

SURVEYS

# Banking System in 1998

Croatian National Bank

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# BANKING SYSTEM IN 1998

## Summary

At the end of 1998, 60 banks were trading in Croatia, of which eight were under in majority state ownership and nine in majority foreign ownership. The total assets of all banks was 103 billion kuna, which is a 9.8 percent increase compared to the previous year (assets in 1997 increased by 27.5 percent). The assets of banks under majority state amounted to 38 billion kuna, whereas the assets of banks under majority foreign ownership amounted to 5.8 billion kuna. Four major banks comprised 53 percent of the total assets, as was the case in 1997. At the end of 1998, there were also 36 savings banks in the Croatian banking system, including three building societies. They accounted for only 1.5 percent of the total assets.

In 1998 and 1999, considerable changes occurred in the Croatian banking system. Banks with stable trading, could easily be distinguished from those whose expansion was not accompanied by an adequate business policy; this distinction was particularly evident in the recession which hit the Croatian economy. According to the Croatian National Bank's (CNB) assessment, the banks that made up as much as 80 percent of the Croatian banking market, could be classified into the former group of banks with satisfactory stability.

Following a period marked by, on the one hand, the rehabilitation of four major state-owned banks (Slavonska, Riječka, Splitska, and Privredna banka) burdened to a great extent with the heritage from the previous system, and on the other hand, the establishment of a large number of new banks together with a sudden expansion of banking operations, it became evident that the rapid growth of some banks had no sound basis. These banks thus faced serious problems as soon as the high savings inflow of in the first post-war years decreased and the obligations toward depositors had to be settled by the income from investments of the raised funds. Some banks showed irresponsible management of other entities' money, sometimes even criminal activity, when granting a large part of their loans to connected persons, without adequate guarantees and concern for recoverability; as a result, they were very soon faced with liquidity problems.

In view of the fact that these disturbances were not of a temporary character, and that rehabilitation of such banks at the taxpayers' expense was unacceptable since it would encourage further moral hazard and malpractice, extreme measures had to be undertaken against some financial institutions, including withdrawal of the operating licence. At the CNB Council proposal, it was decided to initiate bankruptcy proceedings in eight banks were reached (Vukovarska banka, Ilirija banka, Glumina banka, Gradska banka, Komercijalna banka, Županjska banka, Neretvansko gospodarska banka, Trgovačko-turistička banka) in 1998 and 1999. Additionally, after the appointment of a temporary administrator and analysis of the present situation, a rehabilitation process, which is still in progress, was initiated in Dubrovačka banka and Croatia banka. In the cases of some banks where the supervisory authorities had encountered certain operating problems, the central bank appointed its commissioners to assist in eliminating irregularities and stabilising operations.

In spite of being unaccustomed to the fact that banks can go bankrupt, the Croatian public has calmly accepted this cleaning up of the banking system. Nevertheless, there was a temporary decrease in kuna and foreign exchange savings between March and May 1999, followed by a slight, but continuous rise in savings in the Croatian banking system. The elimination of the problem banks from the market favourably influenced supply and demand on the money market, thus reducing interest rates.

Management and supervisory boards, as representatives of banks' owners, are mainly responsible for the implementation of sound operation principles, efficient competition and financial stability. Auditing companies have an important role in the assessment of their performance. The central bank is also to a great extent responsible for the development of effective regulation and supervision of banking operations. However, in order to create a sound and stable banking system and to resolve crises with minimum costs for the public, all institutions responsible for the promotion of market principles, financial discipline and operation legality should act in a co-ordinated and consistent manner.

**JEL:** G28, G21, E65

**Key words:** bank crisis; prudential regulation; supervisory system; risk management

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# Banking System in 1998

## Introduction<sup>1,2</sup>

The stability of the financial system is essential to economic growth in every country. Banks and other financial institutions, apart from earning profit for their owners, contribute to the general economic welfare. A sound banking system implies a quality economic system in the country, and banks that are managed by competent and responsible persons.

The development of the banking system in the Republic of Croatia over the last ten years needs to be assessed in the context of the development of an economy with all the transitional characteristics. The market could not be adequately covered by the major state banks, burdened with the heritage from the previous system, which resulted in the entry of new private banks. Minor state banks and one big bank underwent privatisation. The development of the banking system was significantly influenced by the stabilisation program at the end of 1993 and rehabilitation of some banks in 1995 and 1996.

After 1997, new weaknesses were evident in the banking system. At the beginning of autumn 1998, the first indicators of recession in the Croatian economy appeared. All the weaknesses accumulated over the past years came to light in the banks whose considerable expansion was not accompanied by an adequate business policy. The distinction between problem and non-problem banks became more prominent. In 1998, Croatia was considered to be in a banking crisis, and public confidence in the Croatian banking system was threatened.

In this report, developments in the Croatian banking system in 1998 are accompanied by figures, which include the latest findings.

Special attention was given to banking legislation and enhancement of the banking supervision system.

## 1. The Banking System and Its Environment

The banking system of the Republic of Croatia has a of the key role in the economy. However, it cannot be viewed outside its historical, political and economic environment. Monetary policy, banking regulations and other regulations represent the framework within which the banking system functions. A stable environment has a positive effect on the development and functioning of the banking system. On the other hand, a sound banking system must be able to meet its obligations at any time and mitigate

the unexpected events in the economic and political environment.

Transition to the market economy has resulted in an increased number of banks. The policy of exchange rate and price stabilisation at the end of 1993 initiated an economic recovery. The major state banks were burdened with their heritage from the previous system, and although they were far ahead of other banks in terms of size and market share, they could not adequately participate in the banking activities, being borrowers rather than lenders in the money market. This resulted in an interest rate increase. At the end of 1995 and during 1996, Slavenska, Riječka, Splitska and Privredna banka Zagreb were rehabilitated, which enabled these banks to assume an active role and changed the relationships in the market. The presence of banks owned by foreign entities has contributed to the increasing competition.

Following the successful transitional period in which inflation was curbed and the kuna exchange rate stabilised, the Croatian economy faced difficulties characteristic of transition countries. The main feature of the Croatian economy in 1998 was a significant slowdown in growth. Over the first three quarters, the GDP growth rates were positive at the annual level, whereas in the last quarter, the quarterly GDP annual change index was negative for the first time in the previous five years. Some of the economic indicators are shown in Table 1.

The absence of institutions and systems for assuring adherence to the market principles and financial discipline contributed to illiquidity development. Croatia has been facing liquidity problems for a long time, which is characteristic of all transition countries.

The economic developments in 1998 affected the

**Table 1.** Economic Indicators of Croatian Economy

Economic indicators	1994	1995	1996	1997	1998
GDP (million USD, current prices)	14,585	18,811	19,872	20,109	21,752
GDP – annual changes (in %, constant prices)	5.9	6.8	5.9	6.8	2.5
GDP per capita (in current USD)	3,137	4,029	4,422	4,398	4,833
Retail price inflation (in %, end of year)	-3.0	3.7	3.4	3.8	5.4
Current account balance (as % of GDP)	5.7	-7.7	-5.8	-11.6	-7.1
Outstanding external <sup>a)</sup> debt (million USD, end of year)	2,822	3,336	4,808	6,662	8,489
Gross international reserves (million USD, end of year)	1,405	1,895	2,314	2,539	2,816
Exchange rate on December 31 (HRK : 1USD)	5.6287	5.3161	5.5396	6.3031	6.2475

a) Part of the increase in the foreign debt in 1996 was caused by the inclusion of the total amount of the rescheduled debt owed to the Paris Club and the London Club.

Sources: Central Bureau of Statistics and Croatian National Bank.

1 This document is based on the previous reports by the Croatian National Bank on the banking system and the CNB Annual Report for 1998.

2 The document was discussed at the CNB Council session held on October 27, 1999.

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banking system, especially the solvency and liquidity of particular banks with risky trading. Banks with operational problems had appeared in 1997, and in 1998 their number increased and their problems deepened, which was to result in the rehabilitation of two banks and bankruptcy proceedings, or a proposal for the initiation of bankruptcy proceedings in eight banks during 1998 and 1999. The reasons due to which these banks had failed included poor risk management, the absence of or non-compliance with a clear business policy, business methods inherited from the previous system, rapid expansion in an underdeveloped market, and unfavourable global developments. Prior to the enactment of the new Banking Law, there was no adequate and expeditious method to resolve these bank problems. Due to insufficient experience in merger and takeover processes, bankruptcy proceedings and liquidation, the crises in some banks were not promptly resolved. These bank crises resulted in a lack of confidence in the banking sector and withdrawal of deposits from banks. In order to enhance the safety of deposits, the Minister of Finance decided in mid 1998 to increase the amount of insured savings deposits from 30–50 thousand to 100 thousand kuna. At the end of 1998, the new Banking Law amended some deficiencies in the old Law on Banks and Savings Banks; it contains provisions for a bank's exit from the banking market and CNB preventive measures when a bank is faced with problems.

The Croatian economy is facing the next stage of development, in which modern institutions and more efficient legislation will enable the survival and progress of efficient economic entities. However, while a high-quality banking system will have a favourable influence on its environment, it can function properly only within an environment that is sound.

## **2. Banking System Development Trends in 1998**

### **2.1 Banking System Characteristics**

The basic characteristics of the banking system structure in Croatia in 1998 did not significantly change compared to the previous year. There were 60 banks<sup>3</sup> with operating licence, all of them universal, which is the same as at the end of 1997. 53 banks and one branch of a foreign bank were licensed to perform international operations. As in the previous year, four out of the five major Croatian banks were in majority state ownership, with a 34.1 percent share in total bank assets.

The share of the four major banks in total bank assets was 53 percent, which is identical to 1997. Total bank assets increased from 94.1 billion kuna at the end of 1997 to 103.2 billion kuna, which represents a 9.6 percent increase (1997 growth was 27.5 percent).

Apart from banks, there were 36 savings banks, including three building societies in the Croatian banking system at the end of 1998. Savings banks do not have an important financial value in the Croatian finance market. Their total assets at the end of the year accounted for only

1.5 percent of total bank assets. Savings banks and building societies are not separately discussed in this report. A detailed review of their operation can be found in the CNB Annual Report for 1998.

Serious problems occurred in the Croatian banking system in 1998. The beginning of the year was marked by the Dubrovačka banka crisis, and considerable operational difficulties in several small and medium-sized private banks arose during the year. In 1998, banks incurred a total loss of 1.3 billion kuna, whereas 1.2 billion kuna profit was earned in 1997. 19 banks reported a loss of 2.1 billion kuna, whereas 41 banks reported an overall 742 million kuna profit. The data will partly be changed, after implementing the results of the CNB supervision. The CNB supervision results presently available are presented in item 2.7.

For the purpose of a more transparent insight into the current situation in the Croatian banking system, it was decided to classify banks into categories from I to V. The categories were formed according to data on business performance in 1998 and 1999. Category I encompasses all major banks that operated in 1998 without difficulties and with a relatively stable growth. The majority of banks were classified into category II, and were shown together regardless of their heterogeneity. Category III includes banks with operational difficulties. Banks where bankruptcy proceedings were initiated in 1999 comprise category IV. One bank cannot be referred to any of the previously stated categories due to its specific features, and is therefore classified into category V.

