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Contents

1. Regulations / 7

- 1.1 Bank Capital and Capital Adequacy Calculations / 7
 - 1.1.1 Equity Capital of Banks / 7
 - 1.1.2 Supplementary Capital of Banks / 8
 - 1.1.3 Deduction Items from Gross Regulatory Capital / 8
 - 1.1.4 Capital Adequacy and Risk-Weighted Assets of Banks / 8
- 1.2 Classification of Placements and Risky Off-Balance Sheet Items / 10
 - 1.2.1 Criteria for the Classification of Placements into Risk Categories / 10
 - 1.2.2 Classification of Due Placements / 11

2 Liquidity Risk / 13

- Introduction / 13
- 2.1 Assets and Liabilities Management / 14
- 2.2 Liquidity Risk / 16
 - 2.2.1 Liquidity Risk Management / 17
- 2.3 Core Principles for the Liquidity Management of Banks / 19
- 2.4 Ranking According to Liquidity Criteria / 21
- 2.5 In Lieu of a Conclusion / 22

3 Indicators of Banking Institution Operations / 23

- 3.1 Banks / 23
 - 3.1.1 Territorial Distribution of Banks' Operating Network / 24
 - 3.1.2 Banks' Balance Sheet / 26
 - 3.1.3 Bank Capital / 29
 - 3.1.4 Income Statement / 32
 - 3.1.5 Return Indicators / 34
 - 3.1.6 Credit Activity / 38
 - 3.1.7 Liquidity Ratios / 39
 - 3.1.8 Currency Adjustment of Assets and Liabilities / 41
- 3.2 Savings Banks / 42
 - 3.2.1 Balance Sheet Structure / 42
 - 3.2.2 Income Statement / 44
 - 3.2.3 Credit Activity / 44

4 List of Banks / 47

- Attachment / 59

1. Regulations

Author: Đuro Vrga

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

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

1.1 Bank Capital and Capital Adequacy Calculations

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

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

1.1.1 Equity Capital of Banks

Component Parts and Deduction Items from Bank's Equity Capital	
Prior to Amendments	Following Amendments
Component Parts of Equity Capital	
<ul style="list-style-type: none"> ■ paid-in capital raised by selling bank's own common and preference shares ■ reserves ■ retained income ■ profit for the current year ■ capital gain (loss) ■ reserve for repurchased own shares 	<ul style="list-style-type: none"> ■ paid-in capital raised by selling bank's shares apart from cumulative preference shares ■ reserves ■ retained income ■ profit for the current year ■ capital gain ■ reserve for own shares
Deduction Items from Equity Capital	
<ul style="list-style-type: none"> ■ previous years' losses ■ loss for the current year when capital is calculated during the year 	<ul style="list-style-type: none"> ■ previous years' losses ■ loss for the current year ■ capital loss incurred by trading own shares
<ul style="list-style-type: none"> ■ intangible assets such as goodwill, licenses, patents and trademarks ■ repurchased own common and preference shares ■ claims and contingent liabilities secured by bank's own common and preference shares ■ loans used for the purchase of bank's shares 	<ul style="list-style-type: none"> ■ intangible assets such as goodwill, licenses, patents and trademarks ■ acquired own shares, excluding cumulative preference shares (Art. 233, 237 and 238 of the Company Law) ■ unpaid amount of a loan which was directly or indirectly granted by a bank for the purchase of bank's shares apart from cumulative preference shares

1.1.2 Supplementary Capital of Banks

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

Component Parts and Deduction Items from Bank's Supplementary Capital	
Prior to Amendments	Following Amendments
Component Parts of Supplementary Capital	
	<ul style="list-style-type: none"> paid-in capital raised by selling cumulative preference shares
<ul style="list-style-type: none"> specific reserves for unidentified losses 	<ul style="list-style-type: none"> specific reserves for unidentified losses
<ul style="list-style-type: none"> hybrid instruments 	<ul style="list-style-type: none"> hybrid instruments
<ul style="list-style-type: none"> subordinated instruments 	<ul style="list-style-type: none"> subordinated instruments
Deduction Items from Supplementary Capital	
	<ul style="list-style-type: none"> acquired own cumulative preference shares
<ul style="list-style-type: none"> specific reserves exceeding 1.50 percent of risk-weighted assets 	<ul style="list-style-type: none"> specific reserves exceeding 1.50 percent of risk-weighted assets
<ul style="list-style-type: none"> subordinated instruments exceeding 50 percent of equity capital 	<ul style="list-style-type: none"> subordinated instruments exceeding 50 percent of equity capital
<ul style="list-style-type: none"> claims secured by hybrid and subordinated instruments 	<ul style="list-style-type: none"> claims secured by hybrid and subordinated instruments
	<ul style="list-style-type: none"> unpaid amount of a loan used to purchase cumulative preference shares of a bank

1.1.3 Deduction Items from Gross Regulatory Capital

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

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

1.1.4 Capital Adequacy and Risk-Weighted Assets of Banks

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

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

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

There were two reasons for eliminating the 75 percent risk-weight. Firstly, its implementation in practice was questionable, since rather than applying the risk-weight automatically to claims on all state-owned companies, a proof was required that funds for covering losses of an individual company were assured

within the budget. Taking this into account, the conclusion is reached that this risk-weight could be applied in very rare situations and that it influenced the banks' capital adequacy ratio only to a small extent.

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

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

Risk-Weights for Balance Sheet Items	
Risk-Weight	Asset Categories
0%	<ul style="list-style-type: none"> claims on the Republic of Croatia and the CNB, OECD member countries and their central banks, and assets covered by high-quality instruments of collateral
20%	<ul style="list-style-type: none"> claims on international financial institutions, banks with adequate creditworthiness, long-term claims on the Republic of Croatia and OECD
50%	<ul style="list-style-type: none"> claims on other banks and claims secured by a mortgage on a dwelling in the Republic of Croatia
100%	<ul style="list-style-type: none"> all other balance sheet assets

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

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

Credit Conversion Factor for Off-Balance Sheet Items	
Credit Conversion Factor	Category of Off-Balance Sheet Items
0%	<ul style="list-style-type: none"> guarantees and other guarantee-type instruments backed by guarantees of the Republic of Croatia guarantees and letters of credit secured by bank deposits
20%	<ul style="list-style-type: none"> unused, unconditionally revocable credit lines with original maturity of up to one year, as well as revocable letters of credit
50%	<ul style="list-style-type: none"> unused, irrevocable credit lines with original maturity of up to one year performance guarantees and other guarantees used by a bank to guarantee for the contracted performance obligations documentary letters of credit with original maturity of up to one year
100%	<ul style="list-style-type: none"> loan guarantees, standby letters of credit unused credit lines with original maturities exceeding one year all other off-balance sheet items

1.2 Classification of Placements and Risky Off-Balance Sheet Items

1.2.1 Criteria for the Classification of Placements into Risk Categories

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

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

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

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

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

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

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

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

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

The changes in the definition of the term restructuring of claims are shown in the following overview.

Prior to Changes	Following Changes
Restructuring of claims implies the following activities: 1) extension of repayment period of the principal and/or interest; 2) interest capitalization; 3) interest rate reduction due to the borrower's weak financial position; 4) reduction of the amount of debt (principal and/or due interest and commissions); 5) acquisitions of other assets for a partial or full debt recovery; 6) other similar activities.	Restructuring of claims implies the extension of the principal repayment period along with undertaking at least one of the following activities: 1) interest capitalization; 2) interest rate reduction due to the borrower's weak financial position; 3) reduction of the amount of debt (principal and/or due interest and commissions); 4) acquisitions of other assets for a partial or full debt recovery; 5) other similar activities.

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

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

Prior to Changes	Following Changes
In the case of renewal and/or extension of the maturity of claims classified into risk category B, a bank cannot classify a new claim or a claim with extended maturity into category A.	In the case of renewal and/or extension of the maturity of claims, a bank classifies a new claim or a claim with an extended maturity into an appropriate risk category in accordance with the classification criteria set out in the Decision, under the condition that the new claim or claim with an extended maturity cannot be classified into a category involving a lower degree of risk before the expiry of six months from the renewal date or maturity extension date.
In the case of renewal and/or extension of the maturity of claims classified into categories C or D, a bank must classify a new claim or claim with extended maturity into a category lower than the one into which the claim was originally classified.	

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

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

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

1.2.2 Classification of Due Placements

The first group includes due claims secured by the following highest quality instruments of collateral:

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

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

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

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

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

2 Liquidity Risk

Author: Milan Potkonjak

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

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

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

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

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

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

Introduction

¹ Osmanagić Bedenik (1993), p. 53.

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

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

2.1 Assets and Liabilities Management

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

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

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

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

The purpose of all of these procedures is to attain the strategic goals⁴:

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

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

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

⁴ Funds management can be defined as the process of managing the margin between the interests earned and other commissions and interests paid and ensuring adequate liquidity while maintaining the risk operating profile.

- classifying funds into cash funds and funds earning higher income for the bank (placements, investments, etc.) with a risk that can be controlled by the bank;
- bank positioning, i.e. positioning of its operations, to enable the bank to adjust its activities in a profitable manner to any future conditions – to respond to new market conditions and situations promptly, efficiently and with the lowest costs.

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

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

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

2. bank's management board:

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

3. assets and liabilities management committee⁵:

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

⁵ The basic tasks of this committee (ALCO), which, depending on the bank, may consist of a special committee (or subcommittee for liquidity management) are summarized here, with no intention of offering final solutions or imposing strict rules of conduct. For details see: Stigum, M.L. and Branch, R.O.Jr. (1991), Baughn, W.H., Storrs, T.I. and Walker, C.E. (1993) and Fabozzi, F.J. and Konishi, A. (1996).

The committee is obliged to inform the management board and senior management (relative to the bank size) at certain intervals through reports of the achieved results, i.e. it should provide concise and sufficient information on the basis of which the bank management board can make timely and efficient decisions. Every bank, relative to the stated factors, must issue policies adequate to its size, human and technical resources, products and markets in which it operates, and which prescribe the form, content and terms in which the reports are composed and presented.

2.2 Liquidity Risk

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

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

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

⁶ There are different definitions and interpretations of insolvency, but for the purpose of this report insolvency will be defined as a bank condition when liabilities exceed the amount of assets, taking into account the influence of off-balance sheet items.

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

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

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

ments (e.g. problems with foreign exchange deposits following the breakup of the SFRY).

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

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

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

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

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

An example of managing liquidity by means of bank assets is that of placing funds through syndicated loans. When managing liquidity in such a manner (i.e. assets and liabilities management), the bank participates in fund placements together with a number of banks and takes part in several syndicates, expecting that it can relatively easily sell its participation to another bank in the syndicate at an acceptable price in the event of a sudden need for liquid assets.

2.2.1 Liquidity Risk Management

The weakness of liquidity management by manipulating asset structure is that a bank, having assessed its liquidity needs, holds this amount in highly liquid assets with a low return on capital employed. On the other hand, if a bank opts for a low level of liquidity reserves that would be compensated for by selling assets that are not highly liquid, the market would respond by offering a lower price for such assets, thus causing losses for the bank from such sale. Additionally, by selling performing assets, a bank is deprived of its income in the future.

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

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

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

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

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

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

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

1. It may not be possible to acquire new deposits when this is really necessary.
2. The concentration of sources of funds may increase liquidity risk.
3. As a result of interest rate competition, financing costs may increase.
4. When money is expensive in the entire country, interest rate discrimination may occur and also discrimination against smaller banks or non-money-center banks, which implies that new deposits are not easily available to banks other than money-center banks. Accordingly, a bank with limited sources of financing should rather focus on its local market, if possible, instead of buying assets in the national market.
5. The purchase of assets at the lowest possible price, irrespective of maturities and maturity mismatch restrictions, significantly increases bank exposure to risks of great changes in interest rates.

The bank's management board should adopt liquidity policies according to the size and characteristics of the bank's operations, the strategic goals and plans, the bank's internal organization and its environment. Liquidity policies should determine data to be collected and time limits, define procedures and methods for calculating liquidity ratios, analyze trends for the purpose of monitoring the realization of plans, and making decisions and taking timely measures, all with a single aim: to provide sufficient liquidity sources. The bank's assets and liabilities should be structured so as to provide an adequate liquidity reserve.

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

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

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

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

The principles for liquidity risk management are outlined below.

2.3 Core Principles for the Liquidity Management of Banks

Developing a Structure for Managing Liquidity

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

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

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

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

Measuring and Monitoring Net Funding Requirements

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

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

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

Managing Market Access

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

Contingency Planning

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

Foreign Currency Liquidity Management

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

ments, each bank should also undertake separate analysis of its strategy for each currency individually.

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

Internal Controls for Liquidity Risk Management

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

Role of Public Disclosure in Improving Liquidity

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

Role of Supervisors

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

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

The supervisory bodies also give ratings to banks, most frequently according to individual components of the CAMELS rating system, and assign a composite rating from 1 to 5, where 1 denotes the highest rating and a bank of the highest operating quality according to the elements of the system⁷.

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

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

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

2.4 Ranking According to Liquidity Criteria

⁷ CAMELS basically denotes the assessment of bank operating quality according to: capital amount and adequacy, asset quality, management quality, earnings, liquidity, and sensitivity to market risk. With the development of supervisory techniques, ratings have recently included the assessment of the bank's competence in risk management, where a 9th rating component may also appear.

provided without adverse effects on bank operations, i.e. whether cash can be obtained without additional losses;

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

2.5 In Lieu of a Conclusion

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

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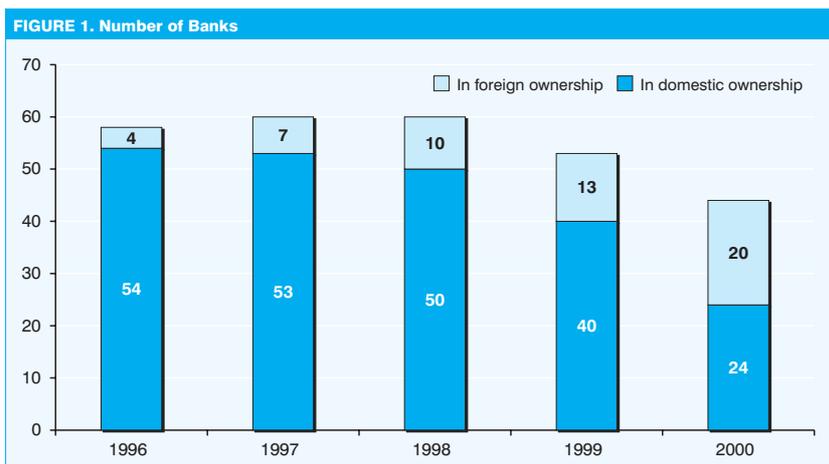
3 Indicators of Banking Institution Operations

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

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

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

3.1 Banks



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

⇒ With respect to the ownership structure, 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 juridical and natural persons. The same rule is applied to the classification of a bank into banks in majority foreign ownership. The total number of banks is the sum of banks in domestic and foreign ownership. The Croatian National Bank statistics is the source of data on the number of banks.

