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Publishing Department
Trg hrvatskih velikana 3, 10002 Zagreb
Phone: +385 1 45 64 555
Contact phone: +385 1 45 65 006
Fax: +385 1 45 64 687

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1 Prudential regulations governing credit institutions' operations

1.1 Introduction

In the context of the accession of the Republic of Croatia to the European Union, the authorities have performed alignment of prudential regulations in the area of business operations of credit institutions with EU directives. The process of alignment, which started several years ago, resulted in the enactment of the Credit Institutions Act towards the end of 2008 (see Bank Bulletin no 17) and the 2009 amendments to this Act as well as in the enactment of subordinate legislation necessary for the implementation of the Act during 2009 and 2010. The alignment of domestic legislative framework regulating the business operations of credit institutions with the *acquis communitaire* is a dynamic process, which involves a constant need for improvement and enhancement of prudential regulations.

It should be stressed that the authorities enacted a completely new set of prudential regulations governing the business operations of credit institutions which, while regulating some previously regulated areas differently (such as capital adequacy in the part that relates to capital requirements for credit risk, large exposures, etc.), regulates other areas (such as capital requirements for operational risk and liquidity risk management and management of interest rate risk in the non-trading book) for the first time. One could say that the authorities performed a thorough and complete regulative replacement.

As regards the beginning of the application of prudential regulations, in most areas (capital adequacy, classification of placements and large exposures and other prudential requirements), the envisaged deadline for alignment was 1 July 2009. However, owing to a need for new alignment with the Capital Requirements Directive (2006/48/EC and 2006/49/EC, hereinafter: Directive), which was again amended in May 2009, it was decided that some provisions the implementation of which had been postponed until 1 July 2009 be postponed again, this time until 31 March 2010. Until that time, the provisions of the new, amended Directive were transposed into the Croatian legislative framework; the credit institutions were able to start applying the fully aligned regulations on 31 March 2010.

A summary of regulations governing capital adequacy, classification of placements and off-balance sheet liabilities and the management of liquidity risk and interest rate risk in the non-trading book is supplied below.

1.2 Decision on the capital adequacy of credit institutions

The calculation of capital adequacy, the measure of the minimum required capital that credit institutions have to maintain depending on the risk profile of their portfolio, is globally prescribed by Basel II,[1] a document published in June 2004. After making a few minor changes, the European Commission accepted it in 2006 and incorporated it into the Directive. In the process of legislative alignment with the *acquis communautaire* in the Republic of Croatia, the Directive was incorporated into the Credit Institutions Act (hereinafter: Act, OG 17/2008, 74/2009 and 153/2009) and subordinate legislation enacted pursuant to that Act. The application of Basel II and, by the same token, the new capital adequacy calculation, began in the Republic of Croatia on 31 March 2010.

The calculation of the capital adequacy ratio is prescribed in detail by the Decision on the capital adequacy of credit institutions (hereinafter: Decision on capital adequacy, OG 1/2009, 75/2009 and 2/2010) and the Decision on own funds of credit institutions (OG 1/2009, 41/2009, 75/2009 and 2/2010). The new decisions provide an entirely new approach to capital adequacy calculation. Although the calculation of own funds as the numerator of capital adequacy has not changed much, the calculation of capital requirements now includes, in addition to changes in the manner of their calculation, the possibility of use of internal models for the calculation of capital requirements for credit and operational risks. The use of internal models for the calculation of capital requirements for market risks was possible previously.

Owing to the banking system structure, which is characterised by a large number of smaller credit institutions and an extremely demanding internal model licensing procedure and conditions, only the standardised approaches are expected to be used in the Republic of Croatia over a longer term following the entry into force of these provisions. The fact that no credit institution has applied for this type of authorisation since 2004 when the use of internal models for the calculation of capital requirements for market risks was made possible, would tend to support such a forecast.

The capital adequacy ratio is calculated as the ratio of own funds to the overall amount of

1) risk-weighted exposure amounts for credit risk and
2) initial capital requirements for market risk and operational risk multiplied by 12.5.

Each credit institution with a registered office in the Republic of Croatia must maintain a minimum capital adequacy ratio of 12%. In prescribing the minimum capital adequacy ratio of 12%, the Republic of Croatia has exercised national discretion, which allows the Member States of the European Union to prescribe a rate of capital adequacy of over 8%, as prescribed by the Directive.

1 *International Convergence of Capital Measurement and Capital Standards*, Bank for International Settlements

1.2.1 Calculation of risk-weighted exposure amounts for credit risk

The manner of calculation of capital requirements for credit risk applied by credit institutions prior to 31 March 2010 was based on the so called Basel I and was very simple. The portfolio that was subject to weighting was classified according to the type of exposure into several weight-carrying categories (0%, 20%, 50%, 100% and 150%). Basel I saw a slight modification in the Republic of Croatia, as reflected in much larger (50%) risk weights for claims on clients with unhedged foreign exchange positions. Such risk weights were introduced because of a significant currency-induced credit risk in the Republic of Croatia, which is not present in most other European countries. This risk is present with those clients who, despite the fact that their inflows are mainly kuna-denominated, have most of their liabilities indexed to a foreign currency. Should there be any strengthening of the currency in which the loan is denominated against the kuna, there will be a risk that the client will not be able to pay back the increased value of the loan.

Under the new manner of capital adequacy calculation, the portfolio that is subject to weighting first has to be assigned to one of the prescribed exposure classes: claims or contingent claims on central governments or central banks, local and regional self-government bodies, public sector entities, multilateral development banks, international organisations, institutions, corporates, retail claims or contingent retail claims, claims or contingent claims secured by real estate property, past due items, items belonging to regulatory high-risk categories, claims in the form of covered bonds, securitisation positions, claims in the form of collective investment undertakings and other items.

Following portfolio assignment to exposure classes, the credit institutions may now under the new manner of calculation reduce an exposure, a procedure not allowed previously, by applying recognised credit risk mitigation techniques and thus modify the value of exposure that is being weighted. For example, a loan covered by a cash deposit may, using a mitigation technique where the credit institution uses a financial collateral simple method, be divided into two parts. The part of the loan covered by a cash deposit (provided that both the loan and the deposit are denominated in the same currency) is assigned a 0% risk weight (i.e. the credit institution is not required to allocate adequate capital for protection against risks associated with that part of the placement), and the remaining part of the loan is assigned a risk weight in accordance with the rules governing risk-weighting of such exposures. Where it uses a financial collateral comprehensive method, the credit institution will first reduce the deposit given as a guarantee for the said loan by volatility adjustments (in case of deposit and loan maturity and currency mismatch), and then reduce by the amount of the reduced deposit the underlying exposure which is further risk-weighted in accordance with the rules prescribed by this Decision. Therefore it is often stated that the application of certain credit risk mitigation techniques such as unfunded credit protection (for instance, received guarantee) or the application of a financial collateral simple method (for instance, guarantee deposit, collateral in the form of bonds, etc.) effectively implies a category switch. The reason for this is that in such cases the credit institution assigns to exposures, i.e. the part of exposure that is covered by eligible collateral, a risk weight that the credit institution would assign in case of an immediate exposure to that collateral.

After exposure class has been determined and, depending on credit risk mitigation techniques, after the amount of exposure that is to be risk-weighted has been reduced, the risk-weight is determined in most exposure classes depending on the credit quality step that the exposure belongs to in terms of credit assessment by a nominated external credit assessment institution (ECAI). In exceptional cases, for exposures to central governments and central banks, credit assessments published by export credit agencies (ECA) may be used. Export credit agencies are not recognised by the regulator but it is up to the credit institution to check if the conditions prescribed for the application of their credit assessments are met. By the date of application of the new regulations, the Croatian National Bank had recognised two ECAIs: Fitch Ratings and Moody's Investor Service. A greater risk weight is prescribed in the Decision for exposures where a credit institution does not select a nominated ECAI for a certain exposure class or where a certain client does not have a credit assessment by an eligible ECAI (the most common situation in case of most corporates in the Republic of Croatia).

Given that exposure classes are mainly determined based on the person to which a credit institution is exposed, it is first necessary to determine the total exposure of a credit institution to that person. This exposure is calculated as the sum total of all balance sheet (e.g. loan receivables) and off-balance sheet items (e.g. contingent liabilities in the form of granted but unused current account overdraft facilities).

The exposure of a credit institution arises from balance sheet items and contingent liabilities as well as from derivative financial instruments whose market value is carried on-balance and notional value off-balance sheet. Therefore, the exposure for such instruments is calculated by means of one of the prescribed methods (original exposure method, mark-to-market method, standardised method or internal model). The exposure for repo and reverse repo agreements and securities lending agreements is calculated in accordance with the provisions concerning the application of credit risk mitigation techniques or, after obtaining a prior permission, by means of the internal model.

After we have determined the exposure class and reduced the exposure amount by means of recognised credit risk mitigation techniques, off-balance sheet items should be further converted so as to obtain amounts comparable to balance sheet items before the risk-weighting procedure. Certain off-balance sheet items that may be cancelled unconditionally at any time or that are automatically cancelled due to deterioration in a borrower's creditworthiness are considered non-risky in terms of credit risk and are thus converted by a factor of 0%. In addition to the conversion factor of 0%, conversion factors of 20%, 50% and 100% have also been envisaged, depending on the probability of outflows associated with a single off-balance sheet item. Guarantees having the character of credit substitutes, such as all forms of payment guarantees where the credit institution guarantees to pay the debt in the case of failure to do so by the main obligor, are considered to carry identical risk as standard balance sheet items, and are thus converted by a conversion factor of 100%.

The exposure class to central governments and central banks includes exposures to government units financed from the government budget. In the Republic of Croatia, the central government includes legislative authorities (the Croatian Parliament and the State Election Commission), executive authorities (President of the Republic and the Government with the Ministries), the Constitutional Court, judicial and justice authorities (courts, ombudsmen and the state attorney). As regards this category, a privileged 0% risk weight has been envisaged for exposures to the Republic of Croatia and the Croatian National Bank which are denominated in kuna. Exceptionally, until 2012 the privileged risk weight may also be assigned to exposures to the Republic of Croatia, the Croatian National Bank, other Member States and Member States' central banks if denominated in the currencies of other Member States. The remaining exposures in the exposure class exposures to central governments and central banks are risk-weighted in accordance with ratings of individual states. Therefore, although euro-denominated claims on the Republic of Croatia would not require any capital requirements of credit institutions under the new regulations, in view of the external rating of the Republic of Croatia, the claim on the Republic of Croatia that is denominated in, for instance, US dollars, will require from the credit institutions to secure capital in the amount of 6% of the funds placed (owing to the fact that capital requirement is 12% and the risk weight for such exposures with BBB- rating is 50%).

The exposure class consisting of exposures to multilateral development banks includes exposures to the institutions listed in the regulation which carry a 0% risk weight and as such do not impose an obligation on the credit institutions to allocate capital for that purpose. This category does not exist in the banking system of the Republic of Croatia.

The exposure class consisting of exposures to local and regional self-government and public sector entities is mainly associated with the rules for risk weighting of exposures to institutions. Exempted are public sector entities listed in the regulation, the exposures to which are risk-weighted in accordance with the rules applicable to the central government. These most notably include public institutions, other legal persons with public authority and funds established by the Republic of Croatia whose operation is governed by a special law and are subject to government supervision (e.g. Croatian Pension Insurance Administration, Croatian Institute for Health Insurance, Croatian Employment Service, State Agency for Deposit Insurance and Bank Rehabilitation, Croatian Bank for Reconstruction and Development and similar bodies).

Given that it relates to many exposure classes, the treatment of the risk-weighting of exposures to institutions is extremely important in the entire Decision. Where institutions have a credit assessment by an eligible ECAI, the credit institution applies, depending on exposure maturity, the risk weight corresponding to that credit quality step. However, if the institution to which an exposure exists has no credit assessment, the credit institution may assign to exposures to such institutions a 50% risk weight (exposures with residual maturity of over three months) or a 20% risk weight (exposures with residual maturity up to three months). Exempted from the above-mentioned is, exclusively, a case where equal exposure to the central government of the country in which the institution to which an exposure exists has its registered office, carries a risk weight greater than that mentioned. In such a case, the credit institution applies at least that risk weight that is assigned to the equal exposure to the central government of the country in which this institution has its registered office.

For exposures to corporates, risk-weighting based on the credit assessment by an eligible ECAI has also been envisaged. Where no credit assessment by an eligible ECAI exists, these exposures are assigned either a 100% risk weight or the risk weight of the central government of the country in which this corporate has its registered office, depending on which is higher.

As regards the exposure class consisting of exposures to households, exposures to natural persons or small or medium size corporates (total assets up to HRK 130m, total income up to HRK 260m and/or average number of employees up to 250) may be assigned a privileged risk weight of 75%, provided the exposure is associated with a sufficiently diversified part of the portfolio (which in effect means that the credit institution has over 500 accounts per each such product). This risk weight may be applied only provided the total balance sheet exposure to the obligor does not exceed HRK 2.5m. Exposure to a natural person that does not meet these conditions is assigned a risk weight of 100%.

The most significant capital savings under the new regulations can be made in the exposure class consisting of exposures secured by property. Exposures secured by residential real estate property may be assigned a 35% risk weight, provided strictly prescribed conditions are met (e.g. the owner does not possess more than two residential real estate properties, exposure equal to or below 75% of the market value of the residential real estate property, etc.). It should be stressed that this privileged risk weight can be assigned to exposures secured by owner-occupied residential real estate property or residential real estate property that will be owner-occupied, which implies low probability of default by the obligor on his loan payment obligations. A privileged risk weight of 50% may, under certain prescribed conditions, also be assigned to exposures secured by commercial real estate property.

To avoid the impression that Basel II is much laxer than Basel I in all segments, it should be noted that the category of past due items that is assigned a risk weight of 150% (if value adjustments amount to below 20% of the unsecured part of total exposure) or 100% (if value adjustments amount to over 20% of the unsecured part of total exposure) is defined for the first time. These are placements which are past due for more than 90 days.