#### **Category I**

Seventeen banks classified into category I account for 71.9 percent of total bank assets in 1998. Every bank has assets exceeding one billion kuna. The assets of this bank category increased by 13.4 percent in 1998. This category includes state banks which have been rehabilitated and major banks in private or majority private ownership. It is evident that category I is very heterogeneous: it comprises state banks awaiting privatisation (one of them was successfully privatised), the biggest bank and other considerably smaller banks. This category also encompasses banks in partial or majority foreign ownership, still in the stage of penetrating the market (the largest assets increase in 1998 was recorded in this bank category). Banks in this category earned profit in 1998. The total profit at the category level was 591 million kuna.

#### **Category II**

A total of 26 banks are classified into category II, with assets ranging from 23 million to 700 million kuna. Their share in the total assets was 7.4 percent, and their asset growth was 12.1 percent. These banks earned a total profit of 81 million kuna. This category also includes several small banks whose assets exceeded half a billion kuna. These are mainly regional banks, all operating at a profit.

#### **Category III**

Category III encompasses nine banks with assets nearing half a billion kuna or more that had operational difficulties in 1998 and 1999. These banks' share in total bank assets was 9.5 percent. The assets of the banks in this category fell by 7.3 percent. These banks recorded a

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<sup>3</sup> More precisely, 59 banks and one branch of a foreign bank.

**Table 2.** Some Indicators by Bank Categories

Category	Number of banks within the category	Category share in total assets %	Asset growth %	Category Profit/Loss in millions HRK
I	17	71.9	13.4	591
II	26	7.4	12.1	81
III	9	9.5	-7.3	-687
IV	7	6.9	5.7	-1,331
V	1	4.3	-3.8	4
Total	60	100.0	9.6	-1,342

trading loss of 687 million kuna in 1998. Seven banks in this category received bridging loans, and one of them took an **intervention** loan. In compliance with the new Banking Law, in 1999, the Croatian National Bank prescribed remedial measures for the banks comprising category III. A temporary administrator was appointed in some banks, also in accordance with the new Law. The review of measures prescribed by the Croatian National Bank for the banks within the Croatian banking system is given in item 3.3 of this report.

#### Category IV

This category includes six banks where bankruptcy proceedings were initiated and one bank against which a **request** for initiating bankruptcy proceedings was filed (a total of seven banks). This group accounts for 6.9 percent of total bank assets in 1998, and their asset growth amounted to 5.7 percent. The loss incurred by this group was 1,331 million kuna. These banks could be described as aggressive banks. A steep rise in investments and high deposit interest rates over the previous years, accompanied with other performance weaknesses and irregularities, resulted in insolvency and illiquidity in 1998 and finally in bankruptcy.

#### Category V

As in the previous year, one bank should be referred to as a special case. This is the first bank in majority private ownership in which rehabilitation process was carried out. Rehabilitation was initiated in compliance with the Bank Rehabilitation and Restructuring Law, by combining several measures, including replacement of bad assets, recapitalisation, and dismissal of the management board. Rehabilitation was decided upon in April 1998. Due to the deterioration in the general economic situation, as well as deepening of bad assets problems, another decision to rehabilitate this bank was made in February 1999.

## 2.2 Structure of Banks' Balance Sheets

Banks' short-term assets accounted for 45.2 percent of total assets at the end of 1998. The greatest share of short-term assets or 28.9 percent of total assets consisted of short-term loans to non-financial institutions.

Long-term loans granted to non-financial institutions (33.1 percent of total assets) and long-term securities (13.2 percent of total assets) represented the most important type of long-term assets, which accounted for 54.8 percent of total assets. 66.5 percent of total investments was denominated in kuna and 33.5 percent in foreign currency.

Performing assets comprised 85 percent of the total assets, whereas non-performing assets accounted for 15 percent of total assets.

Banks' short-term liabilities represented 58.5 percent of their total liabilities. Sight deposits had the greatest share, followed by short-term deposits (20.6 percent of the total sources of funds). Foreign exchange deposits represented 84.1 percent of total deposits.

Long-term deposits and obligations arising from long-term loans accounted for the greatest share of long-term liabilities, together comprising 31.6 percent of total bank liabilities.

**Table 3.** Consolidated Banks' Balance Sheet as of December 31, 1998, thousand kuna and %

No.	ASSETS	Amount	Share	No.	LIABILITIES	Amount	Share
1.	Money assets	2,608,337	2.53%	1.	Sight deposits	23,438,748	22.71%
2.	Deposits with the CNB	5,135,469	4.98%	2.	Short-term deposits	21,313,992	20.65%
3.	Short-term securities	4,258,052	4.13%	3.	Short-term loans received	3,722,733	3.61%
4.	Short-term loans to financial institutions	968,424	0.94%	4.	Short-term securities issued	865	0.00%
5.	Short-term loans	29,889,423	28.96%	5.	Obligations based on interests, fees and other liabilities	3,227,972	3.13%
6.	Interests, fees and other assets	3,731,099	3.62%	6.	Long-term deposits	14,590,165	14.14%
7.	Long-term securities	13,587,646	13.17%	7.	Long-term loans received	18,016,508	17.46%
8.	Long-term investments in shares and participations	4,560,401	4.42%	8.	Long-term securities issued	239	0.00%
9.	Long-term loans to financial institutions	563,073	0.55%	9.	Equity capital	9,427,058	9.13%
10.	Long-term loans	34,210,419	33.15%	10.	Supplementary capital	1,192,657	1.16%
11.	Purchased claims	50,677	0.05%	11.	Reserves	2,140,929	2.07%
12.	Tangible and intangible assets	3,636,969	3.52%	12.	Special provisions	7,783,035	7.54%
				13.	Profit or loss	-1,654,912	-1.60%
	TOTAL ASSETS	103,199,989	100,00%		TOTAL LIABILITIES	103,199,989	100,00%

Equity capital (paid-in share capital) in 1998 amounted to 9.4 billion kuna, which is a 2.1 percent increase compared to 1997 when it stood at 9.2 billion kuna. Its share in total liabilities has had a downward trend (10.3 percent in 1996, 9.7 percent in 1997, and 9.1 percent in 1998). Supplementary capital does not represent a significant category, with a share of only 1.1 percent of total liabilities, both in 1997 and 1998. The most important element within the supplementary capital are general provisions for unidentified losses.

In 1998, special provisions for identified losses increased compared to 1997, amounting to 7.8 billion kuna and representing 7.5 percent of total bank liabilities (in 1997, they accounted for 5 percent of total liabilities).

Banks incurred losses in the current and previous years of 1.6 billion kuna.

### 2.3 Capital Adequacy

The capital adequacy ratio is a measure of a bank's stability and liquidity, representing a capital-to-asset ratio. Risk-based capital and assets specially classified and weighted by risk grades are taken into account. Risk-based capital is composed of equity capital and supplementary capital, which must not exceed the amount of equity capital. Assets are classified and risk weighted. High risk weights are assigned to investments in connected persons and high-level individual investments.

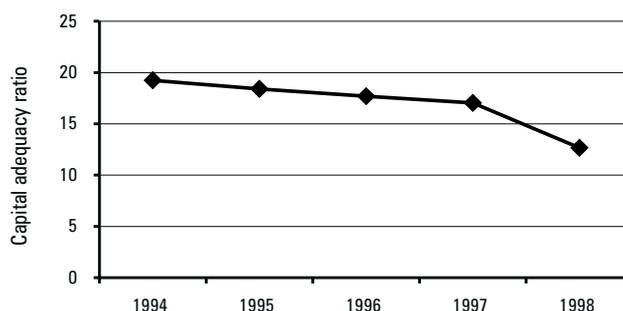
According to the Banks and Savings Banks Law, banks were required to adjust the volume of their operations in 1998 so that risk-based capital amounts to not less than 8 percent of the total amount of the bank's classified and risk weighted assets and asset off-balance sheet items. Banks are obliged to maintain that ratio in order to be capable of covering potential losses at any time.

At the end of 1998, risk-based capital in the overall banking system stood at 9.5 billion kuna, whereas it amounted to 10.7 billion kuna at the end of 1997. Seven banks reported negative risk-based capital at the end of 1998 due to substantial losses caused by low quality assets.

In terms of the banking sector, the capital adequacy ratio was 12.66 percent at the end of 1998, whereas it was 17.05 percent at the end of 1997. In both cases, the capital adequacy ratio exceeded the required 8 percent. Changes in the level of the capital adequacy ratio from 1994 to 1998 are presented in the following Figure.

A decrease in risk-based capital, i.e. in the capital adequacy ratio, compared to 1997, was significantly effected by the above mentioned seven banks with negative

Figure 1. Banks' Capital Adequacy



risk-based capital reported. These are the banks facing operating problems already referred to in this report. The other banks had a satisfactory capital adequacy ratio.

### 2.4 Asset Quality

Bank asset quality analysis, or assessment of the value of individual items reported in a bank's balance sheet, is the most complicated and, at the same time, the most important segment in the evaluation of the operational stability of a bank and the overall banking system. Asset quality analysis is a very sensitive issue because of its significant impact on a bank's business output and all the aspects of its performance, such as profitability, liquidity and capital.

The methodology for the assessment of asset quality is the most important segment in evaluating the quality of bank's performance, since its aim is to determine the amount of reserves a bank is required to set aside by debiting expenditures for the purpose of covering potential losses. Individual asset items are exposed to different degrees of risk and are, accordingly, classified into risk or riskless assets. Risk assets are composed of items that might involve risk, in contrast to riskless assets that include assets having a risk rating of zero. Riskless items encompass funds in the giro account, vault cash, required reserve with the central bank, CNB bills and foreign exchange cash. Estimation of asset quality is carried out for risk assets. Risk assets include short-term and long-term loans and deposits, short-term and long-term investments, interests and fees for banking services. Off-balance sheet items (bank guarantees and other guarantees, sureties, open uncovered letters of credit, and other potential liabilities) are also referred to as risk assets. Banks are obliged to assess credit risk of risk assets quarterly, by evaluating the risk of each individual debtor. Risk assets are classified into five categories based on quality, i.e.