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

Group	Classification criterion	Dec. 1997	Dec. 1998	Dec. 1999	Dec. 2000
I	Assets (A) > 5 000 000	4	4	4	5
II	1 000 000 < A < 5 000 000	15	19	15	13
III	500 000 < A < 1 000 000	9	9	5	8
IV	A < 500 000	32	28	29	18

⇒ In accordance with the selected criterion – the size of assets – the table shows the parameters for the classification of banks into individual groups.

The reports submitted by banks in Schedule BS (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001) are the source of data on the size (amount) of assets.

sets between 1 billion and 5 billion kuna, Group III banks with assets between 500 million and 1 billion kuna, and finally Group IV banks with assets less than 500 million kuna.

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

3.1.1 Territorial Distribution of Banks' Operating Network

² This analysis does not cover the operating network of banks against which bankruptcy proceedings were initiated in 1999. The difference in the number of branches and sub-branches in particular counties at the end of 1998 and 1999 in comparison with the data published in the last issue of the Banks Bulletin can be accounted for by the change in the series of data for one bank.

⇒ The total number of branches and sub-branches of all banks in the Republic of Croatia is classified by counties. Banks are the source of data.

The operating network is analyzed here at the county level, on the basis of the changes in the number of branches and sub-branches and ATMs². At the level of the banking system, the number of branches and sub-branches was reduced in 2000 by 60 operating units (8 percent). This was the result of the reduction in the number of banks in the system (56 operating units) and the reduction in the number of operating units, primarily in several medium-size regional banks (34 operating units), along with a simultaneous establishment of 24 new sub-branches, mainly of foreign banks. The majority of these changes occurred in the first half of 2000. While there was noticeable expansion of the operations of several banks to regions where they were not previously active, there was evident rationalization of several regional banks' operating networks following the entry of new owners. In 2000, new branches and sub-branches were mainly established by banks in the City of Zagreb and the County of Zagreb, the County of Primorje and Gorski Kotar, and the County of Istria.

Counties	Dec. 1997	Dec. 1998	Dec. 1999	Dec. 2000
County of Zagreb and City of Zagreb	167	159	157	140
County of Krapina-Zagorje	9	18	18	18
County of Sisak-Moslavina	31	30	27	24
County of Karlovac	19	19	20	18
County of Varaždin	22	24	26	23
County of Koprivnica-Križevci	27	25	24	23
County of Bjelovar-Bilogora	26	25	22	20
County of Primorje and Gorski Kotar	46	46	55	57
County of Lika-Senj	9	9	8	8
County of Virovitica-Podravina	18	18	18	14
County of Požega-Slavonia	16	16	15	16
County of Slavonski Brod-Posavina	12	12	12	13
County of Zadar	36	40	39	32
County of Osijek-Baranya	57	59	59	47
County of Šibenik-Knin	29	30	28	28
County of Vukovar-Srijem	16	19	22	15
County of Split-Dalmatia	93	104	106	100
County of Istria	79	83	86	85
County of Dubrovnik and Neretva	50	54	55	49
County of Međimurje	22	23	25	26

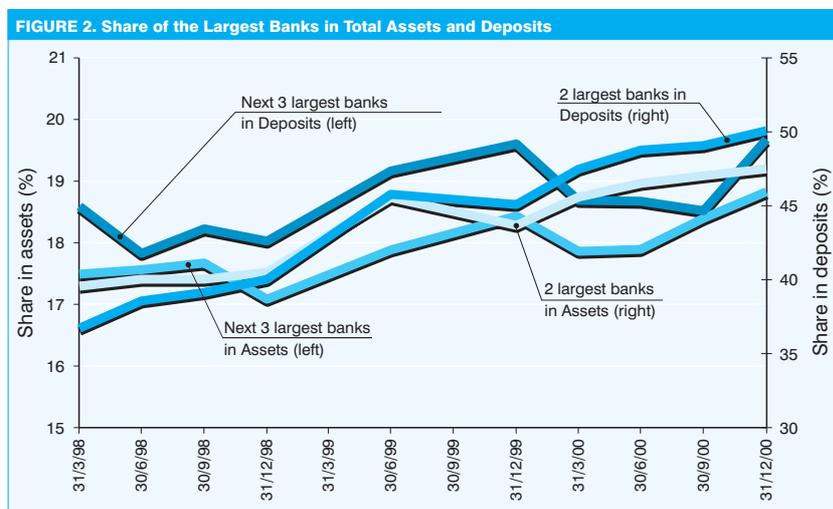
As regards the ATM network, high growth rates continued. In 2000, the number of installed ATMs increased by 213 units, or 40.7 percent. The number of installed ATMs increased in all counties. The largest absolute growth (56 ATMs) was recorded in the County of Zagreb (including the City of Zagreb), and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

TABLE 3. Territorial Distribution of ATMs, end of period				
Counties	Dec. 1997	Dec. 1998	Dec. 1999	Dec. 2000
County of Zagreb and City of Zagreb	71	89	181	237
County of Krapina-Zagorje	3	3	6	14
County of Sisak-Moslavina	2	2	6	14
County of Karlovac	5	7	12	21
County of Varaždin	4	12	16	23
County of Koprivnica-Križevci	7	10	12	14
County of Bjelovar-Bilogora	7	7	9	18
County of Primorje and Gorski Kotar	25	35	68	95
County of Lika-Senj	2	2	6	7
County of Virovitica-Podravina	2	3	7	8
County of Požega-Slavonia	3	3	4	6
County of Slavonski Brod-Posavina	2	2	4	10
County of Zadar	11	12	17	26
County of Osijek-Baranya	12	12	19	27
County of Šibenik-Knin	2	2	8	13
County of Vukovar-Srijem	3	3	4	5
County of Split-Dalmatia	9	14	31	63
County of Istria	41	48	80	84
County of County of Dubrovnik and Neretva	3	7	15	32
County of Međimurje	7	12	18	19
Total	221	285	523	736

↪ The total number of installed ATMs of all banks in the Republic of Croatia is classified by counties. Banks are the source of data.

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

Since the end of 1999, the share of the two largest banks in assets and deposits has been on the increase again, following a mild fall in the second half of 1999, and the share in deposits has grown more rapidly than in the second half of 1998. In mid-1999, the share of these banks in total deposits of the system exceeded their share in total assets, reaching 50.1 percent at the end of 2000. At the same time, their share in total assets reached 47.5 percent. This growth is even more significant in view of the fact that a continuous rise has been recorded in total assets and deposits of the banking system since mid-1999.



↪ The criterion for selecting the two largest and the next three banks in the banking system is the size of their assets in the observed period. 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. These banks' share in total deposits of the banking system is calculated in the same manner. The reports submitted by banks in Schedule BS (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001) are the source of data on the amount of assets, while Schedule BS/DEP (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001) is the source of data on total deposits.

3 The next three largest banks include the third, fourth and fifth bank according to the stated criteria.

4 The index is calculated as the sum of squared market shares for all banks in the system; in the hypothetical example where one bank is the market's sole supplier the index would amount to the maximum of 10,000. It should be noted here that the index does not increase linearly and that, for example, the index of 2,000 does not mean that the concentration in the system amounts to 20 percent.

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

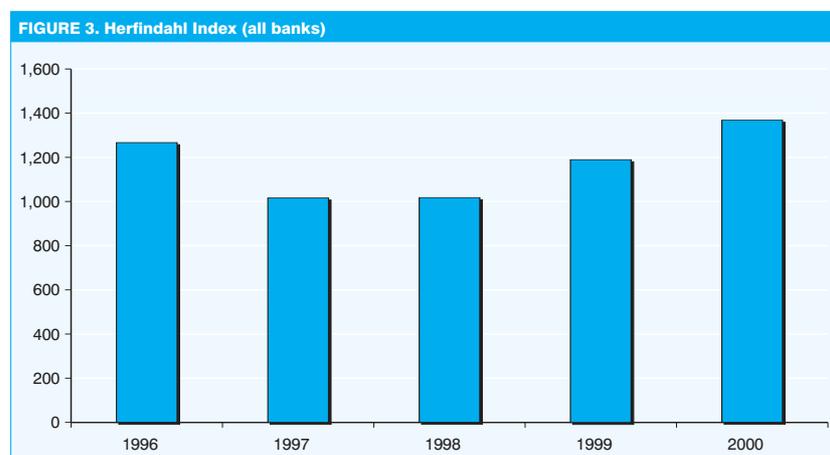
$$\left(\frac{\text{bank asset}}{\text{total assets of all banks}} \cdot 100 \right)^2$$

The reports submitted by banks in Schedule BS (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001) are the source of data on the amount of assets.

Assets and deposits of the next three largest banks³ have been continuously growing in nominal terms since mid-1999, but their share in total assets of the system and in total deposits decreased slightly in the first half of 2000. By the end of 2000, the share of these banks in total assets and deposits of the system began to grow again, reaching 18.8 percent of total assets, while their share in total deposits reached 19.7 percent.

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

The changes in the Herfindahl index⁴ confirm the described concentration of the banking system. At end 2000, this index stood at 1,368 points, a 178.1 point increase compared to end 1999. In terms of assets, which were used to calculate the index in this case, the degree of concentration reached the 1996 level.



3.1.2 Banks' Balance Sheet

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

In contrast to the first half of 2000, the share of deposits with the Croatian National Bank in the second half of 2000 decreased from 9.5 percent to 8.9 percent, primarily as a result of a reserve requirement rate reduction from 28.5 to 23.5 percent. On the other hand, deposits with banking institutions increased from 12.5 percent in mid-2000 to 15.8 percent at the end of the year. In the same period, the share of Ministry of Finance treasury bills and CNB bills went up from 4.7 percent to 5.4 percent, and the share of trading portfolio of securities went up from 1.5 to 2.2 percent, mainly due to a bond issue by the Sate Agency for Bank Rehabilitation and Deposit Insurance.

The share of Group I in total bank assets grew continuously in 2000. At end 2000, this share amounted to 66.3 percent, an increase of 8.1 percentage point compared to end 1999. 4.6 percentage points of this increase is accounted for by Raiffeisenbank Austria d.d., which shifted from Group II to Group I in the

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

	Dec. 1997		Dec. 1998			Dec. 1999			Dec. 2000		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	5,989.4	6.7	6,412.5	6.6	7.1	9,733.5	10.4	51.8	11,489.4	10.3	18.0
1.1 Money assets	1,227.5	1.4	815.2	0.8	-33.6	1,245.9	1.3	52.8	1,506.3	1.3	20.9
1.2 Deposits	4,761.9	5.4	5,597.3	5.8	17.5	8,487.6	9.1	51.6	9,983.1	8.9	17.6
2. Deposits with banking institutions	14,848.0	16.7	11,459.9	11.8	-22.8	10,312.5	11.0	-10.0	17,695.6	15.8	71.6
3. Treasury bills and CNB bills	918.5	1.0	1,070.8	1.1	16.6	3,139.5	3.4	193.2	6,059.0	5.4	93.0
4. Trading portfolio of securities	134.6	0.2	288.5	0.3	114.4	1,067.8	1.1	270.1	2,462.4	2.2	130.6
5. Loans to financial institutions	1,249.8	1.4	854.8	0.9	-31.6	1,246.2	1.3	45.8	1,085.6	1.0	-12.9
6. Loans to other clients	41,632.0	46.8	49,591.8	51.2	19.1	45,391.5	48.5	-8.5	50,141.7	44.8	10.5
7. Investment portfolio of securities	15,564.8	17.5	17,747.1	18.3	14.0	15,477.1	16.5	-12.8	14,167.5	12.7	-8.5
8. Investments in subsidiaries and companies	3,325.1	3.7	2,788.5	2.9	-16.1	1,768.6	1.9	-36.6	2,411.0	2.2	36.3
9. Foreclosed and repossessed assets	230.8	0.3	340.6	0.4	47.6	447.2	0.5	31.3	614.5	0.5	37.4
10. Tangible assets and software (net of depreciation)	3,011.8	3.4	3,168.7	3.3	5.2	3,164.6	3.4	-0.1	3,252.6	2.9	2.8
11. Interest, fees and other assets	2,564.8	2.9	3,745.3	3.9	46.0	2,518.1	2.7	-32.8	3,174.2	2.8	26.1
12. Net of: Specific reserves for unidentified losses	599.0	0.7	691.3	0.7	15.4	743.6	0.8	7.6	699.5	0.6	-5.9
Total	88,870.6	100.0	96,777.0	100.0	8.9	93,522.9	100.0	-3.4	111,853.9	100.0	19.6

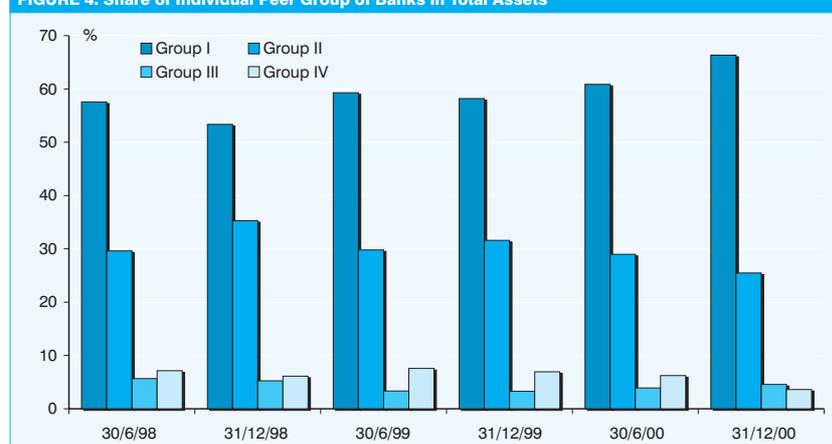
fourth quarter. The further 1.6 percentage points refer to the merger of Zagrebačka banka – Pomorska banka d.d. with Zagrebačka banka d.d., and the merger of Krapinsko zagorska banka d.d. with Privredna banka Zagreb d.d. The share growth in assets of the rest of the four banks in Group I account for the remaining 1.9 percentage points.

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

The increase in the share of banks in Group III from 3.3 to 4.6 percent in the same period can be fully accounted for by the shift of three banks from Group IV to this Group⁵. The decrease in the share of banks in Group IV is a result of a reduction in the total number of banks and a reduction in the share of the remaining banks in this Group in the total assets of the system.

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

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



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

⁵ BNP-Dresdner Bank Croatia d.d., Zagreb, Štedbanka d.d., Zagreb, Volksbank d.d., Zagreb

↔ The share of assets of each stated bank group in total bank assets is calculated in the following manner. First, the total assets of all banks in a group are added up. Second, the sum thus calculated is divided by total bank assets. Shares are stated in percent.

The reports submitted by banks in Schedule BS (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001) are the source of data on the amount of assets.