1.2.2 Calculation of capital requirements for market risks

In the same way as previously, a credit institution that exceeds the prescribed volume of trading book items (e.g. the value of its total trading book position exceeds 5% of the total transactions value, i.e. exceeds HRK 100m) is obligated to calculate capital requirements for position risks for these items. The definition of trading book has not changed significantly since the previous regulations so the trading book still comprises positions in financial instruments and commodity held for trading. Position risk means the risk of loss arising from a price change in financial instruments or, in the case of a derivative financial instrument, in underlying variables. It is divided into a general position risk (arising from a price change in a debt or equity instrument due to changes in the level of interest rates) and a specific position risk (arising from a price change in an individual debt or equity instrument due to factors related to its issuer).

Irrespective of its trading book volume, each credit institution has to calculate capital requirements for currency risk; however, under the new regulations it is not obligated to do so if its total open foreign exchange position increased by the net position in gold does not exceed 2% of own funds.

In accordance with the Directive, the Decision provides for the manner of calculation of capital requirements for commodity positions that Croatian credit institutions do not have currently.

1.2.3 Calculation of capital requirements for operational risk

Operational risk is definitely not a new type of risk but a risk that dates back to the beginning of bank operations. What is new, however, is the obligation to set up a system for operational risk management and the obligation to calculate capital requirements for operational risk.

The managements of credit institutions and regulators and supervisors have recognised the need for setting up operational risk management as a separate discipline, i.e. a risk management category different from credit, market and other risks management. The Basel Committee on Banking Supervision (BCBS) published back in 1998 the first document[2] which is to a certain extent used as a basis for the development of operational risk as an independent discipline and in 2003, this Committee published Sound Practices for the Management and Supervision of Operational Risk, a group of principles that constitute a framework for efficient operational risk management and supervision.

Basel II envisages the establishment of a structured and formalised system and a process of operational risk management, including also the calculation of capital requirements for operational risk. Under this standard, there are three possible approaches to the calculation of capital requirements for operational risk, which differ from each other in terms of complexity, sensitivity to risk and the demanding nature of the conditions that have to be met. The BCBS has devised the so called evolution concept, which offers a range of ever more complex and sophisticated approaches, and depending on business type, scope, complexity and the environment, the banks will be encouraged towards the use of increasingly more complex approaches. The essence of this approach is based on the assumption that adequate and sufficient capital requirements for a typical bank will fall as the bank takes more advanced steps towards operational risk management. Basically, this concept makes it possible for the bank to reduce minimum regulatory capital while at the same time enhancing the operational risk management and internal control systems and management as a whole.

Approaches to the calculation of capital requirements for operational risk include: the basic indicator approach the standardised approach and the advanced measurement approach. In case of the first two, simpler, approaches, the calculation of capital requirements is based on financial business indicators that should be proportionate to the risk profile. For this reason, these approaches are often referred to as top-down approaches, due to the fact that capital requirements are equal to a certain percentage of gross income items. The calculation of capital requirements under the advanced measurement approach is based on the assessment of risk parameters and internal data modelling, external data modelling by means of the scenario analysis and factors indicating internal controls quality and business environment characteristics. This is why the advanced measurement approach is included in the so called bottom-up approaches, which means that risk management implies the arrangement of numerous information segments on exposures that are determined and measured by means of the system of management in the business processes and overall business operations of a bank, and includes a detailed risk analysis and quantification and internal controls assessment.

From the very beginning of deliberation on capital requirements for operational risk, the BCBS has endeavoured to link economic capital allocated for operational risk by large banks (median 15%) with an indicator that can be relatively easily calculated by all banks. Following a number of quantitative studies, it was decided that the said measure corresponds to the share of approximately 12% (mean 15.3%, median 12.8%) of the minimum regulatory capital requirements for all risks, which closely corresponds to the share of approximately 15% of gross income.

The selection of gross income as a measure that in a certain way approximates operational risk exposure was no easy task either. As in the case of standardised approach for credit risk where capital

2 The Basel Committee on Banking Supervision, *Operational Risk Management*, Bank for International Settlements, Basel, September 1998.

requirements are calculated in such a way that an individual type of exposure is multiplied by the risk weight for that type of exposure, so also in the case of operational risk a measure was sought that would best represent it. Unlike credit risk, which is portfolio-specific, operational risk is distributed across the entire bank and is characteristic of all activities, processes, products and systems. Also, a measure was sought that bears relevance to regular business operations, that is independent of business operations efficacy and expenses to income ratio and that reflects the size of business operations. The BCBS has determined that the measure of operational risk should equal the sum total of net interest and net non-interest income, trading and other income, all constituting some kind of gross income, given that it is not reduced by the amount of general administrative expenses and provisions and that it excludes all extraordinary items. To avoid excessive volatility in the measure, a three year average has been chosen.

The said gross income or basic indicator has been named "relevant indicator" in the Croatian regulations because it is used as the basis for the calculation of capital requirements both under the basic indicator approach and the standardised approach. The relevant indicator items are defined in the Decision on capital adequacy based on income statement items so as to comprise items determined under Basel II and the Capital Requirements Directive.

The basic indicator approach is the simplest approach to the calculation of capital requirements for operational risk and its use is not subject to the fulfilment of conditions as in the case of other two approaches, with the exception, obviously, of the conditions relating to operational risk management in accordance with the applicable regulations.[3] The capital requirements for operational risk under the basic indicator approach are calculated as 15% of the average of the last three relevant indicators. As regards risk profile identification, measuring and assessment, small banks, which most commonly use the basic indicator approach, will also have to be able to demonstrate that their estimates have captured adequately both the characteristics of the part of the risk profile that resulted in losses and that part of the risk profile as regards operational risk that has not yet resulted in losses or that has not yet resulted in large scale losses.

The standardised approach is somewhat more complex and advanced than the basic indicator approach, mainly due to the fact that it takes into account the structure of business operations, risk profile by business groups and requires fulfilment of the qualifying criteria. Under the standardised approach, the business activities of banks are classified into standardised business categories, or business lines, and for each business line the relevant indicator is calculated. Each business line is assigned an individual predefined risk weight (12%, 15% and 18%). The category of business activities of banks is determined on the basis of business operations similarity in terms of orientation towards a certain client or business type and with regard to the risk profile in terms of the inherent operational risk of an individual group of business activities. Under the standardised approach, the capital requirements for operational risk represent a three-year average of the risk-weighted relevant indicator, while the risk-weighted relevant indicator is calculated by multiplying the relevant indicator for each business line by the corresponding initial capital requirement rate for the business line in question (risk weight) and then by adding up these amounts for a given year. To use the standardised approach, the bank must meet the qualifying criteria.

3 This relates primarily to the Credit Institutions Act, Decision on risk management and Decision on internal control systems.

The most complex approach to the calculation of capital requirements for operational risk is the advanced measurement approach. Unlike the basic indicator approach and the standardised approach, the advanced measurement approach is much more sensitive to real exposure. The system of operational risk management brings together numerous qualitative and quantitative aspects of the system of risk measurement and risk profile. Most notably, care must be taken to ensure that operational risk measurement system captures potentially severe tail events, achieving a soundness standard comparable to a 99.9% confidence interval over a one year period.

1.3 Decision on the classification of placements and off-balance sheet liabilities of credit institutions

The Decision on the classification of placements and off-balance sheet liabilities of credit institutions (hereinafter: Decision on classification, OG 1/2009, 75/2009 and 2/2010) prescribes the criteria for the classification of placements and off-balance sheet liabilities and the manner of determining losses arising from credit risk. Until the entry into force of this Decision, this area was regulated by the Decision on the classification of placements and contingent liabilities of banks (hereinafter. the old Decision on classification, OG 17/2003, 149/2005 and 74/2006). The new Decision on classification does not differ much in its approach to classification but it contains some new or amended requirements, which are stated below.

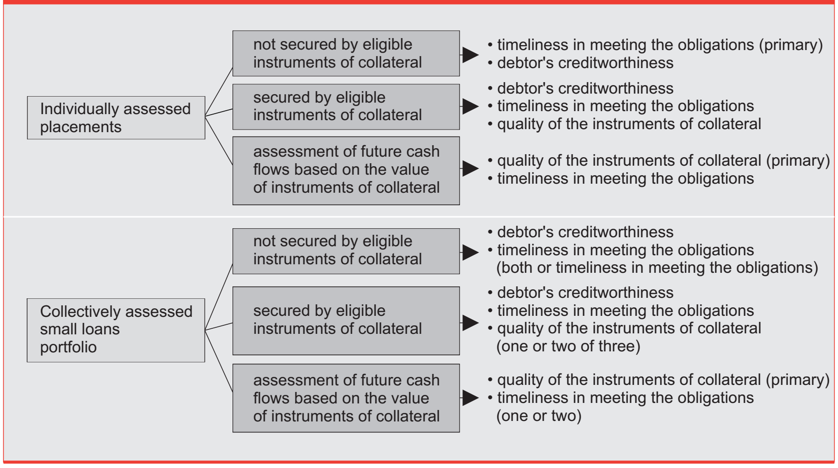
Under the Decision on classification, the subject of classification into risk categories includes those categories of financial assets that are, in accordance with the provisions of IAS 39, carried at amortised cost *(loans and receivables and held to maturity investments)*. In addition to the mentioned financial assets, the old Decision on classification also included the portfolio of debt instruments from the category *financial assets available for sale*. Given that this category is carried at fair value, it has been left out from the Decision on classification though it is still subject to assessment of value impairment in accordance with the provisions of IAS 39.

The manner of determining individually significant exposures has also changed. Individually significant exposure means the exposure in relation to which credit institutions are obligated to assess credit risk at individual placement level. Unlike the provisions of the old Decision on classification, under which individually significant exposure was determined on the basis of balance sheet exposure to a single debtor, the new Decision on classification defines individually significant exposure as the overall credit risk exposure to a single person or a group of connected persons across all balance and off-balance sheet items that are subject to the Decision on classification. Also, the minimum amounts that an individually significant exposure has to exceed depending on the asset size of a credit institution have been increased under the new Decision to:

- HRK 500,000 if total assets amount to less than HRK 5bn,
- HRK 1,000,000 if total assets amount to from HRK 5bn to HRK 20bn,
- HRK 1,500,000 if total assets amount to more than HRK 20bn.

All exposures that do not exceed the amounts referred to above are considered to belong to a small loans portfolio that may be collectively assessed. A credit institution may set a smaller amount for an individually significant exposure by means of internal bylaws.

Figure 1.1 Use of classification criteria



The provisions on the application of three placement classification criteria (debtors' creditworthiness, debtors' timeliness in meeting their obligations and the quality of instruments of collateral) have been expanded greatly compared to those applicable previously. This involves mainly the classification of placements not secured by eligible instruments of collateral because of which they are assessed primarily on the basis of the criteria of timeliness in meeting the obligations. The provisions on collectively assessed credit risk of the small loans portfolio have also been defined in more detail. A credit institution may, depending on the portfolio characteristics, use an internal bylaw to prescribe the use of one or two classification criteria. The use of the classification criteria under the new Decision on classification is shown in Figure 1.1. It should be noted that preference for individual classification criteria does not exempt the credit institution from the obligation to take into account in the classification of placements all the three classification criteria in accordance with good credit risk management practices.

Under the old Decision on classification, the criterion of timeliness in meeting the obligations could only be applied, as the only classification criterion, to a small loans portfolio. Under the new Decision on classification, the criterion of timeliness in meeting the obligations has to be applied to all placements not secured by eligible instruments of collateral (regardless of the fact whether it is an individually significant exposure or a small loans portfolio). Thus, under the new Decision on classification, a debtor's delinquency and significant financial difficulties are considered to be evidence of losses due to which the classification of placements not secured by eligible instruments of collateral in risk categories B and C has to be performed on the basis of the number of days in delinquency. However, these provisions need not be applied if the credit institution can provide reliable evidence of the existence of a larger or a smaller loss based on the debtor's estimated future cash flows. Another novelty introduced by this new Decision on classification is the provision on the materiality of overdue liabilities, under which the counting of delinquency starts with the day when the total amount of all a debtor's overdue liabilities (whose contractual maturity date has expired) based on all contractual relationships has become materially significant, i.e. larger than HRK 1,750. This materiality threshold has been aligned with the materiality threshold under the Decision on the capital adequacy of credit institutions, for the purpose of alignment of these two regulations. The classification of unsecured placements in risk categories depending on the number of days in delinquency is shown in Figure 1.2.

Figure 1.2 Classification of unsecured placements into risk categories based on overdue days

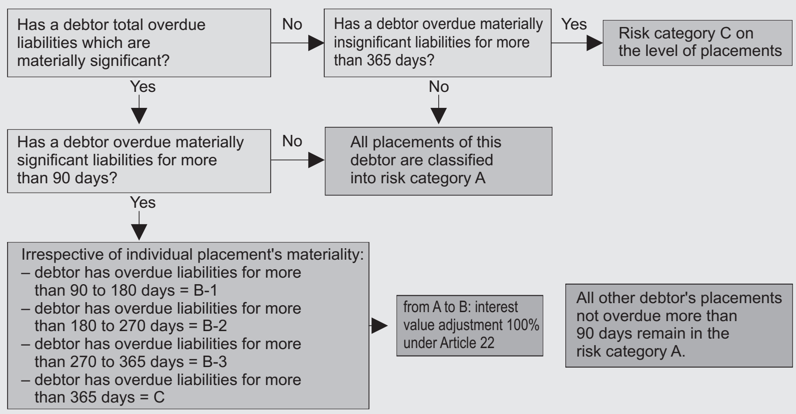


Table 1.1 Taking legal actions for the collection of instruments of collateral and classification

New decision on classification		Old decision on classification	
no legal actions for collection **have been taken** and the debtor's delinquency has occurred	into risk category B-1 or worse and corresponding value adjustment (amount not prescribed)	**no legal actions** for collection **have been taken,** after expiry of 90 days from maturity	into risk category B and corresponding value adjustment (amount not prescribed)
legal actions have been taken	remains in risk category A	**legal actions have been taken,** after expiry of 90 days from maturity	remains in risk category A
legal actions taken notwithstanding, if collection has not been completed within two years counting from the date of initiating legal actions for collection	into risk category B-1 or worse and value adjustment of at least 30%	**legal actions taken notwithstanding,** if collection has not been completed within two years after the debtor's delinquency has occurred	into risk category B-2 or B-3 and value adjustment of at least 30%.

The provisions on legal actions that have to be taken to exercise instruments of collateral are similar to those in the old Decision on classification. Table 1.1 gives a comparison of the provisions on legal actions that have to be taken to exercise instruments of collateral.

