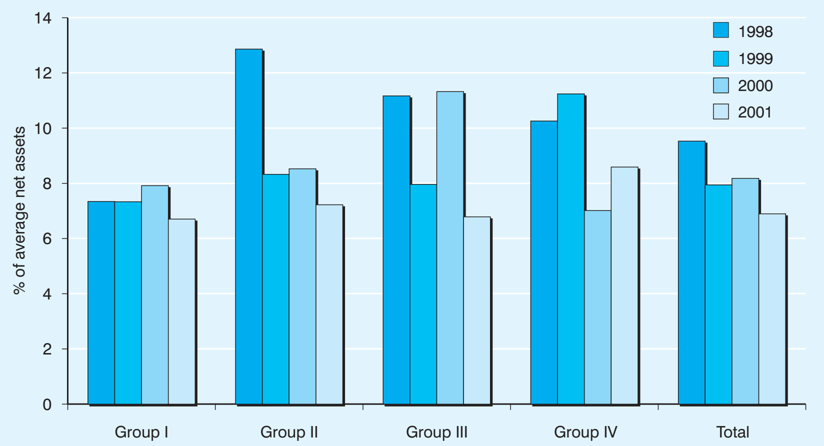
⇦ Each bank group ratio between after-tax profit and average capital is calculated in the following manner. First, the after-tax profit generated in the relevant period by all the banks in the bank group is added up. Second, the amounts of average capital are added up. The sum of after-tax profit thus calculated is divided by the sum of average capital and multiplied by 100.
Average capital is calculated as the arithmetic mean of the balance in capital at the beginning and at the end of period for which the average is calculated.
Schedule IS is the source of data on after-tax profit (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001), while Schedule BS is the source of data on capital (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001).

Compared with 2000, return on assets and return on equity decreased in 2001 in Groups I and III and at the level of the entire banking system. This was chiefly the result of a decline in profit in Group I and losses incurred in Group III. In addition, these two groups recorded the highest growth in average gross assets in 2001 (Group I: 42.4%; Group III: 27.6%), along with a strong growth in average equity (Group I: 22.9%; Group III: 21.8%). Group II banks, in contrast, reported profit at end-2001, contrary to losses generated at end-2000, which led to a rise in both return on assets and return on equity. In Group IV, the rise in return on assets and return on equity may be attributed to a fall in average gross assets (19.9%) and average equity (19.2%), and only a slight fall in after-tax profit at end-2001 compared with end-2000.

In 2001, the ratio between interest income and average net assets decreased, as did the ratio between interest expenses and average net assets. The de-

⇨ Each bank group ratio between interest income and average assets is calculated in the following manner. First, the interest income generated in the relevant period by all the banks in the bank group is added up. Second, the amounts of average assets of each bank group are also added up. The sum of interest income thus calculated is divided by the sum of average assets and multiplied by 100.
Average assets are calculated as the arithmetic mean of the balance in assets at the beginning and at the end of period for which the average is calculated.
Schedule IS is the source of data on 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. 57/99 and 3/2001).

FIGURE 13. Interest Income

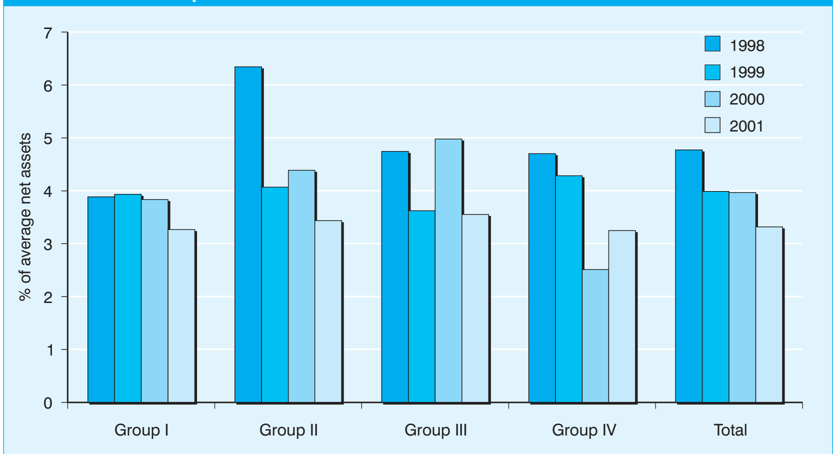


crease in the interest income ratio (1.3 percentage points) was twice the decrease in the interest expenses ratio (0.7 percentage points).

Bank Groups I-III recorded a decrease in the interest income to average net assets ratio and in the interest expenses to average net assets ratio. This resulted primarily from a strong upturn in average net assets during 2001, by 39.3% in Group I, 8.2% in Group II and 21.9% in Group III. In Group IV, on the other hand, there was an increase in these two ratios; considering the small changes in interest income and interest expenses in 2001, this increase can be mainly attributed to a decrease in average net assets of 21.0%. Compared with end-2000, the interest income to average net assets ratio in the first three bank groups and at the system level fell more in 2001 than the interest expenses to average net assets ratio. The exception was Group IV, whose interest income to average net assets ratio grew faster than the interest expenses to average net assets ratio.

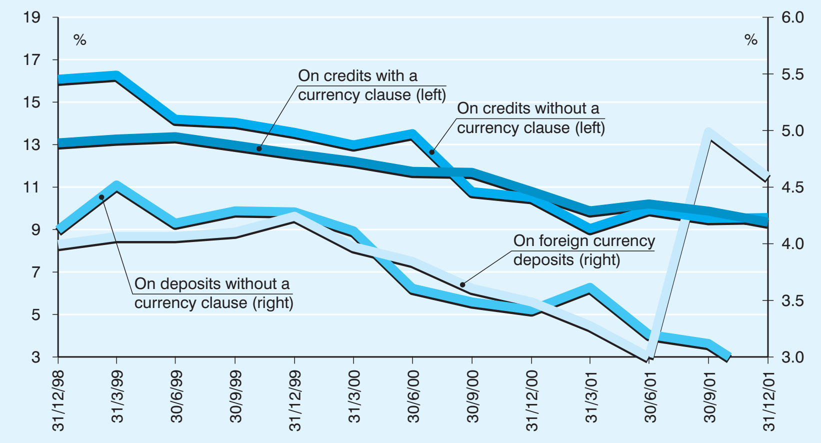
⇨ Each bank group ratio between interest expenses and average assets is calculated in the following manner. First, the interest expenses incurred in the relevant period by all the banks in the bank group are added up. Second, the amounts of average assets of each bank group are also added up. The sum of interest expenses thus calculated is divided by the sum of average assets and multiplied by 100.
Average assets are calculated as the arithmetic mean of the balance in assets at the beginning and at the end of period for which the average is calculated.
Schedule IS is the source of data on 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. 57/99 and 3/2001).

FIGURE 14. Interest Expenses



In 2001, average interest rates in the banking system stood at 9.5% on loans without a currency clause, 9.3% on loans with a currency clause, 2.7% on deposits without a currency clause and 4.6% on foreign currency deposits. In comparison with the end of 2000, average interest rates fell by 0.9 percentage points on loans without a currency clause, 0.5 percentage points on loans with a currency clause, and 0.6 percentage points on deposits without a currency clause. In the same period, the interest rate on foreign currency deposits grew

FIGURE 15. Interest Rates

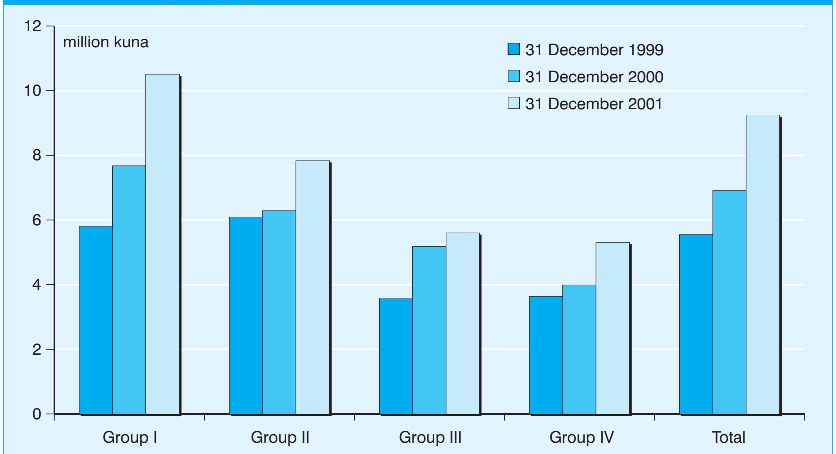


⇦ The basis for calculating the weighted averages is the amount of credits granted at a certain interest rate in the reporting month, with the exception of interest rates on overdraft facilities based on giro and current accounts. The weighted averages for such credits are calculated on the basis of their balances at the end of the reporting month.
Kuna deposits without a currency clause (sight deposits, savings and time deposits) and foreign currency deposits are reported as weighted averages of monthly interest rates. The basis for calculating the weighted averages is the balance in deposits at the end of the reporting month. The exceptions are kuna savings 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 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.

by 1.11 percentage points, mainly because the banks wanted to attract foreign currency deposits, whose supply was extremely high owing to the euro conversion in the last quarter of 2001.

At the end of 2001, the banking system employed 16,051 persons, a decrease of 142 employees (0.9%) compared to the end of 2000. This continued the downward trend in the number of employees in the banking system that has been recorded since mid-1999. Measured at the level of the banking system, there were 9.3 million kuna in assets per employee at end-2001. At the level of individual bank groups, Group I recorded 10.5 million kuna in assets per employee, Group II 7.8 million kuna, Group III 5.6 million kuna and Group IV 5.3 million kuna. This indicator was higher than in 2000 in all bank groups, and its growth was higher in 2001 than in 2000 in all bank groups except Group III. In Group III, the fastest rise in efficiency measured by assets per employee occurred during 2000, and this trend slowed down in 2001.

FIGURE 16. Assets per Employee

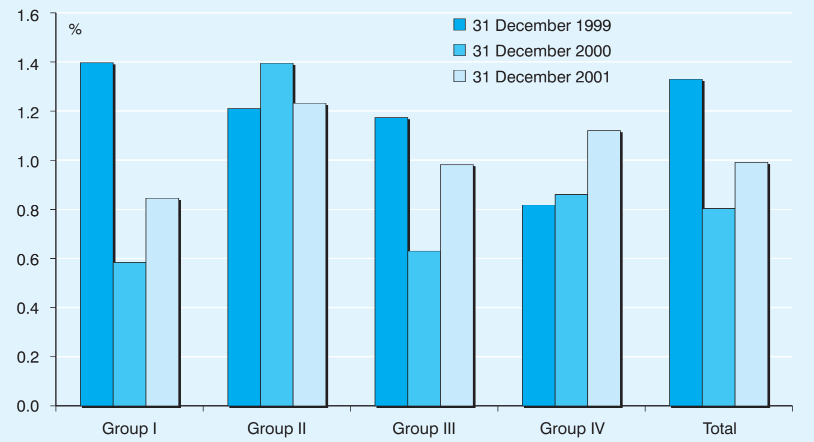


⇦ The average assets of all the banks in an individual bank group are added up and then expressed as the ratio between the amount thus calculated and the total number of persons employed by the banks in the group. The same procedure is applied to the calculation of this indicator for all banks.
Average assets are calculated as the arithmetic mean of the balance in assets at the beginning and at the end of period for which the average is calculated.
Schedule BS is the source of data on the amount of assets (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001), while banks are the source of data on the number of persons employed.