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

	Dec. 1997		Dec. 1998			Dec. 1999			Dec. 2000		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	3,266.6	3.8	4,761.3	4.9	45.8	5,282.3	5.6	10.9	3,510.9	3.1	-33.5
1.1 Short-term loans	1,166.7	1.3	2,142.7	2.2	83.7	2,088.7	2.2	-2.5	1,130.9	1.0	-45.9
1.2 Long-term loans	2,099.9	2.4	2,618.5	2.7	24.7	3,193.7	3.4	22.0	2,380.1	2.1	-25.5
2. Deposits	55,794.6	62.8	58,584.6	60.5	5.0	56,997.0	60.9	-2.7	72,686.8	65.0	27.5
2.1 Giro account and current account deposits	10,327.8	11.6	9,117.0	9.4	-11.7	9,216.9	9.9	1.1	12,619.3	11.3	36.9
2.2 Savings deposits	12,147.9	13.7	13,564.2	14.0	11.7	13,678.0	14.6	0.8	17,689.4	15.8	29.3
2.3 Time deposits	33,318.9	37.5	35,903.4	37.1	7.8	34,102.1	36.5	-5.0	42,378.1	37.9	24.3
3. Other loans	13,675.1	15.4	17,028.9	17.6	24.5	15,007.5	16.1	-11.9	16,329.0	14.6	8.8
3.1 Short-term loans	1,454.8	1.6	1,435.1	1.5	-1.3	1,652.8	1.8	15.2	503.3	0.4	-69.6
3.2 Long-term loans	12,220.3	13.8	15,593.7	16.1	27.6	13,354.7	14.3	-14.4	15,825.7	14.1	18.5
4. Debt securities issued	7.7	0.0	1.1	0.0	-85.6	0.0	0.0	-95.9	0.0	0.0	-
4.1 Short-term debt securities issued	7.0	0.0	0.9	0.0	-87.6	0.0	0.0	-94.8	0.0	0.0	-
4.2 Long-term debt securities issued	0.7	0.0	0.2	0.0	-65.2	0.0	0.0	-100.0	0.0	0.0	-
5. Supplementary capital	485.8	0.5	492.8	0.5	1.4	343.1	0.4	-30.4	520.3	0.5	51.7
5.1 Subordinated instruments issued	-	-	-	-	-	105.5	0.1	-	282.9	0.3	166.1
5.2 Hybrid instruments issued	-	-	-	-	-	237.5	0.3	-	237.4	0.2	0.0
6. Interest, fees and other liabilities	5,070.4	5.7	6,553.3	6.8	29.2	4,849.2	5.2	-26.0	5,479.0	4.9	13.0
7. Profit/loss for the current year	309.2	0.3	-1,671.6	-1.7	-	466.4	0.5	-	1,123.8	1.0	141.0
8. Capital	10,261.3	11.5	11,026.7	11.4	7.5	10,577.3	11.3	-4.1	12,204.1	10.9	15.4
Total	88,870.6	100.0	96,777.0	100.0	8.9	93,522.9	100.0	-3.4	111,853.9	100.0	19.6

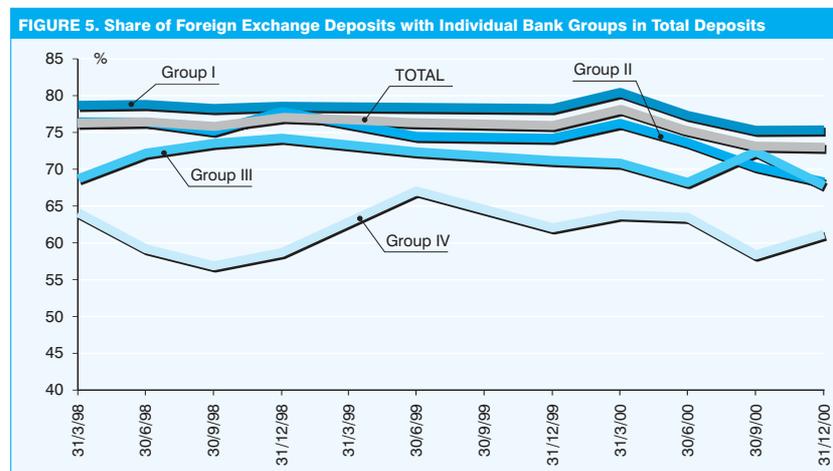
⇧ Bank liabilities are calculated in the same manner as bank assets in Table 4., i.e. the share of each balance sheet item of liabilities in total bank liabilities is calculated on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 57/99 and 3/2001 – Schedule BS) and the derived aggregated report of the same type on the banking system in the observed periods. The change in the balance is the percentage change in comparison with the previous period.

In 2000, total deposits recorded the largest absolute growth of 15.7 billion kuna and the largest growth in share of total liabilities of 4.1 percentage points. In the structure of deposits, the shares of giro account deposits, current account deposits and time deposits showed similar growth. At the end of 2000, the share of giro and current account deposits in total deposits stood at 21.7 percent, the share of savings deposits at 25.6 percent and the share of time deposits at 52.7 percent.

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

At the system level at end 2000, foreign exchange liabilities accounted for 64.1 percent of total liabilities, a reduction of 0.5 percentage points compared with mid-2000 and 0.6 percentage points compared with end 1999.

⇨ The share of foreign exchange deposits with an individual bank group in total bank deposits is calculated in the following manner. First, foreign exchange deposits of all banks in a 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. The reports submitted by banks in Schedule BS/DEP (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001) are the source of data on foreign exchange deposits and total deposits.



The share of foreign exchange deposits in total deposits at the system level at end 2000 amounted to 73 percent, a reduction of 2.9 percentage points compared with end 1999.

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

3.1.3 Bank Capital

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

	Dec. 1997		Dec. 1998			Dec. 1999			Dec. 2000		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	8,224.4	80.1	8,944.7	81.1	8.8	8,219.7	77.7	-8.1	8,568.4	70.2	4.2
2. Retained income/loss brought forward	58.8	0.6	16.7	0.2	-71.6	73.7	0.7	341.0	315.4	2.6	328.1
3. Legal reserves	818.9	8.0	1,165.5	10.6	42.3	1,540.2	14.6	32.2	2,099.0	17.2	36.3
4. Reserves provided for by the articles of association and other capital reserves	1,159.2	11.3	899.8	8.2	-22.4	743.8	7.0	-17.3	1,221.3	10.0	64.2
Total	10,261.3	100.0	11,026.7	100.0	7.5	10,577.3	100.0	-4.1	12,204.1	100.0	15.4

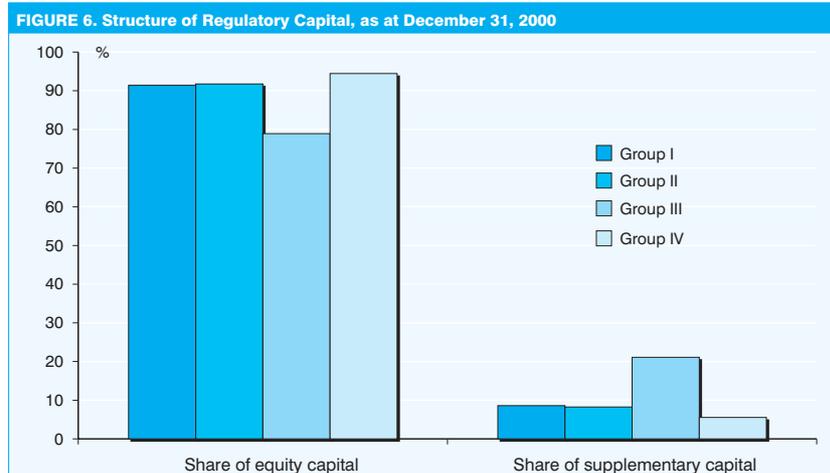
According to data for end 2000, share capital accounted for 70.2 percent of capital structure. Legal reserves had the second-largest share, 17.2 percent, followed by the reserves provided for by the articles of association and other capital reserves at 10 percent.

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

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

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

FIGURE 6. Structure of Regulatory Capital, as at December 31, 2000



↔ The structure of regulatory capital is calculated as a ratio between the sum of the amounts of equity capital of all banks included in an individual bank group and the sum of amounts of regulatory capital of the same group of banks. The amount thus calculated is multiplied by 100. The share of the supplementary capital of an individual bank group in regulatory capital is calculated in the same manner. The reports submitted by banks are the source of data on the equity, supplementary and regulatory capital, and the schedule for submitting these reports (Schedule CAP) forms an integral part of the Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 36/99 and 123/2000).

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

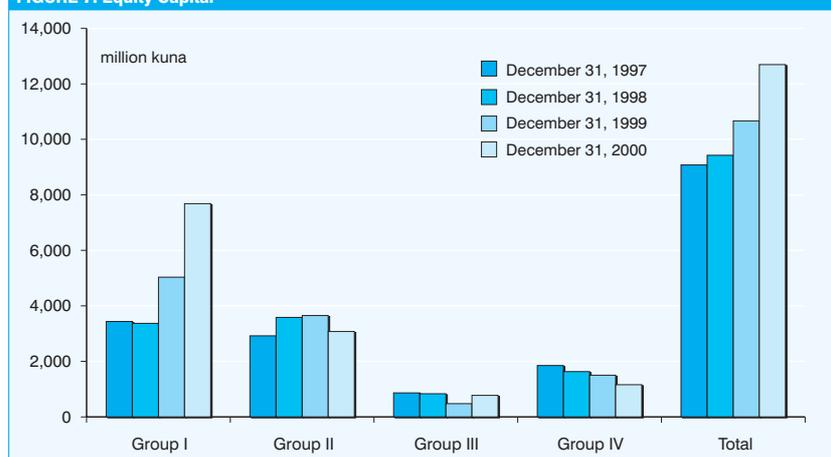
TABLE 7. Changes in Regulatory Capital, end of period, in million kuna and %

	Dec. 1997		Dec. 1998			Dec. 1999			Dec. 2000		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Group I	3,798.1	37.5	3,800.8	35.8	0.1	5,089.8	45.7	33.9	7,631.2	59.1	49.9
Group II	3,308.0	32.6	4,001.4	37.7	21.0	3,834.5	34.5	-4.2	3,144.6	24.3	-18.0
Group III	896.9	8.9	1,021.0	9.6	13.8	492.6	4.4	-51.8	924.5	7.2	87.7
Group IV	2,131.4	21.0	1,796.5	16.9	-15.7	1,711.9	15.4	-4.7	1,220.9	9.4	-28.7
Total	10,134.4	100.0	10,619.7	100.0	4.8	11,128.8	100.0	4.8	12,921.2	100.0	16.1

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

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

⇒ The calculation of equity capital is regulated by the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 32/99 and 101/2000) and the pertaining instruction for its implementation (Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital – *Narodne novine*, Nos. 36/99 and 123/2000). This figure shows the changes in the equity capital in the observed period. The equity capital of an individual bank group represents the sum of amounts of equity capital of all banks included in the group. The reports submitted by banks are the source of data. The schedule for submitting these reports forms an integral part of the stated regulation (Schedule CAP).

FIGURE 7. Equity Capital

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

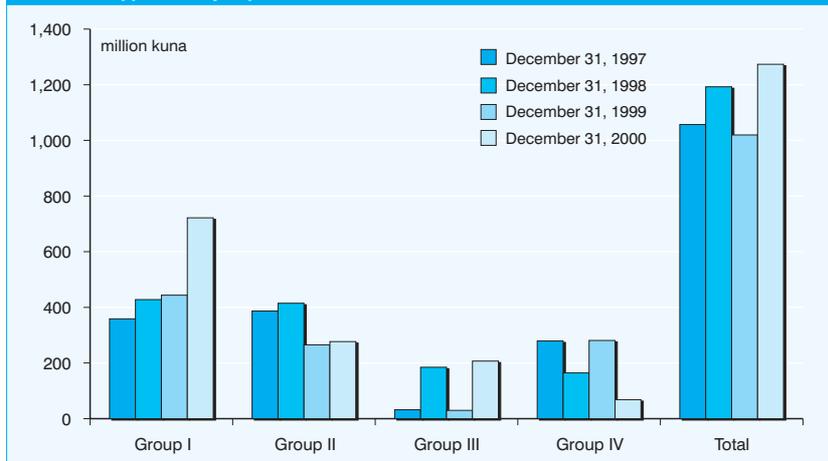
- at the end of 1999, Group I accounted for 47.2 percent of equity capital, Group II for 34.2 percent, Group III for 4.5 percent, and Group IV for 14.1 percent;
- in mid-2000, Group I accounted for 52.9 percent of equity capital, Group II for 28.9 percent, Group III for 4.4 percent, and Group IV for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

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

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

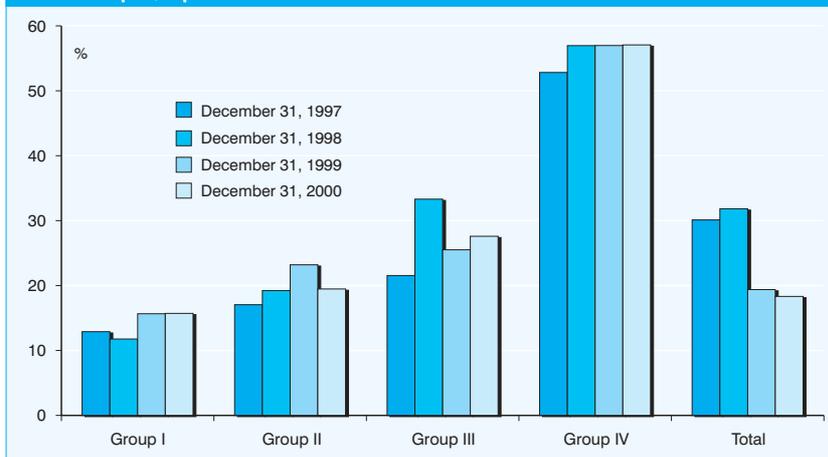
- at the end of 1999, Group I accounted for 43.5 percent of supplementary capital, Group II for 26 percent, Group III for 2.9 percent, and Group IV for 27.6 percent;
- in mid-2000, Group I accounted for 44.1 percent of supplementary capital, Group II for 25.6 percent, Group III for 4.9 percent and Group IV for 25.4 percent;

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 pertaining instruction for its implementation (Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital – *Narodne novine*, Nos. 36/99 and 123/2000). This figure shows changes in the supplementary capital in the observed period. The supplementary capital of an individual bank group represents the sum of amounts of supplementary capital of all banks included in the group. The reports submitted by banks are the source of data. The schedule for submitting these reports forms an integral part of the stated regulation (Schedule CAP).

FIGURE 9. Capital/Deposits



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

The reports submitted by banks in Schedule BS (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001) are the source of data on the amount of capital.

The deposits used in this calculation are giro and current account deposits, savings deposits and time deposits. The reports submitted by banks in Schedule BS/DEP (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001) are the source of data.

- at the end of 2000, Group I accounted for 56.7 percent, Group II for 21.8 percent, Group III for 16.2 percent and Group IV for 5.3 percent.

The capital to deposit ratio (Figure 9) shows that in contrast to smaller banks, the capital of larger banks participated significantly less in the sources of funds. This ratio amounted to 15.7 percent at end 2000 in Group I, whereas it was 57.1 percent in Group IV.