In the same way as under the old Decision on classification, the impairment of collectively assessed risk category A placements has to amount to between 0.85% and 1.20% of risk category A placements and off-balance sheet liabilities. As provided by the new Decision on classification, these percentages will be applied until the date of accession of the Republic of Croatia to the European Union, when they will be replaced by the provisions on the use of own methodology for collective assessment of risk category A placements and off-balance sheet liabilities that credit institutions will have developed and tested by that time.

The provisions on the rating of instruments of collateral based on their quality (first-class instruments of collateral, appropriate instruments of collateral in the form of real-estate and movable property and other appropriate instruments of collateral) have been prescribed due to the close association with the issue of placement quality assessment. The conditions that have to be met for the instruments to be considered eligible have been prescribed in detail. Given that the provisions of the old Decision were not so detailed, credit institutions must revise their internal bylaws to meet the new requirements. For placements accounting for over 5% of own funds or over HRK 20m (depending which is lower), the credit institution has to ensure valuation by an independent valuer not older than three years from the date of the entry into force of the Decision on classification. In some aspects, the provisions on rating of instruments of collateral are similar to the credit protection provisions of the

Decision on the capital adequacy of credit institutions. However, they should not be confused with one another because they involve two completely different approaches.

In the same way as previously, the recognition of interest income from impaired placements is postponed and such income is recorded off-balance sheet until collection. However, the new Decision on classification provides for an exemption under which interest income from impaired placements may be recognised in profit and loss even prior to their collection, provided that there is evidence that that income will be collected in the following accounting period. The new Decision also introduced a provision under which receivables on the basis of interest income recorded while the placement was classified as risk category A may not be recorded again off-balance sheet after value adjustment.

Under the provisions of the new Decision on classification, receivables based on non-interest income should be included in risk assessment in the same way as any other placement, while under the old Decision on classification these receivables were in principle classified in risk category A and were fully provisioned if not collected within 90 days. To ensure that credit institutions do not have to make big changes in their treatment of non-interest income, the CNB has issued an opinion providing for the possibility of a 100% value adjustment following expiry of the 90-day period from the maturity date of individual types of non-interest income. This does not provide for the exclusion of non-interest income from the testing of the materiality of overdue liabilities. This opinion is based on the fact that fees generally do not involve materially significant amounts.

1.4 Decision on liquidity risk management

From the beginning of the global financial crisis in mid-2007, many banks struggled to keep adequate liquidity and despite ample central bank support, some credit institutions proved unsuccessful in these efforts. As inadequate and inefficient liquidity risk management is one of the basic markers of financial crisis, the Croatian National Bank, recognising the need of credit institutions to improve their liquidity risk management and control their liquidity risk exposure, issued in early 2010 the Decision on liquidity risk management[4] (hereinafter: the Decision on liquidity, OG 2/2010).

This Decision prescribes, for the first time, for all credit institutions with a registered office in the Republic of Croatia, the minimum qualitative requirements for liquidity risk management and quantitative requirements for the purposes of reporting to the Croatian National Bank.

The part of the Decision on liquidity which relates to the minimum qualitative requirements has been fully aligned with the last amendments to the Directive and the "Principles for Sound Liquidity Risk Management and Supervision" issued by the Basel Committee on Banking Supervision. These principles represent the expectations of supervisors as regards the basic elements of a robust liquidity risk management framework in credit institutions and include, among others:

- supervision of the management board and senior management;
- formulation of policies and risk tolerance;

4 The first Decision on liquidity risk management was enacted in January 2009, but never entered into force.

- the use of liquidity risk management tools such as thorough cash flow projections, limits, and liquidity stress testing scenarios;
- development of robust and diversified crisis management plans; and
- maintenance of a sufficient quantity of highly liquid funds to ensure that liquidity needs can be met.

As regards the quantitative requirements, there is still no uniform EU-level model for liquidity risk profile monitoring in credit institutions, so it is up to the national supervisors to decide whether and how they will prescribe these quantitative requirements. As regards quantitative requirements, the Croatian National Bank has prescribed in its Decision on liquidity a minimum set of supervisory tools to be used in on-going supervision of credit institutions' exposure to liquidity risk. Therefore, under the Decision on liquidity, the credit institutions are obligated to submit to the Croatian National Bank on a monthly basis the following reports (showing balance on the last day of the month):

- on the amount of highly liquid assets (readily marketable assets form);
- on assets and liabilities maturity mismatch (expected inflows and expected outflows form);
- on the amount of the prescribed minimum liquidity coefficient;
- on the concentration of sources of funding in total liabilities;
- on own assumptions on the behaviour of positions, where the credit institution uses such assumptions.

A credit institution is required to present data on the expected inflows and outflows and minimum liquidity coefficient in two given periods:

- up to one week, and
- up to one month,

separately

- for kuna,
- for all convertible currencies combined, and
- for each non-convertible currency (where outflows in that non-convertible currency account for over 1% of total assets).

The Decision on liquidity also prescribes the minimum liquidity coefficient that a credit institution has to maintain during a given period, in each currency, on the reporting date, but also on each day within the reporting period. The prescribed minimum liquidity coefficient must always be minimum 1, and for the purposes of this Decision, it is defined as the ratio of the total expected inflows (readily marketable assets included) and the total expected outflows in the two given periods.

The minimum liquidity coefficient is used to show if the credit institution has sufficient liquidity (assets and inflows) to satisfy its liquidity needs (i.e. liabilities) within a month in the conditions of a stress scenario determined by the supervisor. The amount of these funds should, as a minimum, enable the credit institution to withstand a period of one month of the proposed stress scenario, until when, it is believed, the bank management and/or the supervisor might issue and take appropriate measures to remedy the situation. Stress testing should be considered a minimum supervisory requirement, however, credit institutions are still expected to assess on the basis of own testing the amount of liquidity they should have in excess of the prescribed minimum and to build scenarios that may trigger various difficulties in specific business activities of credit institutions.

To calculate the minimum liquidity coefficient, the credit institution has to determine asset and liability maturity mismatch according to the estimated or remaining agreed maturity and enter the obtained data in the prescribed forms. As stated previously, data given in the forms do not represent an actual cash flow, but a cash flow under an individual short-term stress scenario determined by the Croatian National Bank.

In determining a liquidity risk profile, it is essential to monitor the concentration of the sources of funding in total liabilities. The measure of coverage of the concentration of large sources of funding assists supervisors in calculating the level of risk involved in liquidity funding that might take place if one or more of these sources are withdrawn. Therefore, each credit institution is obligated under the Decision on liquidity to report monthly to the Croatian National Bank on the total amount of funds received from one client or a group of connected persons where these funds account for over 2% of the total liabilities of a credit institution.

1.5 Decision on the management of interest rate risk in the non-trading book

The risk of change in interest rates is inherent in all interest-bearing asset and liability items of a credit institution. Until adoption of the Credit Institutions Act and the Decision on the management of interest rate risk in the non-trading book (hereinafter: Decision on interest rate risk, OG 2/2010 and 34/2010) our banking regulation only regulated interest rate risk associated with trading book positions that account for only a small share of bank balance sheet exposure to interest rate risk.

The provisions of Directive 2006/48/EC (Article 124, paragraph 5 and Annex V of Directive 2006/48/EC) have been fully transposed in the Act and the Decision on interest rate risk. The "Principles for the Management and Supervision of Interest Rate Risk"[5] of the Basel Committee on Banking Supervision (BCBS) have also been incorporated into the Decision on interest rate risk. For the first time, the Act defines the non-trading book (Article 101) and interest rate risk in the non-trading book as the risk of loss arising from potential changes in interest rates as they affect a credit institution's non-trading book items (Article 102).

The Decision on interest rate risk prescribes the principles and the procedures for the management of interest rate risk in the non-trading book, the manner of calculation of changes in the economic value of a credit institution associated with non-trading book positions as a result of a standard interest rate shock and reporting to the Croatian National Bank.

The minimum qualitative requirements that the credit institution has to meet in order to establish a system for the management of interest rate risk in the non-trading book that will be adequate in terms of the type, scope and complexity of its operations and risk profile of the credit institution include:

- adoption of a strategy, policies and other internal bylaws for the management of interest rate risk in the non-trading book,

5 http://www.bis.org/publ/bcbs108.htm

- establishment of an adequate organisational set up with precisely determined, clear and unequivocally divided lines of authorities and responsibilities,
- establishment of a system of measuring, monitoring and controlling risk,
- comprehensive internal controls and independent audit,
- public disclosure,
- stress testing, to be conducted at least once a year.

Although the Act does not prescribe obligatory capital allocation for interest rate risk in the non-trading book, all credit institutions must have sufficient capital to cover the risks they are exposed to in their business operations, including the interest rate risk that non-trading book positions are exposed to. As prescribed under the Act, the CNB will take supervisory measures against those credit institutions whose interest rate risk in the non-trading book, as a result of a standard interest rate shock, leads to a fall in the economic value of the credit institution of above 20% of own funds (Article 120, paragraph 2 of the Act). In assessing the change in the economic value of a credit institution, a standard interest rate shock of 200 basis points is applied to non-trading book positions of a credit institution by all major currencies individually and by other currencies on an aggregate basis. In accordance with the provisions of the Decision on interest rate risk, all interest-bearing positions are distributed into 13 time zones.

All non-trading book positions are distributed into time zones:

- according to the remaining maturity (positions with fixed interest rate),
- according to the time to the next interest rate change (positions with variable interest rate), and
- according to interest rate change based on a decision of a credit institution's management board (positions with administered interest rate).

The Decision on interest rate risk explains in detail the manner of calculation of the change in the economic value of the non-trading book of a credit institution and the treatment of individual positions in the forms in which the prescribed reports are submitted. Credit institutions are obligated to include in the report all interest rate change-sensitive non-trading book positions. The prescribed reports are submitted on an individual basis and on a consolidated basis for major currencies individually and for all other currencies on an aggregate basis within the prescribed deadlines.

2 Performance indicators of credit institutions

Summary

Unfavourable economic developments, which continued into the first half of 2010, had an impact on banks' activities and financial performance. Bank assets remained at almost the same level as at the end of 2009, while changes in their structure, coupled with falling interest rates and growing losses in credit portfolios, resulted in a fall in profitability. Nevertheless, banking system solvency remained very high. The capital adequacy ratio of banks increased, largely as a result of the implementation of relevant EU directives and lower sensitivity of the new capital adequacy framework to currency-induced credit risk.

In the first half of 2010, bank assets rose by a slight 0.3%, mainly attributable to an increase in the assets of small banks. In fact, exchange rate changes excluded, bank assets declined, mainly as a result of a considerable depreciation of the exchange rate of the kuna against the Swiss franc and a real fall in assets in Swiss francs (assets in kuna indexed to Swiss francs included). Loans in Swiss francs (including loans in kuna indexed to Swiss francs) were at their height towards the end of 2007, but have been falling ever since.

Household deposits continued to trend upwards, though the total amount of deposits remained almost unchanged owing to a sharp fall in corporate deposits, particularly in large banks. Deposits held steady in large and medium-sized banks and grew considerably in small banks mainly due to an increase in household deposits. A growth in deposits was observed only in the foreign currency component of deposits, with euro deposits falling effectively and deposits in Swiss francs and American dollars growing as a result of increased attractiveness due to exchange rate developments.

Compared to the end of 2009, the total amount of loans and deposits received from majority foreign owners of banks remained almost unchanged while domestic interbank lending decreased visibly. At the same time, there was a fall in almost all more liquid forms of bank assets. The banks optimised their liquid foreign exchange position by withdrawing deposits with foreign financial institutions, and at the end of 2009 this position was well above the prescribed minimum. The minimum liquidity coefficients, for both kuna and convertible currencies, were above the prescribed minimum, suggesting sufficient bank liquidity despite the conditions of the given stress scenario.

Credit activity, following three years of slowdown spurred by CNB measures and further aggravated by the effects of the recession, showed indications of a slight recovery. This was primarily due to the growth in loans to corporates, most notably kuna and short-term loans. Deterioration in the quality of bank credit portfolio largely present since the end of 2008 continued into the first half of 2010. During that period, the strongest growth of partly recoverable and fully irrecoverable loans was seen

in the corporate sector which was obviously the hardest hit by the economic crisis, although these loans grew significantly in the household sector as well. Special note should be taken of the growth in partly recoverable and fully irrecoverable home loans. The growth of partly recoverable and fully irrecoverable loans was seen in all sectors, with these loans rising by a total of 23.7% and reaching 9.5% of total bank loans. In small and medium-sized banks, the level of partly recoverable and fully irrecoverable loans was considerably higher than in the large banks, despite rapid increase in such loans in 2009 and the first half of 2010 exactly in the large bank group.

Bank pre-tax profits declined by one fifth in the first half of 2010 compared to the same period in the previous year. The fall in bank profit due to increased provisioning costs for loan losses had started in mid-2009, but at the end of the first half of 2010 net operating income (before loss provisions) fell for the first time. This fall was largely attributable to lower interest income of banks due to changes in the structure of interest-bearing assets and lower interest rates. Interest income from loans to corporates fell considerably, with the fall in interest income being witnessed in all other sectors as well. The banks were able to make slight cuts in general administrative expenses and depreciation through firm control of costs, while the provisions for credit portfolio losses rose substantially, additionally undermining banks' performance. While ROAA stood at 1.2%, ROAE stood at 6.9%. The lowest profitability was seen in small banks, which can be attributed to losses generated by nine banks in that group.

At the end of the first half of 2010, the capital adequacy ratio of banks was 19.02%, which is an increase of 2.59 percentage points from the end of the previous year. The main reason for this increase lies in the application of a new methodology (Basel II), or more precisely, in the removal of increased weights for currency-induced credit risk, which led to a considerable reduction in the average credit risk weight. Despite an increase in the prescribed minimum capital adequacy ratio (12% instead of the previous 10%), capital requirements for credit risk were reduced and accounted for 89.5% of capital requirements. The newly introduced capital requirements for operational risk accounted for 9.1% of capital requirements, and the remaining share was used for market risk coverage.

Housing savings banks assets, after falling initially by 3.3% in 2009, fell by an additional 5.0% in the first half of 2010. The reason for this fall lies in a further decline in the deposits of housing savings banks savers. Unlike 2009, when home loans rose despite a fall in deposits, home loans declined in the first half of 2010 and accounted for less than one half of total housing savings banks assets. Pre-tax profits of housing savings banks shrank by 10.1%, largely as a result of a fall in interest income. As with banks, the capital adequacy ratio increased as a result of regulatory changes and stood at 19.01%.