In 2001, the share of non-interest expenses in the net assets of the banking system grew to 1.0%, which is an increase of 0.19 percentage points compared to 2000. According to this indicator, Group I was the most successful (0.85%) in 2001, followed by Group III (0.98%), Group IV (1.12%) and finally Group II (1.23%). All bank groups except Group II recorded a rise in this indicator in 2001.

⇨ Each bank group ratio between non-interest expenses and average assets is calculated in the following manner. First, the non-interest expenses incurred in the relevant period by all the banks in the bank group are added up. Second, the amounts of average assets of each bank group are added up. The sum of non-interest expenses thus calculated is divided by the sum of average assets and multiplied by 100. The same procedure is applied to the calculation of this indicator for all banks.
Average assets are calculated as the arithmetic mean of the balance in assets at the beginning and at the end of period for which the average is calculated.
Schedule IS is the source of data on non-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. 57/99 and 3/2001).

FIGURE 17. Non-Interest Expenses



2.1.7 Credit Activity

At end-2001, total placements of the banking system amounted to 151.6 billion kuna. In comparison with the end of 2000, this is an increase of as much as 27.7 billion kuna or 22.3%, which was mainly due to the increase in deposits resulting from the euro conversion.

The most important change in the analysis of credit risk arising from bank placements in 2001 relates to the application of IAS 39[12]. This IAS classifies placements into three groups: fully recoverable placements, partly recoverable placements and irrecoverable placements, which is different from the former categorization into risk categories A, B, C, D and E, i.e. the classification of placements into performing assets (A and B) and non-performing assets (C, D and E). Instead of the term "provisions for identified losses", IAS 39 introduces the term "impairment loss". In accordance with IAS 39, impairment loss on financial assets is determined as the difference between the asset's carrying amount and its recoverable amount, which equals the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. Reserves for identified losses, in contrast, were until 2001 calculated by applying an appropriate percentage to the principal amount, depending on the risk category of the placement.

12 See "IAS 39: Financial Instruments – Recognition and Measurement" in this issue of the Banks Bulletin.

⇩ Table 11. contains the amounts of placements classified by risk categories, as well as their shares in total placements that are classified. Schedule C is the source of data, and it forms an integral part of the Instruction for the Uniform Implementation of the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (*Narodne novine*, Nos. 36/99 and 123/2000).
When compiling financial statements for 2001, banks were required not to apply the provisions of the Instruction for the Uniform Implementation of the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (*Narodne novine*, Nos. 36/99 and 123/2000) that were not in compliance with a particular International Accounting Standard and that were superseded by the Decision on the Method of Improving the Compliance of the Croatian National Bank Subordinate Legislation with the International Accounting Standards (*Narodne novine*, No. 107/2001).

The consequence of this change in methodology, and also of improved credit portfolio quality, can be seen in a 25.3% rise in fully recoverable placements in 2001. In addition, partly recoverable placements steadily declined in 2000 (by 3.1%) and 2001 (by 2.9%). Irrecoverable placements, which grew by 23.1% in 2000, fell by 10.7% in 2001. The rise in the level of fully recoverable placements at end-2001 compared with end-2000 led to a 2.2 percentage point increase in their share in total placements, whereas the shares of partly recover-

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

Placements	Dec. 1998		Dec. 1999		Dec. 2000		Dec. 2001	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
1. Fully recoverable placements	103,605.7	90.68	96,568.5	89.73	112,198.3	90.54	140,586.6	92.74
1.1. Category A	97,227.9	85.09	92,061.5	85.55	108,489.8	87.55	137,195.6	90.50
1.2. Category B	6,377.8	5.58	4,507.0	4.19	3,708.5	2.99	3,391.0	2.24
2. Partly recoverable placements	8,292.9	7.26	7,143.6	6.64	6,923.1	5.59	6,719.5	4.43
2.1. Category C	5,574.8	4.88	3,749.9	3.48	3,090.3	2.49	3,193.3	2.11
2.2. Category D	2,718.1	2.38	3,393.6	3.15	3,832.8	3.09	3,526.2	2.33
3. Irrecoverable placements	2,359.6	2.07	3,903.3	3.63	4,803.1	3.88	4,287.3	2.83
3.1. Category E	2,359.6	2.07	3,903.3	3.63	4,803.1	3.88	4,287.3	2.83
Total	114,258.2	100.00	107,615.4	110.27	123,924.5	100.00	151,593.3	100.00

TABLE 12. Provision to Placement Ratio, enf of period, in million kuna and %				
	Dec. 1998	Dec. 1999	Dec. 2000	Dec. 2001
1. Total provisions for losses	7,645.6	9,486.2	10,176.6	9,326.7
1.1. Placement value impairment (loss)	6,951.6	8,694.7	9,355.4	7,912.1
1.2. Provisions for unidentified losses	694.0	791.5	821.2	1,414.6
2. Total placements	114,258.2	107,615.4	123,924.5	151,593.3
3. Relative ratio of provisions to placements	6.7%	8.8%	8.2%	6.2%

able and irrecoverable placements in total placements declined by 1.2 and 1.0 percentage points, respectively.

The improved quality of bank placements in 2001 also influenced the ratio between provisions and placements of banks at the year-end. In comparison with the end of 2000, this ratio fell from 8.2% to 6.2% at end-2001, a decline of 2.0 percentage points. The application of IAS 39 and the improved quality of placements in 2001 led to a decrease in impairment loss of 15.4%. In the same period, provisions for unidentified losses grew by 72.3%. The reason for this upturn is that placements categorized in risk group B according to the old methodology were, starting from 2001, included in the basis for calculating provisions for unidentified losses rather than in the basis for calculating impairment losses. These changes in the level of provisions also influenced the structure of total provisions for losses: the share of provisions for unidentified losses almost doubled in 2001 compared with 2000, from 8.1% to 15.1%.

At the end of 2001, there were 65.9 billion kuna placed in loans granted at the level of the banking system, of which 28.6 billion kuna, or 43.6%, were placed with other enterprises. Household loans had the second largest share at 28.0 billion kuna (40.6%), followed by loans to government units at 4.3 billion kuna (8%). In comparison with the end of 2000, loans to financial institutions grew the most, by 36.3%. They were followed by loans to other enterprises (28.3%), loans to public enterprises (24.0%), loans to non-residents (22.1%) and, with the least growth, loans to government units (5.8%). The only decline in loans, of 42.6%, was recorded in loans to non-profit institutions. At the end of 2001, the share of individual institutional sectors in total loans remained almost the same as at end-2000, with the exception of a small increase in the share of household loans (1.9 percentage points) and a small decrease in the share of loans to government units (1.4 percentage points).

At the level of individual bank groups, Group I granted the largest share of loans by all institutional sectors. In the structure of loans, the share of loans to other enterprises increased in 2001 in Group I by 4.5 percentage points, in Group III by 11.0 percentage points and in Group IV by 3.4 percentage points. In Group II, the share of household loans increased by 6.7 percentage points, while the share of loans to other enterprises decreased by 9.7 percentage

⇦ The ratio between total provisions and total placements that are classified in risk categories is calculated in the following manner. The specific reserves for identified losses, i.e. placement value impairment (loss) and reserves for unidentified losses are added up and the sum thus calculated is divided by the amount of total placements and multiplied by 100.
Schedule SR, i.e. SR1 is the source of data on the amounts of specific reserves for identified losses, i.e. placement value impairment (loss) and reserves for unidentified losses, and it forms an integral part of the Instruction for the Uniform Implementation of the Decision on the Amount and Method of Forming Specific Reserves to Ensure Against Potential Losses of Banks (*Narodne novine*, Nos. 36/99 and 123/2000), passed on the basis of the Decision on the Amount and Method of Forming Specific Reserves to Ensure Against Potential Losses of Banks (*Narodne novine*, No. 32/99).
Schedule C is the source of data on total placements, and it forms an integral part of the Instruction for the Uniform Implementation of the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (*Narodne novine*, Nos. 36/99 and 123/2000).
When compiling financial statements for 2001, banks were required not to apply the provisions of the Instruction for the Uniform Implementation of the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (*Narodne novine*, Nos. 36/99 and 123/2000) that were not in compliance with a particular International Accounting Standard and that were superseded by the Decision on the Method of Improving the Compliance of the Croatian National Bank Subordinate Legislation with the International Accounting Standards (*Narodne novine*, No. 107/2001).

⇩ The credit exposure to 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. 57/99 and 3/2001).

TABLE 13. Structure of Loans by Institutional Sectors, end of period, in million kuna										
	Group I		Group II		Group III		Group IV		Total	
	Dec. 2000	Dec. 2001	Dec. 2000	Dec. 2001	Dec. 2000	Dec. 2001	Dec. 2000	Dec. 2001	Dec. 2000	Dec. 2001
1. Government units	3,608.6	3,257.7	360.4	1,035.7	96.9	45.8	36.9	2.8	4,102.8	4,342.0
2. Financial institutions	568.8	788.1	429.5	599.5	58.8	17.7	28.5	74.3	1,085.6	1,479.6
3. Public enterprises	1,767.2	2,507.0	391.8	346.3	44.7	33.2	152.1	34.2	2,355.8	2,920.8
4. Other enterprises	11,230.0	17,902.9	8,637.5	7,998.5	1,213.6	1,242.6	1,241.4	1,500.5	22,322.6	28,644.5
5. Non-profit institutions	227.4	108.3	54.2	43.4	7.8	13.2	1.5	2.3	290.9	167.1
6. Households	13,938.6	19,679.0	5,012.8	6,702.2	1,170.3	800.6	658.1	805.7	20,779.8	27,987.5
7. Non-residents	74.1	257.8	181.1	63.1	7.3	1.3	16.3	18.3	278.9	340.6
Total	31,414.7	44,500.8	15,067.2	16,788.9	2,599.5	2,154.4	2,134.8	2,438.0	51,216.3	65,882.1

points. In Group I, the share of loans to government units decreased the most (4.2 percentage points); in Group III, the share of household loans decreased the most (7.9 percentage points); in Group IV, the share of loans to public enterprises decreased the most (5.7 percentage points).

2.1.8 Liquidity Ratios

The liquidity of the banking system in 2001 may be considered very good. Owing to the introduction of the euro, all liquidity ratios recorded positive trends at the end of the year – an increase in purchased CNB and central government bills, i.e. liquid assets, and an increase in free reserves, along with a decrease in borrowing from the CNB and in the ratio between loans granted and deposits received. At the level of the banking system, it can be seen that the banks were more active in managing their liquidity and maximizing profit.