Table 4. Classification of Risk Assets as of December 31, 1998, thousand kuna

No.	ASSETS	A	B	C	D	E	TOTAL
1.	Total loans, securities and deposits	72,900,434	4,432,077	3,884,420	1,682,863	1,540,106	84,439,900
2.	Total interests	1,239,713	192,029	197,674	183,005	333,161	2,145,582
3.	Total fees	106,095	15,967	14,817	20,280	16,815	173,974
4.	Other risk assets	7,779,265	491,465	777,208	109,796	247,660	9,405,394
5.	Non-classified assets	7,035,139					7,035,139
	<b>Total</b>	<b>89,060,646</b>	<b>5,131,538</b>	<b>4,874,119</b>	<b>1,995,944</b>	<b>2,137,742</b>	<b>103,199,989</b>
6.	Off-balance sheet items	15,202,350	1,246,294	700,664	722,173	221,901	18,093,382
	<b>Total</b>	<b>104,262,996</b>	<b>6,377,832</b>	<b>5,574,783</b>	<b>2,718,117</b>	<b>2,359,643</b>	<b>121,293,371</b>

**Table 5. Banks' Good and Bad Assets at the End of 1998, thousand kuna and %**

ASSETS	Good assets	%	Bad assets	%	Total	%
<b>a) Risk assets</b>						
– Claims based on deposits, credits and securities	72,900,434	86.3	11,539,466	13.7	84,439,900	100.0
– Interests	1,239,713	57.8	905,869	42.2	2,145,582	100.0
– Fees	106,095	61.0	67,879	39.0	173,974	100.0
– Other risk assets	7,779,265	82.7	1,626,129	17.3	9,405,394	100.0
<b>b) Non-classified assets</b>	7,035,139	100.0	0	0.0	7,035,139	100.0
<b>c) Formed reserves for risk assets</b>						
– credits and other investments	–		5,852,483	100.0	5,852,483	100.0
– interests	–		761,847	100.0	761,847	100.0
– fees	–		55,904	100.0	55,904	100.0
– other risk assets	–		841,477	100.0	841,477	100.0
<b>Total assets (a+b-c)</b>	<b>89,060,646</b>	<b>93.1</b>	<b>6,627,632</b>	<b>6.9</b>	<b>95,688</b>	<b>100.0</b>
<b>Good and bad assets at the end of 1997 in thousand kuna</b>						
<b>Total assets (a+b-c)</b>	<b>84,611,100</b>	<b>94.5</b>	<b>4,851,800</b>	<b>5.5</b>	<b>89,462,900</b>	<b>100.0</b>

recoverability (A, B, C, D, and E). The first category (A) is referred to as “good assets”, and the four remaining categories of claims, where generally difficulties in collection of payment occur, are referred to as “bad assets”. Assets assessed by a bank as good do not require reserves. Reserves must be set aside for bad assets.

At the end of 1998, the share of good assets (assets graded A) was 86.33 percent of the banks' total risk assets, whereas the remaining 13.67 percent accounted for bad assets (B-E categories). In 1997, the share of good assets was 88.9 percent, in contrast to 11.1 percent of bad assets. Potential losses arising from risk assets and off-balance sheet risk assets in terms of the overall banking system amounted to 7.8 billion kuna at the end of 1998, which represented 6.4 percent of total risk assets. Potential losses amounted to 5.5 billion kuna in 1997, which also accounted for 6.4 percent of the total risk assets.

## 2.5 Liabilities Quality

Deposits prevailed among Croatian banks' liabilities, comprising 61 percent of total liabilities, followed by received credits with 19 percent of total liabilities. Under conditions of stability, savings is considered one of the best sources of bank funds. However, a high level of savings proved to be unfavourable for Croatia. This was, among other things, due to the high interest rates policy of some banks, which caused a rise in interest rates in the overall banking system. Accordingly, serious problems appeared in some banks, causing a significant withdrawal of deposits from almost all banks.

## 2.6 Operational Risk Management

### 2.6.1 Loan Concentration Restrictions

A large exposure to a single borrower or a group of interconnected borrowers poses a great risk to banks. There are regulatory restrictions on large exposures.

Large exposures are individual loans (or some other individual claims, or assumed obligations, on a single borrower) exceeding 20 percent of the risk-based capital. At the end of 1998, there were seventeen banks with large exposures, totalling 1.3 billion kuna.

Maximum exposures are loans which exceed 30 percent of the risk-based capital. At the end of 1998, eleven banks had maximum exposures, totalling 4.7 billion kuna.

The total amount of all loans and other claims, or assumed obligations, on a single borrower may not exceed 30 percent of the risk-based capital. At the end of 1998, eighteen banks exceeded this limitation in 43 individual cases, totalling 7.5 billion kuna in claims. This can be explained by the large exposures inherited from the previous system, such as loans to the Croatian Power Supply and INA, the national oil company (roll over London and Paris Club facilities). However, these loans are diminishing, as are the obligations towards foreign creditors.

### 2.6.2 Connected Lending Restrictions

Loans to shareholders, i.e. owners of equity with over 5 percent of voting shares or participations in a bank, can be extended only upon a unanimous decision of the bank's management board with the prior approval of the supervisory board, under the condition that the amount of the loan does not exceed 5 percent of the risk-based capital. This restriction also applies to companies in which the bank's shareholders have a majority interest. Loans to the management and supervisory boards members, procurators, and members of their immediate families require a unanimous decision of the supervisory board.

Loans extended to persons connected to the bank (shareholders or owners of equity participations with over 5 percent of voting shares or equity participations, companies in which the bank's shareholders have a majority interest, members of the management and supervisory boards, procurators and their families' members and banks connected by capital) totalled 0.51 billion kuna. These loans were extended in 41 banks. Of these, 0.02 bil-

lion kuna were extended in loans above the prescribed limits. The banks which disregarded these limits were made to answer for these violations when charges were brought against them.

### 2.6.3 Investment Restrictions

A bank's investment in land, buildings, equipment, business premises' remodelling, and equity participations in banks and companies may not exceed 70 percent of the risk-based capital, while investment in land, buildings, equipment and business premises' remodelling may not exceed 30 percent of the risk-based capital.

In accordance with the Law on Banks and Savings Banks applicable in 1998, banks were, under certain conditions, allowed to temporarily exceed the said restrictions. If a bank decided to exercise this right, it was obliged to reduce its investment to the prescribed level within a year. Investments in non-banking companies, made to avoid losses, were not included in the calculation and were not reported as an investment overrun in their first two years. However, if a bank failed to dispose of them after that period, they had to be taken into account when calculating investment restriction.

Banks' investments in shares and participations of other companies amounted to 3.46 billion kuna, representing 36.41 percent of the risk-based capital of the overall banking system. On the other hand, investment in tangible and intangible assets amounted to 3.47 billion kuna, representing 36.50 percent of the risk-based capital, thus exceeding the legally prescribed maximum of 30 percent. Total investment in shares and equity participations of companies, together with total bank investment in tangible and intangible assets was 6.93 billion kuna, or 72.91 percent of the risk-based capital, exceeding the prescribed maximum of 70 percent. Property and equity participations banks acquired in exchange for non-performing investments were, in the country's unfavourable economic environment and insufficiently developed market, difficult to sell.

**Table 6.** Banks' Income Statement for 1998, in thousand kuna and %

No.	Item	Amount	Share
1.	Income from interest and related sources	8,661,673	65.52%
2.	Fee income	1,712,192	12.95%
3.	Income from equity securities	51,943	0.39%
4.	Other income and extraordinary income	2,794,880	21.14%
	<b>Total income</b>	<b>13,220,688</b>	<b>100.00%</b>
1.	Cost from interest income and related sources	4,339,212	27.22%
2.	Fee income	370,047	2.32%
3.	General administrative costs	3,515,061	22.05%
4.	Other costs and extraordinary costs	2,507,363	15.73%
5.	Provisions	5,212,025	32.69%
	<b>Total cost</b>	<b>15,943,708</b>	<b>100.00%</b>
	<b>Income and cost balance</b>	<b>-2,723,019</b>	
	<b>Dubrovačka banka loss coverage</b>	<b>1,560,885</b>	
	<b>Income tax</b>	<b>179,841</b>	
	<b>Profit or loss after tax</b>	<b>-1,341,975</b>	

## 2.7 Banks' Income Statements

As already stated in item 2.1. of this report, in 1998 the overall banking system realised a loss of 1.3 billion kuna, in contrast with the previous year when it realised a profit of 1.2 billion kuna (19 banks reported a loss totalling 2.1 billion kuna, while 41 banks reported a profit of 742 million kuna).

Total income in 1988 was 13.2 billion kuna. Structurally, the most significant item representing 65.5 percent of total income, is interest income, followed by 12.9 percent in fee income, and 21.1 percent in other income. Compared to 1997, interest income rose from 64.9 percent to 65.5 percent, while fee income fell from 15.9 percent to 12.9 percent. The share of fee income is relatively small and shows a downward trend, in contrast to the international banking practice where this type of income surpasses interest income.

Total costs in 1988 were 15.9 billion kuna. Interest income accounted for 27.2 percent of total costs, fee income for 2.3 percent, general administrative costs for 22 percent, and other costs for 15.7 percent. Costs of provisions for contingent losses (value adjustments) were 5.2 billion kuna or 32.7 percent of total costs, in contrast to 1997 when they were one billion kuna or 11.3 percent of total costs. The large increase in value adjustments are primarily the result of the increased levels of provisions for contingent losses in 1998. The loss reported in 1998 can mostly be attributed to that increase.

The data supplied by the CNB supervision relate to the business year ending December 31, 1998 and include additional provisions set aside following the examination of banks by the CNB's on-site supervision department.

**Table 7.** Results of the CNB Supervision for 1998

Number of banks with changed results	Profit/loss shown per bank in million kuna	Additional provisions after the CNB supervision	Profit/loss after the CNB supervision
6	23.8	689.4	-665.6

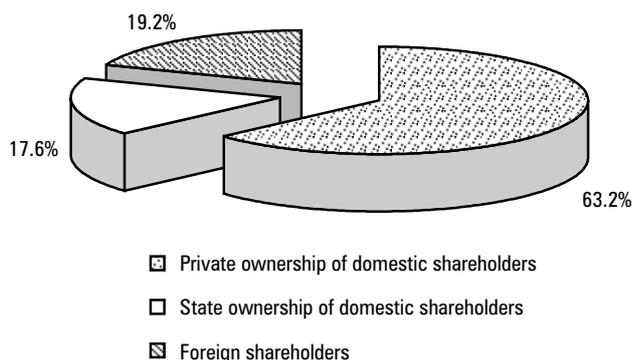
The largest portion of additional provisions, totalling 658.3 million kuna, can be attributed to the four banks identified as problem banks under category III in item 2.1. of this report. Additional provisions are partly a result of unfavourable movements in the economy. Insufficient levels of provisions could also be attributed to the role of subjectivity in assessing risk. The fact that banks know their customers better and can better understand their arguments and believe their promises about improving their financial position makes banks more lenient. This mechanism did not prove justified and mostly ended unfavourably for the banks.

## 2.8 Banks' Ownership Structure

At the end of 1998, 17.6 percent of owner's equity of banks in the Republic of Croatia was state-owned, 63.2 percent was mostly in private domestic ownership, and 19.2 percent was foreign-owned.

Of the total of 60 banks, eight were predominantly state-owned. Of the remaining 52, nine banks were owned by foreign shareholders.

**Figure 2: Banks' Ownership Structure as of December 31, 1998**



### 3. Problems of the Banking System and Their Solutions

#### 3.1 Poor Risk Management as the Main Cause of Banking Crises

It is well-known that the number of banks in Croatia increased after the Law on Banks and Savings Banks was passed in 1993. Some of the newly-founded private banks and some of the privatised banks recorded rapid growth, which failed to be supported by any developed system of risk management. These banks' growth was characterised by growth in deposits attracted by high interest rates as well as by growth in credit portfolio without adequate risk assessment. Such behaviour negatively affects the banking system and encourages other banks to raise their interest rates. High interest rates inevitably lead to an economic slowdown.