2.1 Introduction

At the end of the first half of 2010, there were 39 credit institutions operating in the Republic of Croatia: 32 banks, two savings banks and five housing savings banks, the number of credit institutions remaining unchanged from the end of 2009.

Bank assets (savings banks assets included) stood at HRK 379.5bn or 98.3% of the total assets of credit institutions and housing savings banks assets stood at HRK 6.4bn and accounted for the remaining 1.7% of the total assets of credit institutions. For the purposes of this analysis, banks (including savings banks) have been divided into three peer groups (large, medium-sized and small banks),[1] while housing savings banks, due to their specific nature, are treated as a separate group.

2.2 Banks

2.2.1 Structural features

Number of banks and peer groups

The number of 34 banks (savings banks included) operating in the Republic of Croatia has largely been stable in the past five years, with the exception of a two year period between the second half of 2006 and the second half of 2008 when this number was smaller by one bank. The last winding-up procedure and the resulting reduction in the total number of banks took place in early 2005, and after that period, the decline in the number of banks was the result of mergers of three banks with other banks. In 2008 and 2009, two savings banks entered the banking system of the Republic of Croatia; one new savings bank had previously been a savings and loan cooperative while the other was a newly established institution.

The total number of banks at the end of the first half of 2010 included six large, three medium-sized and 25 small banks. There were no significant changes in the distribution of banks in these three peer groups, with the last change taking place in the first half of 2009.[2]

The number of large banks, their line-up in terms of the amount of assets and their total market share have not shown any significant departures in the past five years. At the end of the first half of 2010, the group of large banks again accounted for the biggest market share, or 82.2% of the total assets of all banks (Table 2.1). Compared to end-2009, when large bank assets accounted for the largest-ever share of the total assets of all banks (82.7%), the share of this bank group declined by only 0.5 percentage points. This was due to a small decline in the total assets of the large bank group of 0.4% compared to the end of 2009.

Unlike large banks, the share of the assets of the group of medium-sized banks in total bank assets remained unchanged. These banks had increased their assets by 1.1% since the end of 2009. The group of small banks saw the highest growth rate in assets with a concomitant increase in its share in the total assets of all banks. Owing to a growth in the assets of a larger number of small banks at rates considerably higher than the growth rates of all banks' assets, the total assets of small banks rose by 5.8% and the share of this group of banks in the total assets of all banks rose from 8.2% to 8.7%.

1 For the criteria and composition of individual bank groups, see Attachment I, List of Credit Institutions by Peer Groups.
2 In the first half of 2009, the number of medium-sized banks fell from four to three, as a result of merger of Slavonska banka d.d., Osijek with Hypo Alpe-Adria-Bank, d.d., Zagreb while the number of small banks increased by one after A štedna banka malog poduzetništva d.d., Zagreb, started operating.

Table 2.1 Bank peer groups and their share in total bank assets, end of period

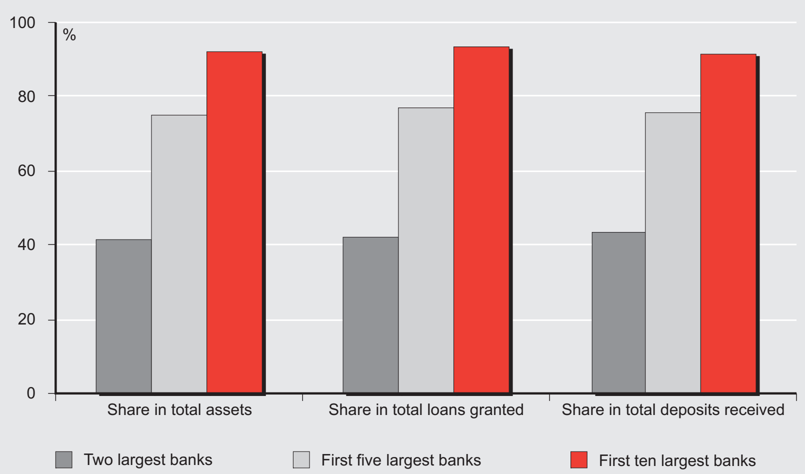
	Dec. 2007		Dec. 2008		Dec. 2009		Jun. 2010	
	Number of banks	Share	Number of banks	Share	Number of banks	Share	Number of banks	Share
Large banks	6	79.0	6	79.4	6	82.7	6	82.2
Medium-sized banks	4	12.9	4	12.5	3	9.1	3	9.1
Small banks	23	8.1	24	8.1	25	8.2	25	8.7
Total	33	100.0	34	100.0	34	100.0	34	100.0

The number of groups of credit institutions that under the provisions of the Decision on the supervision of a group of credit institutions on a consolidated basis[3] were obligated to report through their superordinate institutions to the Croatian National Bank on their business operations remained unchanged (7).[4]

Concentrations

The analysis of the concentrations of assets, net loans and received deposits over a longer period does not show any significant deviations, with the first ten banks in terms of assets size accounting for the major share of these items. A slight fall in large bank assets at the end of the first half of 2010 resulted in no significant decline in the concentration of assets of the observed bank groups compared to the end of 2009.

Figure 2.1 Shares of assets, loans and deposits of the largest banks in total assets, loans and deposits, as at 30 June 2010

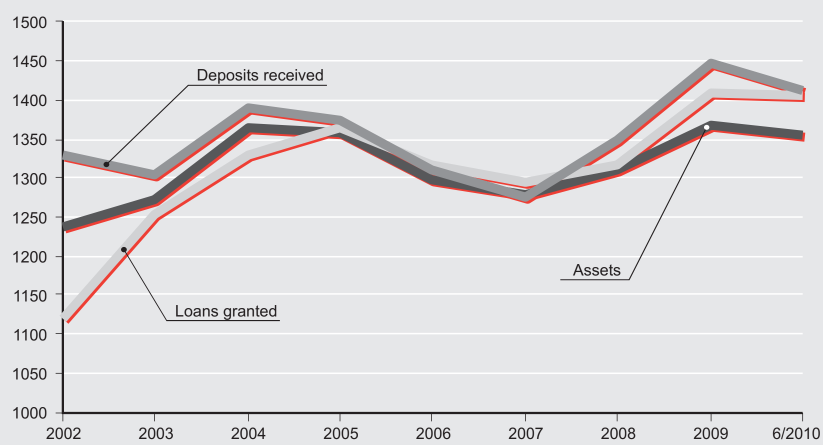


The first two banks again accounted for 41.5%, or a significant share of the total assets of banks (Figure 2.1). The first five banks observed together accounted for 75.1% of the total assets of all banks and the first ten banks accounted for 92.1% of the total assets of all banks. Only the first two banks reduced their share in total net loans of all banks compared to the end of 2009. With a fall of 1.8 percentage points, they accounted for 42.3% of the total net loans of all banks. The share of the

3 OG 1/2009, 75/2009. and 2/2010).
4 For the composition of individual groups, see Attachment II, Groups of Credit Institutions Subject to Reporting to the CNB on a Consolidated Basis.

first five and the first ten banks in net loans of all banks, observed together, rose slightly and stood at 76.8% and 92.9%, respectively. In contrast with a fall in the concentration of assets and net loans of the first two banks, this group was the only group that saw an increase in the concentration of deposits, which rose by 0.7 percentage points and stood at 43.3%. The first five banks reduced their share in total deposits of all banks by 0.9 percentage points to 75.8% of total deposits of all banks while the first ten banks reduced this share by a slightly higher 1.7 percentage points to 91.4% of total deposits of all banks.

Figure 2.2 Herfindahl-Hirschman Index (HHI), all banks



The concentration of the same items, i.e. assets, net loans and received deposits, measured by the Herfindahl-Hirschman Index (HHI) still remains moderate. Due to a decline in these items in some large banks which have a significant influence on the value of the indicators relative to the end of 2009, values of all indices fell slightly. The value of the asset index stood at 1356, and those for net loans and received deposits at 1405 and 1412, respectively (Figure 2.2).

Ownership structure

The ownership structure of banks at the end of the first half of 2010 was unchanged and, in the same way as at the end of 2009, 19 banks were in the majority ownership of domestic shareholders and 15 banks in the majority ownership of foreign shareholders. The assets of banks in the majority ownership of foreign shareholders accounted for 90.6% of the total assets of all banks (Table 2.2), a slight decrease compared to the end of 2009. This is the result of an unchanged level in the total assets of banks in foreign ownership and a simultaneous increase in the assets of banks in domestic private ownership of 5.1% and the assets of state-owned banks of 1.4%. Small banks, which are more

Table 2.2 Ownership structure of banks and their share in total bank assets, end of period

	Dec. 2007		Dec. 2008		Dec. 2009		Jun. 2010	
	Number of banks	Share	Number of banks	Share	Number of banks	Share	Number of banks	Share
Domestic ownership	17	9.6	18	9.4	19	9.1	19	9.4
Domestic private ownership	15	4.9	16	4.9	17	4.9	17	5.2
Domestic state ownership	2	4.7	2	4.5	2	4.2	2	4.2
Foreign ownership	16	90.4	16	90.6	15	90.9	15	90.6
Total	33	100.0	34	100.0	34	100.0	34	100.0

domestic- than foreign-owned, had the largest impact on the increase in the share of assets of banks in the ownership of domestic shareholders.

Business network

Unfavourable economic developments and poorer financial results in 2009 prompted banks to enhance control of business network-associated costs. First to be cut were those costs easiest to cut over a short-term, such as labour costs. In 2009, domestic banks reduced the number of employees for the first time and this change was entirely the result of a fall in the number of employees in large banks, which reduced the number of employees by 469 in real terms in the first quarter of 2009, the effects of the merger of Slavonska banka d.d., Osijek with Hypo Alpe-Adria Bank d.d., Zagreb excluded. In addition to business operations rationalisation associated with the merger, the fall in the number of employees in large banks in 2009 was also due to a fall in the number of employees in two banks from this group. In the first half of 2010, large banks continued to reduce the number of employees, reflecting a reduction in their number in two banks, while the remaining four large banks increased the number of employees. The increase in the number of employees in medium-sized and small banks resulted in almost the same total number of bank employees as at the end of 2009 (Table 2.3).

Table 2.3 Number of employees, operating units and ATMs, end of period

	Dec. 2007		Dec. 2008			Dec. 2009			Jun. 2010.		
	Number	Share	Number	Share	Change	Number	Share	Change	Number	Share	Change
Employees											
Large banks	14,636	71.0	15,618	70.8	6.7	15,803	72.7	1.2	15,785	72.6	–0.1
Medium-sized banks	2,806	13.6	3,015	13.7	7.4	2,391	11.0	–20.7	2,412	11.1	0.9
Small banks	3,171	15.4	3,432	15.6	8.2	3,536	16.3	3.0	3,540	16.3	0.1
Total	20,613	100.0	22,065	100.0	7.0	21,730	100.0	–1.5	21,737	100.0	0.0
Operating units											
Large banks	700	58.9	720	57.6	2.9	768	59.2	6.7	765	59.7	–0.4
Medium-sized banks	169	14.2	186	14.9	10.1	170	13.1	–8.6	170	13.3	0.0
Small banks	320	26.9	344	27.5	7.5	359	27.7	4.4	347	27.1	–3.3
Total	1,189	100.0	1,250	100.0	5.1	1,297	100.0	3.8	1,282	100.0	–1.2
ATMs											
Large banks	2,282	76.2	2,510	75.1	10.0	2,760	76.6	10.0	2,792	76.4	1.2
Medium-sized banks	400	13.4	462	13.8	15.5	446	12.4	–3.5	463	12.7	3.8
Small banks	313	10.5	370	11.1	18.2	395	11.0	6.8	401	11.0	1.5
Total	2,995	100.0	3,342	100.0	11.6	3,601	100.0	7.7	3,656	100.0	1.5

Owing to continuing unfavourable economic developments, the banks had to revise their long-term plans, cutting the number of operating units in the first half of 2010 for the first time ever. The number of operating units was thus reduced by 15, as a result of a reduction in the number of operating units of small and large banks, by 12 and 3 respectively. The total change was influenced the most by four banks: one large and two small banks, each reducing the number of operating units by six, and one large bank, which opened four new operating units. The number of operating units fell in 11 counties, and rose only in one county, Split-Dalmatia. In the distribution of the total number of operating units, this county again came second (Figure 2.3), after the County of Zagreb and the City of Zagreb, and was followed by Primorje-Gorski Kotar and Istria counties. These counties accounted for over one half of the total number of operating units of banks.

Only four large banks had operating units in all counties, and four small banks conducted business through only one operating unit in one county.