At the end of 2001, the amount of CNB and central government bills purchased at the level of the banking system stood at 9.5 billion kuna, which represents an increase of 59.9% compared with 2000. At the same time, the share of purchased CNB and central government bills in the total assets of the system grew by 1.1 percentage points to 6.4%. This increase resulted mostly from a high upturn in purchased Ministry of Finance treasury bills in both nominal and relative terms. They grew by 82.2% and accounted for the largest share of all securities issued by the CNB and central government – 36.1% on 31 December 2001. The rise in subscriptions for Ministry of Finance treasury bills was the result of central bank efforts to promote secondary market development and to provide better opportunities for banks to manage their liquidity. With regard to this, different maturities of CNB bills were introduced in April 2001, and the frequency of auctions was reduced to every five weeks instead of every week. Following these changes, the banks showed more interest in the weekly auctions of the Ministry of Finance and subscriptions for Ministry of Finance treasury bills.

⇨ The stock of CNB bills 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 Croatian National Bank.
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 14. Purchased CNB and Central Government Bills, in million kuna and %, stock on 31 December 2001

	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	2,589.4	39.5	587.9	25.6	42.6	11.5	76.2	23.5	3,296.1	34.5
2. CNB bills denominated in foreign currency	1,309.9	20.0	1,204.5	52.4	163.6	44.1	121.5	37.4	2,799.5	29.3
3. Ministry of Finance treasury bills	2,654.3	40.5	498.5	21.7	165.2	44.5	126.9	39.1	3,445.0	36.1
4. Other money market instruments of the central government	0.0	0.0	6.2	0.3	0.0	0.0	0.0	0.0	6.2	0.1
Total	6,553.6	100.0	2,297.1	100.0	371.4	100.0	324.7	100.0	9,546.8	100.0

At the end of 2001, purchased foreign currency CNB bills accounted for 29.3% of total purchased CNB and central government bills (down 0.5 percentage points), while purchased kuna CNB bills accounted for 34.5% (down 3.8 percentage points).

If we compare the bank groups' shares of the total placement in these securities, Group I made the largest relative placement[13] in kuna denominated CNB bills (39.5%), Group II made the largest relative placement in foreign currency CNB bills (52.4%) and other money market instruments of the central government (0.3%), and Group III made the largest relative placement in Ministry of Finance treasury bills (44.5%).

13 The largest relative placement is considered here to be the share of investment of an individual bank group in a certain type of security that is the largest compared to the shares of the other bank groups.

In comparison with the preceding year, the total borrowing of all banks from the CNB (annual average) decreased by 73.0% in 2001 to 0.1 billion kuna. This resulted primarily from a decline in short-term liquidity loans, which the banks did not use in 2001. Lombard loans grew by 6.2% and repo CNB bills by 32.3% compared with 2000. Interest rates on Lombard loans fell to 9.5% in March, so banks used this instrument more often to maintain their daily liquidity, and some of them used it in currency speculations as well. In August, the banks compensated for a shortfall in kuna liquidity due to a speculative purchase of foreign currency by increased utilization of Lombard loans. To ease depreciation pressures, the interest rate on Lombard loans was increased from 9.5% to 10.5% in October.

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

	Group I		Group II		Group III		Group IV		Total	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
1. Lombard loans	51.8	60.5	5.2	4.2	0.9	0.4	1.4	0.3	59.3	65.4
2. Intervention loans	0.0	0.0	3.3	0.0	0.0	0.0	5.1	2.6	8.4	2.6
3. Liquidity loans	0.0	0.0	274.9	0.0	20.5	0.0	56.1	0.0	351.4	0.0
4. Repo CNB bills	12.9	42.7	3.9	5.1	0.5	1.6	0.1	0.2	17.3	49.7
Total	64.8	103.3	287.3	9.3	21.8	2.1	62.6	3.1	436.5	117.7

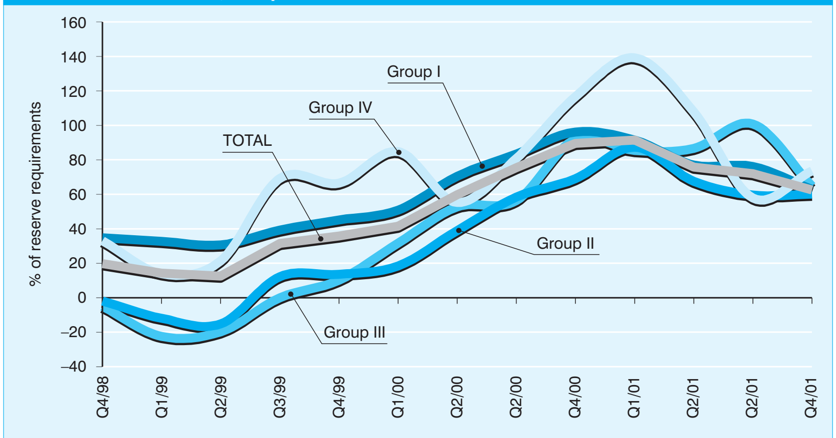
The nominal amount of free reserves showed a downward trend in the second and third quarters of 2001 but rose in the last quarter to exceed the level recorded in the first quarter of 2001. Free reserves stood at 15.8 billion kuna (last quarter average), or 5.5% more than in the last quarter of 2000.

At the annual level, all the bank groups recorded a decrease in the ratio between free reserves and reserve requirements, which indicates improved liquidity management and the banks' efforts to maximize profit.

At the system level at the end of 2001, the loans to deposits ratio was 62.9%, down 7.5 percentage points due to greater deposit growth (introduction of the euro) than loan growth. At the level of individual bank groups, the loan/deposit ratio stood at 59.1% in Group I, 72.0% in Group II, 62.9% in Group III and 90.9% in Group IV. The largest decline of 22.8 percentage points occurred in Group III, whereas the smallest decline of 2.8 percentage points occurred in Group I.

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

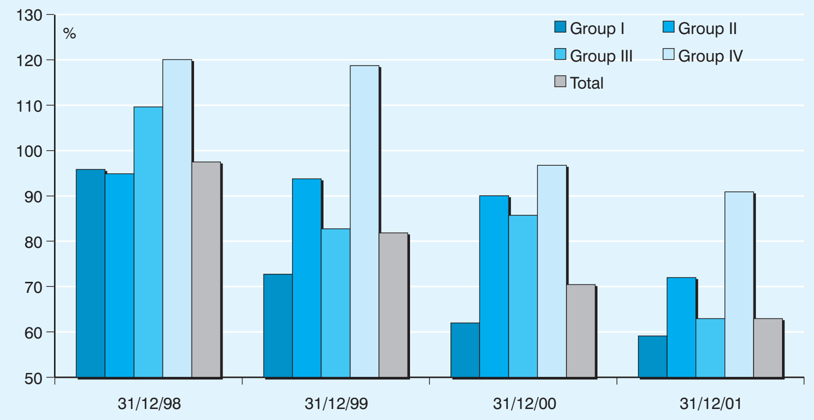
FIGURE 18. Free Reserves, end-quarter balance



⇦ Each bank group ratio between free reserves and reserve requirements is calculated in the following manner. First, the free reserves allocated in a certain quarter by the banks in the bank group are added up and then the amounts of reserve requirements of each bank group are added up. The sum of free reserves thus calculated is divided by the sum of reserve requirements 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 Croatian National Bank statistics is the source of data.

⇨ Each bank group ratio between total credits granted and total deposits received is calculated in the following manner. First, the total credits granted by all the banks in the bank group at a certain date are added up. Second, the amounts of total deposits received by each bank group are also added up. The sum of granted credits thus calculated is divided by the sum of received deposits and multiplied by 100. The same procedure is applied to the calculation of this indicator for all banks.
Credits include kuna and foreign currency credits 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 are not included since are considered liabilities based on credits.
Schedule BS/LOA is the source of data on credits (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001), while Schedule BS/DEP is the source of data on deposits (Bank Statistical Report).

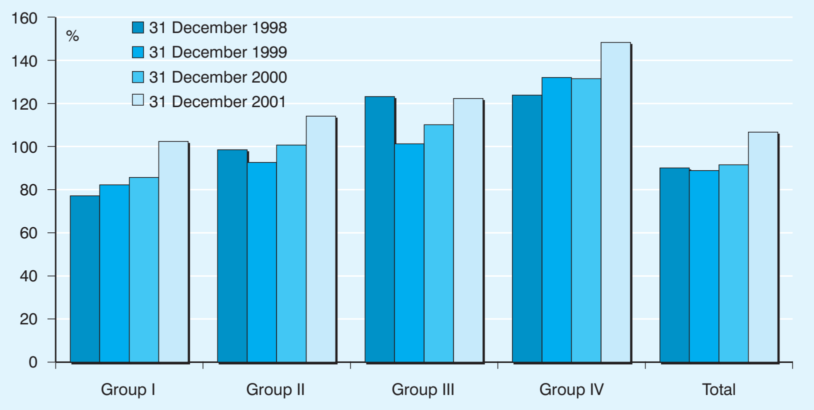
FIGURE 19. Credits/Deposits



Over 2001, the ratio between short-term assets and short-term liabilities rose by 15.1 percentage points, reaching 106.7% at the year-end.

⇨ Each bank group ratio between short-term assets and short-term liabilities is calculated in the following manner. First, the short-term assets of all the banks in the bank group in a certain quarter are added up. Second, the short-term liabilities are added up in the same manner. The sum of short-term assets thus calculated is divided by the sum of short-term liabilities and multiplied by 100.
Schedule BS and Schedule BS/CM are the source of data on short-term assets (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001), while Schedule BS and Schedule BS/DBM are the source of data on short-term liabilities (Bank Statistical Report).

FIGURE 20. Short-Term Assets/Short-Term Liabilities



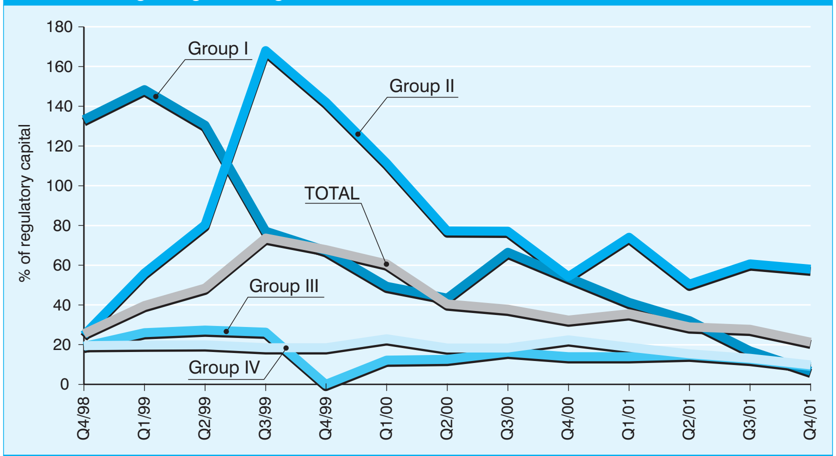
At the level of individual bank groups, the highest increase in this ratio in the first half of 2001 was recorded by Group IV with 16.8%. It was followed by Group I with 16.7%, Group II with 13.4%, and Group III with 12.2%. Group I had the lowest ratio (102.3%), whereas Group IV had the highest ratio (148.3%).