##### 3.1.1 Credit Risk

Credit risk is the most widely-recognised risk in banking and it is dominant in Croatian banks. Credit risk is the risk that a borrower will default on his obligations towards a bank. It lies in the possibility that a borrower or a security issuer will not be in the position to repay the loan or some other credit exposure, i.e. that he will not service his debt in due manner.

In some banks, loans were given without a previous assessment of the borrowers' creditworthiness, or without ensuring adequate loan security, often with large risk concentration (high-level exposure to some borrowers or connected persons). In order to manage credit risk properly, clearly defined credit policies need to be defined and implemented. Clearly, they were non-existent in some of the Croatian banks, while, though defined and existent, they failed to be implemented in others.

Some of the approaches to bank management and banking are the legacy of the previous system. The transitional environment does not differentiate between ownership and management. It is frequent that one person, or a small number of persons, may have control over the group's business operations and its relations with a bank, and very often this person or persons influence the bank's trading. In addition, a large conflict of interest may arise in the case when the owner of a bank, or a person managing the bank, is given a loan by the same bank.

Connected lending arises from poor risk management,

which is a key element leading to banking crisis. As stated previously, credit risk is the most significant of risks in banking and it is poor credit risk management which led to problems in some banks. The result is, as already stated, bank rehabilitation in two banks, bankruptcy proceedings or proposals for initiating bankruptcy proceedings in eight banks and difficulties in several banks.

##### 3.1.2 Liquidity Risk

Liquidity risk is the risk that a bank will default on its obligations when they fall due. A bank may not have sufficient liquidity or may fail to co-ordinate its assets and liabilities maturities in a manner which would satisfy its cash requirements. An extreme aspect of this risk is the risk of a major run on a bank. This can usually be attributed to major disturbances outside the scope of a bank's liquidity risk management.

Liquidity risk is linked to credit risk and in general it can usually be said that a bank with good credit risk management will also have good liquidity management. Good bank management is characterised by proper management of all risks in banking, or overall risk management. Similarly, a bank which does not manage credit risk properly will have difficulty in managing liquidity risk in an appropriate manner. This has proved true in the cases of the problem banks. Their liquidity problems were the beginning of a visible manifestation of their accumulated weaknesses, but they were also a sign of these banks' poor risk management policy.

##### 3.1.3 Currency Risk

Currency risk is the risk of loss due to unfavourable exchange rates for a bank's foreign currency assets and liabilities or rights and liabilities denominated in foreign currency. Foreign currency liabilities may not be greater than foreign currency claims nor can foreign currency claims be greater than foreign currency liabilities in an amount which exceeds 30 percent of the risk-based capital of a bank. Banks are required to report on this to the Croatian National Bank on a daily basis. The currency is especially important for the Croatian banking in the light of the fact that 62 percent of all banks' liabilities in 1998 were denominated in foreign currency, while the majority of assets were in kunas. To avoid currency risk in lending, banks use currency clauses. In this way currency risk is transformed into credit risk. According to December 31, 1998 data, the overall banking system' foreign currency claims exceeded foreign currency liabilities by over 38 percent of the risk-based capital. The reason for this is the previously mentioned foreign currency clause lending, as well as bonds issued for rehabilitation (also with a currency clause) in the rehabilitated banks' assets.

##### 3.1.4 Interest Rate Risk

Interest rate risk lies in the vulnerability of banks to interest rate changes in relation to their sources and credits. More specifically, a bank may have losses when its assets and liabilities are not co-ordinated adequately in relation to interest rate changes. It is in the interest of banks to monitor this risk closely in order to keep under control any discrepancies between interest earning assets and interest paying liabilities, as well as the difference between lending rates and deposit rates. According to 1998 data, banks' interest earning assets were 9.3 percent higher

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than interest paying liabilities, which can be seen as a favourable indicator. But, instead of adequate risk monitoring, problem banks introduced higher deposit rates to attract more deposits.

Looking back, it can be said that some banks used impulsive trading policies rather than the policy of proper risk management. Such an approach to trading can only be short-lived.

Disregard of banks' owners and management for risk monitoring is not exclusively characteristic of Croatian banking. Many developed countries, and especially transition countries, have also experienced banking system crises and bank bankruptcies.

### 3.2 Other Weaknesses in the Banking System

The most important weaknesses in the banking system are:

- inefficient interest rate mechanism;
- undeveloped capital market and unsettled privatisation;
- high costs;
- inefficient internal control and audit of banks.

#### Interest Rate Mechanism

In the present environment, the interest rate still lacks the needed market dimension. In developed financial markets, the interest rate channels money into profitable and sound sectors. In the last several years, interest rates tended to be too high because of banks' expansion policies based on high deposit interest rates. Following favourable interest rates trends in 1997 (the rates fell slightly), the banking crisis in 1998 affected interest rates movements resulting in a sharper difference between deposit and lending rates (deposit rates fell while lending rates rose during the year). The interest rate on the money market was also unfavourable. At the beginning of 1998, it stood at around 10 percent, but increased during the year and reached 16 percent at the end of the year.

High interest rates in the Croatian banking can be attributed to a number of unfavourable factors, such as:

- structural problems in the economy;
- high risk premium included in the price of capital;
- high currency and credit risk premium;
- inadequate credit policies and risk management of banks;
- expensive funding;
- financial market segmentation and low competitiveness;
- undeveloped financial market and poor supply of financial instruments; and
- high fee income.

#### Undeveloped Capital Market and Unsettled Privatisation

An undeveloped capital market and unresolved privatisation are weaknesses which can greatly affect the country's overall economic and banking system. Privatisation is not completed and, in cases where it is, it has not taken the course needed for the creation of sound market entities. Most banks trade with customers who have problems due to uncompleted or poorly completed privatisation (thus the problem of an undeveloped capital market and unresolved privatisation affects the whole banking system).

The new Banking Law defines measures for the improvement of ownership structure. It also sets higher levels for banks' core capital and it requires that bank stock must be registered. It does not allow lending for the purchase of bank stock and stock of a company in the bank's majority ownership or ownership of persons connected with the bank. It also sets higher criteria which will force problem banks out of the market and which will improve overall business and financial discipline.

A frequent occurrence in Croatian banks are debt-equity swaps. In this way banks come into possession of unwanted equity portfolios, very often as sole or majority owners. Such investments are difficult to evaluate because of their undefined market value. As equity capital, they are also difficult to sell on the undeveloped capital market. The acquired portfolio only burdens banks' balance sheets without bringing any profit.

The previous Law on Banks and Savings Banks also contained provisions on restrictions on bank investment into tangible assets and equity capital and, in this respect, the new Banking Law does not bring much new. The prescribed mechanisms which banks have at their disposal to get rid of equity capital acquired in exchange for non-performing loans, can only work if there is a market for this type of capital. A solution might lie in finding strategic buyers for companies in bank ownership. This is especially important when the banks themselves have not been privatised yet and are also on the lookout for a strategic investor.

#### High Costs

Croatian banks are structurally very different from modern banks around the world. Croatian banking is characterised by a relatively large number of banks offering only a limited number of banking products. Overmanned, they have great costs and resultantly higher lending price. In 1998, overall banks' general administrative costs were 3.5 billion kuna or 22 percent of all banks' total costs. Compared with 4.3 billion kuna or 27 percent of total costs in interest costs, which are major banking costs, it can be said that general administrative costs are extremely high. In its restructuring, the Croatian banking will have to adopt modern trends and technologies to reduce costs and improve efficacy.

#### Inefficient Internal Control and Audit of Banks

While the importance of internal control and audit are globally recognised, their role and significance in Croatia are still not fully acknowledged. Although under the previous legislation banks were required to set up their internal control units and perform internal audits, in most banks, internal control and audit are still in the process of structuring and, to the extent they have been used, have not proved efficient in identifying and solving of problems in banks. It is hoped that the new Banking Law, which sets forth detailed provisions in this respect, will speed up the process of establishing an efficient system of internal control and audit in banks. The new Banking Law specifies the number of employees required for the position of internal control and internal audit and their qualifications as well as these units' organisation structure and scope of activity. The responsibility of internal control is to evaluate and examine a bank's business activities, and to determine if its legislation (both in the process of its

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making and enactment) complies with the existing regulations. It reports to the bank's management board. Internal audit, which reports to the bank's supervisory board, is planned to examine and evaluate the bank's compliance with the law and other regulations as well as the relevant accounting standards.

### **3.3 Crises in the Croatian Banking System and How They Were Resolved**

As stated previously, in 1998 a number of banks faced difficulties. The first in the line of problem banks was Dubrovačka banka. Soon, it was followed by Ilirija banka, Glumina banka, Komercijalna banka, Županjska banka, Gradska banka, and Neretvansko-gospodarska banka. The result was deposit withdrawal and loss of confidence in the banking system.

The new Banking Law, unlike the previous Law on Banks and Savings Banks, contains provisions which regulate exit rules for banks and provisions which define preventive measures of the Croatian National Bank for banks in which problems are detected.

Both before but especially after the new Banking Law, the Croatian National Bank took the initiative in solving the banking crisis. As a result, in 1999 several banks were forced out of the market. Bankruptcy proceedings were initiated in six banks (Ilirija, Glumina, Gradska, Komercijalna, Županjska, and Neretvansko-gospodarska banka) and a proposal was given to initiate bankruptcy proceedings in Trgovačko-turistička banka. In the years before the crisis, these banks offered high deposit rates to attract funds for their investments, which were often risky. This, together with other weaknesses and irregularities in trading, led these banks to insolvency and finally to bankruptcy. With the exception of Vukovarska banka, whose bankruptcy in 1998, owing to this bank's particular importance, was not a classical example of bankruptcy, bankruptcies initiated in 1999 were the first real examples of bank bankruptcies. The crises which emerged were not unexpected. The structure of the Croatian banking system had often been criticised and bank mergers suggested as desirable. The moral hazard present in some of the Croatian banks had also been pointed out. The reduced availability of foreign loans, due to the global financial crisis, coupled with the growing economic problems at home, helped speed up the fall of some banks and stressed the need for urgent remedial action in other potentially critical banks.

In 1998, several banks had liquidity problems, which continued well into 1999, and had to turn to the Croatian National Bank for loans.

In accordance with the new Banking Law, in 1999 the Croatian National Bank undertook measures to improve the conditions in the problematic Croatian banks. These measures ranged from corrective measures to appointing its commissioner.

Corrective measures were prescribed to seventeen banks and commissioners were appointed in three banks. Apart from the said measures, nine banks were found illiquid.

The Council of the Croatian National Bank appointed temporary administrators in four banks (Croatia banka before the rehabilitation, Agroobrtnička banka, Hrvatska gospodarska banka, and Promdei banka). Temporary ad-

ministrators had also been appointed in several banks which later went bankrupt (Gradska banka, Županjska banka, Komercijalna banka, and Glumina banka).

In 1998 and 1999, the Croatian National Bank submitted to the Commercial Court proposals for initiating bankruptcy proceedings in eight banks and four savings banks. The result was bankruptcy proceedings in seven banks and two savings banks.