In 2000, the capital/deposit ratio rose in Groups I, III, and IV. The increase in the capital/deposit ratio of Groups I and III resulted from the increase in both capital and deposits, where capital growth was larger. In contrast, the increase in the capital/deposit ratio of Group IV resulted from the fall in both deposits and capital, where the decrease in deposits was larger.

At the end of 2000, the capital adequacy ratios⁶ were as follows: 20 percent in Group I, 18.9 percent in Group II, 28.6 percent in Group III, and 46.7 percent in Group IV. At the same time, the capital adequacy ratio of the banking system amounted to 21.3 percent. At the system level, in 2000 the ratio increased by 0.7 percentage points compared to 1999.

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

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

⇒ The capital adequacy ratio is calculated as a ratio between the regulatory capital and the risk-weighted assets.

The calculation of regulatory capital is regulated by the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 32/99 and 101/2000) and the pertaining instruction for its implementation (Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital – *Narodne novine*, Nos. 36/99 and 123/2000).

The reports submitted by banks in Schedule CAP are the source of data on regulatory capital and form an integral part of the stated 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 by the Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Capital Adequacy and Risk-Weighted Assets of Banks (*Narodne novine*, Nos. 36/99 and 123/2000).

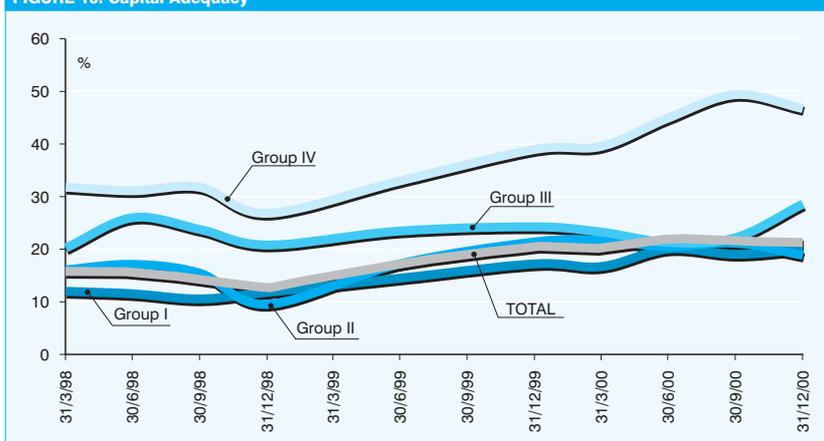
The reports submitted by banks in Schedule RWA are the source of data on the risk-weighted assets and form an integral part of the stated Instruction.

7 Decision on Methodology for Calculating the Capital Adequacy and the Risk-Weighted Assets of Banks (*Narodne novine*, Nos. 32/99 and 101/2000).

8 Specific reserves for identified losses are deducted from total placements.

3.1.4 Income Statement

FIGURE 10. Capital Adequacy



Until mid-1999, risk-weighted assets⁷ were calculated on a gross basis, and subsequently they have been calculated on a net basis⁸. The higher the provisions are, the smaller the risk-weighted assets, and if there are no changes in regulatory capital, the capital adequacy ratio will be higher.

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

TABLE 8. Income Statement, in million kuna⁹

	Group I		Group II		Group III		Group IV		Total	
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
1. Net interest income	1,860.2	2,626.6	1,403.5	1,202.3	184.0	259.0	445.6	238.7	3,893.4	4,326.6
1.1 Interest income	4,013.4	5,091.1	2,745.2	2,475.3	337.7	462.5	719.8	371.3	7,816.1	8,400.1
1.2 Interest expenses	2,153.2	2,464.5	1,341.7	1,273.0	153.6	203.5	274.2	132.6	3,922.7	4,073.5
2. Net non-interest income	1,258.7	1,483.8	495.3	262.9	71.1	135.6	210.4	98.4	2,035.5	1,980.7
2.1 Non-interest income	1,718.9	1,917.3	859.3	660.6	101.1	167.8	283.1	133.2	2,962.4	2,878.9
2.2 Non-interest expenses	460.2	433.6	364.0	397.6	30.0	32.2	72.7	34.8	926.9	898.2
3. General administrative expenses and depreciation	1,643.6	2,079.9	1,004.0	1,054.6	140.8	217.1	422.6	227.2	3,211.1	3,578.7
4. Net operating income before provisions	1,475.3	2,030.5	894.8	410.6	114.4	177.5	233.4	109.9	2,717.9	2,728.6
5. Loan loss provision expenses	753.2	381.2	812.9	808.4	165.6	84.0	166.7	25.0	1,898.4	1,298.5
6. Pre-tax income/loss	722.1	1,649.3	81.9	-397.7	-51.3	93.6	66.7	84.9	819.4	1,430.0
7. Profit tax	80.0	98.3	11.6	9.6	4.9	14.2	8.4	1.1	104.8	123.3
8. After-tax income/loss	642.2	1,551.0	70.3	-407.4	-56.2	79.3	58.3	83.8	714.6	1,306.7

† In the observed periods, each item in 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.

9 The difference between the reported provision expenses and a change in balance of loan loss provisions arises from the different coverage of provisions. For example, provisions for legal disputes are included in the income statement, but are not included in loan loss provisions.

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

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

TABLE 9. Structure of Income, in %

	Group I		Group II		Group III		Group IV		Total	
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
1. Interest income	70.0	72.6	76.2	78.9	77.0	73.4	71.7	73.6	72.5	74.5
1.1 Interest income from loans	46.0	45.4	62.0	58.7	64.1	54.0	58.0	57.2	53.0	50.1
1.2 Interest income from deposits	7.3	12.4	5.3	7.4	5.5	7.5	5.2	7.3	6.4	10.5
1.3 Interest income from debt securities	12.6	11.9	4.3	4.8	4.2	6.5	3.7	5.4	8.7	9.4
1.4 Income from shares and other equity participations	0.5	0.4	0.0	1.4	0.1	0.2	0.2	0.2	0.3	0.7
1.5 Net balances on exchange rate fluctuations related to interest income	0.1	0.0	2.9	1.3	0.0	0.0	1.5	0.0	1.2	0.3
1.6 Interest income from previous years	2.4	1.0	0.2	1.1	0.0	0.4	0.2	1.0	1.4	1.0
1.7 Other interest income	1.1	1.5	1.5	4.2	3.1	4.9	2.9	2.5	1.5	2.5
2. Non-interest income	30.0	27.4	23.8	21.1	23.0	26.6	28.3	26.4	27.5	25.5
2.1 Non-interest income from commissions or fees	14.1	14.3	10.6	12.0	9.9	12.3	14.8	12.7	12.8	13.5
2.2 Net balance on exchange rate fluctuations related to non-interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.3 Income/loss from calculated exchange rate fluctuations	4.9	-0.8	-0.6	-1.6	2.8	-0.1	2.7	0.4	2.8	-0.9
2.4 Income/loss from purchase/sale of foreign exchange	5.1	7.3	4.7	6.2	4.8	7.9	8.4	8.3	5.3	7.1
2.5 Income/loss from purchase/sale of securities	3.0	1.3	0.0	-0.1	-1.0	0.0	0.1	0.0	1.6	0.8
2.6 Other income	2.9	4.4	2.8	3.3	6.3	6.5	2.0	4.8	2.9	4.2
2.7 Extraordinary income	0.0	0.7	6.3	1.3	0.2	0.1	0.3	0.2	2.1	0.8
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 in 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.

TABLE 10. Structure of Expenses, in %

	Group I		Group II		Group III		Group IV		Total	
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
1. Interest expenses	43.0	46.0	38.1	36.0	31.3	37.9	29.3	31.6	39.4	41.4
1.1 Interest expenses on loans	10.5	12.6	13.1	10.7	8.3	8.6	8.1	5.8	11.1	11.4
1.2 Interest expenses on deposits	29.1	30.6	22.4	20.9	20.1	22.3	18.7	23.0	25.3	26.3
1.3 Interest expenses on debt securities	0.0	0.0	0.0	0.1	0.2	5.2	0.8	1.2	0.1	0.4
1.4 Premiums for the insurance of savings deposits	2.2	2.7	1.5	1.5	1.7	1.6	0.7	1.1	1.8	2.1
1.5 Net balances on exchange rate fluctuations related to interest expenses	0.5	0.0	0.6	1.0	0.0	0.0	0.4	0.4	0.5	0.4
1.6 Interest expenses from previous years	0.7	0.1	0.3	0.6	0.3	0.1	0.4	0.1	0.5	0.3
1.7 Other interest expenses	0.0	0.0	0.1	1.2	0.8	0.1	0.2	0.1	0.1	0.4
2. Non-interest expenses	9.2	8.1	10.3	11.3	6.1	6.0	7.8	8.3	9.3	9.1
2.1 Non-interest expenses for commissions and fees	3.1	3.2	5.1	5.7	2.7	2.8	3.0	4.1	3.8	4.1
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	6.1	4.9	3.9	5.0	3.3	3.1	4.1	3.9	5.0	4.8
2.4 Extraordinary expenses	0.0	0.0	1.3	0.6	0.1	0.1	0.7	0.3	0.5	0.2
3. General administrative expenses and depreciation	32.8	38.8	28.5	29.8	28.7	40.4	45.1	54.1	32.2	36.3
3.1 Expenses for employees	20.4	22.9	14.7	14.5	17.2	20.0	22.5	29.0	18.4	20.0
3.2 Depreciation	2.7	3.6	3.3	5.2	3.3	4.3	5.4	6.8	3.2	4.4
3.3 Other expenses	9.7	12.2	10.5	10.1	8.3	16.1	17.3	18.3	10.6	12.0
4. Loan loss provision expenses	15.0	7.1	23.1	22.9	33.8	15.6	17.8	6.0	19.1	13.2
4.1 Provision expenses for identified losses	15.1	11.4	22.5	17.2	31.8	12.4	14.7	5.2	18.5	13.3
4.2 Value adjustment of investments in subsidiaries and companies	-1.8	1.8	0.4	0.3	0.9	0.5	0.9	0.7	-0.6	1.2
4.3 Value adjustment of investments in shares and equity participations in investment portfolio	0.2	-8.5	0.0	4.7	1.3	0.5	-0.4	-0.8	0.1	-2.9
4.4. Provision expenses for unidentified losses	1.5	2.3	0.2	0.7	-0.2	2.3	2.5	0.8	1.1	1.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

⇨ The structure of expenses is calculated in the same manner as the structure of income in Table 9., i.e. the share of each item of expenses in the Income Statement of an individual bank group in total expenses of the group is calculated as the ratio between the sum of these items in the 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 in 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.

The reports submitted by banks in Schedule IS (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001) are the source of data on expenses.

amounting to 2 percentage points. In Groups I, II, and IV, the share of interest income in total income also increased, whereas in Group III, this share was reduced.

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

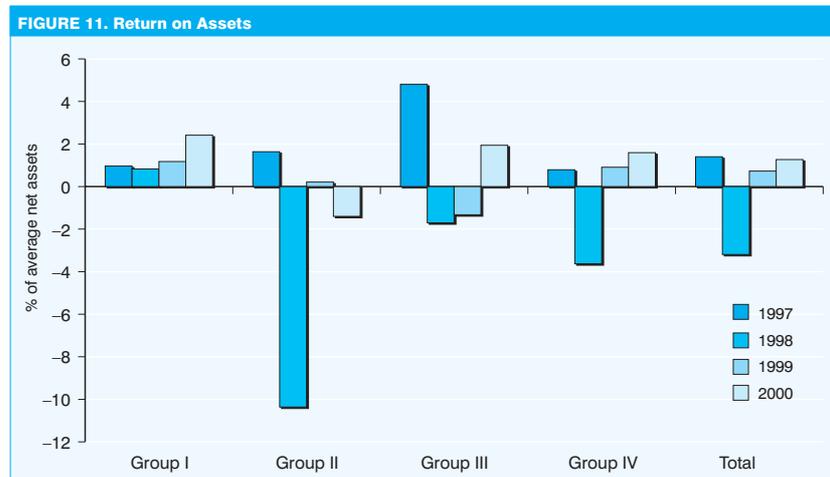
In 2000, the share of general administrative expenses and depreciation in the structure of expenses grew most in comparison with 1999, by 4.1 percentage points, and increased in nominal terms as well. This growth was mostly the result of an increase in the share of expenses for employees of 1.5 percentage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

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

3.1.5 Return Indicators

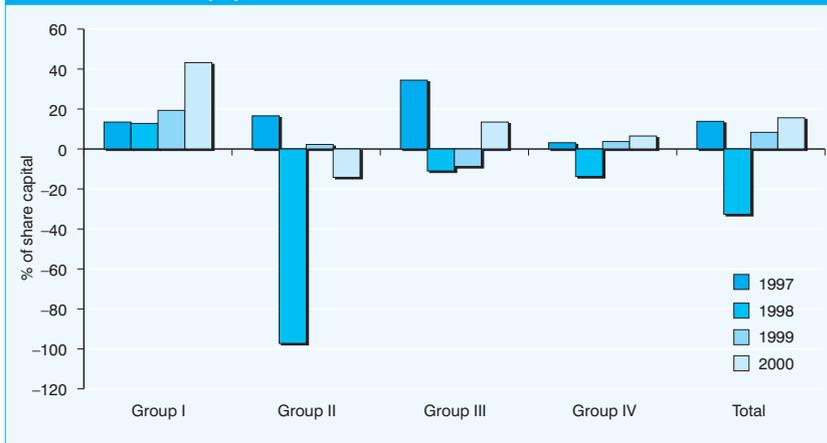
In 2000, the average return on assets of the entire banking system amounted to 1.3 percent, an increase of 0.6 percentage points compared with 1999. At the same time, the average return on equity was 15.6 percent, an increase of 7.3 percentage points compared with 1999.

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



At the level of individual groups of banks, both indicators increased compared to 1999; in Group I due to a 908 million kuna profit growth, or 141.5 percent, in Group IV due to a 25.5 million kuna profit growth, or 43.7 percent, and finally in Group III due to a recovery of losses and generation of profit amounting to 79.3 million kuna. At the same time, in Group II both indicators bear a negative sign, since a loss of 407.4 million kuna was incurred. Positive returns were reported in 2000 for Group I (2.4 percent on assets and 43.2 percent on equity), Group III (1.9 percent on assets and 13.5 percent on equity), and Group IV (1.6 percent on assets and 6.5 percent on equity), whereas Group II reported negative returns (1.4 percent on assets and 14.1 percent on equity).