2.1.9 Currency Adjustment of Assets and Liabilities

The movements in the long and short foreign exchange positions in 2001 continued the downward trend in the average foreign exchange position exposure to currency risk at the banking system level.

A number of changes in 2001 influenced the movements in foreign exchange position exposure to currency risk: the unification of the reserve requirements continued (the percentage of foreign exchange reserves that is allocated in kuna was increased), foreign exchange operations were liberalized (along with a rise in the demand of enterprises for foreign currency), and regulation was amended (the August decision reduced the permissible foreign exchange position exposure to currency risk from 25% to 20% of a bank's regulatory capital). As already mentioned, certain banks conducted currency speculation in order to earn additional profit. By purchasing foreign exchange, they maximized their long foreign exchange position. This led to depreciation pressures on the exchange rate of the kuna, which induced the CNB to enact the decision on the reduction of the permissible rate of foreign exchange position exposure to currency risk, in addition to the previously mentioned measures related to the decrease in interest rates on Lombard loans.

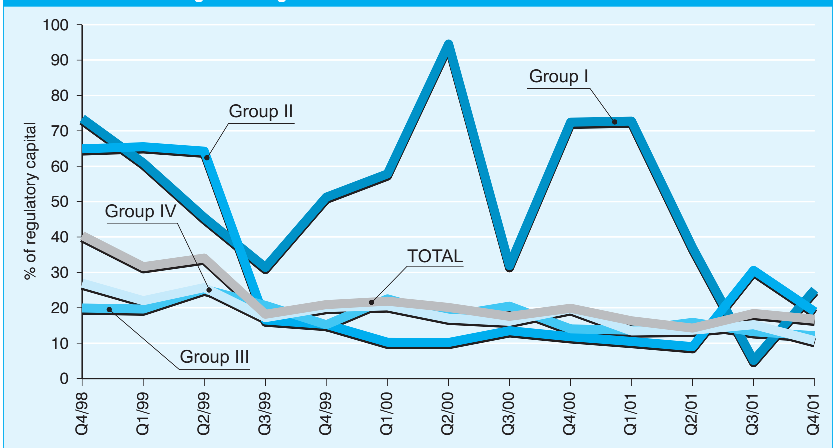
FIGURE 21. Long Foreign Exchange Position



⇦ 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 long foreign exchange positions reported in a certain quarter by all the banks in the bank group are added up. Second, the amounts of regulatory capital are added up in the same manner. The sums thus calculated are mutually divided and the amount thus obtained is multiplied by 100.
The reports submitted by banks on the basis of the Decision on the Prevention of Authorized Banks' and Savings Banks' Foreign Exchange Position Exposure to Currency Risk (*Narodne novine*, Nos. 134/97 and 94/2000) are the source of data.
The calculation of regulatory capital is regulated by the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 32/99 and 101/2000) and the Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine,* Nos. 36/99 and 123/2000). Schedule CAP, i.e. CAP1 is the source of data on regulatory capital, and it forms an integral part of the stated Instruction.

Significant departures from average values were recorded in Groups I and II. In Group I, the downward trend in short-term position ended, mostly because of a decrease in one bank's regulatory capital as a result of its operating losses. In Group II, a long foreign exchange position was mainly generated by the extremely high exposure of one bank, which underwent rehabilitation and reported a long position afterwards.

FIGURE 22. 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 short foreign exchange positions reported in a certain quarter by all the banks in the bank group are added up. Second, the amounts of regulatory capital are added up in the same manner. The sums thus calculated are mutually divided and the amount thus obtained is multiplied by 100.
The reports submitted by banks on the basis of the Decision on the Prevention of Authorized Banks' and Savings Banks' Foreign Exchange Position Exposure to Currency Risk (*Narodne novine*, Nos. 134/97 and 94/2000) are the source of data.
The calculation of regulatory capital is regulated by the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 32/99 and 101/2000) and the Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine,* Nos. 36/99 and 123/2000). Schedule CAP, i.e. CAP1 is the source of data on regulatory capital, and it forms an integral part of the stated Instruction.

2.2 Savings Banks

18 savings banks, of which 4 were housing savings banks, were in operation at the end of 2001. Three savings banks entered the liquidation process in 2001, 2 savings banks merged with another savings bank, and one savings bank became a bank.

2.2.1 Balance Sheet Structure

On 31 December 2001, savings bank assets amounted to 2.4 billion kuna, which is a high 51.2% increase compared to the end of 2000. Housing savings banks accounted for 54.5% of the total assets of savings banks at the end of

2001, which is a 17.9 percentage point increase compared with end-2000. This was mostly due to the growth in the assets of housing savings banks, which doubled from 578.0 million kuna at end-2000 to 1,229.0 million kuna at end-2001.

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

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

	Dec. 1999		Dec. 2000			Dec. 2001		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	89.8	7.0	91.6	5.8	2.1	156.8	6.6	71.1
1.1. Money assets	24.3	1.9	34.5	2.2	42.1	54.7	2.3	58.5
1.2. Deposits	65.5	5.1	57.1	3.6	–12.8	102.0	4.3	78.7
2. Deposits with banking institutions	93.1	7.2	99.0	6.3	6.3	123.5	5.2	24.8
3. Treasury bills and CNB bills	126.4	9.8	237.3	15.0	87.7	418.9	17.6	76.5
4. Trading portfolio of securities	3.1	0.2	144.4	9.2	4,605.6	472.6	19.8	227.4
5. Loans to financial institutions	50.5	3.9	10.8	0.7	–78.7	14.4	0.6	34.4
6. Loans to other clients	662.3	51.5	625.7	39.7	–5.5	701.2	29.4	12.1
7. Investment portfolio of securities	32.4	2.5	190.9	12.1	488.4	337.0	14.1	76.5
8. Investements in subsidiaries and associates	1.4	0.1	1.4	0.1	2.6	1.1	0.0	–18.1
9. Foreclosed and repossessed assets	25.8	2.0	17.7	1.1	–31.3	16.4	0.7	–7.5
10. Tangible assets and software (net of depreciation)	66.5	5.2	57.2	3.6	–14.0	56.2	2.4	–1.6
11. Interest, fees and other assets	142.5	11.1	109.6	6.9	–23.1	96.1	4.0	–12.4
12. Net of: Specific reserves for unidentified losses	7.6	0.6	7.9	0.5	4.6	9.0	0.4	13.8
Total	1,286.2	100.0	1,577.6	100.0	22.7	2,385.3	100.0	51.2

As at 31 December 2001, loans to other clients prevailed in the savings bank asset structure with a share of 29.4%. They were followed by trading portfolio of securities with 19.8%, Ministry of Finance treasury bills and CNB bills with 17.6% and investment portfolio of securities with 14.1%. The structure of savings bank assets remained almost unchanged in 2001, with the exception of a decrease in the share of loans to other clients (10.3%) and an increase in the share of trading portfolio of securities (10.7%). Owing to the increased liquidity of savings banks prior to the introduction of the euro, loans to financial institutions were up 113.1% at end-2001 compared with end-2000, deposits were 91.5% up, and money assets and deposits with the CNB were 69.1% up.

According to the data for end-2001, the largest share in the structure of savings banks liabilities was taken by deposits (82.4%), of which 80.1% were time deposits. Capital had the second-largest share at 13.9%, followed by interest, fees and other liabilities at 3.6%. Euro conversion contributed to a rise in deposits with savings banks of as much as 67.2% at end-2001 compared with end-2000. As with the banks, euro conversion may be considered the main reason for the steep upturn in savings banks assets. A substantial growth was also recorded in interest, fees and other liabilities (31.9%), while loans from financial institutions fell the most (74.1%).

Housing savings banks had a significantly different asset structure from other savings banks. At the end of 2001, 93.1% of their total assets was placed in securities, whereas 63.5% of savings bank assets related to loans to other clients.

The total capital of savings banks grew by 56.3 million kuna or 22.9% in 2001 compared with end-2000, primarily as a result of an increase in retained income (22.4%), a decrease in loss for the current year (55.5%) and a decrease in reserves provided for by the articles of association and other capital reserves (38.4%).

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

	Dec. 1999		Dec. 2000			Dec. 2001		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	28.8	2.2	13.6	0.9	–52.8	3.5	0.1	–74.1
1.1. Short-term loans	24.8	1.9	12.4	0.8	–50.1	2.5	0.1	–79.8
1.2. Long-term loans	4.1	0.3	1.2	0.1	–69.9	1.0	0.0	–15.9
2. Deposits	826.3	64.2	1,197.0	75.9	44.9	1,964.8	82.4	64.1
2.1. Giro account and current account deposits	6.6	0.5	7.0	0.4	5.5	6.7	0.3	–3.5
2.2. Savings deposits	38.6	3.0	46.9	3.0	21.4	47.2	2.0	0.7
2.3. Time deposits	781.1	60.7	1,143.2	72.5	46.4	1,910.9	80.1	67.2
3. Other loans	8.4	0.7	4.4	0.3	–48.0	2.0	0.1	–54.0
3.1. Short-term loans	7.8	0.6	3.8	0.2	–51.2	2.0	0.1	–47.2
3.2. Long-term loans	0.6	0.0	0.6	0.0	–5.5	0.0	0.0	–100.0
4. Debt securities issued	0.0	0.0	0.0	0.0	–	0.0	0.0	0.0
4.1. Short-term debt securities issued	0.0	0.0	0.0	0.0	–	0.0	0.0	0.0
4.2. Long-term debt securities issued	0.0	0.0	0.0	0.0	–	0.0	0.0	0.0
5. Supplementary capital	52.0	4.0	52.5	3.3	1.1	28.0	1.2	–46.7
5.1. Subordinated instruments issued	12.8	1.0	7.9	0.5	–38.4	3.8	0.2	–51.4
5.2. Hybrid instruments issued	39.2	3.0	44.7	2.8	14.0	24.2	1.0	–45.9
6. Interest, fees and other liabilities	53.0	4.1	64.5	4.1	21.7	85.1	3.6	31.9
7. Profit/loss for the current year	–41.4	–3.2	–66.1	–4.2	59.6	–29.4	–1.2	–55.5
8. Capital (excl. profit/loss for the current year)	359.1	27.9	311.6	19.8	–13.2	331.2	13.9	6.3
Total	1,286.2	100.0	1,577.6	100.0	22.7	2,385.3	100.0	51.2

⇦ These are calculated in the same manner as in Table 16., i.e. the share of each balance sheet item of liabilities in total liabilities is calculated on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 57/99 and 3/2001 – Schedule BS) and the derived aggregated report of the same type on the banking system 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. Item Profit/loss for the current year is excluded from item Capital and shown separately.