Table 2.4 Territorial distribution of operating units and ATMs by counties, end of period

	Dec. 2007		Dec. 2008		Dec. 2009		Jun. 2010	
	Operating units	ATMs	Operating units	ATMs	Operating units	ATMs	Operating units	ATMs
County of Zagreb and City of Zagreb	251	848	261	914	288	1,017	288	1,038
County of Krapina-Zagorje	30	65	30	77	30	83	30	83
County of Sisak-Moslavina	37	90	36	100	37	103	36	103
County of Karlovac	27	67	30	79	30	84	29	86
County of Varaždin	43	105	46	126	45	123	45	123
County of Koprivnica-Križevci	37	51	37	62	35	66	33	63
County of Bjelovar-Bilogora	23	58	29	62	28	67	28	71
County of Primorje-Gorski Kotar	112	283	116	307	114	327	112	333
County of Lika-Senj	17	43	17	49	19	50	19	54
County of Virovitica-Podravina	29	36	29	37	29	38	28	37
County of Požega-Slavonia	25	30	29	38	27	43	25	42
County of Slavonski Brod-Posavina	29	57	33	72	33	70	31	69
County of Zadar	53	152	56	177	61	196	61	202
County of Osijek-Baranya	71	147	75	160	87	169	85	166
County of Šibenik-Knin	38	106	39	118	42	132	42	133
County of Vukovar-Srijem	29	70	31	82	30	94	30	95
County of Split-Dalmatia	141	320	148	355	153	386	155	397
County of Istria	109	265	111	292	114	307	112	309
County of Dubrovnik-Neretva	60	125	67	152	64	162	63	168
County of Međimurje	28	77	30	83	31	84	30	84
Total	1,189	2,995	1,250	3,342	1,297	3,601	1,282	3,656

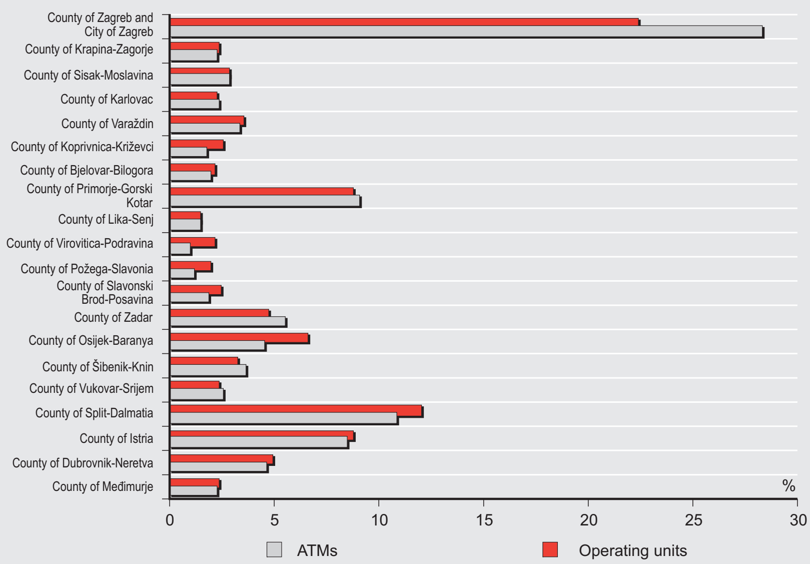
There were 3461 inhabitants[5] per operating unit of domestic banks compared to 2131 in the EU.[6] Given that the average number of operating units in domestic banks is higher than in the EU (37 against 27[7]), the explanation for the better availability of operating units in the EU may lie in a larger number of smaller credit institutions.

The number of ATMs of banks (including ATMs owned by other companies but used by bank clients) continued to increase slowly throughout the first half of 2010. The number of ATMs of banks thus increased eventually by 55, owing to an increase seen in all bank groups, but mainly owing to 32 new ATMs of large banks. As regards the number of ATMs in the different counties, the number of ATMs increased significantly in the County of Zagreb and the City of Zagreb (21) and in the Split-Dalmatia County (11) while the number of ATMs decreased in five counties, four of which are located in Slavonia. The concentration of ATMs by counties was similar to that of operating units, where over one half of the total ATMs was accounted for by the four mentioned counties, while the combined share of the County of Zagreb and the City of Zagreb was somewhat higher in terms of the concentration of ATMs than in terms of the concentration of operating units; the share of this county in the total number of operating units of banks was lower than its share in the number of inhabitants, so better banking service coverage is probably achieved through a larger number of ATMs. The shares of coastal region counties were higher both in terms of operating units and number of ATMs than their share in the number of inhabitants, which may be explained by the importance of tourist activities in these counties.

At the end of the first half of 2010, five small banks did not have their own ATMs, two banks fewer than at the end of 2009.

5 The source of data on the population of the Republic of Croatia is the CBS.
6 *EU Banking Structures*, ECB, September 2010.
7 Ibidem.

Figure 2.3 Concentration of bank operating units and ATMs by counties, as at 30 June 2010



2.2.2 Bank balance sheet and off-balance sheet items

Assets

At the end of the first half of 2010, total bank assets amounted to HRK 379.5bn, an increase of HRK 1.1bn or 0.3% relative to the end of 2009 (Table 2.5). The growth in assets, slow though it was, can largely be attributed to the growth in the assets of small banks which rose by HRK 1.8bn (5.8%) compared to the end of 2009. The contribution of medium-sized banks to the increase in bank assets was smaller. Their assets rose by HRK 0.4bn (1.1%). In contrast to the assets of small and medium-sized banks, the total assets of large banks declined by HRK 1.1bn or 0.4%.

Such a small increase in bank assets is in line with the downward trend in bank assets growth which started in 2007 and the persistently unfavourable macroeconomic conditions. There was no real increase in assets compared to the end of 2009 owing to a significant change in the developments of the exchange rate of the kuna during the observed period against the three currencies (euro, the Swiss franc and the American dollar) that account for almost the entire assets in foreign currencies and assets in kuna indexed to a foreign currency. Exchange rate effects excluded, it can be concluded that compared to the end of 2009, assets fell in real terms by 0.2%, as a result of a real fall in assets in Swiss francs (including kuna assets indexed to the Swiss franc).

Banks' reluctance to increase credit risk exposure resulted in a low level of credit activities in 2009. However, in the first half of 2010, the growth in the amount of loans granted accelerated somewhat. In the light of a decline in the sources of bank financing, and particularly in the light of stagnation in the received deposits, the banks reduced almost all other forms of placements.

Compared with the end of 2009, assets decreased in nine banks, of which three were large and six

Table 2.5 Structure of bank assets, end of period, in million HRK and %

	Dec. 2007		Dec. 2008			Dec. 2009			Jun. 2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Money assets and deposits with the CNB	51,415.9	14.9	42,671.2	11.5	–17.0	47,673.1	12.6	11.7	46,506.6	12.3	–2.4
Money assets	4,551.7	1.3	5,394.3	1.5	18.5	5,430.9	1.4	0.7	6,618.8	1.7	21.9
Deposits with the CNB	46,864.2	13.6	37,276.9	10.1	–20.5	42,242.2	11.2	13.3	39,887.8	10.5	–5.6
Deposits with banking institutions	35,118.0	10.2	35,592.9	9.6	1.4	32,741.9	8.7	–8.0	29,330.3	7.7	–10.4
MoF treasury bills and CNB bills	8,748.7	2.5	10,062.5	2.7	15.0	9,366.8	2.5	–6.9	9,687.4	2.6	3.4
Securities and other financial instruments held for trading	8,515.5	2.5	6,840.0	1.8	–19.7	5,522.4	1.5	–19.3	4,842.9	1.3	–12.3
Securities and other financial instruments available for sale	11,326.4	3.3	12,480.3	3.4	10.2	14,000.5	3.7	12.2	14,001.5	3.7	0.0
Securities and other financial instruments held to maturity	3,536.7	1.0	4,798.8	1.3	35.7	4,012.2	1.1	–16.4	3,585.9	0.9	–10.6
Securities and other financial instruments not traded in active markets but carried at fair value	700.0	0.2	669.0	0.2	–4.4	1,644.9	0.4	145.9	982.9	0.3	–40.2
Derivative financial assets	276.0	0.1	121.9	0.0	–55.8	212.4	0.1	74.2	262.9	0.1	23.7
Loans to financial institutions	6,949.8	2.0	5,796.7	1.6	–16.6	6,065.1	1.6	4.6	5,096.1	1.3	–16.0
Loans to other clients	209,319.6	60.7	240,808.0	65.1	15.0	246,363.2	65.1	2.3	253,921.1	66.9	3.1
Investments in subsidiaries and associates	1,703.9	0.5	1,774.1	0.5	4.1	1,980.9	0.5	11.7	2,009.1	0.5	1.4
Foreclosed and repossessed assets	355.7	0.1	391.7	0.1	10.1	604.9	0.2	54.5	643.4	0.2	6.4
Tangible assets (net of depreciation)	4,510.4	1.3	4,503.8	1.2	–0.1	4,372.3	1.2	–2.9	4,266.7	1.1	–2.4
Interest, fees and other assets	5,471.0	1.6	6,624.6	1.8	21.1	6,889.5	1.8	4.0	7,297.8	1.9	5.9
Net of: Collectively assessed impairment provisions	2,866.2	0.8	3,042.4	0.8	6.1	3,079.5	0.8	1.2	2,976.6	0.8	–3.3
TOTAL ASSETS	345,081.4	100.0	370,093.0	100.0	7.2	378,370.6	100.0	2.2	379,458.0	100.0	0.3

were small banks. The remaining 19 small banks increased their assets at rates higher than the average growth rate of the total assets of all banks. As a result of a marked growth in the assets of some small banks, this group of banks achieved the fastest semi-annual growth in assets (Figure 2.4).

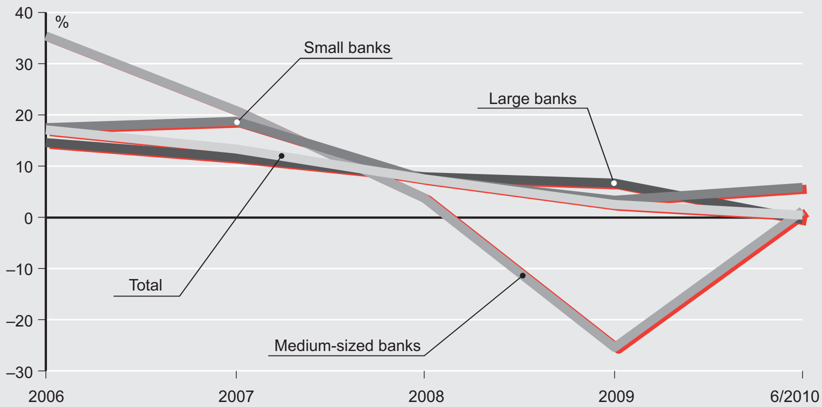
The growth in (net) bank loans to the non-financial sector of 3.1%, with loans to corporates accounting for its largest share, resulted in a considerable increase in the share of loans in total bank assets. The largest contribution to the growth in loans to the corporates came from an increase in kuna loans, but in terms of total loans, kuna loans indexed to a foreign currency rose the most as a result of growth in the household sector, most notably home loans. As regards loans to corporates, compared to the end of 2009, the share of loans with a remaining maturity below one year rose from 56.7% to 57.5%.

An increase in net loans was seen in all bank groups. Compared to the end of 2009, small banks recorded the fastest growth rate (4.0%) in net loans. Large banks and medium-sized banks followed with 2.6% and 1.2%, respectively.

The amount of vault cash of banks rose by a large HRK 1.2bn or 21.9% compared to the end of 2009. This increase involved mainly kuna cash, which can be associated with the adjustment of banks to changes in the supply of cash.[8]

8 Decision on amendments to the Decision on supplying banks with cash (OG 36/2010).

Figure 2.4 Rates of change in bank peer group assets



Note: Annual rates of change except for June 2010 (the semi-annual rate of change).

Almost all other forms of bank assets declined compared to the end of 2009. The largest decline in bank investment was seen in placements to the financial sector with the banks reducing their deposits and loans to that sector by HRK 4.4bn or 11.3%, compared to the end of 2009. The bulk of this amount (HRK 2.8bn) was due to a decline in deposits with foreign banks while an almost equal decline in deposits and loans to domestic banks accounted for the remaining share. Of the total amount of deposits placed, 20.3% were placed to the foreign banks that are the majority owners of domestic banks and the amount of these deposits did not change significantly compared to the end of 2009.

In addition to the mentioned decline in deposits and loans to financial institutions, the banks also reduced the amount of deposits with the CNB by a total of HRK 2.4bn or 5.6%. A decline in deposits associated with reserve requirements stood at HRK 1.9bn or 6.7%,[9] and the settlement accounts declined by HRK 2.1bn or 17.8%. In contrast with these declines, overnight deposits with the CNB rose by HRK 1.7bn or 107.6% at the end of June compared to the end of 2009 and stood at HRK 3.3bn.

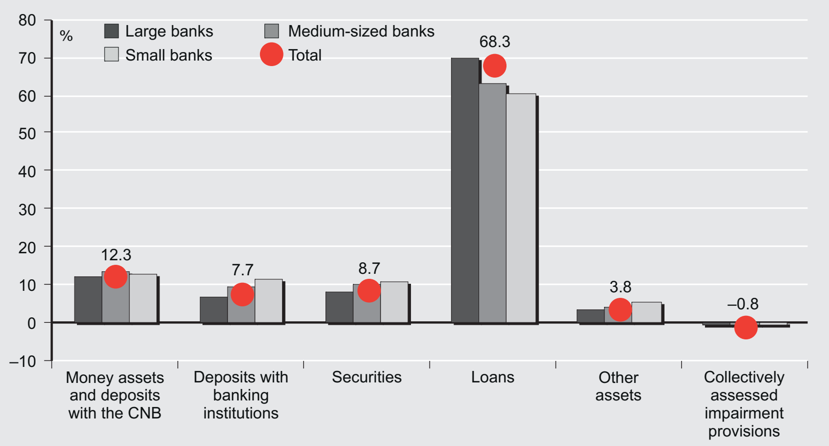
Bank investments in securities were HRK 1.4bn or 4.2% lower than at the end of 2009. The largest nominal decline was seen in investments in debt securities of foreign countries (HRK 1.6bn or 12.1%) and investments in short-term money market instruments (HRK 0.9bn or 12.4%). This decline was partly offset by increased bank investments in domestic securities, most notably domestic government bonds, which rose by 8.0% and T-bills of the Ministry of Finance which rose by 3.4%. The banks again distributed the bulk of these securities in the available-for-sale portfolio, adjusting their value to market prices. As a result, at the end of the first half of 2010, the banks reported HRK 63.0m in unrealised profit. Bonds, most notably foreign government bonds, again accounted for almost one half of these securities (49.0%). T-bills of the Ministry of Finance accounted for the next largest share, or 29.7% and equity securities, after falling by 3.9%, accounted for only 1.6% of the total securities at the end of the first half of 2010.

Investments in securities rose somewhat more sharply (23.8%) in small banks compared to the end of 2009, mainly owing to greater investments in domestic and foreign government bonds and investment funds and partly owing to the greater investments in equity securities of one bank in the group.

9 On 10 February 2010, the Decision on amendments to the Decision on reserve requirements entered into force, under which the reserve requirement rate was cut from 14% to 13% (OG 18/2010).

Medium-sized banks tended to invest more into T-bills of the Ministry of Finance, owing to which this group's total investments in securities rose by 2.2%. Investments of large banks in securities fell by 7.9%, mainly as a result of a 10.9% decline in investments in foreign government bonds and a 12.9% decline in investments in short-term money market instruments.