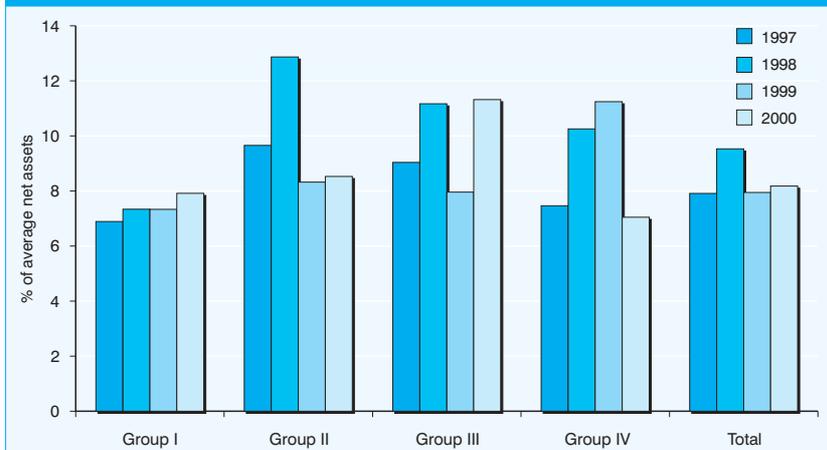
FIGURE 12. Return on Equity



The main reason for these developments in these indicators in 2000 was a reduction in provisions for losses, the same as in 1999. The causes of the provision reduction remained the same as in the previous year. However, it should be noted that the policy of fund placement improved, resulting in improved repayment quality, and that economic environment was somewhat more favorable in 2000.

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

FIGURE 13. Interest Income



The changes were somewhat more pronounced at the level of individual bank groups. In Group I, interest income increased by 0.6 percentage points in 2000, and interest expenses fell by 0.1 percentage point. In Group II, interest income rose by 0.2 percentage points and interest expenses increased by 0.3 percentage points. In Group III, interest income increased by 3.4 percentage points and interest expenses grew by 1.4 percentage points. In Group IV, interest income fell by 4.2 percentage points and interest expenses fell by 1.8 percentage points. Positive movements of these indicators were recorded for Group I (growth in interest income, along with a fall in interest expenses), and for Group III (interest income growth larger than the increase in interest expenses). Negative movements were recorded for Group II (interest income growth smaller than the increase in interest expenses), and for Group IV (in-

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

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

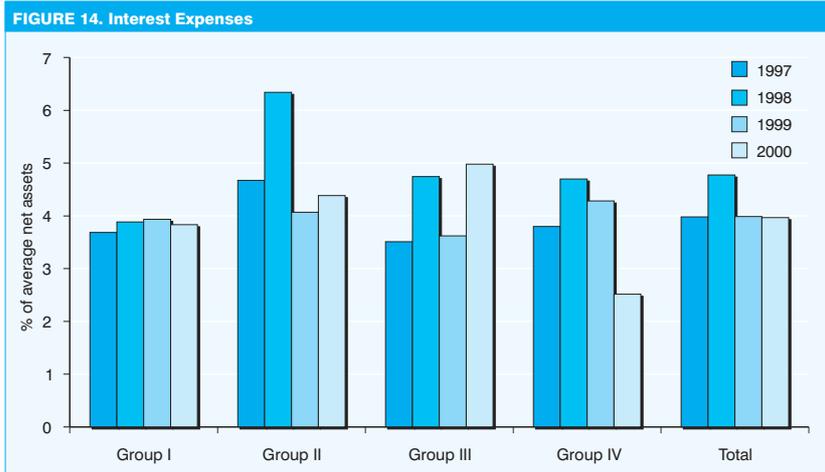
Schedule IS (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001) is the source of data on after-tax income, while Schedule CAP, which forms an integral part of the Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 36/99 and 123/2000), passed on the basis of the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 32/99 and 101/2000), is the source of data on share capital.

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

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

Schedule 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).

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



terest income reduction larger than the reduction in interest expenses).

As a result of the resolution of the banking system problems in mid-1999, lending and deposits interest rates stabilized. Since then, interest rates have been on a slow but continuous decline. Throughout almost the entire reporting period, until mid-2000, lending interest rates on loans without a foreign currency clause were higher than the interest rates on loans with a foreign currency clause. The reason lies in a high level of overdraft facilities based on giro and current accounts, both for juridical and natural persons, on which interest rates are very high. Due to a considerable liquidity improvement of juridical persons by mid-2000 and their decreased demand for short-term loans, weighted interest rates on loans without a currency clause were also reduced, so that the level of these interest rates fell below that of loans with a currency clause.

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

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

Kuna deposits without a foreign currency clause (sight deposits, savings and time deposits) and foreign exchange 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. The CNB statistics are the source of data.

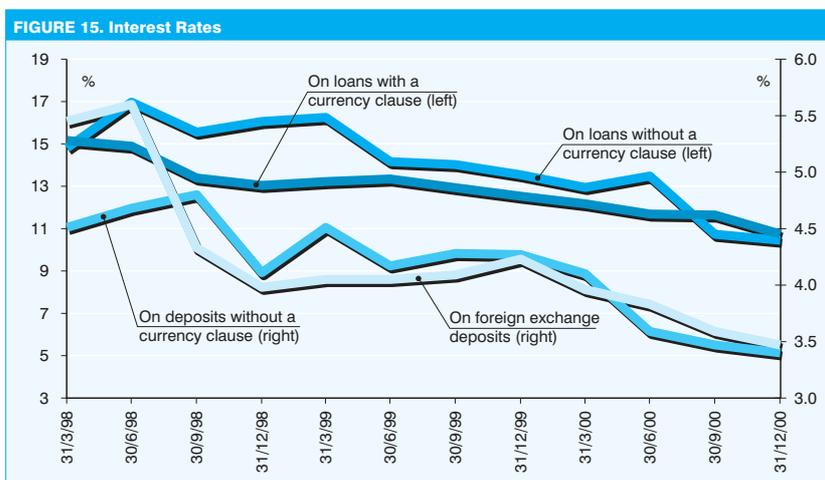
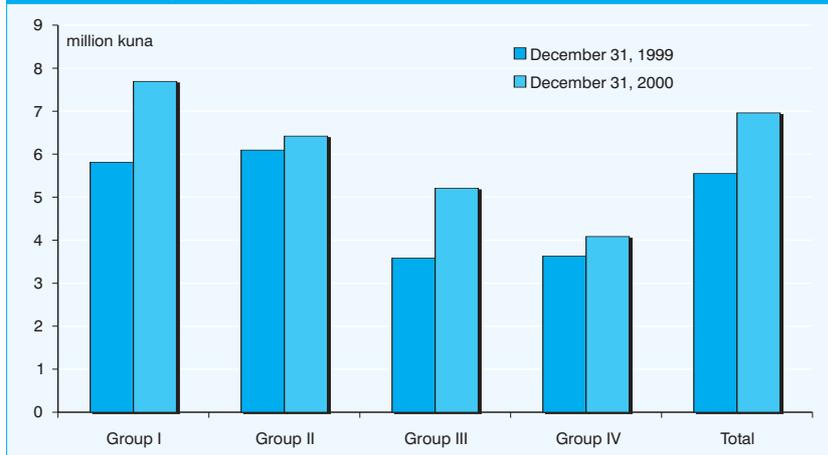


FIGURE 16. Assets per Employee

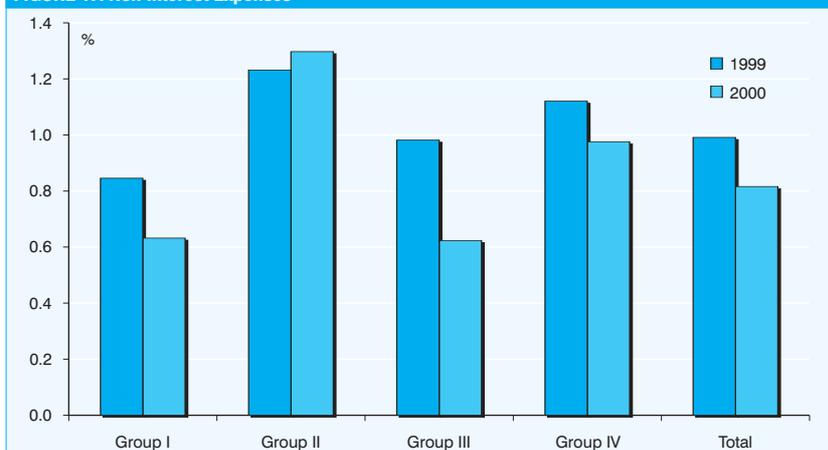


Average interest rates in the banking system at the end of 2000 stood at 10.5 percent on loans without currency clauses, 10.7 percent on loans with currency clauses, 3.4 percent on deposits without currency clauses and 3.5 percent on foreign exchange deposits.

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

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

FIGURE 17. Non-Interest Expenses



↳ The average assets of all 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 sums thus calculated are mutually divided. The same procedure is applied to the calculation of this indicator for all banks.

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

Schedule BS is the source of data on the amount of assets (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001), while the audited reports of banks are the source of data on the number of persons employed.

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

Schedule 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).

to the end of 1999 (0.4 percentage points) by which it reached the level of Group I. Group IV recorded a lower increase (0.1 percentage point) and Group II recorded a mild deterioration.

3.1.6 Credit Activity

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

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

⇒ Table 11. contains the amounts of placements classified by risk categories, as well as their shares in total placements that are classified. The reports submitted by banks in Schedule C stipulated by the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (*Narodne novine*, Nos. 32/99, 64/99 and 101/2000) are the source of data. This Schedule 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).

Placements	Dec. 1997		Dec. 1998		Dec. 1999		Dec. 2000	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
A	91,706.8	88.8	97,227.9	85.1	92,061.5	85.5	108,490.1	87.5
B	5,454.5	5.3	6,377.8	5.6	4,507.0	4.2	3,723.0	3.0
C	3,413.4	3.3	5,574.8	4.9	3,749.9	3.5	3,090.8	2.5
D	871.7	0.8	2,718.1	2.4	3,393.6	3.2	3,834.0	3.1
E	1,856.7	1.8	2,359.6	2.1	3,903.3	3.6	4,808.8	3.9
Total	103,303.1	100.0	114,258.2	100.0	107,615.4	100.0	123,946.7	100.0

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

⇒ The ratio between total provisions and total placements that are classified is calculated in the following manner. The specific reserves for identified and unidentified losses are added up and the sum thus calculated is divided by the amount of total placements and multiplied by 100. The reports submitted by banks in Schedule SR, which forms an integral part of the Instruction for the Uniform Implementation of the Decision on the Amount and the Method of Forming Specific Reserves to Ensure Against the Potential Losses of Banks (*Narodne novine*, Nos. 36/99 and 123/2000), passed on the basis of the Decision on the Amount and the Method of Forming Specific Reserves to Ensure Against Potential Losses of Banks (*Narodne novine*, No. 32/99) are the source of data on the amounts of specific reserves for identified and unidentified losses. The reports submitted by banks in Schedule C, stipulated by the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (*Narodne novine*, Nos. 32/99, 64/99 and 101/2000), are the source of data on total placements. This Schedule 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).

	Dec. 1997	Dec. 1998	Dec. 1999	Dec. 2000
1. Total provisions for identified and unidentified losses	5,111.3	7,645.6	9,476.2	10,182.9
1.1 Provisions for identified losses	4,539.8	6,951.6	8,673.6	9,361.7
1.2 Provisions for unidentified losses	571.5	694.0	802.6	821.2
2. Total gross placements (A, B, C, D and E)	103,303.1	114,258.2	107,165.1	123,946.7
3. The relative ratio between total provisions and total gross placements	4.9%	6.7%	8.8%	8.2%

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

At the end of 2000, out of 51.2 billion kuna placed in loans granted within the banking system, 22.3 billion kuna, or 43.6 percent of total loans, were placed with other enterprises. Household loans amounting to 20.8 billion kuna (40.6 percent) had the second-largest share, followed by loans to government units totaling 4.1 billion kuna (8.4 percent).

TABLE 13. Structure of Loans by Institutional Sectors, end of period, in million kuna

	Group I		Group II		Group III		Group IV		Total	
	Dec. 1999	Dec. 2000								
1. Government units	2,443.4	3,608.6	387.2	360.4	53.0	96.9	105.6	36.9	2,989.1	4,102.8
2. Financial institutions	559.6	562.5	299.5	379.3	34.8	24.7	230.4	28.0	1,124.2	994.4
3. Public enterprises	1,309.6	1,767.2	316.2	391.8	2.7	44.7	112.4	152.1	1,740.9	2,355.8
4. Other enterprises	10,996.3	11,230.0	8,914.8	8,637.5	811.9	1,213.6	2,101.5	1,244.2	22,824.5	22,325.4
5. Non-profit institutions	136.3	227.4	46.4	54.2	4.7	7.8	11.9	1.5	199.4	290.9
6. Households	9,655.9	13,938.6	5,668.4	5,012.8	734.5	1,170.3	1,090.1	666.3	17,148.9	20,788.0
7. Nonresidents	308.5	74.1	149.4	181.1	0.0	7.3	30.8	16.3	488.7	278.9
Total	25,449.1	31,414.7	15,824.6	15,067.2	1,643.1	2,599.5	3,720.9	2,145.8	46,637.7	51,227.3

At the level of individual bank groups in the loan portfolio structure, Group I banks granted the largest share of loans to government units, Groups I and III banks granted the largest share of household loans, and Group II and IV banks granted the largest share of loans to other enterprises.

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

The reports submitted by banks in Schedule BS/LOA (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001) are the source of data.

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

3.1.7 Liquidity Ratios

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

TABLE 14. Purchased CNB and Central Government Bills, in million kuna, on stock on December 31, 2000

	Group I	Group II	Group III	Group IV	Total
1. CNB bills denominated in kuna	1,685.3	479.1	95.0	28.6	2,288.0
2. CNB bills denominated in foreign currency	1,070.8	413.5	101.3	192.6	1,778.2
3. Ministry of Finance treasury bills	1,081.8	536.6	130.8	141.9	1,891.1
4. Money market instruments of the central government	6.6	5.0	0.0	2.5	14.0
Total	3,844.5	1,434.2	327.1	365.5	5,971.3

↔ 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 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).

Of the total placements in the above-stated securities, Group I made the largest relative placement¹⁰ in kuna denominated CNB bills (43.8 percent) compared to the other groups of banks. On the other hand, Group IV made the largest relative placement in foreign currency denominated CNB bills (52.7 percent) and in money market instruments of the central government (0.7 percent). Group III made the largest relative placement in treasury bills of the Ministry of Finance (40 percent).

¹⁰ The largest relative placement is considered here to be the share of investment of an individual bank group in a certain type of securities whose share is the largest compared to the share of the other groups of banks.

In 2000, the total borrowing of all banks from the CNB amounted to 0.4 billion kuna, 66.7 percent less than the average in 1999. The banks' total borrowing from the central bank continuously decreased over 2000. Thus average total borrowing in the fourth quarter of 2000 amounted to 0.2 billion kuna, which is 27.6 percent less than in the third quarter of the same year.

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

	Group I		Group II		Group III		Group IV		Total	
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
1. Lombard loans	107.1	51.8	33.5	5.2	3.8	0.9	10.4	1.4	154.8	59.3
2. Intervention loans	0.0	0.0	21.5	3.3	0.0	0.0	62.6	5.1	84.1	8.4
3. Liquidity loans	0.0	0.0	791.8	274.9	70.9	20.5	68.7	56.1	931.4	351.4
4. Repo CNB bills	71.9	12.9	51.5	3.9	8.9	0.5	9.1	0.1	141.5	17.3
Total	179.1	64.8	898.2	287.3	83.7	21.8	150.8	62.6	1,311.8	436.5

⇧ 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).