TABLE 18. Structure of Savings Bank Capital, end of period, in million kuna and %

	Dec. 1999		Dec. 2000			Dec. 2001		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
1. Share capital	369.4	116.3	339.5	138.3	–8.1	379.4	125.7	11.7
2. Profit/loss for the current year	–41.4	–13.0	–66.1	–26.9	59.8	–29.4	–9.8	–55.5
3. Retained income/loss	–46.1	–14.5	–52.9	–21.5	14.7	–64.7	–21.4	22.4
4. Legal reserves	13.6	4.3	4.0	1.6	–71.0	3.6	1.2	–7.9
5. Reserves provided for by the articles of association and other capital reserves	22.2	7.0	21.0	8.6	–5.3	12.9	4.3	–38.4
Total	317.7	100.0	245.5	100.0	–22.7	301.8	100.0	22.9

⇦ The capital as one of the items stated on the liabilities side of the aggregated balance sheet of all savings banks (Table 17.) is presented in detail. The share of each stated item in the total capital of savings banks in the observed periods is calculated as a ratio between each item and the total capital of savings banks. The sums thus calculated are 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.

The capital adequacy ratio of savings banks stood at 36.4% at end-2001, which is an increase of 2.9 percentage point compared to end-2000. This increase resulted from a larger growth in regulatory capital than in risk-weighted assets. Only one savings bank had a capital adequacy ratio below the legally prescribed minimum of 10%.

2.2.2 Income Statement

In 2001, savings banks incurred total losses of 23.8 million kuna, which represents a reduction in losses of 42.2 million kuna or as much as 64.0% compared with 2000. One reason for the substantial reduction of losses was the reduced number of savings banks that reported losses, from 10 savings banks (of which 3 are housing savings banks) in 2000 to 5 savings banks (of which 2 are housing savings banks) in 2001. It should be noted that the savings banks which incurred losses at the end of 2001 operated at a loss in 2000 as well, and that more than 50.0% of their total losses related to one savings bank.

The structure of savings banks' income and expenses in 2001 shows that interest income accounted for the largest share in income (67.9%). However, this share was 4.9% lower than in 2000, and there was a corresponding 4.9% increase in the share of non-interest income. The final operating results of savings banks in 2001 were mostly influenced by growths in non-interest in-

⇨ In the observed periods, each item from the reports is stated cumulatively for all savings banks on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 57/99 and 3/2001 – Schedule IS). The total amount for each item is the sum of the same items stated in the reports. Total amounts are calculated at the level of all savings banks.

TABLE 19. Savings Bank Income Statement, in million kuna

	1999	2000	2001
1. Net interest income	114.0	76.0	94.7
1.1. Interest income	231.4	193.8	212.7
1.2. Interest expenses	117.4	117.8	118.0
2. Net non-interest income	26.9	9.9	28.2
2.1. Non-interest income	60.4	72.1	100.4
2.2. Non-interest expenses	33.6	62.2	72.1
3. General administrative expenses and depreciation	122.8	131.1	130.4
4. Net operating income before provisions	18.0	–45.3	–7.5
5. Loan loss provision expenses	66.0	16.2	11.2
6. Pre-tax profit/loss	–48.0	–61.4	–18.7
7. Income tax	1.2	4.6	5.1
8. After-tax profit/loss	–49.2	–66.0	–23.8

come (39.2%) and interest income (9.8%), and a reduction in provision expenses (30.5%).

2.2.3 Credit Activity

At the end of 2001, total placements of all savings banks amounted to 1.8 billion kuna, an increase of 0.4 billion kuna or 29.2% compared with end-2000.

As with banks, the most important change in analyzing credit risk arising from savings banks placements in 2001 relates to the change in accounting for credit risk due to the application of IAS 39[14]This IAS classifies placements into three groups: fully recoverable placements, partly recoverable placements and irrecoverable placements, which is different from the former categorization into risk categories A, B, C, D and E, i.e. the classification of placements into performing assets (A and B) and non-performing assets (C, D and E). Instead of the term "provisions for identified losses", IAS 39 introduces the term "impairment loss". In accordance with IAS 39, impairment loss on financial assets is determined as the difference between the asset's carrying amount and its recoverable amount, which equals the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. Reserves for identified losses, in contrast, were until 2001 calculated by applying an appropriate percentage to the principal amount, depending on the risk category of the placement.

14 See "IAS 39: Financial Instruments – Recognition and Measurement" in this issue of the Banks Bulletin.

⇦ Table 20. contains the amounts of placements classified by risk categories, as well as their shares in the total placements that are classified. Schedule C is the source of data, and it forms an integral part of the Instruction for the Uniform Implementation of the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (*Narodne novine*, Nos. 36/99 and 123/2000). When compiling financial statements for 2001, banks were required not to apply the provisions of the Instruction for the Uniform Implementation of the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (*Narodne novine*, Nos. 36/99 and 123/2000) that were not in compliance with a particular International Accounting Standard and that were superseded by the Decision on the Method of Improving the Compliance of the Croatian National Bank Subordinate Legislation with the International Accounting Standards (*Narodne novine*, No. 107/2001).

TABLE 20. Classification of Savings Bank Placements by Risk Categories, end of period, in million kuna and %

Placements	Dec. 1999		Dec. 2000		Dec. 2001	
	Amount	Share	Amount	Share	Amount	Share
1. Fully recoverable placements	1,018.1	83.5	1,239.1	90.5	1,653.8	93.4
1.1. Category A	925.4	75.9	1,177.7	86.0	1,582.9	89.4
1.2. Category B	92.7	7.6	61.4	4.5	70.9	4.0
2. Partly recoverable placements	156.3	12.8	86.8	6.3	79.5	4.5
2.1. Category C	110.3	9.0	50.7	3.7	59.8	3.4
2.2. Category D	46.0	3.8	36.1	2.6	19.7	1.1
3. Irrecoverable placements	44.6	3.7	43.8	3.2	36.6	2.1
3.1. Category E	44.6	3.7	43.8	3.2	36.6	2.1
Total	1,218.9	100.0	1,369.6	100.0	1,770.0	100.0

This change in methodology and the improved quality of placements were the main reasons for the reclassification of placements by risk categories. Thus, in accordance with the new methodology, the amount of fully recoverable placements grew by 33.5%, whereas partly recoverable and irrecoverable placements fell by 8.4 and 16.3%, respectively. These developments also led to a decrease in the share of partly recoverable placements (1.8%) and irrecoverable placements (1.1%) in total placements, although it was not as high as in banks.

The improved asset quality also influenced the ratio between total provisions for losses and total placements, which fell from 6.9% at end-2000 to 4.7% at end-2001. Owing to the change in methodology, placements that were formerly categorized in risk group B are now included in the basis for calculating provisions for unidentified losses rather than the basis for calculating impairment losses. This is the main reason why these provisions grew by 16.5% in 2001 and their share in total provisions for losses rose from 5.8% at end-2000 to 8.1% at end-2001.

TABLE 21. Provision to Placement Ratio of Savings Banks, end of period, in million kuna and %

	Dec. 1999	Dec. 2000	Dec. 2001
1. Total provisions for losses	129.2	94.9	82.5
1.1. Placement value impairment (loss)	121.6	87.2	73.5
1.2. Provisions for unidentified losses	7.6	7.7	9.0
2. Total placements	1,218.9	1,369.6	1,770.0
3. Relative ratio of provisions to placements	10.6%	6.9%	4.7%

⇦ The ratio between savings banks' total provisions and total placements that are classified in risk categories is calculated in the following manner. The specific reserves for savings banks' identified losses, i.e. placement value impairment (loss) and reserves for unidentified losses are added up and the sum thus calculated is divided by the amount of savings banks' total placements classified in risk categories and multiplied by 100.

Schedule SR, i.e. SR1 is the source of data on amounts of specific reserves for identified losses, i.e. placement value impairment (loss) and reserves for unidentified losses, and it forms an integral part of the Instruction for the Uniform Implementation of the Decision on the Amount and Method of Forming Specific Reserves to Ensure Against Potential Losses of Banks (*Narodne novine*, Nos. 36/99 and 123/2000), passed on the basis of the Decision on the Amount and Method of Forming Specific Reserves to Ensure Against Potential Losses of Banks (*Narodne novine*, No. 32/99).

Schedule C is the source of data on total placements, and it forms an integral part of the Instruction for the Uniform Implementation of the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (*Narodne novine*, Nos. 36/99 and 123/2000).

When compiling financial statements for 2001, banks were required not to apply the provisions of the Instruction for the Uniform Implementation of the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (*Narodne novine*, Nos. 36/99 and 123/2000) that were not in compliance with a particular International Accounting Standard and that were superseded by the Decision on the Method of Improving the Compliance of the Croatian National Bank Subordinate Legislation with the International Accounting Standards (*Narodne novine*, No. 107/2001).

3 List of Banks

Data on individual banks' addresses, telephone numbers, fax numbers, members of management and supervisory boards, shareholders who hold 3% or more of share in the bank's share capital, and on bank auditors for 2001.

Data on shareholders who hold 3% or more of share in the bank's share capital are as at 31 December 2001.

Data on members of management and supervisory boards are as at 31 May 2001.

BRODSKO-POSAVSKA BANKA d.d.

Trg pobjede 29, 35000 Slavonski Brod
Phone: +385 35 445-700
Fax: +385 35 445-900
BAN[1] 2489004

Management Board
Gabrijel Sentić – chairman, Anka Olić

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

Shareholders	Share in share capital (%)
1. Jurves d.o.o.	7.99
2. Nova Immobilia d.o.o.	7.95
3. Nadvoj graditeljstvo d.o.o.	7.73
4. Mikser beton d.o.o.	7.35
5. Đuro Đaković – Poljoprivredni strojevi i uređaji d.d.	6.76
6. Kaptol banka d.d.	6.43
7. Telecomp d.o.o.	4.26
8. Brodsko-posavska banka d. d.	4.18
9. Šoštarić d.o.o.	4.07
10. Đuro Đaković holding d.d.	3.35
11. Croatia osiguranje d.d.	3.07
12. Đuro Đaković – Termoenergetska postrojenja d.d.	3.07

Audit firm for 2001: Revicon Zagreb d.o.o., Zagreb

1 Bank account number.

CASSA DI RISPARMIO DI TRIESTE – BANCA d.d.

Smičiklasova 23, 10000 Zagreb
Phone: +385 1 4552-610
Fax: +385 1 4614-347
BAN 2499000

Management Board
Adriano Carisi – chairman, Jasna Mamić

Supervisory Board
Giovanni Battista Ravida – chairman, Giorgio Cerutti, Giorgio Covacich, Tito Favaretto, Milan Travan, Fulvio Soldati, Adalberto Donaggio

Shareholders	Share in share capital (%)
1. Cassa di Risparmio di Trieste – Banca S.p.A.	72.06
2. International Finance Corporation	14.00
3. Finest S.p.A.	7.50
4. Simest-Societa Italiana Per Le Imprese Miste All'Estero-Simest S.p.A.	4.40

Audit firm for 2001: PricewaterhouseCoopers d.o.o., Zagreb

CENTAR BANKA d.d.