Figure 2.5 Structure of bank peer group assets, as at 30 June 2010



The developments and changes in individual types of bank assets in the first half of 2010 had a small impact on the structure of assets, resulting mainly in an increase in the share of net loans. A growth rate of net loans higher than that of total assets and a decline in other forms of investment meant that the share of loans in bank assets increased from 66.7% at the end of 2009 to 68.3% at the end of the first half of 2010 (Figure 2.5). However, this share still remained lower than in the first half of 2009 when it stood at 68.8%. The share of cash also increased slightly, accounting for 1.7% of bank assets, while the share of other forms of assets declined from the end of 2009. Deposits with other banks accounted for 7.7% of total bank assets, a decline of almost one percentage point since the end of 2009. A small decline of 0.4 percentage points was also seen in the share of securities, which accounted for 8.7% of assets and deposits with the CNB which, following a 0.7 percentage points decline, accounted for 10.5% of bank assets.

As compared to the end of 2009, there were also minor changes in the currency structure of bank assets. Thus, a significant decline in placements to the financial sector and investments in foreign securities in the first half of 2010, led to a decline in bank assets in foreign currency. Owing to a growth in net loans and securities, after almost two years that had been characterised by their steady decline, the second quarter of 2010 saw an increase in kuna assets and kuna assets indexed to a foreign currency. However, there were no significant changes in the structure of total assets, with foreign assets, including kuna assets indexed to a foreign currency, accounting for 65.2% of total assets at the end of the first half of 2010.

Liabilities and capital

Despite significant changes in individual bank liabilities, the liabilities of banks held steady at their end-2009 level while the sources of financing (deposits, loans, debt securities and subordinated and hybrid instruments) fell by a slight 0.6% (Table 2.6). In the conditions of stagnation in deposits and a relatively small influence of growth in issued securities and subordinated and hybrid instruments, the fall in the total sources of financing was due to a fall of HRK 2.2bn or 4.1% in received loans. A fall in the sources of financing is due to changes in the group of large banks, which reported a decline in received loans of HRK 2.2bn (4.7%) and a decline in deposits of HRK 1.7bn (0.8%).

A noticeable slowdown in deposits growth in 2009 compared to the previous years was followed by their stagnation in the first half of 2010. Total deposits mainly rose (although by a mere HRK 40.2m) as a result of an increase in household deposits of HRK 3.3bn or 2.4%, and to a lesser extent from deposits of government units (6.1%). At the same time, deposits of corporates declined considerably (HRK 2.9bn or 6.5%) as did deposits of financial institutions (1.6%) and non-residents (0.8%).

Almost equal to the decline in deposits with large banks (HRK 1.7bn or 0.8%) was the increase in deposits with small banks (HRK 1.6bn or 6.9%). Looking at changes by institutional sectors, it is evident that the total decline in deposits with large banks is due to a fall in corporate deposits and deposits of majority foreign owners and financial institutions. Small banks saw an increase in deposits of all sectors, mostly those of households, majority foreign owners and corporates. Medium-sized banks saw an increase in deposits of financial institutions and deposits of all other sectors, with the total deposits growth in this bank group amounting to HRK 212.9m or 0.9%.

Received loans fell the most in the group of large banks (HRK 2.2bn or 4.7%), then in the group of medium-sized banks (HRK 112.2m or 3.1%) while small banks increased their liabilities based on received loans by HRK 88.4m or 2.9%. Small banks increased the amount of received loans from majority foreign owners even more and they also increased the amount of deposits, with the result that the sources of majority foreign owners rose from 1.8% at the end of 2009 to 3.3% of the sources of financing at the end of the first half of 2010. The share of foreign owners in the total sources of financing in large and medium-sized banks was 22.4% and 8.7%, respectively, while their average share in all banks stood at 19.5%.

Other sources of financing grew at equal rates compared to the end of 2009. Issued hybrid instruments rose by 9.8%, subordinated instruments by 8.9% and long-term securities by 8.4%. Despite the increase, the shares of all the three mentioned forms of financing continued to be relatively low and together accounted for only a little over 1.0% of the total sources. As regards other liabilities, derivative financial liabilities rose considerably (228.4%) compared to the end of 2009, exceeding the amount of derivative financial assets.

There were no significant changes in the structure of bank liabilities and capital. The biggest change in the shares involved a decline in the share of received loans in total liabilities and capital of 0.6 percentage points, down from 14.0% at the end of 2009 to 13.4% at the end of the first half of 2010. The share of deposits declined only slightly and accounted for 67.7% of total liabilities and capital of banks (Figure 2.6).

The currency structure of total liabilities and capital of banks also remained unchanged with foreign currency and kuna items indexed to a foreign currency accounting for 58.6% of liabilities and capital, as at the end of 2009.

The growth in balance sheet capital slowed down considerably throughout 2009 and continued to

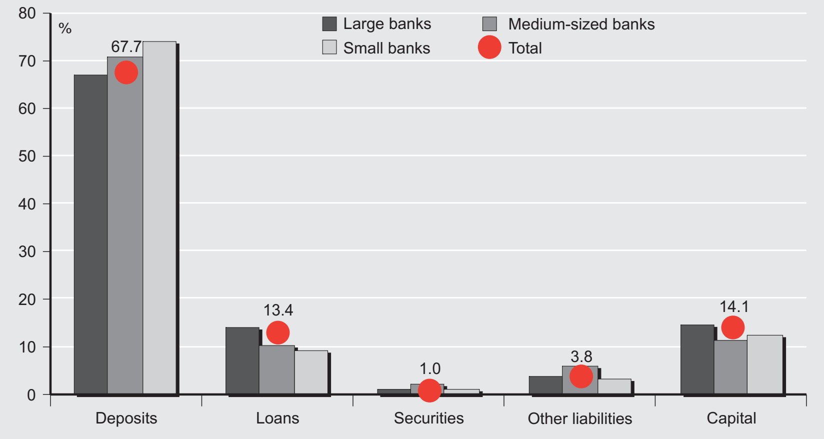
Table 2.6 Structure of bank liabilities and capital, end of period, in million HRK and %

	Dec. 2007		Dec. 2008			Dec. 2009			Jun. 2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans from financial institutions	20,573.0	6.0	19,270.0	5.2	–6.3	21,180.5	5.6	9.9	16,673.4	4.4	–21.3
Short-term loans	11,325.6	3.3	8,314.0	2.2	–26.6	10,167.9	2.7	22.3	5,902.2	1.6	–42.0
Long-term loans	9,247.4	2.7	10,956.1	3.0	18.5	11,012.6	2.9	0.5	10,771.2	2.8	–2.2
Deposits	233,108.0	67.6	247,813.9	67.0	6.3	256,810.0	67.9	3.6	256,850.2	67.7	0.0
Giro account and current account deposits	45,284.0	13.1	41,313.1	11.2	–8.8	34,526.9	9.1	–16.4	36,658.7	9.7	6.2
Savings deposits	26,859.4	7.8	25,640.1	6.9	–4.5	24,531.3	6.5	–4.3	25,288.3	6.7	3.1
Time deposits	160,964.5	46.6	180,860.7	48.9	12.4	197,751.7	52.3	9.3	194,903.2	51.4	–1.4
Other loans	31,738.8	9.2	32,862.6	8.9	3.5	31,787.5	8.4	–3.3	34,115.1	9.0	7.3
Short-term loans	5,528.8	1.6	7,955.1	2.1	43.9	6,133.5	1.6	–22.9	7,793.3	2.1	27.1
Long-term loans	26,210.1	7.6	24,907.5	6.7	–5.0	25,654.0	6.8	3.0	26,321.8	6.9	2.6
Derivative financial liabilities and other financial liabilities held for trading	367.5	0.1	1,578.3	0.4	329.4	418.9	0.1	–73.5	1,376.0	0.4	228.4
Debt securities issued	3,476.7	1.0	3,392.3	0.9	–2.4	119.3	0.0	–96.5	129.3	0.0	8.4
Short-term debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt securities issued	3,476.7	1.0	3,392.3	0.9	–2.4	119.3	0.0	–96.5	129.3	0.0	8.4
Subordinated instruments issued	225.7	0.1	53.3	0.0	–76.4	396.6	0.1	643.6	431.9	0.1	8.9
Hybrid instruments issued	636.6	0.2	2,055.7	0.6	222.9	3,016.4	0.8	46.7	3,312.9	0.9	9.8
Interest, fees and other liabilities	11,781.4	3.4	13,139.7	3.6	11.5	12,067.3	3.2	–8.2	12,964.1	3.4	7.4
TOTAL LIABILITIES	301,907.8	87.5	320,165.9	86.5	6.0	325,796.6	86.1	1.8	325,853.0	85.9	0.0
Share capital	25,179.3	7.3	28,287.6	7.6	12.3	28,781.8	7.6	1.7	28,846.0	7.6	0.2
Current year profit/loss	4,067.4	1.2	4,612.5	1.2	13.4	3,277.7	0.9	–28.9	1,829.1	0.5	–44.2
Retained earnings/loss	4,212.0	1.2	5,694.1	1.5	35.2	7,764.9	2.1	36.4	9,018.4	2.4	16.1
Legal reserves	1,054.3	0.3	969.4	0.3	–8.1	1,084.1	0.3	11.8	1,084.3	0.3	0.0
Reserves provided for by the articles of association and other capital reserves	8,644.2	2.5	10,511.3	2.8	21.6	11,789.2	3.1	12.2	12,712.6	3.4	7.8
Unrealised gains/losses on value adjustments of financial assets available for sale	30.7	0.0	–112.5	0.0	–	–27.7	0.0	–75.4	63.0	0.0	–
Reserves arising from hedging transactions	–0.8	0.0	0.0	0.0	–	0.0	0.0	0.0	0.0	0.0	0.0
Previous year profit/loss	–13.6	0.0	–35.3	0.0	159.9	–96.0	0.0	171.8	51.6	0.0	–
TOTAL CAPITAL	43,173.6	12.5	49,927.1	13.5	15.6	52,574.0	13.9	5.3	53,605.0	14.1	2.0
TOTAL LIABILITIES AND CAPITAL	345,081.4	100.0	370,093.0	100.0	7.2	378,370.6	100.0	2.2	379,458.0	100.0	0.3

slow down steadily in the first half of 2010, when it amounted to only 2.0%. Capital increase was mostly due to current year profit and a very small effect of unrealised profit on value adjustment of financial assets available for sale and the increase in the share capital of two small banks during the observed period. The banks retained the bulk of the HRK 3.3bn in profit generated in 2009, thus increasing retained earnings by HRK 1.3bn (13.9%) and reserves stipulated by the articles of association and other capital reserves by a little less than HRK 1.0bn (7.3%). Owing to current year profit, the capital of large banks rose by 2.3% from end-2009. The increase in the capital of small banks of 0.6% was mainly the result of recapitalisation while medium-sized banks saw no changes in the amount of capital.

Big capital investments and the tendency of banks to retain much of the earnings generated since 2006 still have a positive effect on the share of capital in banks' balance sheet, which rose additionally to 14.1% in the first half of 2010. Owing to the retained major share of earnings generated in the previous year and the current year profit, large banks boasted a larger than average share of capital in their balance sheet (14.6%). Small banks also had a relatively large share of capital in their balance sheet (12.6%), despite previous years' losses and unrealised loss on value adjustment of assets available for sale. Medium-sized banks had the lowest share of capital in balance sheet (11.5%), as a result of a significant effect of the low level of capital in one medium-sized bank.

Figure 2.6 Structure of bank peer group liabilities and capital, as at 30 June 2010

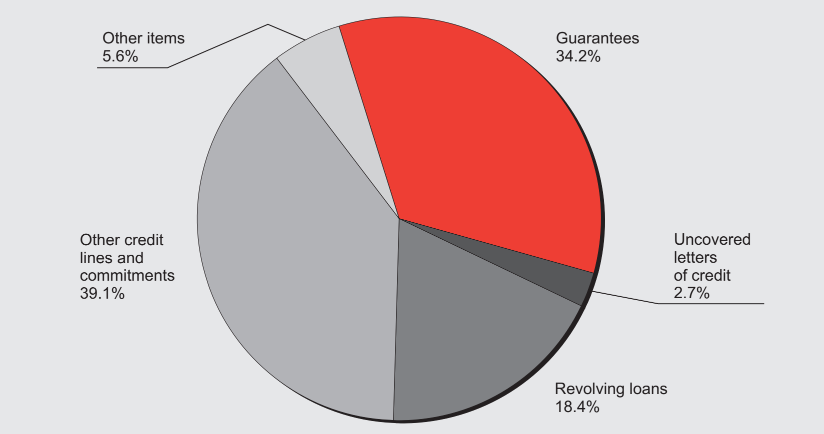


Standard off-balance sheet items

After increasing the total amount of standard off-balance sheet items for many years, in 2009 the banks reduced almost all types of these items substantially and continued this trend in the first half of 2010, though at a slower rate. At the end of June 2010, the banks reported HRK 59.2bn in off-balance sheet items, which is a decline of HRK 1.6bn or 2.6% compared to the end of 2009. The ratio of standard off-balance sheet items to assets of banks also decreased, falling from 16.1% at the end of 2009 to 15.6% at the end of the first half of 2010.

The main generators of change, i.e. of the increase and decrease in the total amount of standard off-balance sheet items, in the previous years were credit lines and other financing commitments (including revolving loans). Although the amount of these commitments has been declining for the third consecutive year (3.6% in 2008, 16.9% in 2009 and 2.5% in the first half of 2010), these instruments still account for the largest share of total standard off-balance sheet items (57.5%). Issued guarantees accounted for the next largest share (34.2%) and compared to the end of 2009 these instruments fell by 5.5% (Figure 2.7).