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

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

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

actual kuna reserves = balance in giro accounts + balance in the vault + allocated reserves
actual foreign currency reserves = liquid foreign currency claims (including CNB bills in foreign currency) + allocated reserves

additional reserves = CNB bills in domestic currency + treasury bills of the MoF of the Republic of Croatia + promissory notes of the MoF of the Republic of Croatia + short-term placements in the money market

borrowed reserves = Lombard loan + repurchased CNB bills + intervention loan + special loans + pre-rehabilitation loan + overnight loan + other loans with maturity up to 7 days

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

The Croatian National Bank is the source of data.

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

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

The reports submitted by banks in Schedule BS/LOA (Bank Statistical Reports – *Narodne novine*, Nos. 57/99 and 3/2001) are the source of data on loans, while banks' reports in Schedule BS/DEP are the source of data on deposits (Bank Statistical Report).

In the reporting period, all four groups of banks recorded the highest ratio between free reserves and calculated required reserves at the end of 2000.

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

FIGURE 18. Free Reserves

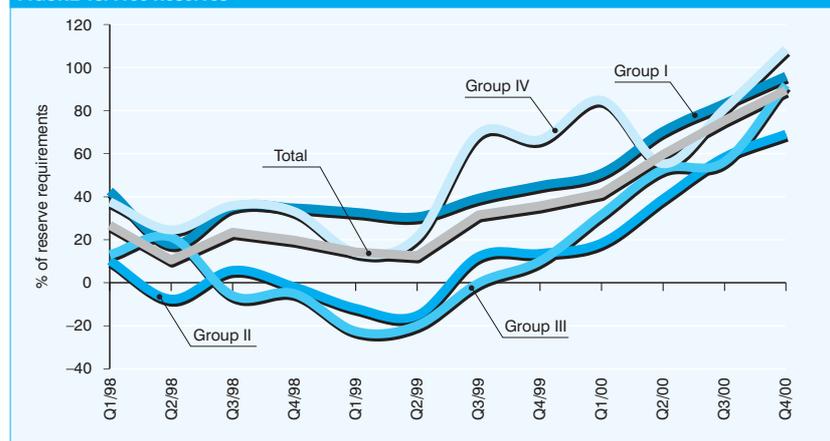
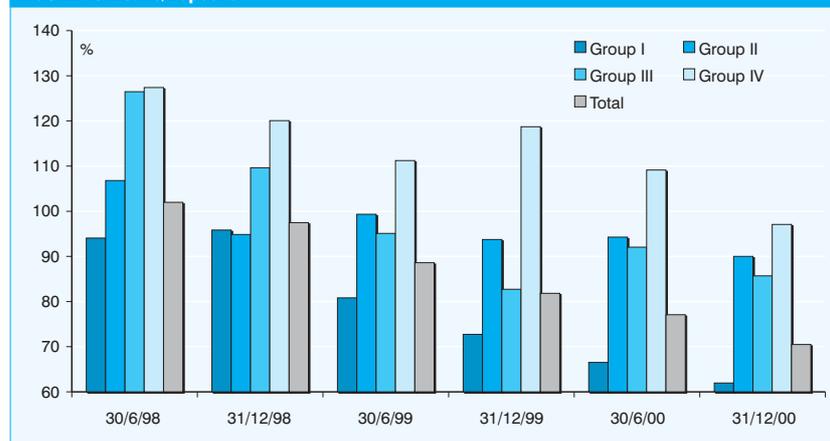


FIGURE 19. Loans/Deposits



In the second half of 2000, the credits to deposits ratio was reduced in all four groups of banks, as a result of a significant deposit growth along with a moderate credit growth. The largest reduction (improvement) of 12 percentage points was reported for Group IV, followed by Group III with a 6.4 percentage point reduction, Group I with a 4.6 percentage point reduction, and Group II with a 4.3 percentage point reduction.

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



Each bank group ratio between short-term assets and short-term liabilities is calculated in the following manner. First, the short-term assets in a certain quarter of all banks in an individual bank group are added up. Second, the short-term liabilities 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 in Schedule BS and Schedule BS/CM (Bank Statistical Report – *Narodne novine*, Nos. 57/99 and 3/2001) are the source of data on short-term assets. The reports submitted by banks in Schedule BS and Schedule BS/DM (Bank Statistical Report) are the source of data on short-term liabilities.

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

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

The movements in the long and short foreign exchange positions in the second semester of 2000 show that the expected trend of a further reduction in the average currency risk exposure continued at the banking system level. This reflects the banks' higher quality management of this type of risk and the positive effects of the banking system consolidation.

Naturally, the continuation of the upward trend is also a consequence of the changes in the regulation¹¹ which decreased the level of permitted currency risk exposure from 30 to 25 percent of regulatory capital.¹²

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

3.1.8 Currency Adjustment of Assets and Liabilities

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

¹² Even prior to the reduction in the percentage of permitted exposure, banks were generally maintaining their foreign exchange position below the permitted one, for the purpose of their own protection. This additionally facilitated the procedure of a further adjustment of measuring foreign exchange position exposure to currency risk to the standards of the Basel Committee on Banking Supervision, which attempt to reduce this percentage.

⇒ Each bank group ratio between the long foreign exchange position (foreign exchange claims exceeding foreign exchange liabilities) and the regulatory capital is calculated in the following manner. First, long foreign exchange positions reported in a certain quarter by all banks in an individual 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 on long foreign exchange positions.

The calculation of regulatory capital is regulated by the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 32/99 and 101/2000) and the pertaining instruction for its implementation (Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital – *Narodne novine*, Nos. 36/99 and 123/2000).

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

⇒ Each bank group ratio between the short foreign exchange position (foreign exchange liabilities exceeding foreign exchange claims) and the regulatory capital is calculated in the following manner. First, short foreign exchange positions reported in a certain quarter by all banks in an individual 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 on short foreign exchange positions.

The calculation of regulatory capital is regulated by the Decision on the Methodology for Calculating Bank's Capital (*Narodne novine*, Nos. 32/99 and 101/2000) and the pertaining instruction for its implementation (Instruction for the Uniform Implementation of the Decision on the Methodology for Calculating Bank's Capital – *Narodne novine*, Nos. 36/99 and 123/2000).

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

3.2 Savings Banks

3.2.1 Balance Sheet Structure

FIGURE 21. Long Foreign Exchange Position

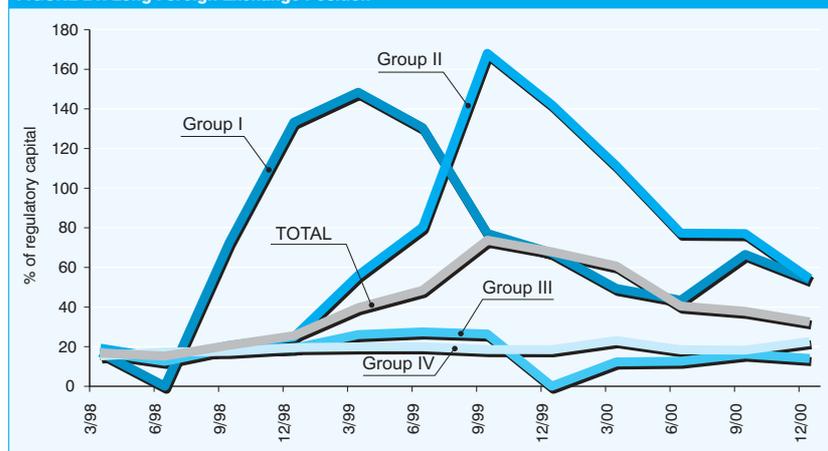
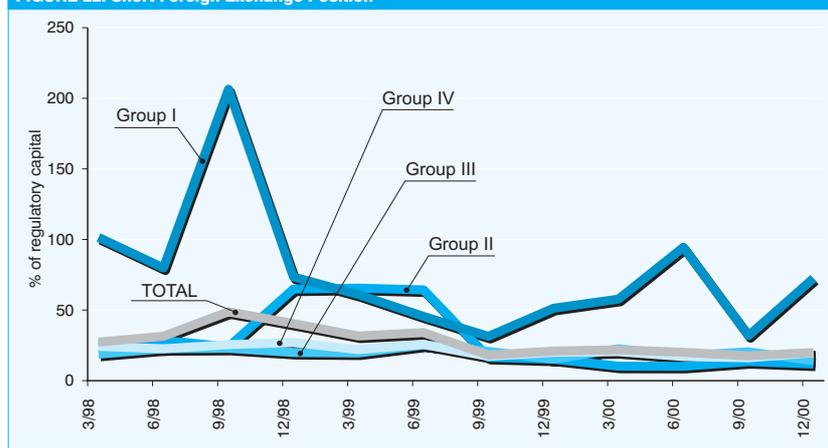


FIGURE 22. Short Foreign Exchange Position



26 savings banks, including 4 housing savings banks, were in operation at the end of 2000. During 2000, operating licenses were revoked for 7 savings banks, and bankruptcy proceedings were initiated in one savings bank.

On December 31, 2000, savings bank assets amounted to 1.6 billion kuna, a 22.7 percent increase compared to the total assets of savings banks at the end of 1999, or a 19.7 percent increase compared to total assets in mid-2000. Housing savings banks accounted for 36.6 percent of the total assets of savings banks at the end of 2000, which is a 17.2 percentage point increase in the share of housing savings banks compared to the end of 1999. This development was influenced by a strong growth in the assets of housing savings banks amounting to 365.3 million kuna, or 171.7 percent, and a reduction in the number of savings banks due to license withdrawals.

As at December 31, 2000, loans to other clients prevailed in the savings bank asset structure, amounting to 39.7 percent. They were followed by Ministry of

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

	Dec. 1999		Dec. 2000		Change
	Amount	Share	Amount	Share	
1. Money assets and deposits with the CNB	89.8	7.0	91.6	5.8	2.1
1.1 Money assets	24.3	1.9	34.5	2.2	42.1
1.2 Deposits	65.5	5.1	57.1	3.6	-12.8
2. Deposits with banking institutions	93.1	7.2	99.0	6.3	6.3
3. Treasury bills and CNB bills	126.4	9.8	237.3	15.0	87.7
4. Trading portfolio of securities	3.1	0.2	144.4	9.2	4,605.6
5. Loans to financial institutions	50.5	3.9	10.8	0.7	-78.7
6. Loans to other clients	662.3	51.5	625.7	39.7	-5.5
7. Investment portfolio of securities	32.4	2.5	190.9	12.1	488.4
8. Investments in subsidiaries and companies	1.4	0.1	1.4	0.1	2.6
9. Foreclosed and repossessed assets	25.8	2.0	17.7	1.1	-31.3
10. Tangible assets and software (net of depreciation)	66.5	5.2	57.2	3.6	-14.0
11. Interests, fees and other assets	142.5	11.1	109.6	6.9	-23.1
12. Net of: Specific reserves for unidentified losses	7.6	0.6	7.9	0.5	4.6
Total	1,286.2	100.0	1,577.6	100.0	22.7

Finance treasury bills and CNB bills with 15 percent, and investment portfolio of securities with 12.1 percent. In 2000, the largest asset growth (of 9.6 percentage points) was recorded in investment portfolio of securities, whereas the largest fall in share (of 11.8 percentage points) was recorded in loans to other clients, whose total amount fell in absolute terms as well, indicating reduced credit activities of savings banks over this period.

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

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

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

	Dec. 1999		Dec. 2000		Change
	Amount	Share	Amount	Share	
1. Loans from financial institutions	28.8	2.2	13.6	0.9	-52.8
1.1 Short-term loans	24.8	1.9	12.4	0.8	-50.1
1.2 Long-term loans	4.1	0.3	1.2	0.1	-69.9
2. Deposits	826.3	64.2	1,197.0	75.9	44.9
2.1 Giro account and current account deposits	6.6	0.5	7.0	0.4	5.5
2.2 Savings deposits	38.6	3.0	46.9	3.0	21.4
2.3 Time deposits	781.1	60.7	1,143.2	72.5	46.4
3. Other loans	8.4	0.7	4.4	0.3	-48.0
3.1 Short-term loans	7.8	0.6	3.8	0.2	-51.2
3.2 Long-term loans	0.6	0.0	0.6	0.0	-5.5
4. Debt securities issued	0.0	0.0	0.0	0.0	-
4.1 Short-term debt securities issued	0.0	0.0	0.0	0.0	-
4.2 Long-term debt securities issued	0.0	0.0	0.0	0.0	-
5. Supplementary capital	52.0	4.0	52.5	3.3	1.1
5.1 Subordinated instruments issued	12.8	1.0	7.9	0.5	-38.4
5.2 Hybrid instruments issued	39.2	3.0	44.7	2.8	14.0
6. Interest, fees and other liabilities	53.0	4.1	64.5	4.1	21.7
7. Profit/loss for the current year	-41.4	-3.2	-66.1	-4.2	59.6
8. Capital	359.1	27.9	311.6	19.8	-13.2
Total	1,286.2	100.0	1,577.6	100.0	22.7

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

⇨ These are calculated in the same manner as in Table 16., i.e. the share of each balance sheet item of liabilities in total liabilities is calculated on the basis of data from the Bank Statistical Report (*Narodne novine*, Nos. 57/99 and 3/2001 – Schedule BS) and the derived aggregated report of the same type on the banking system in the observed periods. The change in the balance is the percentage change in comparison with the previous period.

⇒ The capital as one of items stated on the liabilities side of the aggregated balance sheet of all savings banks (Table 17.) is presented in detail. In the observed periods, the share of each stated item in the total capital of savings banks 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 previous period.

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

	Dec. 1999		Dec. 2000		Change
	Amount	Share	Amount	Share	
1. Share capital	369.4	102.9	339.5	109.0	-8.1
2. Retained income/loss brought forward	-46.1	-12.8	-52.9	-17.0	14.7
3. Legal reserves	13.6	3.8	4.0	1.3	-71.0
4. Reserves provided for by the articles of association and other capital reserves	22.2	6.2	21.0	6.7	-5.3
Total	359.1	100.0	311.6	100.0	-13.2

share at 19.8 percent, followed by supplementary capital at 3.3 percent. In 2000, the share of deposits in liabilities grew most by 11.6 percentage points, whereas capital recorded the largest fall in share, amounting to 8.2 percentage points. Deposits of housing savings banks accounted for 46.2 percent of total deposit growth in the stated period.