Jurišićeva 3, 10000 Zagreb
Phone: +385 1 4803-400
Fax: +385 1 4803-441
BAN 2382001
www.centarbanka.hr

Management Board
Gordana Zrinšćak – chairman, Ljiljana Podhraški, Ružica Vađić

Supervisory Board
Dragutin Biondić – chairman, Igor Knežević, Irena Kovačević, Herman Seidl, Žarko Kraljević

Shareholders	Share in share capital (%)
1. Heruc d.d.	58.36
2. Heruc – izrada odjeće d.o.o.	6.02
3. Lipa Mill d.d.	6.02
4. Heruc Zug AG	4.22
5. Diners Club Adriatic d.d.	4.13

Audit firm for 2001: Deloitte & Touche d.o.o., Zagreb

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

2 Since 1 February 2002, the membership in the Supervisory Board has been temporarily suspended in accordance with Article 261, paragraph 2 of the Company Law, due to his appointment to the Management Board.

Management Board
Ivan Maljevac – chairman, Ferenc Müller

Supervisory Board
Janos Müller – chairman, Imre Balogh, Ferenc Müller[2]

Shareholders	Share in share capital (%)
1. Magyar Külkereskedelmi Bank R. t.	100.00

Audit firm for 2001: KPMG Croatia d.o.o., Zagreb

CREDO BANKA d.d.
Zrinsko-Frankopanska 58, 21000 Split
Phone: +385 21 380-660
Fax: +385 21 380-685
BAN 2491005
www.credobanka.com

Management Board
Šime Luketin – chairman, Mato Mišić

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

Shareholders	Share in share capital (%)
1. Ferocommerce d.o.o.	9.98
2. Darko Gaurina	9.98
3. Plastal d.o.o.	9.97
4. Uvel d.o.o.	9.52
5. Prima-auto d.o.o.	8.94
6. Berman d.o.o.	7.47
7. Arca Merkatus d.o.o.	6.98
8. Credo banka d.d.	6.03

Audit firm for 2001: PricewaterhouseCoopers d.o.o., Zagreb

CROATIA BANKA d.d.
Kvaternikov trg 9, 10000 Zagreb
Phone: +385 1 2391-120
Fax: +385 1 2391-470
BAN 2485003

Management Board
Vedran Kuiš – chairman, Nataša Marendić

Supervisory Board
Niko Šeremet – chairman, Ivan Tomljenović, Jure Šimović, Maja Petvajdić, Joško Miliša

Shareholders	Share in share capital (%)
1. State Agency for Bank Rehabilitation and Deposit Insurance	100.00

Audit firm for 2001: Deloitte & Touche d.o.o., Zagreb

DALMATINSKA BANKA d.d.
Marka Oreškovića 3, 23000 Zadar
Phone: +385 23 201-500
Fax: +385 23 201-774
BAN 2407000
www.dbz.hr

Management Board
Zdravko Bubalo – chairman, Helena Banjad, Zorislav Vidović

Supervisory Board
Stjepan Meštrović – chairman, Robert Hans Van Griethuysen, Veljko Mašina, David Curl, Ronald Oliver Drake

Shareholders	Share in share capital (%)
1. Reginter d.o.o.	90.49
2. SWR Investment Limited	6.87

Audit firm for 2001: KPMG Croatia d.o.o., Zagreb

DRESDNER BANK CROATIA d.d.

Gajeva 1, 10000 Zagreb
Phone: +385 1 4866-704
Fax: +385 1 4866-779
BAN 2504000
www.dresdner-bank.hr

Management Board
Hans-Joachim Gersmann – chairman, Mato Karačić

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

Shareholders	Share in share capital (%)
1. Dresdner Bank AG	100.00

Audit firm for 2001: PricewaterhouseCoopers d.o.o., Zagreb

DUBROVAČKA BANKA d.d.

Put Republike 9, 20000 Dubrovnik
Phone: +385 20 356-788
Fax: +385 20 356-778
BAN 2401003
www.dubank.hr

Management Board
Vlaho Sutić – chairman, Krunoslav Brkljačić, Krešimir Krile

Supervisory Board
Robert Hans van Griethuysen – chairman, Hubert Steffen Leendert, Ronald Oliver Drake, David Mc Mahon, David Curl

Shareholders	Share in share capital (%)
1. State Agency for Bank Rehabilitation and Deposit Insurance	100.00

Audit firm for 2001: PricewaterhouseCoopers d.o.o., Zagreb

ERSTE & STEIERMÄRKISCHE BANK d.d.

Varšavska 3 – 5, 10000 Zagreb
Phone: +385 1 4561-823
Fax: +385 1 4561-900
BAN 2402006
www.esb.hr

Management Board
Petar Radaković – chairman, Tomislav Vuić, Borislav Centner, Sava Dalbokov

Supervisory Board
Reinhard Ortner – chairman, August Jost, Josef Kassler, Herbert Martinetz, Reinhold Schuster, Franz Mally, Ivan Ljubanović, Vladimir Jurašić, Kristijan Schellander, Karin Svoboda, Dragutin Bokuš

Shareholders	Share in share capital (%)
1. Erste Bank der Österreichischen Sparkassen AG	41.44
2. Steiermärkische Bank und Sparkassen AG	41.07

Audit firm for 2001: Ernst & Young Audit d.o.o., Zagreb

GOSPODARSKO KREDITNA BANKA d.d.

Draškovićeva 58, 10000 Zagreb
Phone: +385 1 4802-666
Fax: +385 1 4802-571
BAN 2381009

Management Board
Izidor Sučić – chairman, Branko Josipović

Supervisory Board
Lovre Božina – chairman, Zdenko Prohaska

Shareholders	Share in share capital (%)
1. Kristina Sučić	9.22
2. Željko Krznarić	7.44
3. Josip Bašić	7.43
4. Veritas d.o.o.	7.40
5. Kata Šparica	7.38
6. Darko Gojčić	7.33
7. Faktor banka d.d.	7.28
8. Vesna Mijović	6.75
9. Cobalt Investments International	6.23
10. Milan Zec	5.98
11. Gospodarsko kreditna banka d.d.	4.55
12. Branko Josipović	3.67

Audit firm for 2001: Revicon Zagreb d.o.o., Zagreb

HRVATSKA POŠTANSKA BANKA d.d.

Jurišićeva 4, 10000 Zagreb
Phone: +385 1 4804-574
Fax: +385 1 4810-791
BAN 2390001

Management Board
Josip Slade – chairman, Slavko Durmiš

Supervisory Board
Mato Crkvenac – chairman, Božidar Pankretić, Ivan Videka, Zita Nikolorić, Željko Pecek, Hrvoje Vojković, Srećko Vuković

Shareholders		Share in share capital (%)
1.	Croatian Privatization Fund	37.00
2.	Hrvatska pošta d.d.	33.56
3.	Croatian Pension Insurance Institute	28.01

Audit firm for 2001: KPMG Croatia d.o.o., Zagreb

HVB BANK CROATIA d.d.

Jurišićeva 2, 10000 Zagreb
Phone: +385 1 4800-817
Fax: +385 1 4800-891
BAN 2502004
www.hvb.hr

Management Board
Goran Gazivoda – chairman, Ivo Bilić

Supervisory Board
Anton Knett – chairman, Willibald Cernko, Günther Ettenauer, Heinz Meidlinger, Alistair Bruce Turnbull, Günther Wabnig, Wolfgang Edelmüller

Shareholders		Share in share capital (%)
1.	Bank Austria Creditanstalt International AG	80.02
2.	European Bank for Reconstruction and Development	19.98

Audit firm for 2001: Ernst & Young Audit d.o.o., Zagreb

HYPO ALPE-ADRIA-BANK d.d.

Koturaška 47, 10000 Zagreb
Phone: +385 1 6103-589
Fax: +385 1 6103-555
BAN 2500009
www.hypo-alpe-adria.hr

Management Board
Heinz Truskaller – chairman, Igor Kodžoman

Supervisory Board
Wolfgang Kulterer – chairman, Günter Striedinger, Othmar Ederer, Roberto Marzanati, Gerd Penkner

Shareholders		Share in share capital (%)
1.	Hypo Alpe-Adria-Bank AG	91.73
2.	European Bank for Reconstruction and Development	8.27

Audit firm for 2001: Ernst & Young Audit d.o.o., Zagreb

HYPOBANKA d.d.

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

Management Board
Antun Sermek – chairman, Mira Ausmann

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

Shareholders		Share in share capital (%)
1.	Zagrebšped d.o.o.	43.42
2.	Rijekašped d.o.o.	9.69
3.	Slavonijašped d.o.o.	9.66
4.	Hypocentar d.o.o.	7.34
5.	Intermerc d.o.o.	5.64
6.	Servistransport d.d.	5.07
7.	Agroznanje d.o.o.	4.60
8.	Rudina d.o.o.	3.27

Audit firm for 2001: Revicon Zagreb d.o.o., Zagreb

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

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

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

Shareholders	Share in share capital (%)
1. Imex trgovina d.o.o.	47.10
2. Branko Buljan	23.20
3. Trajektna luka d.d.	21.09
4. Imex banka d.d.	4.99

Audit firm for 2001: Maran d.o.o., Split

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

Management Board
Milenko Vidulin – chairman, Merima Ibrahimović

Supervisory Board[3]
David Curl, Silvana Kostešić, David Mc Mahon, Margot Jacobs

Shareholders	Share in share capital (%)
1. Dalmatinska banka d.d.	87.17

Audit firm for 2001: KPMG Croatia d.o.o., Zagreb

3 Mr Anton Brajković was the chairman of the Supervisory Board until 8 May 2002.

ISTARSKA KREDITNA BANKA UMAG d.d.
Ernesta Miloša 1, 52470 Umag
Phone: +385 52 702-359
Fax: +385 52 741-275
BAN 2380006
www.ikb.hr

Management Board
Miro Dodić – chairman, Anton Belušić

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

Shareholders	Share in share capital (%)
1. Intercommerce, d.o.o.	16.86
2. Tvornica cementa d.d.	15.04
3. Hempel, d.d.	15.00
4. Montpellier finance S.A.	10.00
5. Medias S.p.A.	7.63
6. Plava laguna d.d.	3.56

Audit firm for 2001: PricewaterhouseCoopers d.o.o., Zagreb

JADRANSKA BANKA d.d.
Ante Starčevića 4, 22000 Šibenik
Phone: +385 22 242-100
Fax: +385 22 335-881
BAN 2411006
www.jadranska-banka.hr

Management Board
Ivo Šinko – chairman, Željko Kardum, Ankica Bandalović

Supervisory Board
Željko Deković – chairman, Mirjana Škugor, Josip Huljev, Miro Petric, Josip Stojanović, Branko Malenica, Roko Gracin

Shareholders	Share in share capital (%)
1. Croatia osiguranje d.d.	9.75
2. Jadranska banka d.d.	9.51
3. Alfa d.d.	7.89
4. Tiskara Kačić d.d.	4.23
5. Vodovod i odvodnja d.o.o.	4.20

Audit firm for 2001: PricewaterhouseCoopers d.o.o., Zagreb

KARLOVAČKA BANKA d.d.
I. G. Kovačića 1, 47000 Karlovac
Phone: +385 47 614-201
Fax: +385 47 614-206
BAN 2400008
www.kaba.hr