One of the possible measures for bank distress at disposal to the Croatian National Bank is bank rehabilitation as provided by the Bank Rehabilitation and Restructuring Law. The Croatian National Bank proposes a bank's rehabilitation to the Government of the Republic of Croatia, which makes the final decision. It will generally decide in favour of the proposed rehabilitation when it is of special interest to the community or when other options have been exhausted for the prevention of disruption of the overall financial system. In 1998, two banks were put up as candidates for rehabilitation. It took place in one of them. Two more banks entered rehabilitation in 1999.

After the critical problems in banks have been solved, the focus of interest shifts to long-term solutions including bank restructuring, privatisation of state-owned banks and banks which went through rehabilitation, and their recapitalization, mainly by means of strategic investors, which implies new technology and new quality of trading. Privatisation started off well in 1999. The privatisation of Slavenska banka is completed, while the preparations for this process are under way in several other large banks.

## **4. Strengthening Banking Legislation and the Quality of Banking Supervision**

One of the basic pillars of banking supervision is adequate regulation. The basic outlines for supervisory regulation were set forth by the 1993 Law on Banks and Savings Banks and subsequent regulations which specify in more detail capital adequacy ratios, risky assets classifications and levels of provisions.

The new Banking Law and its regulations represent supervisory regulation compliant with the International Accounting Standards and the Core Principles for Effective Banking Supervision by BIS. These are the minimum requirements for effective supervision which have to be met by supervisory authorities. They may be further supplemented with measures relative to the specifics of a situation and risks characteristic of a particular country.

### **New Banking Regulation**

The new banking regulation is an improvement on the previous one. Among others, it contains the already mentioned provisions on remedial actions which the Croatian National Bank may take against problem banks. The new Banking Law was used as a basis for the subsequent regulations which are listed below.

### **Banking Law (Official Gazette 161/98)**

This Law sets out general provisions on commercial banks and their trading, the foundation of banks and subsidiaries, reporting to the Croatian National Bank, ac-

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counting and auditing in banks and bank supervision. Compared to the Law on Banks and Savings Banks, the new Law better regulates the exit rules for banks, remedial measures at the disposal of the Croatian National Bank for distressed banks as well as the issue of connected lending.

According to the new Law, a bank's core capital requirement can be set at 20 million kuna, 40 million kuna or 60 million kuna depending on the bank's licence. Banks are required to adjust to this provision of the Law until the end of 1999. Further, savings banks have to recapitalize and transform into banks by the end of 2001. The new Law also provides that all bank shares must be registered.

The provisions of the Law which regulate bank exposure prescribe the minimum capital ratios and maximum levels of exposure, calculated in accordance with detailed instructions given in separate decisions. It should be noted that the previous Law on Banks and Savings Banks also contained similar provisions. However, the new Law defines the term "connected persons" (exposure to connected persons which are treated as a single exposure). In addition, it forbids giving loans for the purchase of shares of a bank or company in majority bank ownership or in ownership of persons which are in some way related to the bank (for example, bank shareholders, legal persons in which these shareholders have a controlling interest or legal persons in which the bank has a controlling interest). The Law also provides that bank shares cannot be used as collateral for a loan given by the same bank.

The new Law also regulates the organisational structure and work of the internal control and the internal audit, and follow up and measuring of risks. In addition, it defines the minimum areas of activity which banks are required to regulate by their relevant regulations.

The new Banking Law sets out new criteria for problem banks exit rules as well as new criteria aimed at improving business and financial discipline. It also defines measures which the Croatian National Bank may take against a bank found to be violating regulations or trading improperly or at risk. These measures can take the form of a written warning, a written order to comply with the provisions of the law, or a written order stating special conditions for the bank's trading. If the Croatian National Bank establishes that a bank's capital adequacy has fallen  $\frac{3}{4}$  below the required minimum, the Croatian National Bank will appoint its commissioner in that bank. When the potential losses of a bank, arising from risky placements, exceed the bank's risk-based capital or when the bank is incapable of making payments, the Croatian National Bank may, in accordance with the provisions of the Law, appoint a temporary administrator in such a bank. If the said measures fail to give results, the Croatian National Bank is obliged by the provisions of the Law, to submit to the competent court a proposal for initiating bankruptcy proceedings in the problem bank. The Croatian National Bank may also propose a bank's rehabilitation to the Government of the Republic of Croatia

#### **Decision on the Methodology for Calculating Bank's Capital (Official Gazette 32/99)**

This Decision defines the methodology for calculating banks' core, supplementary and risk-based capital in accordance with the law and international guidelines. Risk-based capital is used as a measure of a bank's expo-

sure and investment restrictions into various types of assets. The Decision is applied as of April 1, 1999.

#### **Decision on the Methodology for Calculating Capital Adequacy and Risk-Weighted Assets of Banks (Official Gazette 32/99)**

This Decision sets forth the methodology for calculating capital adequacy and risk-weighted assets of banks. Risky balance and off-balance sheet items are classified according to degrees of risk and thus risk-weighted by 0, 20, 50, 75 and 100 percent. The previous Decision also contained risk-weights above 100 percent.

#### **Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure (Official Gazette 32/99)**

This Decision deals with the classification of placements into risk categories A, B, C, D, and E, relative to their credit risk. The classification is based on objective criteria (including due settlement of obligations), on subjective criteria (borrower's creditworthiness), and on the quality of the instruments of collateral.

A section of the Decision deals with the issue of the assessment of bank exposure in accordance with the Banking Law. In particular, it determines high level exposure, exposure to one person or connected persons and to persons who are in a special relation to the bank.

#### **Decision on the Amount and Method of Forming Special Provisions to Ensure Against Potential Losses of Banks (Official Gazette 32/99)**

Special provisions against potential losses of banks may take the form of provisions for identified and unidentified losses. Special provisions for identified losses are formed for B, C, D and E category claims which are reduced by the amount of reserves assigned to them. General provisions for unidentified losses are intended for coverage of potential future losses.

#### **Decision on the Chart of Accounts for Banks (Official Gazette 32/99)**

The new Chart of Accounts for Banks is fully compliant with the book-keeping requirements and provisions of the Banking Law and regulations of the Croatian National Bank. The new Chart of Accounts is applied as of July 1, 1999.

#### **Decision on Restriction of Investment into Tangible Assets and Equity Participation (Official Gazette 38/99, 64/99)**

A bank's investment into land, buildings, equipment and business premises' remodelling may not exceed 30 percent of its risk-based capital. Together with investment into equity participations in companies, the total investment may not exceed 70 percent of the bank's risk-based capital. These restrictions, taken over from the Law on Banks and Savings Banks, are contained in the regulations of the new Banking Law.

#### **Decision on Reporting to the Croatian National Bank on Single Borrower Indebtedness with Banks to an Amount Exceeding Five (5) Million Kuna (Official Gazette 51/99)**

Based on this Decision, banks are required to submit data on individual borrowers, or connected persons whose indebtedness with a bank at any given moment exceeds fi-

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ve million kuna. The Croatian National Bank is required to distribute information on borrowers indebted with more than one bank to all banks. The first report of this type was distributed in the autumn of 1998. The banks reacted well, accepting them as a useful incentive for the improvement of asset management.

**Decision on Detailed Conditions for the Establishment and Operation of Representative Offices of Foreign Banks (National Gazette No. 32/99)**

This Decision regulates the establishment and removal of the representative office from the Register of Foreign Bank Representative Offices in the Republic of Croatia.

**Rule Book on the Banking Exam (National Gazette No. 32/99)**

This Rule Book regulates the manner in which banking exams are conducted and the conditions which candidates have to fulfil before taking the exam. The Certificate in Banking is one of the conditions that candidates have to fulfil in order to be granted the CNB's consent for appointment to the position of a bank's president or a member of a bank's management board.

**Rule Book on the Procedure and Criteria for Granting Prior Approval for the Appointment of the Chairman and Members of a Bank's Management Board (Official Gazette 32/99)**

This Rule Book regulates the procedure and criteria based on which the CNB grants prior consent for the appointment of the chairman and members of the bank's management board.

**Decision on the Statistical Report for Banks and Instructions for Completing the Statistical Report (Official Gazette 57/99, 72/99)**

This Decision regulates the form and content of the balance sheet and profit and loss account that are to be submitted to the Croatian National Bank for the purpose of supervision and monetary statistics. After the enactment of this Decision, banks will be obliged to submit data that will also be used by the Area of Control and Supervision and Statistics Department, which has not been the case so far.

**Decision on the Form and Minimum Scope and Content of Bank Audit and Audit Report (Official Gazette 64/99)**

The Decision prescribing the form and content of bank audit and audit report was enacted in 1998 for the first time, requiring banks to submit their reports for 1998 by the end of June 1999, in accordance with the prescribed scope and content. Since the results obtained by the enactment of this Decision were positive, a new Decision regulating the audit of a bank's performance in 1999 was enacted based on the new Law.

**Decision on the Form and Content of the Application for Granting a Bank Operating License (Official Gazette 99/99)**

This Decision sets out the required documents that must be enclosed with the application for bank establishment in order to obtain an operating license.

**Importance and guidelines for the improvement of supervision and control**

The task of bank supervision is to contribute to the stability of the financial system by establishing and maintaining a sound and stable banking system. As regards the performance of this task, it should be noted that bank supervision is not the only pillar of financial stability and no miracle can be expected from it, if other pillars are unstable and weak. This task can only be fulfilled by co-ordinated action. The role of bank supervision is to minimise all types of risks and problems, i.e. to determine the risk on time and take measures for its elimination.

Regarding the development of banking supervision, which was in 1993 established within the Croatian National Bank as the Area of Control and Supervision, much was achieved in a relatively short period. The strategic aim of the Croatian National Bank is to further strengthen and enhance banking supervision.

In a six-year period, the Area of Control and Supervision has been established as an organisational unit, staff has been recruited, the majority of basic regulations have been enacted, professional training has been organised, and regular bank supervision has been initiated. In that period, as well as today, several factors have had a negative impact on further enhancement, such as a lack of comprehension of the banking supervision role and a relatively "young" banking supervision system that should be further improved and developed.

As regards the former factor, it has changed to a great extent since the recent initiations of bankruptcy proceedings. As regards the latter, it is necessary to make further efforts to strengthen the banking supervision system.

The Area of Control and Supervision in the Croatian National Bank is composed of:

- On-site Supervision of Banks and Savings Banks Department,
- Off-site Supervision of Banks and Savings Banks Department,
- Supervision of Banks and Savings Banks Innovative Department, and
- Foreign Exchange Records Control Department.

The main function of the On-site Supervision of Banks and Savings Banks Department is on-site examination of banks and savings banks where the Croatian National Bank staff check the accuracy and validity of data from the business records of a bank or savings bank (in the bank itself), in compliance with the regulations, and assess the methods for business management in order to minimise all types of risks that might arise from operation.

The main function of the Off-site Supervision of Banks and Savings Banks Department is a continuous analysis of the financial standing of a bank or savings bank, as well as of the overall banking system, based on the submitted data. These analyses should be the guidelines for an on-site supervision and a preventive measure in the form of corrective measures for a particular bank or savings bank.