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

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

3.2.2 Income Statement

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

TABLE 19. Savings Banks' Income Statement, in million kuna

	1999	2000
1. Net interest income	114.0	76.0
1.1 Interest income	231.4	193.8
1.2 Interest expenses	117.4	117.8
2. Net non-interest income	26.9	9.9
2.1 Non-interest income	60.4	72.1
2.2 Non-interest expenses	33.6	62.2
3. General administrative expenses and depreciation	122.8	131.1
4. Net operating income before provisions	18.0	-45.3
5. Loan loss provision expenses	66.0	16.2
6. Pre-tax income/loss	-48.0	-61.4
7. Profit tax	1.2	4.6
8. After-tax income/loss	-49.2	-66.0

3.2.3 Credit Activity

At the end of 2000, total placements of all savings banks amounted to 1.4 billion kuna, which is an increase of 0.1 billion kuna, or 12.4 percent, compared to 1999. As the amount of total placements changed, their structure by individual risk categories changed as well. The share of performing assets in total assets increased from 83.5 percent at the end of 1999 to 90.5 percent at the end 2000, whereas the share of placements classified into highest-risk catego-

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

Placements	Dec. 1999		Dec. 2000	
	Amount	Share	Amount	Share
A	925.4	75.9	1,177.7	86.0
B	92.7	7.6	61.4	4.5
C	110.3	9.0	50.7	3.7
D	46.0	3.8	36.1	2.6
E	44.6	3.7	43.8	3.2
Total	1,218.9	100.0	1,369.6	100.0

⇨ Table 20. contains the amounts of placements classified by risk categories, as well as their shares in the total placements that are classified. The reports submitted by savings banks in Schedule C, stipulated by the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (*Narodne novine*, Nos. 32/99, 64/99 and 101/2000), are the source of data. This Schedule 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).

TABLE 21. Ratio between Savings Banks' Provisions and Placements (A, B, C, D and E), end of period, in million kuna and %

	Dec. 1999	Dec. 2000
1. Total provisions for identified and unidentified losses	129.2	94.9
1.1 Provision for identified losses	121.6	87.2
1.2 Provisions for unidentified losses	7.6	7.7
2. Total gross placements (A, B, C, D and E)	1,218.9	1,369.6
3. The relative ratio between total provisions and total gross placements	10.6%	6.9%

⇨ The ratio between total provisions and total placements of savings banks that are classified is calculated in the following manner. The specific reserves for savings banks' identified and unidentified losses are added up and the sum thus calculated is divided by the amount of savings banks' total placements and multiplied by 100.

The reports submitted by savings banks in Schedule SR, which forms an integral part of the Instruction for the Uniform Implementation of the Decision on the Amount and the 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 the Method of Forming Specific Reserves to Ensure Against Potential Losses of Banks (*Narodne novine*, No. 32/99) are the source of data on amounts of specific reserves for identified and unidentified losses.

The reports submitted by savings banks in Schedule C, stipulated by the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (*Narodne novine*, Nos. 32/99, 64/99 and 101/2000), are the source of data on total placements. This Schedule 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).

ries decreased. The share of placements rated D and E thus fell from 7.4 percent at the end of 1999 to 5.8 percent at the end of 2000.

Movements in the ratio between total provisions and total gross placements also indicate an improvement in asset quality. This ratio decreased (improved) from 10.6 percent at the end of 1999 to 6.9 at the end of 2000.

4 List of Banks

Data on individual banks' addresses, telephone numbers, fax numbers, members of management and supervisory boards, shareholders who hold 3 percent or more of share in the bank's equity capital, and on bank auditors for 2000.

As at December 31, 2000

Management Board

Goran Gazivoda – chairman, Ivo Bilić

Supervisory Board

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

Shareholders

	Share in equity capital (%)
1. Bank Austria AG	80.02
2. European Bank for Reconstruction and Development	19.98

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

BANK AUSTRIA CREDITANSTALT CROATIA d.d.

Jurišićeva 2, 10000 Zagreb
Phone: +385 1 4800-777
Fax: +385 1 4800-890
VBDI¹ 2502004

1 Account number of depository institution.

Management Board

Thomas Grosse – chairman, Dominique Menu

Supervisory Board

Francois Brunot – chairman, Cally Alain Francois, Wolfdieter Engel, Hans-Jürgen Haas-Wittmüss, Benoit Langelier

Shareholders

	Share in equity capital (%)
1. BNP Pariba S.A.	50.0
2. Dresdner Bank AG	50.0

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

BNP-DRESDNER BANK (CROATIA) d.d.

Andrije Žaje 61, 10000 Zagreb
Phone: +385 1 3652-777
Fax: +385 1 3652-779
VBDI 2504000

Management Board

Gabrijel Sentić – chairman, Vesna Senjak, 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 equity capital (%)
1. Jurves d.o.o.	7.99
2. Nova Immobilia d.o.o.	7.95
3. Mikser beton d.o.o.	7.35
4. Prospera d.o.o.	7.22
5. Kaptol banka d.d.	7.22
6. Đuro Đaković – Poljoprivredni strojevi i uređaji d.d.	6.76
7. Nord d.o.o.	6.48
8. Telecom d.o.o.	4.26
9. Slavenska štedionica d.d.	4.16
10. Šošćarić d.o.o.	4.07
11. Đuro Đaković holding d.d.	3.35
12. Croatia osiguranje d.d.	3.07
13. Đuro Đaković – Termoelektrarna postrojenja d.d.	3.07

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

BRODSKO-POSAVSKA BANKA d.d.

Trg pobjede 29, 35000 Slavonski Brod
Phone: +385 35 445-800
Fax: +385 35 445-900
VBDI 2489004

CASSA DI RISPARMIO DI TRIESTE – BANCA d.d.

Smičiklasova 23, 10000 Zagreb
 Phone: +385 1 4614-346
 Fax: +385 1 4552-603
 VBDI 2499000

Adriano Carisi – chairman, Jasna Mamić

Supervisory Board

Giovanni Battista Ravido – chairman, Giorgio Cerutti, Giorgio Covacich, Tito Favaretto, Luca Savino, Milan Travan

Shareholders	Share in equity 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 2000: Pricewaterhouse Coopers d.o.o., Zagreb

CENTAR BANKA d.d.

Jurišićeva 3, 10000 Zagreb
 Phone: +385 1 4803-444
 Fax: +385 1 4803-441
 VBDI 2382001

Management Board

Gordana Zrinščak – chairman, Ljiljana Podhraški, Ružica Vadić

Supervisory Board

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

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

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

CONVEST BANKA d.d.

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

Management Board

Ivan Maljevac – chairman, Drago Jakovčević, Frane Galzina

Supervisory Board

Janos Müller – chairman, Imre Balogh, Pero Perišić

Shareholders	Share in equity capital (%)
1. Magyar Külkereskedelmi Bank R.t.	66.67
2. Pero Perišić	33.33

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

CREDO BANKA d.d.

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

Management Board

Šime Luketin – chairman, Mato Mišić

Supervisory Board

Mirko Vuković – chairman, Boris Barač, Dražen Bilić

Shareholders	Share in equity 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 Merkatius d.o.o.	6.98

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

Management Board

Vedran Kuiš – chairman, Nataša Marendić, Nikola Samaržija

Supervisory Board

Niko Šeremet – chairman, Ivan Tomljenović, Jure Šimović, Željko Pecek, Joško Miliša

Shareholders**Share in equity capital (%)**

1. State Agency for Bank Rehabilitation and Deposit Insurance	100.00
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Audit firm for 2000: Deloitte & Touche d.o.o., Zagreb

CROATIA BANKA d.d.

Kvaternikov trg 9, 10000 Zagreb
Phone: +385 1 2391-111
Fax: +385 1 2391-470
VBDI 2485003

Management Board

Zdravko Bubalo – chairman, Darinko Pupovac, Jadranka Gotovac

Supervisory Board

Stanko Banić – chairman, Đenko Peroš, Veljko Mašina, Stjepan Meštrović, Damir Vrhovnik, Ivo Mazić, Marko Vuksan

Shareholders**Share in equity capital (%)**

1. Reginter d.o.o.	57.74
2. Ann Becerra	6.93
3. Nick Bubalo	6.93
4. Steve i Louise Bubalo	6.93
5. SWR Investment Limited	6.87

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

DALMATINSKA BANKA d.d.

Marka Oreškovića 3, 23000 Zadar
Phone: +385 23 201-500
Fax: +385 23 201-774
VBDI 2407000

Management Board

Vlaho Sutić – chairman, Krunoslav Brkljačić, Krešimir Krile

Supervisory Board

Marijan Marinko Filipović – chairman, Pave Rusković-Župan, Ivan Šprlje, Vido Bogdanović, Tomislav Vuličević

Shareholders**Share in equity capital (%)**

1. State Agency for Bank Rehabilitation and Deposit Insurance	100.00
---	--------

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

DUBROVAČKA BANKA d.d.

Put Republike 9, 20000 Dubrovnik
Phone: +385 20 356-333
Fax: +385 20 356-778
VBDI 2401003

Management Board

Petar Radaković – chairman, Tomislav Vuić, Nenad Jeđud, Borislav Centner

Supervisory Board

Reinhard Ortner – chairman, August Jost, Gerhard Fabisch, Josef Kassler, Otto Ilchmann, Herbert Martinetz, Reinhold Schuster, Franz Mally, Ivan Ljubanović, Vladimir Jurašić, Robert Tkalčec

Shareholders**Share in equity capital (%)**

1. Steiermärkische Bank und Sparkassen AG	40.51
2. Erste Bank der Österreichischen Sparkassen AG	40.20

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

ERSTE & STEIERMÄRKISCHE BANK d.d.

Varšavska 3-5, 10000 Zagreb
Phone: +385 1 4561-999
Fax: +385 1 4561-900
VBDI 2402006

Management Board

Izidor Sučić – chairman, Jasna Fumagalli

Supervisory Board

Branko Josipović – chairman, Lovre Božina, Zdenko Prohaska

GOSPODARSKO KREDITNA BANKA d.d.

Draškovićevo 58, 10000 Zagreb
Phone: +385 1 4802-666
Fax: +385 1 4802-571
VBDI 2381009

Shareholders	Share in equity capital (%)
1. Kristina Sučić	9.22
2. Ivan Sučić	8.74
3. Josip Bašić	7.43
4. Željko Krznarić	7.43
5. Veritas BH d.o.o.	7.40
6. Veritas d.o.o.	7.40
7. Kata Šparica	7.38
8. Darko Gojčić	7.33
9. Branko Josipović	5.66
10. Milan Zec	5.43
11. Gospodarsko kreditna banka d.d.	4.25
12. Vesna Mijović	3.57

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

HRVATSKA POŠTANSKA BANKA d.d.

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

Management Board

Josip Slade – chairman, Slavko Durmiš

Supervisory Board

Ivan Videka – chairman, Božidar Sever, Jarmila Bašić, Bosiljka Oman-Tintor, Petar Kriste, Emilija Vadjla

Shareholders	Share in equity capital (%)
1. Hrvatska pošta d.d.	51.00
2. Croatian Pension Insurance Institute	42.57
3. Croatian Privatization Fund	4.25

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

HYPOBANKA d.d.

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

Management Board

Antun Sermek – chairman, Mira Ausmann

Supervisory Board

Katarina Hodko – chairman, Petar Žaja, Damir Horvat

Shareholders	Share in equity 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. Servitransport d.d.	5.07
7. Agroznanje d.o.o.	4.60
8. Rudina d.o.o.	3.27

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

HYPO ALPE-ADRIA-BANK d.d.

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

Management Board

Günther Striedinger – chairman, Heinz Truskaller, Igor Kodžoman

Supervisory Board

Wolfgang Kulterer – chairman, Jörg Schuster, Othmar Ederer, Roberto Marzanati, Gerd Pekner

Shareholders	Share in equity capital (%)
1. Hypo Alpe-Adria-Bank AG	91.74
2. European Bank for Reconstruction and Development	8.26

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

Management Board

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

Supervisory Board

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

Shareholders**Share in equity capital (%)**

1. Imex trgovina d.o.o.	47.48
2. Branko Buljan	21.99
3. Trajektna luka d.d.	18.92

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

IMEX BANKA d.d.

Tolstojeva 6, 21000 Split
Phone: +385 21 357-015
Fax: +385 21 583-849
VBDI 2492008

Management Board

Milenko Vidulin – chairman, Anton Šuran

Supervisory Board

Anton Brajković – chairman, David Curl, Silvana Kostešić, David Mc Mahon, Margot Jacobs

Shareholders**Share in equity capital (%)**

1. Dalmatinska banka d.d.	87.16
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Audit firm for 2000: KPMG Croatia d.o.o., Zagreb

ISTARSKA BANKA d.d.

Dalmatinova 4, 52100 Pula
Phone: +385 52 527-101
Fax: +385 52 527-400
VBDI 2416000

Management Board

Miro Dodić – chairman, Anton Belušić

Supervisory Board

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

Shareholders**Share in equity capital (%)**

1. Intercommerce d.o.o.	16.86
2. Tvornica cementa d.d.	15.04
3. Hempel d.d.	15.00
4. Montpelleir finance S.A.	10.00
5. Medias S.p.A.	7.63
6. Plava laguna d.d.	3.56

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

**ISTARSKA KREDITNA BANKA
UMAG d.d.**

Ernesta Miloša 1, 52470 Umag
Phone: +385 52 702-300
Fax: +385 52 741-275
VBDI 2380006

Management Board

Ivo Šinko – chairman, Željko Kardum, Ankica Bandalović

Supervisory Board

Željko Deković – chairman, Mirjana Škugor, Josip Huljev, Miro Petric, Miho Mioč, Petar Škender, Goran Žurić, Josip Stojanović, Branko Malenica, Ante Čobanov, Mirko Pralija

Shareholders**Share in equity capital (%)**

1. Jadranska banka d.d.	9.20
2. Alfa d.d.	7.89
3. TLM TPP d.o.o.	5.00
4. Vinoplod-vinarija d.d.	4.99
5. TLM d.d.	4.84
6. Vodovod i odvodnja d.o.o.	4.62
7. Jolly JBS d.o.o.	4.26
8. Tiskara Kačić d.d.	4.23
9. Rivijera d.d.	3.58

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

JADRANSKA BANKA d.d.

Ante Starčevića 4, 22000 Šibenik
Phone: +385 22 242-242
Fax: +385 22 335-881
VBDI 2411006

KAPTOL BANKA d.d.

Maksimirska 120, 10000 Zagreb
 Phone: +385 1 2359-700
 Fax: +385 1 2339-575
 VBDI 2498007

Management Board

Dejan Košutić – chairman, Bosiljka Rihter

Supervisory Board

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

Shareholders

	Share in equity capital (%)
1. Kaptol banka d.d.	15.00
2. Brodsko-posavska banka d.d.	7.16
3. Lorber d.o.o.	6.58
4. Dejan Košutić	6.19
5. Ulrich Seng	5.58
6. Školska knjiga d.d.	4.61
7. Agrocroatia d.o.o.	4.38
8. Petrač d.o.o.	3.68
9. Kaptol Petrač leasing	3.68
10. G.E.I. Istring d.o.o.	3.29
11. Bond d.o.o.	3.29
12. Snježana Herceg	3.12
13. Spomenka Ćurin	3.00

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

KARLOVAČKA BANKA d.d.

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

Management Board

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

Supervisory Board

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

Shareholders

	Share in equity capital (%)
1. Karlovačka banka d.d.	14.35
2. Lanzville Investments	5.37
3. Croatian Privatization Fund	5.27
4. Karlovačka pivovara d.d.	4.47
5. Hamowa d.o.o.	3.78

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

KREDITNA BANKA d.d.