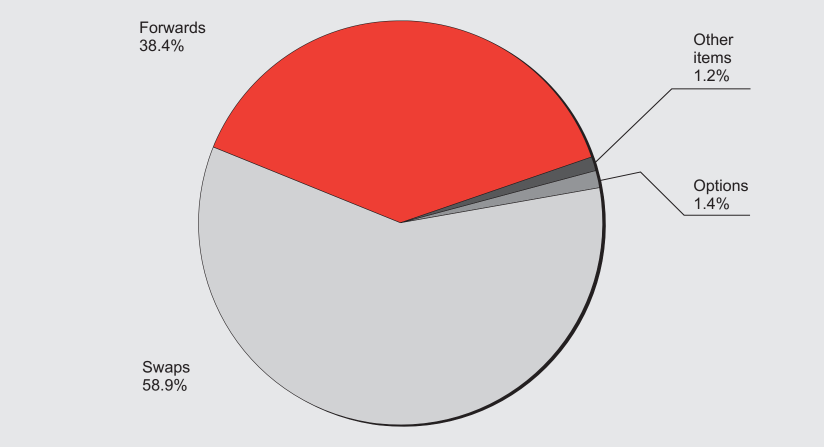
Figure 2.7 Structure of bank standard off-balance sheet items, as at 30 June 2010



Derivative financial instruments

The notional amount of derivative financial instruments has also been falling and as in the case of standard off-balance sheet items, it was similar to that in early 2007. The fall in derivative financial instruments accelerated from 6.9% at the end of 2009 to 9.6% in the first half of 2010 with the total notional amount of derivative financial instruments standing at HRK 99.1bn. The ratio of the notional amount of derivative financial instruments and bank assets stood at 26.1%, almost three percentage points fewer than at the end of 2009.

Figure 2.8 Structure of bank derivative financial instruments (notional amount), as at 30 June 2010



Derivative financial instruments are mainly used by banks as a hedge for risk-exposed positions, most notably positions exposed to currency and interest rate risk. Therefore, in terms of the underlying variable, the largest share of the notional amount of derivative financial instruments at the end of the first half of 2010 related to the exchange rate (65.9%), interest rate (33.6%) and only 0.5% of the total notional amount related to all other underlying variables. The bulk of derivative contracts involved swaps (58.9%) and forwards (38.4%) (Figure 2.8).

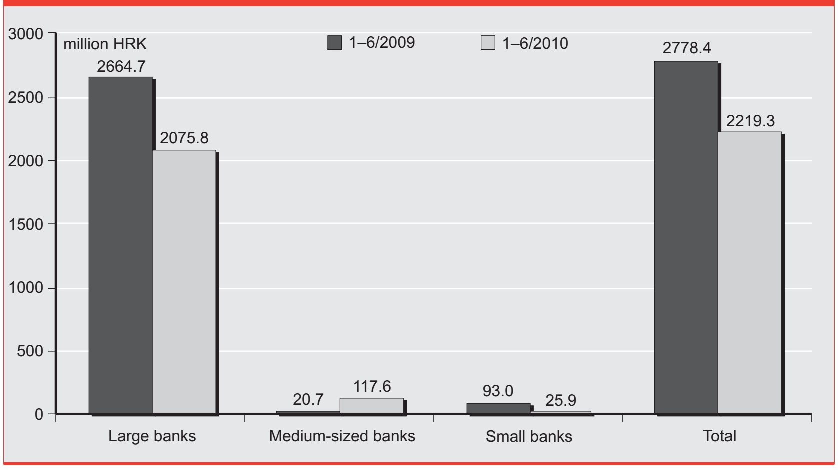
2.2.3 Earnings

Income statement

As compared to the same period in the previous year, pre-tax profits of banks fell by HRK 559.2m (20.1%) and stood at HRK 2.2bn at the end of the first half of 2010 (Table 2.7). Profits fell as a result of decline in most categories of bank income, particularly interest income and despite further cost reductions. A considerable fall was seen in interest expenses whose high level at the end of the first half of last year was due to ZIBOR developments, while firm control of other expenses, including employee expenses, led to a fall in general administrative expenses and depreciation. In addition to a fall in interest income in all sectors, other non-interest income also fell considerably. This was due to losses generated by derivatives trading, though note should be taken of the fact that these instruments are mainly used by banks as a hedge against currency risk and that banks have at the same time made significant gains on exchange rate differentials. A substantial increase in expenses on loss provisions additionally worsened bank performance.

Net operating income before loss provisions was 6.3%, or HRK 249.0m lower than in the same period 2009. The fall in income of almost HRK 2.1bn exceeded the fall in operating costs (excluding loss provision expenses) of over HRK 1.8bn. The decline in income was equally the result of a fall in interest income (9.4%) and other non-interest income, which fell by 58.1%. A small increase in income was seen only in the category of income from fees and commissions which rose by 2.4%. On the expenses side, interest expenses fell the most (HRK 1.7bn) while other non-interest expenses and expenses on fees and commissions fell by a slight HRK 104.1m. As a result, net income of banks fell by 3.7%. Total expenses on loss provisions rose by 26.9% and stood at HRK 1.5bn, an increase of HRK 310.2m compared to the end of the same period previous year.

Figure 2.9 Bank income before taxes



Pre-tax profits of large banks fell by 22.1% (a decline was observed in five large banks) and those of small banks by a high 72.2%. Nine small banks, including two savings banks, reported total operating losses of HRK 91.3m. A very large increase in medium-sized bank profits (468.8%) (Figure 2.9) was the result of changes in one of the banks in this group, which reported losses at the end of the first half of last year but operated with a profit in the same period of this year. Only three banks reported increased profits (two small banks and one large bank), and two banks that operated with a loss at the end of the first half of last year reported profit at the end of the observed period.

Despite a drop in interest income of banks of HRK 1.1bn or 9.4% since the first half of 2009, the banks reduced interest expenses by a significant HRK 1.7bn or 24.8%, which led to an increase in net interest income of 13.4%. Interest income of banks from all types of placements declined from the same period in the previous year, with interest income from deposits declining the most (50.8%). Interest income from debt securities and loans fell by 21.7% and 6.0%, respectively. The decline in interest income from loans was influenced by a fall in income from all sectors, except from non-profit institutions. Thus interest income from loans to financial institutions and foreign persons fell by 72.0% and 25.3%, respectively, interest income from loans to government units and corporates fell by 13.5% and 7.1%, respectively, while interest income from household loans fell the least (0.9%). A sharp fall in interest expenses, by almost one quarter, was due to smaller expenses associated with financing sources, i.e. to a fall in received deposits (19.5%), received loans (52.1%) and securities (33.7%).

The banks reported increased income from fees and commissions for various banking services of 2.4%, while at the same time they managed to reduce expenses on fees and commissions by 6.5%. As a result, the banks were able to increase their net income from commissions and fees by 6.2% from the same quarter in the previous year.

Other non-interest income fell by over one half (HRK 1.1bn or 58.1%). This was mostly due to losses from derivatives trading of HRK 1.7bn, compared to high profits from this activity reported by banks in the previous year (HRK 1.4bn). Given the banks' wide use of derivative financial instruments as a hedge against currency risk, the mentioned loss from derivatives trading should be viewed in relation to profits from exchange rate differentials which stood at HRK 1.6bn at the end of the quarter. Given the reduction in other non-interest expenses of 22.9%, net other non-interest income fell by 64.5% or HRK 1.0bn.

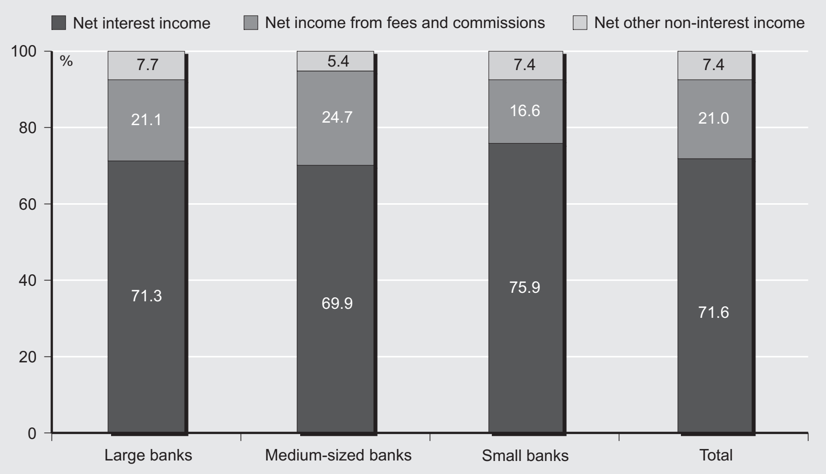
Table 2.7 Bank income statement, in million HRK

	Large banks		Medium-sized banks		Small banks		Total	
	Jan.-Jun. 2009	Jan.-Jun. 2010	Jan.-Jun. 2009	Jan.-Jun. 2010	Jan.-Jun. 2009	Jan.-Jun. 2010	Jan.-Jun. 2009	Jan.-Jun. 2010
Net interest income	3,715.9	4,334.0	461.0	473.4	494.0	487.4	4,670.9	5,294.8
Total interest income	9,420.4	8,431.0	1,104.5	984.6	1,032.5	1,055.8	11,557.3	10,471.4
Total interest expenses	5,704.4	4,097.1	643.5	511.2	538.4	568.3	6,886.4	5,176.6
Net income from fees and commissions	1,213.6	1,280.9	144.5	167.3	106.6	106.9	1,464.7	1,555.1
Total income from fees and commissions	1,552.2	1,606.6	375.5	379.4	155.7	147.5	2,083.4	2,133.4
Total expenses on fees and commissions	338.6	325.7	231.0	212.1	49.1	40.6	618.6	578.4
Net other non-interest income	1,501.8	465.3	–12.8	36.8	58.3	47.8	1,547.3	549.9
Other non-interest income	1,661.9	615.9	66.5	70.7	97.4	78.1	1,825.9	764.6
Other non-interest expenses	160.2	150.6	79.3	33.9	39.1	30.2	278.6	214.7
Net non-interest income	2,715.4	1,746.2	131.7	204.1	164.9	154.7	3,012.0	2,105.0
General administrative expenses and depreciation	2,799.6	2,769.2	429.7	413.5	519.9	532.4	3,749.2	3,715.1
Net operating income before loss provisions	3,631.8	3,311.0	162.9	263.9	139.1	109.8	3,933.8	3,684.8
Total expenses on loss provisions	967.0	1,235.2	142.3	146.3	46.0	83.9	1,155.3	1,465.5
Expenses on value adjustments and provisions for identified losses	1,016.6	1,315.8	150.2	167.6	48.3	86.1	1,215.1	1,569.5
Expenses on collectively assessed impairment provisions	–49.6	–80.6	–8.0	–21.2	–2.3	–2.2	–59.8	–104.0
Income/loss before taxes	2,664.7	2,075.8	20.7	117.6	93.0	25.9	2,778.4	2,219.3
Income tax	447.3	359.4	25.8	8.2	33.6	22.6	506.7	390.2
Current year profit/loss	2,217.4	1,716.4	–5.1	109.4	59.4	3.3	2,271.7	1,829.1
Memo items:								
Gains (losses) from trading activities	1,826.8	–1,086.7	95.2	–118.7	76.8	59.2	1,998.7	–1,146.1
Gains (losses) from securities trading	–47.1	84.6	2.1	5.1	0.5	–0.4	–44.5	89.3
Gains (losses) from foreign currency trading	458.0	409.7	76.5	34.2	75.5	59.0	610.1	502.9
Gains (losses) from domestic currency trading	1.0	1.1	0.0	0.0	–0.1	–0.2	0.9	1.0
Gains (losses) from derivatives trading	1,415.0	–1,582.1	16.5	–158.0	0.8	0.8	1,432.2	–1,739.3
Gains (losses) from exchange rate differentials	–620.8	1,429.6	–48.8	166.1	–15.0	–7.1	–684.6	1,588.6
Number of banks operating with losses	0	0	1	0	7	9	8	9

As in 2009, the banks were careful in managing their operating costs, including, among others employee expenses and the expenses of operating units. General administrative expenses and depreciation fell slightly (0.9%), owing to their fall in large and medium-sized banks. In small banks these expenses rose.

Total expenses on loss provisions rose by over one quarter, with the increase being attributable only to provisions for identified losses which rose by 29.2% with income from repealed collectively assessed impairment provisions rising. Total expenses on loss provisions of large banks rose slightly faster than total expenses of all the banks combined (27.7%) while those of medium-sized banks rose by only 2.9%, in contrast with the group of small banks in which this category of expenses rose the most (82.3%).

Figure 2.10 Structure of bank net income, as at 30 June 2010



Indicators of returns

A decline in profits in the first half of 2010 led to a further fall in the profitability of banks, with the indicators of return on average assets (ROAA) and return on average equity (ROAE) plunging to levels below those of the end of the same period in the previous year.

ROAA was down from 1.5% at the end of the first half of 2009 to 1.2% at the end of the first half of 2010 (Figure 2.11). Both large and small banks reported a fall in this indicator of approximately a half percentage point, while medium-sized banks reported an increase in this indicator of some 0.6 percentage points, attributable to profits being realised by a bank that had operated with a loss in the previous year. Small banks again reported the lowest value of this indicator (0.2%). They were followed by medium-sized banks and large banks whose ROAA stood at 0.7% and 1.3%, respectively.