The main functions of the Supervision of Banks and Savings Banks Innovative Department are to monitor compliance and propose supervisory regulations, to devise and improve internal operational methodologies, and to follow international trends and co-operate with other in-

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stitutions.

In 1998, 18 on-site examinations of banks and 2 of savings banks were performed. Prominent international audit companies were invited in 1998 to carry out special audits of 12 banks' performance. The Area of Control and Supervision staff also participated in these audits. In the first half of 1999, on-site examination was carried out in 30 banks.

We opt for the bank supervision system to remain within the Croatian National Bank jurisdiction. This is supported by the inevitable and immediate need for enhancing the banking supervision function in order to improve efficiency and create stability, which is more important than spending effort and money on constructing a new institution and the related infrastructure.

The most important guidelines for the further improvement and development of banking supervision in the forthcoming five-year period are the following:

1. Improvement of regulations;
2. Human resource strengthening;
3. Formulation of written rules and procedures;
4. Continuous professional training;
5. Closer co-operation with external bank auditors;
6. Information exchange and co-operation with international financial institutions and other bank supervisory authorities;
7. Co-ordination of activities and exchange of information with other national supervisory institutions;
8. Supervision of the conducted payment transactions;
9. Improvement of banks' performance transparency;
10. Exchange of information and regular bank meetings.

#### **Improvement of Regulations**

One of the important tasks of the Area of Control and Supervision is to monitor compliance and propose supervisory regulations. A review of the new banking regulation is provided in the previous item.

#### **Human Resource Strengthening**

The Area of Control and Supervision<sup>4</sup> employs 58 people, and, for the purpose of human resource strengthening, 15 new employees were recruited in the second half of 1999.

#### **Formulation of Written Rules and Procedures**

One of the basic problems encountered by the Area of Control and Supervision is a lack of written rules and operational procedures. These problems have mainly arisen from the insufficient human resource within the Area, as well as inadequate business automation. Therefore, the formulation of the following written rules and procedures is under way: control methodology and preparation of appropriate manuals, control planning, data receipt automation, software writing and enhancement, development of the early warning system, bank bulletin publication.

#### **Continuous Professional Training**

In order to create efficient banking supervision, it is necessary to provide continuous professional training of the Area staff. The training process should be constantly improved, which will primarily be the task of the Innova-

tory Department.

#### **Closer Co-operation of External Bank Auditors**

Co-operation and exchange of information with external bank auditors is one of the pillars on which banking supervision relies in the performance of its function. The previous co-operation between supervisors and the banks' auditing companies was not satisfactory, since the audit reports did not reflect the real situation in a bank. Accordingly, certain actions were initiated regarding requirements for the content of the bank audit report, first applied in 1998, and closer co-operation was established with the external auditors with a tendency towards further improvement.

#### **Information Exchange and Co-operation With International Financial Institutions and Other Bank Supervisory Authorities**

In establishing the banking supervision system within the Croatian National Bank, considerable assistance was provided by international financial institutions (IMF and World Bank) and organisations (USAID and British Know How Fund). Further co-operation with these institutions is one of the strategic aims. Establishing co-operation and membership in supervisory bodies (committees, work groups, etc.) of the Bank for International Settlement – BIS also represents a strategic aim. One of the priorities is to establish co-operation with the supervisory authorities in the neighbouring countries (Austria, Slovenia, Bosnia and Herzegovina, Hungary, Italy), in the near future, for the purpose of exchanging information.

#### **Co-ordination of Activities and Exchange of Information With Other National Supervisory Institutions**

Bank supervision cannot replace the role of other national supervisory institutions (such as, Financial Police, Criminal Police, Foreign Exchange Inspectorate, Tax Administration, etc.) in charge of the supervision of other operation aspects. One of the strategic aims is to establish the exchange of information directly or indirectly related to bank performance, as well as the co-ordination of activities involved with carrying out the supervision of banks' performance. In that regard, some progress has already been made, and co-operation has been agreed.

#### **Supervision of the Conducted Payment Transactions**

Supervision of the conducted domestic and international payment transactions is planned to be included within the authority of the Area of Control and Supervision.

#### **Improvement of Banks' Performance Transparency**

A basic strategic aim of the banking system development is a greater transparency of bank performance. A certain transparency of bank operation is regulated by the provisions of the Banking Law and Audit Law. In order to achieve greater transparency, it is necessary to specifically define the time limits and contents of data that banks should submit to the Croatian National Bank for publication. This is planned to be realised by initiating the publication of the Bank Bulletin at the end of 1999.

#### **Exchange of Information and Regular Bank Meetings**

Communication regarding the exchange of data and information between the CNB and banks has mainly been one-way so far, and meetings have been convened only when a problem has appeared. The aim is to establish a two-way communication between the supervisory authorities and banks and to organise regular meetings in order

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<sup>4</sup> The total number of employees does not include Foreign Exchange Records Control Department staff.

# STATISTICAL APPENDIX

## Appendix I: Selected Data on Banks as of December 31, 1998

No.	Bank	Assets in 000 kuna	Growth	Profit	Risk-based capital	Equity kapital	Supplementary kapital	Off-balance sheet assets
1	2	3	4	5	6	7	8	9
1.	Agroobrtnička	456,111	-13.68	-12,307	57,171	55,838	2,080	67,111
2.	Alpe Jadran-Split	345,054	3.32	-6,613	66,307	84,123	1,904	79,324
3.	Bank Austria Croatia	1,070,893	136.58	13,198	204,484	249,415	5,069	80,304
4.	Bjelovarska	1,482,746	50.30	50,003	260,691	254,131	7,558	249,920
5.	BNP-Dresdner	248,134	54.20	-4,943	87,714	86,500	1,214	52,326
6.	Brodsko-Posavska	228,443	0.51	3,577	96,063	56,864	39,199	11,160
7.	Centar	214,363	9.57	2,108	92,837	91,824	1,013	31,394
8.	Cibalae	644,890	8.71	-88,317	446	473	0	97,398
9.	Convest	66,296	117.46	101	58,274	57,963	311	1,340
10.	Credo	320,073	33.28	3,063	61,380	60,198	2,288	196,541
11.	Croatia	1,905,277	-23.47	-493,247	-223,802	-230,362	10,064	412,369
12.	Čakovečka	350,252	2.08	8,163	87,382	66,870	20,512	109,350
13.	Dalmatinska	2,487,062	2.26	14,813	325,039	275,662	49,892	395,755
14.	Dubrovačka	4,385,799	-3.38	4,434	203,387	194,584	18,621	1,035,380
15.	Glumina	3,338,981	16.20	-457,139	-233,657	-334,433	134,584	1,509,010
16.	Gospodarsko kreditna	175,170	6.26	6,935	99,045	96,615	2,430	18,730
17.	Gradska-	1,584,645	16.46	-510,531	-331,137	-388,227	57,090	235,788
18.	HGB	628,464	-9.57	2,196	74,028	71,327	3,421	123,778
19.	HPB	2,067,110	2.80	1	439,274	431,465	11,655	664,339
20.	Hypo banka Croatia	1,109,705	259.08	13,727	237,122	226,311	10,811	41,253
21.	Hypobanka	43,189	1.48	30	30,000	19,530	10,470	4,123
22.	Ilirija	166,806	-33.07	-26,532	-9,087	-9,651	593	30,777
23.	Imex Banka	204,533	-2.38	4,034	67,752	66,887	865	18,316
24.	Istarska	1,913,837	-1.16	0	109,127	95,607	17,889	308,516
25.	Istarska kreditna	554,556	4.30	8,990	81,605	80,477	2,991	113,834
26.	Jadranska	1,422,759	10.59	4,962	209,403	203,118	7,076	137,118
27.	Kaptol	243,206	7.27	-2,209	57,980	53,261	6,014	61,885
28.	Karlovačka	1,001,613	-13.40	-48,177	67,680	60,267	8,329	213,771
29.	Komercijalna	302,797	-31.49	-195,560	-135,222	-136,253	1,031	29,749
30.	Krapinsko-zagorska	223,774	55.80	-8,339	47,068	45,877	1,191	66,146
31.	Kreditna	753,188	-9.33	4,007	184,607	180,646	4,681	276,944
32.	Kvarner	115,648	3.51	2,999	58,642	58,173	469	11,284
33.	Laguna	177,645	48.18	600	57,229	56,497	732	6,880
34.	Međimurska	1,173,940	17.69	17,002	147,772	142,875	5,953	180,799
35.	Nava	153,767	-2.12	2,750	26,094	25,293	801	35,352
36.	Neretv. gospodarska	123,291	15.17	-2,984	15,184	7,592	8,524	8,560
37.	Partner	340,562	-0.86	4,630	103,877	101,480	2,397	97,998
38.	Podravska	519,123	12.81	1,805	110,954	109,032	2,642	116,645
39.	Požeška	515,968	20.57	-51,744	67,151	65,398	2,761	159,805
40.	Privredna	16,950,192	10.62	118,746	1,663,210	1,799,154	146,525	2,395,621
41.	Promdei	329,204	0.92	284	176,277	175,027	1,250	99
42.	Raiffeisenbank	2,089,269	43.65	50,620	291,942	280,097	11,845	486,404
43.	Razvojna dalmatinska	23,328	-59.23	-2,193	7,743	7,848	90	909
44.	Riadria-Rijeka	1,122,613	9.21	-31,955	173,860	163,259	10,601	75,259
45.	Riječka	5,594,048	11.32	87,829	459,200	448,733	28,748	935,812
46.	Samoborska	228,292	-3.44	722	32,765	31,845	9,214	19,988

No.	Bank	Assets in 000 kuna	Growth	Profit	Risk-based capital	Equity kapital	Supplementary kapital	Off-balance sheet assets
1	2	3	4	5	6	7	8	9
47.	Sisačka	595,314	2.71	1,989	121,159	120,959	2,809	63,944
48.	Slatinska	701,502	33.62	12,679	120,436	112,176	10,149	23,667
49.	Slavonska	2,673,092	2.06	1,672	292,138	279,798	14,746	740,181
50.	Societe generale	240,641	25.27	3,649	25,392	23,924	1,468	55,462
51.	Splitska	7,651,099	7.58	31,584	416,374	380,959	35,415	550,162
52.	Štedbanka	514,710	25.50	16,567	189,348	94,674	155,599	89,013
53.	Trgovačko-turistička	115,247	28.32	-30,053	-14,108	2,504	422	22,071
54.	Trgovačka	417,714	-13.59	11,135	101,841	90,499	12,076	141,994
55.	Tršćanska štedionica	236,000	105.34	3,716	96,128	62,796	33,332	21,131
56.	Varaždinska	2,732,414	17.25	36,790	407,551	400,608	12,745	354,096
57.	Volksbank	225,734	114.46	-3,072	63,679	61,526	2,153	46,570
58.	Zagrebačka	24,851,950	9.98	178,001	1,944,077	1,859,165	217,437	4,290,580
59.	Zagrebačka, pomorska	1,426,900	11.82	12,204	133,996	127,364	6,632	58,780
60.	Županijska	1,421,056	-8.17	-108,375	-161,513	-162,959	7,286	430,567
	Total	103,199,989	9.58	-1,341,975	9,501,359	8,988,195	1,185,667	18,093,382