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

Supervisory Board
Želimir Feitl – chairman, Suzana Brenko, Ivan Podvorac, Helena Lenac, Terezija Barbarić

Shareholders	Share in share capital (%)
1. Karlovačka banka d.d.	15.67
2. Croatian Privatization Fund	9.54
3. Lanzville Investments	5.37
4. Karlovačka pivovara d.d.	4.47
5. Hamowa d.o.o.	3.78

Audit firm for 2001: KPMG Croatia d.o.o., Zagreb

KREDITNA BANKA d.d.
Ulica grada Vukovara 74, 10000 Zagreb
Phone: +385 1 6167-373
Fax: +385 1 6116-466
BAN 2481000
www.kbz.hr

Management Board
Ivan Purgar – chairman, Željko Jakuš

Supervisory Board
Rudo Mikulić – chairman, Ivica Sertić, Tomislav Lucić

Shareholders	Share in share capital (%)
1. Agrokor, d.d.	18.83
2. Crodel d.o.o.	11.38
3. Ledo d.d.	8.54
4. Jamnica d.d.	8.44
5. Konzum d.d.	7.09
6. Investco vrijednosnice d.o.o.	6.76
7. Litograf d.o.o.	5.85
8. Zvijezda d.d.	5.66
9. Solana Pag d.d.	5.61
10. Ivalim d.o.o.	5.61

Audit firm for 2001: Deloitte & Touche d.o.o., Zagreb

KVARNER BANKA d.d.
Jadranski trg 4/I, 51000 Rijeka
Phone: +385 51 353-577
Fax: +385 51 353-566
BAN 2488001
www.kvarnerbanka.hr

Management Board
Goran Rameša – chairman, Milivoj Debelić

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

Shareholders	Share in share capital (%)
1. Adria Consulting S.R.L.	50.00
2. Riječka banka d.d.	31.85
3. Transadria d.d.	14.77

Audit firm for 2001: Iris nova d.o.o., Rijeka

MEĐIMURSKA BANKA d.d.
V. Morandinija 37, 40000 Čakovec
Phone: +385 40 314-658
Fax: +385 40 370-623
BAN 2392007
www.mb.hr

Management Board
Mladenka Gombar – chairman, Marija Ribić, Zdravko Babić, Gordan Miler

Supervisory Board
Mislav Blažić – chairman, Tomislav Lazarić, Davorin Rimac, Stjepan Varga, Dragutin Lončarić

Shareholders	Share in share capital (%)
1. Privredna banka Zagreb d.d.	87.42
2. Čakovečki mlinovi d.d.	5.95

Audit firm for 2001: Arthur Andersen d.o.o., Zagreb

NAVA BANKA d.d.

Tratinska 27, 10000 Zagreb
Phone: +385 1 3656-777
Fax: +385 1 3656-700
BAN 2495009
www.navabanka.hr

Management Board
Stipan Pamuković – chairman, Željko Škalec

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

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

Audit firm for 2001: Rudan d.o.o., Zagreb

PARTNER BANKA d.d.

Vončinina 2, 10000 Zagreb
Phone: +385 1 4602-215
Fax: +385 1 4602-289
BAN 2408002
www.partner-banka.hr

Management Board
Marija Šola – chairman, Branka Oštrić

Supervisory Board
Borislav Škegro – chairman, Igor Oppenheim, Joseph Pehar

Shareholders	Share in share capital (%)
1. Metroholding d.d.	75.90
2. Serica Bank AG	9.62
3. INGRA d.d.	5.94
4. Josip Kovač	4.07

Audit firm for 2001: PricewaterhouseCoopers d.o.o., Zagreb

PODRAVSKA BANKA d.d.

Opatička 3, 48300 Koprivnica
Phone: +385 48 655-126
Fax: +385 48 622-542
BAN 2386002
www.poba.hr

Management Board
Julio Kuruc – chairman, Drago Galović, Božica Širić, Marijan Marušić

Supervisory Board
Sigilfredo Montinari – chairman, Nevenka Cerovsky, Ivan Pavliček, Ivan Henezi, Jurica (Đuro) Predović, Miljan Todorović, Dario Montinari

Shareholders	Share in share capital (%)
1. Cerere S.R.L.	9.35
2. Antonia Gorgoni	9.35
3. Lorenzo Gorgoni	9.34
4. Jurica (Đuro) Predović	8.74
5. Miljan Todorović	5.69
6. Giovani Semerano	4.11
7. Andrea Montinari	3.36
8. Dario Montinari	3.36
9. Piero Montinari	3.36
10. Sigilfredo Montinari	3.36

Audit firm for 2001: Revidicon d.o.o., Zagreb i Deloitte & Touche d.o.o., Zagreb

POŽEŠKA BANKA d.d.

Republike Hrvatske 1b, 34000 Požega
Phone: +385 34 254-304
Fax: +385 34 254-258
BAN 2405004
www.pozeska-banka.hr

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

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

Shareholders	Share in share capital (%)
1. Požeška banka d.d.	7.40
2. JP Hrvatske šume p.o.	6.04
3. Zvonko Potnik	4.59
4. Croatia osiguranje d.d.	4.38
5. Kutjevo d.d.	4.06

Audit firm for 2001: Deloitte & Touche d.o.o., Zagreb

PRIMORSKA BANKA d.d.
Scarpina 7, 51000 Rijeka
Phone: +385 51 355-777
Fax: +385 51 332-762
BAN 4132003
www.primorska.hr

Management Board
Ante Županić – chairman, Duško Miculinić

Supervisory Board
Francesco Signorio – chairman, Domenico Petrella, Gordana Pavletić, Senad Uzelac, Milan Holjevac

Shareholders	Share in share capital (%)
1. Francesco Signorio	41.48
2. Carlo Di Dato	11.32
3. Svitlana Bondareva	7.96
4. J.L.L. Marc Jourdan	7.84
5. Domenico Petrella	7.71
6. Franco Guidantoni	5.24
7. Gordana Pavletić	4.49
8. Belinda Dobrec	3.17

Audit firm for 2001: Revidicon d.o.o., Zagreb

PRIVREDNA BANKA – LAGUNA BANKA d.d.
Prvomajska 4a, 52440 Poreč
Phone: +385 52 416-711
Fax: +385 52 416-770
BAN 2497004

Management Board
Zdravka Cukon – chairman, Roberto Drandić

Supervisory Board
Tomislav Lazarić – chairman, Ljiljana Horvat, Draženko Pavlinić

Shareholders	Share in share capital (%)
1. Privredna banka Zagreb d.d.	100.00

Audit firm for 2001: Arthur Andersen d.o.o., Zagreb

PRIVREDNA BANKA ZAGREB d.d.
Račkoga 6, 10000 Zagreb
Phone: +385 1 4723-878
Fax: +385 1 4723-131
BAN 2340009
www.pbz.hr

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

Supervisory Board
Gyorgy Suranyi – chairman, Adriano Bisogni, Gianfranco Mandelli, Adriano Arietti, Marijan-Marinko Filipović, Leonardo Attanasio, Arna Bušljeta

Shareholders	Share in share capital (%)
1. Comit Holding International S.A.	66.30
2. State Agency for Bank Rehabilitation and Deposit Insurance	25.00

Audit firm for 2001: Arthur Andersen d.o.o., Zagreb

RAIFFEISENBANK AUSTRIA d.d.
Petrinjska 59, 10000 Zagreb
Phone: +385 1 6006-900
Fax: +385 1 4811-624
BAN 2484008
www.rba.hr

Management Board
Zdenko Adrović – chairman, Lovorka Penavić, Michael Müller, Velimir Šonje, Vlasta Žubrinić-Pick

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

Shareholders	Share in share capital (%)
1. Raiffeisen Zentralbank Österreich AG	62.71
2. Raiffeisenbank-Zagreb-Beteiligungsgesellschaft mbH	32.81
3. Raiffeisenlandesbank Kärnten reg. Ges. mbH	4.48

Audit firm for 2001: KPMG Croatia d.o.o., Zagreb

RIADRIA BANKA d.d.
Đure Šporera 3, 51000 Rijeka
Phone: +385 51 356-700
Fax: +385 51 211-093
BAN 2325004
www.riab.hr

Management Board
Vesna Badurina – chairman, Branka Juričev

Supervisory Board
Tomislav Lazarić – chairman, Hrvoje Matezović, Mislav Blažić, Snježana Kaponja, Marinko Dumanić

Shareholders	Share in share capital (%)
1. Privredna banka Zagreb d.d.	77.98
2. Riadria banka d.d.	7.96

Audit firm for 2001: Arthur Andersen d.o.o., Zagreb

RIJEČKA BANKA d.d.
Jadranski trg 3a, 51000 Rijeka
Phone: +385 51 208-441
Fax: +385 51 330-525
BAN 2300007
www.rbri.hr

Management Board
Milan Potkonjak – chairman, Sanja Stojević

Supervisory Board
Marijan-Marinko Filipović – chairman, Vojko Obersnel, Marinko Učur

Shareholders	Share in share capital (%)
1. Bayerische Landesbank Girocentrale	59.90
2. State Agency for Bank Rehabilitation and Deposit Insurance	25.12

Audit firm for 2001: KPMG Croatia d.o.o., Zagreb

SAMOBORSKA BANKA d.d.
Tomislavov trg 8, 10430 Samobor
Phone: +385 1 3362-530
Fax: +385 1 3361-523
BAN 2403009

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

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

Shareholders	Share in share capital (%)
1. Samoborka d.d.	9.35
2. JP Hrvatske šume p.o.	6.86
3. V. H. Trade d.o.o.	5.84
4. Sant d.o.o.	4.96
5. Tigra d.o.o.	4.96
6. Chromos d.d.	4.92
7. Vajda elvit d.o.o.	4.34
8. Ozas	4.04
9. Končar d.d.	3.46

Audit firm for 2001: M.Z. Auditors d.o.o., Zagreb

SISAČKA BANKA d.d.
Trg Lj. Posavskoga 1, 44000 Sisak
Phone: +385 44 549-100
Fax: +385 44 549-101
BAN 2419008
www.sibank.hr

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

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

Shareholders	Share in share capital (%)
1. Dalmatinska banka d.d.	81.49

Audit firm for 2001: KPMG Croatia d.o.o., Zagreb

SLATINSKA BANKA d.d.
Vladimira Nazora 2, 33520 Slatina
Phone: +385 33 551-354
Fax: +385 33 551-566
BAN 2412009
www.slatinska-banka.hr

Management Board
Ante Šimara – chairman, Angelina Horvat

Supervisory Board
Josip Koleno – chairman, Marija Maleković, Ljiljana Katavić, Ružica Šimara, Sandra Šimara, Ante Šimara[4]

Shareholders	Share in share capital (%)
1. Lustrin d.o.o.	16.63
2. Slatinska banka d.d.	7.67
3. State Agency for Bank Rehabilitation and Deposit Insurance	7.33
4. Ante Šimara	6.85
5. Pronekinvest d.d.	6.47
6. Ljiljana Katavić	5.35

Audit firm for 2001: PricewaterhouseCoopers d.o.o., Zagreb

4 Since 17 September 2001, the membership in the Supervisory Board has been temporarily suspended in accordance with Article 261, paragraph 2 of the Company Law, due to his appointment to the Management Board.