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

Management Board

Ante Todorčić – chairman, Željko Jakuš

Supervisory Board

Ivica Todorčić – chairman, Branko Bek, Tihomir Mikulić, Dane Gudelj, Ivica Sertić

Shareholders

	Share in equity capital (%)
1. Agrokor d.d.	15.88
2. Crodel d.o.o.	9.60
3. Investco vrijednosnice d.o.o.	8.94
4. Ledo d.d.	7.20
5. Jamnica d.d.	7.12
6. Konzum d.d.	5.98
7. Litograf d.o.o.	4.93
8. Zvijezda d.d.	4.78
9. Solana Pag d.d.	4.73
10. Perutnina Zagreb d.d.	4.73
11. Ceufin Brokers d.d.	4.30

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

Management Board

Anton Butorac – chairman, Goran Rameša

Supervisory Board

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

Shareholders**Share in equity capital (%)**

1. Adriaconsulting S.R.L.	50.00
2. Riječka banka d.d.	31.85
3. Transadria d.d.	14.77

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

KVARNER BANKA d.d.

Jadranski trg 4/I, 51000 Rijeka

Phone: +385 51 353-555

Fax: +385 51 353-566

VBDI 2488001

Management Board

Mladenka Gombar – chairman, Marija Ribić, Zdravko Babić

Supervisory Board

Mislav Blažić – chairman, Daniel Stepinac, Davorin Rimac, Stjepan Varga, Dragutin Lončarić

Shareholders**Share in equity capital (%)**

1. Privredna banka Zagreb d.d.	69.60
2. Čakovečki mlinovi d.d.	5.95

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

MEDIMURSKA BANKA d.d.

V. Morandinija 37, 40000 Čakovec

Phone: +385 40 370-500

Fax: +385 40 315-065

VBDI 2392007

Management Board

Stipan Pamuković – chairman, Željko Škalec

Supervisory Board

Jakov Gelo – chairman, Ivan Gudelj, Milanka Klanfar, Tomislav Kličko, Bruno-Zvonimir Orešar

Shareholders**Share in equity 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 2000: Rudan d.o.o., Zagreb

NAVA BANKA d.d.

Tratinska 27, 10000 Zagreb

Phone: +385 1 3656-777

Fax: +385 1 3656-700

VBDI 2495009

Management Board

Marija Šola – chairman, Brana Oštrić

Supervisory Board

Božo Čulo – chairman, Igor Oppenheim, Ivan Ćurković

Shareholders**Share in equity capital (%)**

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

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

PARTNER BANKA d.d.

Vončinina 2, 10000 Zagreb

Phone: +385 1 4602-222

Fax: +385 1 4602-289

VBDI 2408002

PODRAVSKA BANKA d.d.

Opatička 1a, 48300 Koprivnica
 Phone: +385 48 65-50
 Fax: +385 48 622-542
 VBDI 2386002

Management Board

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

Supervisory Board

Ivan Pavliček – chairman, Ivan Henezi, Nevenka Cerovsky, Jurica (Đuro) Predović, Miljan Todorović

Shareholders

	Share in equity capital (%)
1. Eumetra AG	9.36
2. Cerere S.R.L.	9.35
3. Jurica (Đuro) Predović	4.82
4. Giovani Semerano	3.47
5. Antonia Gorgoni	3.04
6. Lorenzo Gorgoni	3.04
7. Andrea Montinari	3.04
8. Dario Montinari	3.04
9. Piero Montinari	3.04
10. Sigilfredo Montinari	3.04

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

POŽEŠKA BANKA d.d.

Republike Hrvatske 1b, 34000 Požega
 Phone: +385 34 254-200
 Fax: +385 34 254-258
 VBDI 2405004

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 equity capital (%)
1. Požeška banka d.d.	28.25
2. TIM 2000 d.o.o.	4.65
3. JP Hrvatske šume p.o.	3.71

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

PRIVREDNA BANKA – LAGUNA BANKA d.d.

Prvomajska 4a, 52440 Poreč
 Phone: +385 52 416-777
 Fax: +385 52 416-770
 VBDI 2497004

Management Board

Zdravka Cukon – chairman, Roberto Drandić

Supervisory Board

Tomislav Lazarić – chairman, Ljiljana Horvat, Danijel Stepinac

Shareholders

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

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

PRIVREDNA BANKA ZAGREB d.d.

Račkoga 6, 10000 Zagreb
 Phone: +385 1 4723-344
 Fax: +385 1 4723-131
 VBDI 2340009

Management Board

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

Supervisory Board

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

Shareholders

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

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

Management Board

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

Supervisory Board

Herbert Stepic – chairman, Renate Kattinger, Andreas Zakostelsky

Shareholders**Share in equity 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 2000: KPMG Croatia d.o.o., Zagreb

RAIFFEISENBANK AUSTRIA d.d.

Petrinjska 59, 10000 Zagreb

Phone: +385 1 4566-466

Fax: +385 1 4819-459

VBDI 2484008

Management Board

Vesna Badurina – chairman, Branka Juričev

Supervisory Board

Tomislav Lazarić – chairman, Loretta Jakovac, Mislav Blažić, Snježana Sklizović, Marinko Dumanić

Shareholders**Share in equity capital (%)**

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

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

RIADRIA BANKA d.d.

Đure Šporera 3, 51000 Rijeka

Phone: +385 51 339-111

Fax: +385 51 211-093

VBDI 2325004

Management Board

Ivan Štokić – chairman, Antun Jurman, Borislav Perožić

Supervisory Board

Dietrich Wolf – chairman, Marinko Učur, Jochen Bottermann, Klaus Rauscher, Vojko Obersnel

Shareholders**Share in equity capital (%)**

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

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

RIJEČKA BANKA d.d.

Jadranski trg 3a, 51000 Rijeka

Phone: +385 51 208-211

Fax: +385 51 330-525

VBDI 2300007

Management Board

Marijan Trusk – chairman, Verica Lindić, Višnja Jednačak

Supervisory Board

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

Shareholders**Share in equity capital (%)**

1. Samoborka d.d.	9.35
2. Hrvatske šume p.o.	6.86
3. V.H. Trade d.o.o.	5.84
4. Sant d.o.o.	4.96
5. 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.	3.36

Audit firm for 2000: M.Z. Auditors d.o.o., Zagreb

SAMOBORSKA BANKA d.d.

Trg kralja Tomislava 8, 10430 Samobor

Phone: +385 1 3362-530

Fax: +385 1 3361-523

VBDI 2403009

SISAČKA BANKA d.d.

Trg Lj. Posavskoga 1, 44000 Sisak
 Phone: +385 44 549-100
 Fax: +385 44 549-101
 VBDI 2419008

Management Board

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

Supervisory Board

Dinko Pintarić – chairman, Zoran Gobac, Miroslav Matić

Shareholders

	Share in equity capital (%)
1. Prvipromet d.o.o.	8.78
2. Madison d.o.o.	8.64
3. Blok usluge d.o.o.	8.59
4. Skok promet d.o.o.	8.54
5. State Agency for Bank Rehabilitation and Deposit Insurance	4.70
6. Croatian Pension Insurance Institute	3.84
7. GE-ZE d.o.o.	3.64

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

SLATINSKA BANKA d.d.

Vladimira Nazora 2, 33520 Slatina
 Phone: +385 33 551-526
 Fax: +385 33 551-566
 VBDI 2412009

Management Board

Vera Radaš – chairman, Angelina Horvat

Supervisory Board

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

Shareholders

	Share in equity capital (%)
1. Pronekinvest d.d	7.42
2. State Agency for Bank Rehabilitation and Deposit Insurance	7.33
3. Ante Šimara	6.85
4. Sloper d.o.o.	5.56
5. Rima-promet d.o.o.	5.59
6. Ljiljana Katavić	5.35
7. Lustrin d.o.o.	4.61

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

SLAVONSKA BANKA d.d.

Kapucinska 29, 31000 Osijek
 Phone: +385 31 231-231
 Fax: +385 31 201-039
 VBDI 2393000

Management Board

Ivan Mihaljević – chairman, Alma Jukić

Supervisory Board

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

Shareholders

	Share in equity capital (%)
1. Hypo Alpe-Adria-Bank d.d./ Hypo Alpe-Adria-Bank AG	45.14
2. European Bank for Reconstruction and Development	26.98
3. Slavenska banka d.d.	6.63

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

SPLITSKA BANKA d.d.

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

Management Board

Tomo Bolotin – chairman, Stjepan Kolovrat, Jerislav Kuštera, Darko Medak, Pero Vrdoljak

Supervisory Board

Fausto Pettei – chairman, Giovanni Battista Ravidà, Luigi Lovaglio, Alessandro Maria Decio, Mate Kosović

Shareholders

	Share in equity capital (%)
1. UniCredito Italiano S.p.A.	62.59
2. State Agency for Bank Rehabilitation and Deposit Insurance	25.00

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

Management Board

Željko Udovičić – chairman, Ante Babić, Josip Ševerdija

Supervisory Board

Ivo Andrijianić – chairman, Đuro Benček, Franjo Škoda

Shareholders**Share in equity 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 2000: Revizija d.o.o., Zagreb

ŠTEDBANKA d.d.

Slavonska avenija 3, 10000 Zagreb

Phone: +385 1 6306-666

Fax: +385 1 6187-015

VBDI 2483005

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 equity capital (%)**

1. Zagrebačka banka d.d.	84.43
2. Varaždinska banka d.d.	9.99

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

VARAŽDINSKA BANKA d.d.

Kapucinski trg 5, 42000 Varaždin

Phone: +385 42 400-000

Fax: +385 42 400-112

VBDI 2391004

Management Board

Heinrich Angelides – chairman, Julio Krevelj

Supervisory Board

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

Shareholders**Share in equity 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 2000: KPMG Croatia d.o.o., Zagreb

VOLKSBANK d.d.

Varšavska 9, 10000 Zagreb

Phone: +385 1 801-300

Fax: +385 1 4801-365

VBDI 2503007

Management Board

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

Supervisory Board

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

Shareholders**Share in equity capital (%)**

1. Bankers Trust Company	40.12
2. UniCredito Italiano S.p.A.	9.95
3. Allianz AG	9.93
4. Caisse Nationale du Credit Agricole	4.30

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

ZAGREBAČKA BANKA d.d.

Paromlinska 2, 10000 Zagreb

Phone: +385 1 6104-000

Fax: +385 1 6110-555

VBDI 2360000

**BAYERISCHE HYPO- UND
VEREINSBANK AG, Glavna
podružnica Zagreb**

Ul. Alexandera von Humboldta 4,
10000 Zagreb

Phone: +385 1 6159-206

Fax: +385 1 6159-197

VBDI 8801006

Management Board

Andelka Čavlek – representative, Vesna Garapić – representative

Supervisory Board**Shareholders**

1. Bayerische Hypo- und Vereinsbank AG

Share in equity capital (%)

100.00

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

Attachment

Bank name and headquarter	Peer group number			
	Dec. 1997	Dec. 1998	Dec. 1999	Dec. 2000
	AGROOBRTNIČKA BANKA d.d., Zagreb ¹	III	IV	IV
ALPE JADRAN BANKA d.d., Split	IV	IV	IV	IV
BANK AUSTRIA CREDITANSTALT CROATIA d.d., Zagreb	IV	II	II	II
BAYERISCHE HYPO-UND VEREINSBANK AG Glavna podružnica Zagreb	–	–	–	IV
BJELOVARSKA BANKA d.d., Bjelovar ⁵	III	II	II	–
BNP-DRESDNER BANK (CROATIA) d.d., Zagreb	IV	IV	IV	III
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	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 ⁵	IV	IV	IV	–
DALMATINSKA BANKA d.d., Zadar	II	II	II	II
DUBROVAČKA BANKA d.d., Dubrovnik	II	II	II	II
ERSTE & STEIERMÄRKISCHE BANK d.d., Zagreb	–	–	–	II
GLUMINA BANKA d.d., Zagreb ¹	II	II	–	–
GOSPODARSKO KREDITNA BANKA d.d., Zagreb	IV	IV	IV	IV
GRADSKA BANKA d.d., Osijek ¹	II	II	–	–
HRVATSKA GOSPODARSKA BANKA d.d., Zagreb ¹	III	III	IV	–
HRVATSKA POŠTANSKA BANKA d.d., Zagreb	II	II	II	II
HYPOBANKA d.d., Zagreb	IV	IV	IV	IV
HYPO ALPE-ADRIA-BANK d.d., Zagreb	IV	II	II	II
ILIRIJA BANKA d.d., Zagreb ¹	IV	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	III
JADRANSKA BANKA d.d., Šibenik	II	II	II	II
KAPTOL BANKA d.d., Zagreb	IV	IV	IV	IV
KARLOVAČKA BANKA d.d., Karlovac	II	II	III	III
KOMERCIJALNA BANKA d.d., Zagreb ¹	IV	IV	–	–
KRAPINSKO ZAGORSKA BANKA d.d., Krapina ³	IV	IV	IV	–
KREDITNA BANKA ZAGREB d.d., Zagreb	III	III	III	III
KVARNER BANKA d.d., Rijeka	IV	IV	IV	IV
MEDIMURSKA BANKA d.d., Čakovec	III	II	II	II
NAVA BANKA d.d., Zagreb	IV	IV	IV	IV
NERETVANSKO GOSPODARSKA BANKA d.d., Ploče ¹	IV	IV	–	–
PARTNER BANKA d.d., Zagreb	IV	IV	IV	IV
PODRAVSKA BANKA d.d., Koprivnica	IV	III	IV	IV
POŽEŠKA BANKA d.d., Požega	IV	III	IV	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	IV	–	–
RAIFFEISENBANK AUSTRIA d.d., Zagreb	II	II	II	I
RAZVOJNA BANKA "DALMACIJA" d.o.o., Split ²	IV	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	IV	–
SPLITSKA BANKA d.d., Split	I	I	I	I
ŠTEDBANKA d.d., Zagreb	IV	III	IV	III
TRGOVAČKA BANKA d.d., Zagreb ⁵	IV	IV	IV	–
TRGOVAČKO-TURISTIČKA BANKA d.d., Split ¹	IV	IV	IV	–
VARAŽDINSKA BANKA d.d., Varaždin	II	II	II	II
VOLKSBANK d.d., Zagreb	IV	IV	IV	III
ZAGREBAČKA BANKA d.d., Zagreb	I	I	I	I
ZAGREBAČKA BANKA – POMORSKA BANKA SPLIT d.d., Split ⁴	II	II	II	–
ŽUPANJSKA BANKA d.d., Županja ¹	II	II	–	–

¹ Banks in bankruptcy proceedings.

² Operating license was not renewed for the bank, in accordance with Articles 35, 36, and 37 of the Banking Law.

³ Merged with Privredna banka Zagreb d.d., Zagreb.

⁴ Merged with Zagrebačka banka d.d., Zagreb.

⁵ Trgovačka banka d.d., Zagreb and Čakovečka banka d.d., Čakovec merged with Bjelovarska banka d.d., Bjelovar, and have seen operating as Erste & Steiermärkische Bank d.d., Zagreb since then.

⁶ It was sold, and its operations were taken over by Bayerische Hypo- und Vereinsbank AG, Glavna podružnica Zagreb.