## Appendix II: List of Banks (December 31, 1998)

### •AGRO-OBRTNIČKA BANKA D.D.

Amruševa 8  
10000 ZAGREB  
Phone: +385 1 / 4553 069  
Fax: + 385 1 / 4817 642  
Tlx: 21608  
SWIFT: AOBH HR 2X

### •BNP - DRESDNER BANK (CROATIA) D.D.

Andrije Žaje 61  
10000 ZAGREB  
Phone: + 385 1 / 3652 777  
Fax: + 385 1 / 352 779  
Tlx: 21144 bn timer  
SWIFT: BNDB HR 2X

### •ALPE JADRAN BANKA D.D.

Starčevićeva 1  
21000 SPLIT  
Phone: + 385 21 / 305 305  
Fax: + 385 21 / 305 306  
Tlx: 26647 ajbank rh  
SWIFT: AJBK HR 2X

### •BRODSKO-POSAVSKA BANKA D.D.

Trg pobjede 29  
35000 SLAVONSKI BROD  
Phone: + 385 35 / 445 700, 445 800,  
Fax: + 385 35 / 445 900  
SWIFT : BROD HR 22

### •BANK AUSTRIA (CROATIA) D.D.

Jurišićeva 2  
10000 ZAGREB  
Phone: + 385 1/ 4800 777  
Fax: + 385 1 / 4800 891  
SWIFT: BACX HR 22

### •CASSA DI RISPARMIO DI TRIESTE BANCA D.D. – ZAGREB / TRŠĆANSKA ŠTEDIONICA - BANKA D.D.

Smičiklasova 23  
10000 ZAGREB  
Phone: + 385 1/ 4614 346, 4614 423  
Fax: + 385 1/ 4614 428, 4614 347  
SWIFT: TSBZ HR 22

### •BJELOVARSKA BANKA D.D.

Jurja Haulika 19a  
43000 BJELOVAR  
Phone: +385 43 / 275 101, 275 100  
Fax: + 385 43 / 241 897  
Tlx: 23330 bjelba rh  
SWIFT: BJBA HR 2X

### •CENTAR BANKA D.D.

Jurišićeva 3  
10000 ZAGREB  
Phone: + 385 1 / 480 3444  
Fax: + 385 1 / 4803 441  
Tlx: 21707  
SWIFT: CBZG HR 2X

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**•CIBALAE BANKA D.D.**

H.D. Genschera 2  
32000 VINKOVCI  
Phone: + 385 32 / 331 144, 331 307  
Fax: + 385 32 / 331 595, 331 172  
Tlx: 28254 ciban rh  
SWIFT: VKBK HR 2X

**••CONVEST BANKA D.D.**

Gajeva ulica 33  
10000 ZAGREB  
Phone: + 385 1 / 4556 633  
Fax: + 385 1 / 4819 153

**•CREDO BANKA D.D.**

Z. Frankopanska 58  
21000 SPLIT  
Phone: + 385 21 / 380 655  
Fax: + 385 21 / 380 683  
SWIFT: CDBS HR 22

**•CROATIA BANKA D.D.**

Kvaternikov trg 9  
10000 ZAGREB  
Phone: + 385 1 / 2338 137; 2331 778  
Fax: + 385 1 / 2332 470  
SWIFT: CROA HR 2X

**•ČAKOVEČKA BANKA D.D.**

Katarine Zrinski 1  
40000 ČAKOVEC  
Phone: + 385 40 / 311 434  
Fax: + 385 40 / 315 101  
SWIFT: CAKB HR 22

**•DALMATINSKA BANKA D.D.**

Trg Sv. Stošije 3  
23000 ZADAR  
Phone: + 385 23 / 311 311  
Fax: + 385 23 / 437 867; 433 145  
Tlx: 27224 dbk zd rh  
SWIFT: DBZD HR 2X  
Reuters: DBZH

**•DUBROVAČKA BANKA D.D.**

Put Republike 5  
20000 DUBROVNIK  
Phone: + 385 20 / 431 366; 411 924  
Fax: + 385 20 / 411 035; 412 814  
Tlx: 27540 hrvdubank  
27592 hrvdubank  
SWIFT: DUBA HR 2X

**•GLUMINA BANKA D.D.**

Trpinjska 9  
10000 ZAGREB  
Phone: 385 1 / 2394 444  
Fax: + 385 1 / 2395 705  
SWIFT: GLUM HR 22

**•GOSPODARSKO KREDITNA BANKA D.D.**

Draškovićeva 58  
10000 ZAGREB  
Phone: + 385 1 / 4802 555  
Fax: + 385 1 / 4802 577  
Tlx: 22404 ccb zg hr  
SWIFT: CCBZ HR 2X

**•GRADSKA BANKA D.D. OSIJEK**

Trg Ante Starčevića 7  
31000 OSIJEK  
Phone: + 385 31 / 229 300  
Fax: + 385 31 / 283 595  
SWIFT: GBOS HR 22 OSI

**•HRVATSKA GOSPODARSKA BANKA D.D.**

Metalčeva 5  
10000 ZAGREB  
Phone: + 385 1 / 3651 888  
Fax: + 385 1 / 3651 891  
Tlx: 21664, (ANSWERBAC) HGB RH  
SWIFT: HGBK HR 2X

**•HRVATSKA POŠTANSKA BANKA D.D.**

Jurišićeva 4  
10000 ZAGREB  
Phone: + 385 1 / 4804 513  
Fax: + 385 1 / 4810 700, 4810 773  
SWIFT: HPBZ HR 2X

**•HYPO BANKA CROATIA D.D.**

Koturaška 47  
10000 ZAGREB  
Phone: + 385 1 / 6103 660  
Fax: + 385 1 / 6103 555  
SWIFT: KLHB HR 22

**••HYPOBANKA D.O.O.**

Vodovodna 20a  
10000 ZAGREB  
Phone: + 385 1 / 339 082; 339 573  
Fax: + 385 1 / 339 079  
Tlx: 21621 hipzg rh  
SWIFT: HYZG HR 22 BIC

**••ILIRIJA BANKA D.D.**

Avenija Dubrovnik 10  
10000 ZAGREB  
Phone: + 385 1 / 6551 115  
Fax: + 385 1 / 6551 139; 6551 144  
Tlx: 21201 iliri rh  
SWIFT: ILIR HR 2X  
Reuters: IBZH

**•IMEX BANKA D.O.O.**

Tolstojeva 6  
21000 SPLIT  
Phone: + 385 21 / 357 015; 357 025  
Fax: + 385 21 / 583 849  
Tlx: 26191  
SWIFT: IMXX HR 22

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•**ISTARSKA BANKA D.D.**

Dalmatinova 4  
52100 PULA  
Phone: + 385 52 / 527 101, 527 309  
Fax: + 385 52 / 527 400, 527 444  
Tlx: 24746, 24716 ibpu rh  
SWIFT: IBPU HR 2X

•**ISTARSKA KREDITNA BANKA UMAG D.D.**

Ernesta Miloša 1  
52470 UMAG  
Phone: + 385 52 / 741 622; 741 536  
Fax: + 385 52 / 741 275; 741 396  
Tlx: 24745 ikb rh  
SWIFT: ISKB HR 2X

•**JADRANSKA BANKA D.D.**

Ante Starčevića 4  
22000 ŠIBENIK  
Phone: + 385 22 / 242 242  
Fax: + 385 22 / 335 881; 339 010  
Tlx: 27435; 27 346 jbs rh  
SWIFT: JADR HR 2X

•**KAPTOL BANKA D.D.**

Savska 66  
10000 ZAGREB  
Phone: + 385 1 / 6302 999  
Fax: + 385 1 / 6302 880  
SWIFT: KPZG HR 22

•**KARLOVAČKA BANKA D.D.**

I.G. Kovačića 1  
47000 KARLOVAC  
Phone: + 385 47 / 614 300, 614 200  
Fax: + 385 47 / 614 206  
Tlx: 23742 kb ka rh  
SWIFT: KALC HR 2X

•**KOMERCIJALNA BANKA ZAGREB D.D.**

Frankopanska 11  
10000 ZAGREB  
Phone: + 385 1 / 4830 800  
Fax: + 385 1 / 4830 537  
Tlx: 21595 pbs zg rh  
SWIFT: KOBZ HR 22

•**KRAPINSKO-ZAGORSKA BANKA D.D.**

Magistratska 3  
49000 KRAPINA  
Phone: + 385 49 / 370 770, 370 772  
Fax: + 385 49 / 370 771; 370 822  
Tlx: 29239  
SWIFT: KZBK HR 22

•**KREDITNA BANKA ZAGREB D.D.**

Ul. grada VukovarA 74  
10000 ZAGREB  
Phone: + 385 1 / 6167 333  
Fax: + 385 1 / 6116 466; 6116 468  
Tlx: 21197 krez zg rh  
SWIFT: KREZ HR 2X

•**KVARNER BANKA D.D.**

Jadranski trg 4/I  
51000 RIJEKA  
Phone: + 385 51 / 353 555  
Fax: + 385 51 / 353566  
Tlx: 24564 kbri hr  
SWIFT: KVRB HR 22 BIC

•**MEĐIMURSKA BANKA D.D.**

Valenta Moradinija 37  
40000 ČAKOVEC  
Phone: + 385 40 / 370500, 370 600  
Fax: + 385 40 / 314 610; 315 065  
Tlx: 23251 banka rh  
SWIFT: MBCK HR 2X

••**NAVA BANKA D.D.**

Tratinska 27  
10000 ZAGREB  
Phone: + 385 1 / 3656 777  
Fax: + 385 1 / 3656 700  
SWIFT: NAVB HR 22

••**NERETVANSKA GOSPODARSKA BANKA D.D.**

Trg kralja Tomislava 23  
20840 PLOČE  
Phone: + 385 20 / 679 222; 679 262  
Fax: + 385 20 / 679 838  
SWIFT: NGBP HR 22

•**PARTNER BANKA D.D.**

Vončinina 2  
10000 ZAGREB  
Phone: + 385 1 / 460 2222  
Fax: + 385 1 / 460 2280  
Tlx: 21212 parbaz rh  
SWIFT: PAZG HR 2X

•**PODRAVSKA BANKA D.D.**

Opatička 1a  
48300 KOPRIVNICA  
Phone: + 385 48 / 65 50  
Fax: + 385 48 / 622 - 542  
Tlx: 23368 pod kc rh  
SWIFT: PDKC HR 2X

•**POŽEŠKA BANKA D.D.**

Republike Hrvatske 1b  
34 000 POŽEGA  
Phone: + 385 34 / 254 200  
Fax: + 385 34 / 254 258  
Tlx: 28550 kb slp rh  
SWIFT: POBK HR 2X

•**PRIVREDNA BANKA ZAGREB D.D.**

Račkoga 6 / P.O.Box 1032  
10000 ZAGREB  
Phone: + 385 1 / 4610 401; 4610 447  
Fax: + 385 1 / 4610 429  
Tlx: 21120 pbz rh  
SWIFT: PBZG HR 2X  
Reuters: PBZH