SLAVONSKA BANKA d.d.
Kapucinska 29, 31000 Osijek
Phone: +385 31 231-115
Fax: +385 31 201-039
BAN 2393000
www.slbo.hr

Management Board
Ivan Mihaljević – chairman, Branka Štinc

Supervisory Board
Marija Crnjac – chairman, Wolfgang Kulterer, Roberto Marzanati, Branka Štinc[5], Gerd Penkner, Othmar Ederer, Günter Striedinger

Shareholders	Share in share capital (%)
1. Hypo Alpe-Adria-Bank AG	68.83
2. European Bank for Reconstruction and Development	15.33
3. Slavonska banka d.d.	3.76

Audit firm for 2001: Ernst & Young Audit d.o.o., Zagreb

5 Since 1 July 2001, the membership in the Supervisory Board has been temporarily suspended in accordance with Article 261, paragraph 2 of the Company Law, due to her appointment to the Management Board.

SPLITSKA BANKA d.d.
R. Boškovića 16, 21000 Split
Phone: +385 21 312-609
Fax: +385 21 312-586
BAN 2330003
www.splitskabanka.hr

Management Board
Tomo Bolotin – chairman, Stjepan Kolovrat, Darko Medak

Supervisory Board
Christian Bruckner, Willibald Cernko, Wolfgang Edelmüller, Wolfgang Helpa, Friedrich Kadrnoska, Anton Knett, Heinz Meidlinger

Shareholders	Share in share capital (%)
1. UniCredito Italiano S.p.A.	62.59
2. State Agency for Bank Rehabilitation and Deposit Insurance	25.00
3. Splitska banka d.d.	9.60

Audit firm for 2001: PricewaterhouseCoopers d.o.o., Zagreb

ŠTEDBANKA d.d.
Slavonska avenija 3, 10000 Zagreb
Phone: +385 1 6306-620
Fax: +385 1 6187-015
BAN 2483005

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

Supervisory Board
Ivo Andrijanić – chairman, Đuro Benček, Franjo Škoda

Shareholders	Share in share capital (%)
1. Šted - Invest d.d.	89.71
2. Finer & Kolenc d.o.o.	4.16
3. Redip d.o.o.	4.05

Audit firm for 2001: Revizija d.o.o., Zagreb

VARAŽDINSKA BANKA d.d.

Kapucinski trg 5, 42000 Varaždin
Phone: +385 42 400-166
Fax: +385 42 400-112
BAN 2391004
www.banka.hr

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

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

Shareholders	Share in share capital (%)
1. Zagrebačka banka d.d.	93.80

Audit firm for 2001: KPMG Croatia d.o.o., Zagreb

VOLKSBANK d.d.

Varšavska 9, 10000 Zagreb
Phone: +385 1 4801-300
Fax: +385 1 4801-365
BAN 2503007

Management Board
Heinrich Angelides – chairman, Julio Krevelj

Supervisory Board
Klaus Thalhammer – chairman, Hans Janeschitz, Ralf Weingartner, Fausto Maritan, Pierre-Yves Tarneaud, Christian-Georg Kaltenbrunner, Herbert Hartl

Shareholders	Share in share capital (%)
1. VBB International holding AG	70.00
2. Banque Federale des Banques Populaires	10.00
3. GZ-Bank AG	6.66
4. WGZ-Bank AG	3.33

Audit firm for 2001: KPMG Croatia d.o.o., Zagreb

ZAGREBAČKA BANKA d.d.

Paromlinska 2, 10000 Zagreb
Phone: +385 1 6305-250
Fax: +385 1 6110-533
BAN 2360000
www.zaba.hr

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

Supervisory Board
Roberto Nicastro – chairman, Marina Monassi, Milan Ujević, Klaus Junker, Ante Vlahović, Andrea Moneta, Alois Steinbichler, Guiseppe Vovk, Torsten Leue

Shareholders	Share in share capital (%)
1. Bankers Trust Company	42.67
2. UniCredito Italiano S.p.A.	9.94
3. Allianz AG	9.92

Audit firm for 2001: KPMG Croatia d.o.o., Zagreb

BAYERISCHE HYPO- UND VEREINSBANK AG, Glavna podružnica ZAGREB

Alexandera von Humboldta 4, 10000 Zagreb
Phone: +385 1 6159-206
Fax: +385 1 6159-197
BAN 8801006

Management Board
Anđelka Čavlek – representative, Vesna Garapić – representative

Supervisory Board

Shareholders	Share in share capital (%)
1. Bayerische Hypo- und Vereinsbank AG	100.00

Audit firm for 2001: KPMG Croatia d.o.o., Zagreb

Attachment

List of Banks by Peer Groups, end of period

Bank name and headquarter	Peer group number			
	Dec. 1998	Dec. 1999	Dec. 2000	Dec. 2001
AGROOBRTNIČKA BANKA d.d., Zagreb[1]	IV	IV	–	–
ALPE JADRAN BANKA d.d., Split	IV	IV	–	–
BAYERISCHE HYPO- UND VEREINSBANK AG, Glavna podružnica Zagreb	–	–	IV	IV
BJELOVARSKA BANKA d.d., Bjelovar[2]	II	II	–	–
BRODSKO-POSAVSKA BANKA d.d., Slavonski Brod	IV	IV	IV	IV
CASSA DI RISPARMIO DI TRIESTE – BANCA d.d., Zagreb	IV	IV	IV	IV
CENTAR BANKA d.d., Zagreb	IV	IV	IV	IV
CIBALAE BANKA d.d., Vinkovci[1]	III	IV	–	–
CONVEST BANKA d.d., Zagreb	IV	IV	IV	IV
CREDO BANKA d.d., Split	IV	IV	IV	IV
CROATIA BANKA d.d., Zagreb	II	II	II	II
ČAKOVEČKA BANKA d.d., Čakovec[2]	IV	IV	–	–
DALMATINSKA BANKA d.d., Zadar	II	II	II	II
DRESDNER BANK CROATIA d.d., Zagreb	IV	IV	III	III
ERSTE & STEIERMÄRKISCHE BANK d.d., Zagreb	–	–	II	II
GLUMINA BANKA d.d., Zagreb[1]	II	–	–	–
GOSPODARSKO KREDITNA BANKA d.d., Zagreb	IV	IV	IV	IV
GRADSKA BANKA d.d., Osijek[1]	II	–	–	–
HRVATSKA GOSPODARSKA BANKA d.d., Zagreb[1]	III	IV	–	–
HRVATSKA POŠTANSKA BANKA d.d., Zagreb	II	II	II	II
HVB BANK CROATIA d.d., Zagreb	II	II	II	II
HYPOBANKA d.d., Zagreb	IV	IV	IV	IV
HYPO ALPE-ADRIA-BANK d.d., Zagreb	II	II	II	I
ILIRIJA BANKA d.d., Zagreb[1]	IV	–	–	–
IMEX BANKA d.d., Split	IV	IV	IV	IV
ISTARSKA BANKA d.d., Pula	II	II	II	II
ISTARSKA KREDITNA BANKA UMAG d.d., Umag	III	III	III	II
JADRANSKA BANKA d.d., Šibenik	II	II	II	II
KAPTOL BANKA d.d., Zagreb[3]	IV	IV	IV	–
KARLOVAČKA BANKA d.d., Karlovac	II	III	III	III
KOMERCIJALNA BANKA d.d., Zagreb[1]	IV	–	–	–
KRAPINSKO ZAGORSKA BANKA d.d., Krapina[4]	IV	IV	–	–
KREDITNA BANKA ZAGREB d.d., Zagreb	III	III	III	III
KVARNER BANKA d.d., Rijeka	IV	IV	IV	IV
MEĐIMURSKA BANKA d.d., Čakovec	II	II	II	II
NAVA BANKA d.d., Zagreb	IV	IV	IV	IV
NERETVANSKO GOSPODARSKA BANKA d.d., Ploče[1]	IV	–	–	–
PARTNER BANKA d.d., Zagreb	IV	IV	IV	IV
PODRAVSKA BANKA d.d., Koprivnica	III	IV	IV	III
POŽEŠKA BANKA d.d., Požega	III	IV	IV	IV
PRIMORSKA BANKA d.d., Rijeka[5]	–	–	–	IV
PRIVREDNA BANKA - LAGUNA BANKA d.d., Poreč	IV	IV	IV	IV
PRIVREDNA BANKA ZAGREB d.d., Zagreb	I	I	I	I
PROMDEI BANKA d.d., Zagreb[1]	IV	–	–	–
RAIFFEISENBANK AUSTRIA d.d., Zagreb	II	II	I	I
RAZVOJNA BANKA "DALMACIJA" d.o.o., Split[1]	IV	IV	–	–
RIADRIA BANKA d.d., Rijeka	II	II	II	II
RIJEČKA BANKA d.d., Rijeka	I	I	I	I
SAMOBORSKA BANKA d.d., Samobor	IV	IV	IV	IV
SISAČKA BANKA d.d., Sisak	III	III	III	III
SLATINSKA BANKA d.d., Slatina	III	III	III	III
SLAVONSKA BANKA d.d., Osijek	II	II	II	II
Podružnica SOCIETE GENERALE d.d. PARIS, Zagreb[6]	IV	IV	–	–
SPLITSKA BANKA d.d., Split	I	I	I	I
ŠTEDBANKA d.d., Zagreb	III	IV	III	III
TRGOVAČKA BANKA d.d., Zagreb[2]	IV	IV	–	–
TRGOVAČKO-TURISTIČKA BANKA d.d., Split[1]	IV	IV	–	–
VARAŽDINSKA BANKA d.d., Varaždin	II	II	II	II
VOLKSBANK d.d., Zagreb	IV	IV	III	II
ZAGREBAČKA BANKA d.d., Zagreb	I	I	I	I
ZAGREBAČKA BANKA - POMORSKA BANKA SPLIT d.d., Split[7]	II	II	–	–
ŽUPANJSKA BANKA d.d., Županja[1]	II	–	–	–

1 Banks in bankruptcy proceedings.
2 Trgovačka banka d.d., Zagreb and Čakovečka banka d.d., Čakovec merged with Bjelovarska banka d.d., Bjelovar, and have been operating as Erste & Steiermärkische Bank d.d., Zagreb since then.
3 Its operating license was revoked on 7 March 2001.
4 Merged with Privredna banka Zagreb d.d., Zagreb.
5 It was granted a bank operating license on 5 September 2001 (it may perform activities specified in Articles 35 and 36 of the Banking Law, *Narodne novine*, No. 161/1998).
6 It was sold, and its operations were taken over by Bayerische Hypo– und Vereinsbank AG, Glavna podružnica Zagreb.
7 Merged with Zagrebačka banka d.d., Zagreb.

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