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•**PROMDEI BANKA D.D.**

Ivekovićeva 17  
10000 ZAGREB  
Phone: + 385 1 / 4617 925  
Fax: + 385 1 / 4618 199  
Tlx: 21248 promde rh  
SWIFT: PDEI HR 2X

••**RAZVOJNA BANKA "DALMACIJA" D.O.O.**

Poljička cesta 39  
21000 SPLIT  
Phone: + 385 21 / 365 904; 371 000  
Fax: + 385 21 / 365 904; 371 000

•**RAIFFEISENBANK AUSTRIA D.D.**

Petrinjska 59  
10000 ZAGREB  
Phone: + 385 1 / 4566 466  
Fax: + 385 1 / 48 11 624  
Tlx: 21137 rba zg rh  
SWIFT: RZBH HR 2X

•**RIADRIA BANKA D.D.**

Gjуре Šporera 3  
51000 RIJEKA  
Phone: + 385 51 / 339 111; 339 803  
Fax: + 385 51 / 211 093; 211 013  
Tlx: 24 161  
SWIFT: ADRI HR 2X

•**RIJEČKA BANKA D.D.**

Jadranski trg 3a  
51000 RIJEKA  
Phone: + 385 51 / 208 211  
Fax: + 385 51 / 330 525; 331 880  
Tlx: 24 143 bankom rh  
SWIFT: RBRI HR 2X  
Reuters: RBRH

••**SAMOBORSKA BANKA D.D.**

Trg Kralja Tomislava 8  
10430 SAMOBOR  
Phone: + 385 1 / 3362 530  
Fax: + 385 1 / 3361 523  
Tlx: 21811 samba rh  
SWIFT: SMBR HR 22

•**SISAČKA BANKA D.D.**

Trg LJ. Posavskog 1  
44000 SISAČ  
Phone: + 385 44 / 549 100  
Fax: + 385 44 / 549 101  
Tlx: 23645 sbdd sk rh  
SWIFT: SSKB HR 2X

•**SLATINSKA BANKA D.D.**

Vladimira Nazora 2  
33520 SLATINA  
Phone: + 385 33 / 551 526; 551 354  
Fax: + 358 33 / 551 566  
Tlx: 28277 slatb rh  
SWIFT: SBSL HR 2X

•**SLAVONSKA BANKA D.D.**

Kapucinska 29  
31000 OSIJEK  
Phone: + 385 31 / 231 100, 231 115  
Fax: + 385 31 / 127 125  
Tlx: 28235; 28090 banka rh  
SWIFT: SLBO HR 2X

•**SPLITSKA BANKA D.D.**

Rudera Boškovića 16  
21000 SPLIT  
Phone: + 385 21 / 370 500; 370 516  
Fax: + 385 21 / 370 541  
Tlx: 26252 st bank rh  
SWIFT: SPLI HR 2X

•**ŠTEDBANKA D.O.O.**

Slavonska avenija 3  
10000 ZAGREB  
Phone: 385 1 / 6306 666  
Fax: 385 1 / 6187015  
SWIFT: STED HR 22

•**TRGOVAČKA BANKA D.D.**

Varšavska 3-5  
10000 ZAGREB  
Phone: + 385 1 / 4561 999  
Fax: + 385 1 / 4561 900, 4561 920  
Tlx: 22370 tb rh  
SWIFT: TRGB HR 2X

••**TRGOVAČKO-TURISTIČKA BANKA D.D.**

Kralja Petra Svačića 4  
21000 SPLIT  
Phone: + 385 21 / 361 755; 361 729  
Fax: + 385 21 / 362 122  
Tlx: 26609

•**VARAŽDINSKA BANKA D.D.**

P. Preradovića 17  
42000 VARAŽDIN  
Phone: + 385 42 / 10 60, 106 190  
Fax: + 385 42 / 106 122  
Tlx: 23224 banka rh  
SWIFT: VBDD HR 2X  
Reuters: VBVH

•**VOLKSBANK D.D.**

Varšavska 9  
10000 ZAGREB  
Phone: + 385 1 / 4801 300  
Fax: + 385 1 / 4801 365  
SWIFT: VBCR HR 22

•**VUKOVARSKA BANKA D.D.** - u stečaju

Trg bana J. Jelačića 1/II  
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- licensed banks with full authorisation
- licensed banks with limited authorisation

**Appendix III: Number of Reporting Deposit Money Banks  
and Savings Banks and Their Classification by Size**

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Year	Month	Total number of reporting DMBs	Reporting DMBs graded according to their total assets						Total number of reporting savings banks	Savings banks graded according to their total assets		
			Less than 100 million kuna	100 million kuna to less than 500 million kuna	500 million kuna to less than 1 billion kuna	1 billion kuna to less than 2 billion kuna	2 billion kuna to less than 10 billion kuna	10 billion kuna and over		Les than 10 million kuna	10 million kuna to less than 100 million kuna	100 million kuna and over
1	2	3	4	5	6	7	8	9	10	11	12	13
1993	December	43	16	12	7	4	2	2	0	0	0	0
1994	December	50	13	21	6	6	2	2	33	22	9	2
1995	December	53	15	20	7	7	2	2	21	7	13	1
1996	December	57	10	26	6	9	4	2	22	10	11	1
1997	December	60	4	28	9	8	9	2	33	12	18	3
1998	December	60	3	26	8	11	10	2	33	4	25	4

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## Appendix IV: Deposit Money Banks' Credit Rates

Weighted averages of monthly interest rates, in % on annual basis

Year	Month	Money market interest rates				Interest rates on credits in kuna			Interest rates on credits in kuna indexed to f/c			Interest rates on credits in f/c		
		On daily market	On overnight market	Total average	On short-term credits	On long-term credits	Total average	On short-term credits	On long-term credits	Total average	On short-term credits	On long-term credits	Total average	On short-term credits
1	2	3	4	5	6	7	8	9	10	11	12	13		
1992	December	2,182.26	2,182.26	2,332.92	2,384.89	1,166.29	20.41	9.90	21.41	-	-	-		
1993	December	86.90	34.49	59.00	59.00	78.97	21.84	19.00	23.14	-	-	-		
1994	December	17.76	8.50	15.39	15.43	13.82	11.99	12.38	11.65	-	-	-		
1995	December	27.15	27.26	22.32	22.56	13.48	19.56	21.62	14.33	15.73	16.56	12.27		
1996	December	10.41	9.66	18.46	19.35	11.51	18.97	22.56	12.12	19.28	21.11	10.95		
1997	September	8.79	7.28	14.29	14.30	14.24	15.82	18.44	13.02	15.25	16.62	8.84		
	October	8.62	7.60	14.59	14.70	13.15	15.92	18.45	12.86	18.69	20.96	11.04		
	November	8.54	7.57	13.73	13.91	12.04	15.54	17.68	12.62	17.48	17.90	15.14		
	December	9.41	8.46	14.06	14.12	13.24	14.40	16.92	12.25	13.56	14.58	10.05		
1998.	January	10.18	8.98	14.68	14.69	14.40	15.37	17.19	12.90	16.05	16.85	12.67		
	February	9.27	8.13	14.50	14.48	14.96	15.23	17.32	12.77	15.52	15.81	13.87		
	March	10.79	9.87	14.81	14.84	14.04	15.16	16.90	12.87	14.62	16.26	9.93		
	April	12.89	11.75	15.31	15.38	13.40	15.17	16.84	12.81	15.82	16.69	12.12		
	May	17.61	13.37	16.67	16.71	14.82	15.05	17.30	12.26	15.05	15.79	13.15		
	June	17.51	10.00	16.97	17.03	14.85	14.89	16.92	12.42	14.90	15.43	13.71		
	July	16.92	10.00	16.02	16.03	15.66	14.95	16.97	12.65	5.41	4.71	7.24		
	August	16.60	10.00	15.74	15.81	14.26	15.22	16.98	12.84	5.82	5.40	6.74		
	September	14.49	10.00	15.55	15.61	13.80	13.39	14.76	11.65	7.44	8.50	5.55		
	October	15.57	10.00	16.31	16.36	13.81	14.32	15.52	12.13	7.44	8.37	6.04		
	November	16.09	10.00	16.41	16.62	13.28	13.60	15.00	11.51	7.05	7.85	5.68		
	December	15.81	10.00	16.06	16.22	11.73	13.04	14.28	11.15	6.96	8.29	5.92		
Relative significance <sup>a)</sup>		5.37	39.38	27.48	26.50	0.98	24.57	14.84	9.72	3.21	1.41	1.80		

a) This data represent percentages of related credits in total credits included in calculation of weighted averages of monthly interest rates (for the last month included in this table)

## Appendix V: Deposit Money Banks' Deposit Rates

Weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on deposits in kuna			Interest rates on time and sav. dep. in kuna ind. to f/c		Interest rates on deposits in f/c		
		Total average	On demand deposits	On time and savings deposits <sup>a)</sup>	On time and sav. dep. in kuna ind. to f/c	Total average	On demand deposits	On time and savings deposits <sup>a)</sup>	
1	2	3	4	5	6	7	8	9	
1992	December	434.47	184.69	1,867.18	6.04	—	—	—	
1993	December	27.42	18.16	52.16	5.91	—	—	—	
1994	December	5.03	3.55	9.65	6.95	—	—	—	
1995	December	6.10	3.88	13.65	12.69	4.57	2.82	6.83	
1996	December	4.15	2.19	10.19	9.46	5.09	1.44	7.77	
1997	September	4.32	2.07	9.25	8.75	4.34	1.64	6.00	
	October	4.25	2.11	8.84	6.84	4.21	1.61	5.74	
	November	4.07	1.96	8.63	8.82	4.53	1.66	6.14	
	December	4.35	2.19	9.10	7.63	4.77	1.75	6.36	
1998	January	4.67	2.21	9.54	7.34	5.13	1.76	6.92	
	February	4.45	2.23	8.59	7.39	5.55	1.79	7.44	
	March	4.51	2.23	8.93	7.69	5.45	1.80	7.23	
	April	4.93	2.32	9.94	7.68	5.40	1.72	7.17	
	May	4.77	2.39	9.57	9.40	5.55	1.67	7.39	
	June	4.68	2.40	9.51	9.63	5.60	1.70	7.49	
	July	4.66	2.35	9.55	9.17	5.30	1.68	7.09	
	August	4.66	2.34	9.73	9.87	5.25	1.78	7.08	
	September	4.80	2.32	9.88	7.36	4.33	1.77	5.60	
	October	4.62	2.30	9.16	7.54	4.36	1.75	5.65	
	November	4.59	2.33	9.07	7.13	4.42	2.10	5.54	
	December	4.11	2.31	7.73	7.47	3.98	2.09	4.89	

a) From December 1992 through June 1995, data in column5 represent weighted averages of monthly interest rates on end-of-month outstanding deposits. Since July 1995, data represent weighted averages of monthly interest rates on new deposits in reporting month.

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In its periodical publications *Working Papers, Surveys and Discussion Papers*, the Croatian National Bank publishes scientific and scholarly papers of the Bank's employees, visiting scholars, and other associate contributors.

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