Developments in the ROAE indicator were similar. ROAE fell from 8.9% at the end of the first half of 2009 to 6.9% at the end of the first half of 2010 (Figure 2.12). ROAE in large banks was 7.6%, and

Figure 2.11 Bank return on average assets (ROAA)

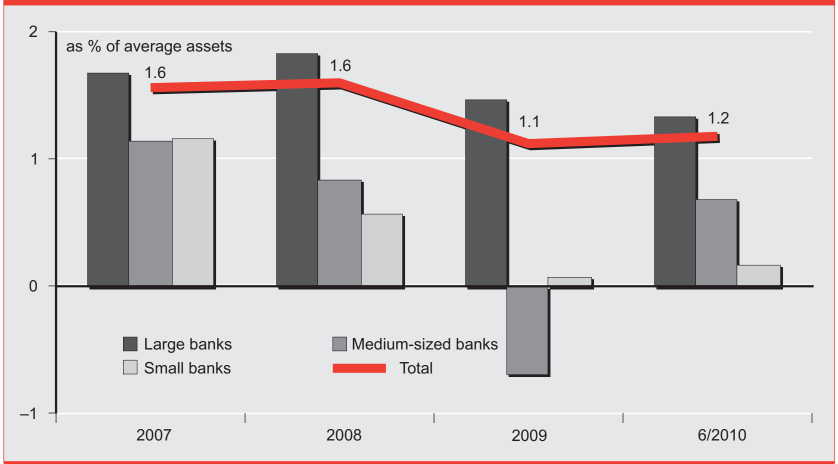
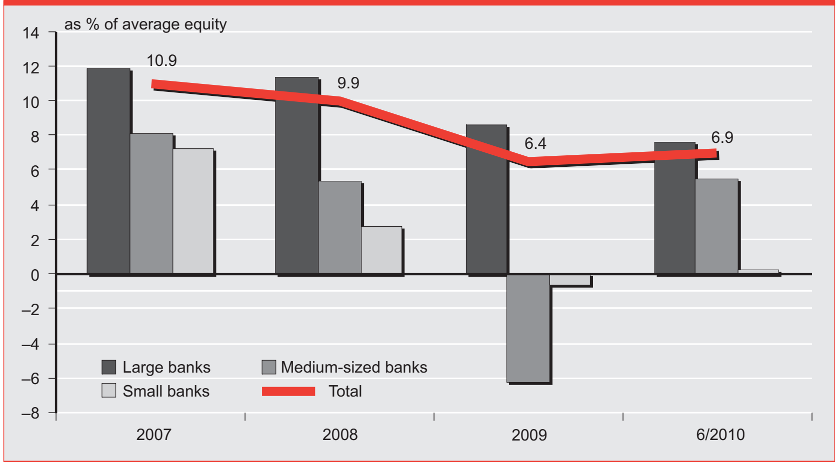


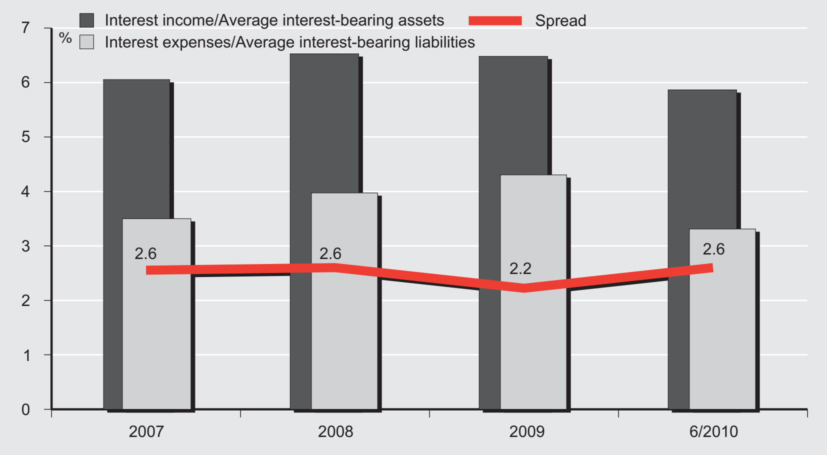
Figure 2.12 Bank return on average equity (ROAE)



in medium-sized and small banks it was 5.5% and 0.2%, respectively. The return on average equity also increased in medium-sized banks (for the same reason as ROAA) and decreased in the other two bank groups.

The structure of net income at the end of the first half of 2010 changed considerably from the same period in the previous year and was much more similar to the structure of net income at the end of June 2008. That is, the share of net other non-interest income in total net income declined by 12.7 percentage points, affecting to a smaller extent the share of net income from fees and commissions, which rose by 2.0 percentage points and even more the share of net interest income, as the basic and most stable source of bank income, which rose by 10.8 percentage points. As a result, at the end of the first half of this year, interest income again accounted for over two thirds of net income of banks (71.6%) as in the same period 2008 when it accounted for 67.2% of the total net income. Net other non-interest income dropped to below one tenth (7.4%) of the total net income of banks, in contrast with its balance at the end of the first half of last year, when it accounted for 20.1% of total net income.

Figure 2.13 Income from interest-bearing assets and expenses on interest-bearing liabilities

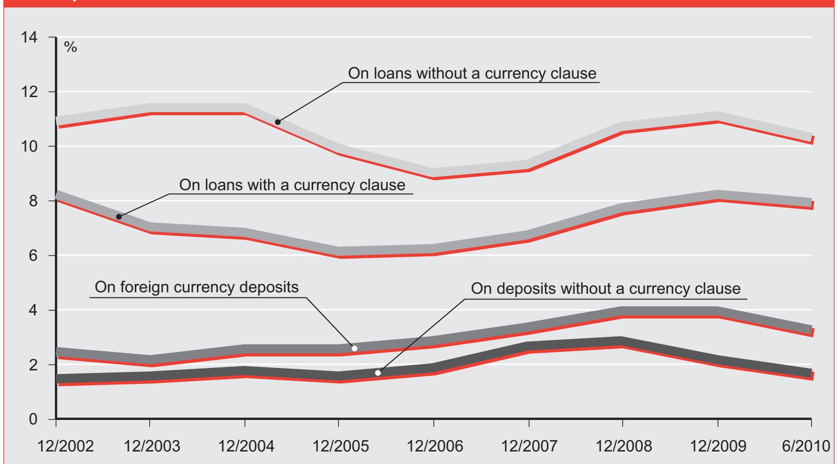


The spread, i.e. the difference between interest income on average interest-bearing assets and interest expenses on average interest-bearing liabilities, was up from 2.2% to 2.6% in the past year (Figure 2.13), returning to its 2007 and 2008 levels. Despite a decrease in interest income on average interest-bearing assets of 0.8 percentage points, a sharper fall in interest expenses on average interest-bearing liabilities that amounted to over one percentage point (1.2) during the same period led to an increase in their spread.

Although the spread declined only in the group of small banks (0.2 percentage points), it nevertheless remained the highest in this bank group (2.9%). Interest rate spread rose in the other two bank groups; by a little over half a percentage point in medium sized banks, where it amounted to 2.7% and by less than half a percentage point in large banks, where it amounted to 2.6%. Thus, medium-sized banks, which in mid-2009 and on several occasions before that, had managed to operate with the same interest rate spread as large banks, again had a higher interest rate spread than large banks.

As regards developments in monthly weighted average interest rates of banks, there is evidence of a

Figure 2.14 Weighted averages of bank monthly interest rates, on annual basis



fall in interest rates on foreign currency deposits and of a further fall in interest rates on deposits not indexed to a foreign currency which started towards the end of 2009. Interest rates on loans, both those indexed and those not indexed to a foreign currency declined towards the end of the first half of this year (Figure 2.14).

The average amount of assets per employee of all banks rose slightly from HRK 17.4m to 17.5m (Figure 2.14), due to assets increasing very modestly and staffing sizes remaining almost the same. This indicator, though usually the highest in large banks, fell slightly in this bank group but continued to increase in the other two bank groups, less in medium-sized banks than in small banks (from HRK 8.8m to HRK 9.3m).

A fall in net income of banks in the first half of 2010 led to a fall in the cost effectiveness of banks measured by cost to income ratio. At the end of the same period 2009, the bank cost to income ratio amounted to 48.8% and at the end of the second quarter this year it rose to 50.2%. Large banks again had the best cost to income ratio (43.5%) and as usual, this ratio was higher, i.e. more unfavourable, in the group of medium-sized and small banks (72.5% and 78.9%, respectively).

Figure 2.15 Bank assets per employee

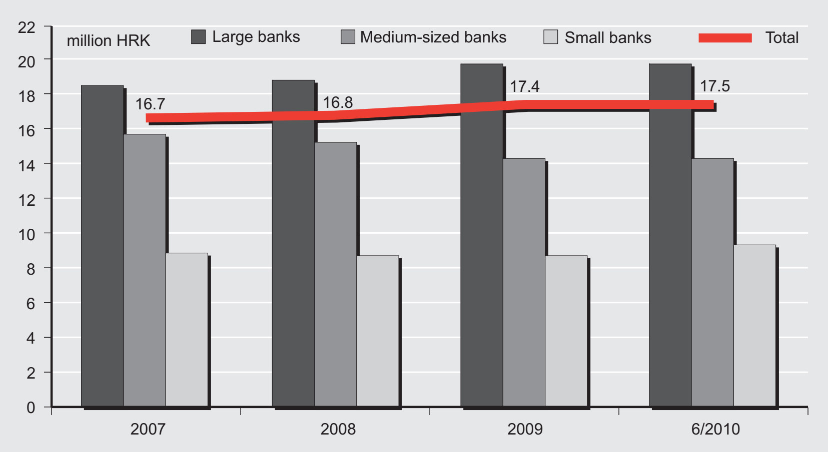
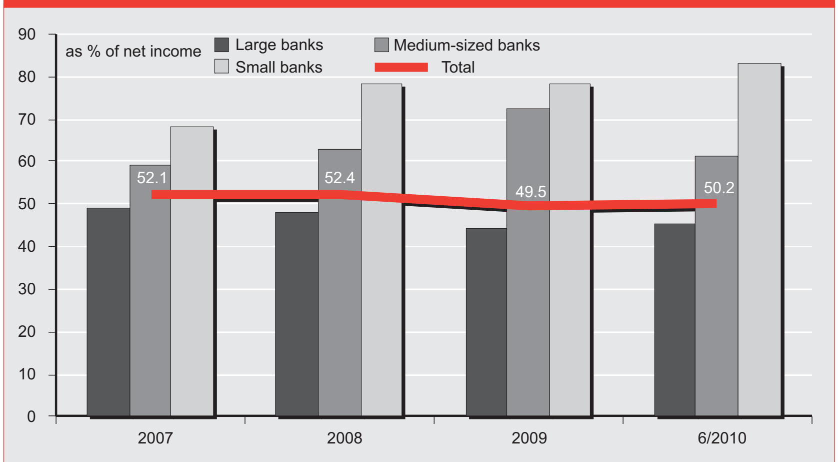


Figure 2.16 Bank operating expenses



2.2.4 Credit risk

Placements and assumed off-balance sheet liabilities

At the end of June 2010, total placements and assumed off-balance sheet liabilities of banks that are exposed to credit risk and are subject to classification into risk categories[10] stood at HRK 407.0bn, a decrease of HRK 19.6bn or 4.6% from the end of 2009 (Table 2.8). The main reason for the decline in total exposure to credit risk lies in the implementation of new regulations as from 31 March 2010, under which the portfolio of financial assets available for sale is excluded from the scope of placements and assumed off-balance sheet liabilities classification rules. At the end of 2009, this portfolio stood at HRK 19.9bn. Therefore, the effects of methodological changes excluded, placements and assumed off-balance sheet liabilities held steady in real terms, at the level almost equal to that at the end of the previous year.

And while total placements and assumed off-balance sheet liabilities held almost steady in real terms, bigger changes were seen in some forms of financial assets that are subject to classification. The riskiest and the most significant component, granted loans, increased while almost all other forms of assets decreased. Given deposits, deposits with foreign banks and with the CNB. fell the most and evident decline was also seen in off-balance sheet items, mainly credit lines and commitments. In the second half of 2009, the banks intensified their liquidity reserves creation and in the first half of 2010, there was a fall in almost all more liquid forms of assets. By withdrawing deposits held with foreign banks, the banks optimised their liquid foreign exchange position, which at the end of 2009 exceeded the prescribed minimum by a large margin.[11] though some banks needed these funds, not only for credit growth, but also for the coverage of the outflows of the sources of financing, mainly corporate deposits. The amount in CNB giro accounts fell considerably, some probably being channelled to cash to accommodate changes in cash supply regulations.

Of the total amount of placements and assumed off-balance sheet liabilities at the end of the first half of 2010, 6.9% were classified as partly recoverable (risk categories B-1, B-2 and B-3) or fully irrecoverable (risk category C), while placements with no objective evidence of value impairment and off-balance sheet liabilities for which no outflows are expected, or where if outflows do take place they are expected to be fully recovered (risk category A), accounted for 93.1% of the total. At the end of 2009, the share of placements and assumed off-balance sheet liabilities classified into risk categories B[12] and C, stood at 5.3%.[13] In the first half of 2010, the share of these placements and assumed off-balance sheet liabilities rose by a considerable 23.5%, or HRK 5.3bn. Due to a simultaneous decline in total exposure, owing to the exclusion of the portfolio of assets available for sale, and the fact that this portfolio mainly comprises securities of domestic and foreign central governments, i.e. highest quality securities, the share of placements and assumed off-balance sheet liabilities of B and C categories in total placements and assumed off-balance sheet liabilities rose considerably during

10 Decision on the classification of placements and off-balance sheet liabilities of credit institutions (OG 1/2009, 75/2009 and 2/2010).

11 Under the Decision on the minimum required amount of foreign currency claims (OG 59/2008, 17/2009 and 23/2009) the banks are obligated to maintain minimum 20% of their foreign currency liabilities by foreign currency claims. In June 2010, the average monthly coverage of foreign currency liabilities by foreign currency claims stood at 22.58% (compared to 24.14% in December 2009).

12 The sum total of placements and assumed off-balance sheet liabilities classified into risk categories B-1, B-2 and B-3.

13 In the EU, this indicator stood at 4.2% at the end of 2009. (Source: EU Banking Sector Stability, ECB, September 2010).

Table 2.8 Classification of bank placements and assumed off-balance sheet liabilities by risk categories, end of period, in million HRK and %

Risk category	Dec. 2007			Dec. 2008			Dec. 2009			Jun. 2010		
	Placements and assumed off-balance sheet liabilities	Value adjustments and provisions	Coverage	Placements and assumed off-balance sheet liabilities	Value adjustments and provisions	Coverage	Placements and assumed off-balance sheet liabilities	Value adjustments and provisions	Coverage	Placements and assumed off-balance sheet liabilities	Value adjustments and provisions	Coverage
A	384,204.3	3,484.3	0.9	408,397.9	3,674.9	0.9	403,906.5	3,613.0	0.9	378,943.1	3,509.0	0.9
B-1	4,813.9	498.4	10.4	6,312.0	661.4	10.5	10,764.0	1,416.9	13.2	13,783.0	1,800.0	13.1
B-2	2,493.6	1,052.4	42.2	2,744.7	1,128.2	41.1	5,303.4	2,225.6	42.0	7,386.2	3,227.9	43.7
B-3	639.1	470.8	73.7	808.9	572.4	70.8	1,283.3	931.8	72.6	1,499.8	1,208.5	80.6
C	4,270.3	4,268.6	100.0	4,214.6	4,193.3	99.5	5,366.6	5,281.8	98.4	5,375.8	5,241.8	97.5
Total	396,421.2	9,774.6	2.5	422,478.1	10,230.1	2.4	426,623.8	13,469.1	3.2	406,987.8	14,987.3	3.7

the observed half-year period. The growth of placements and assumed B and C category off-balance sheet liabilities was mainly attributable to an increase in the loans classified into these risk categories and an increase in interest and fee receivables classified into these categories, most notably interest receivables, which rose sharply in the first half of 2010.

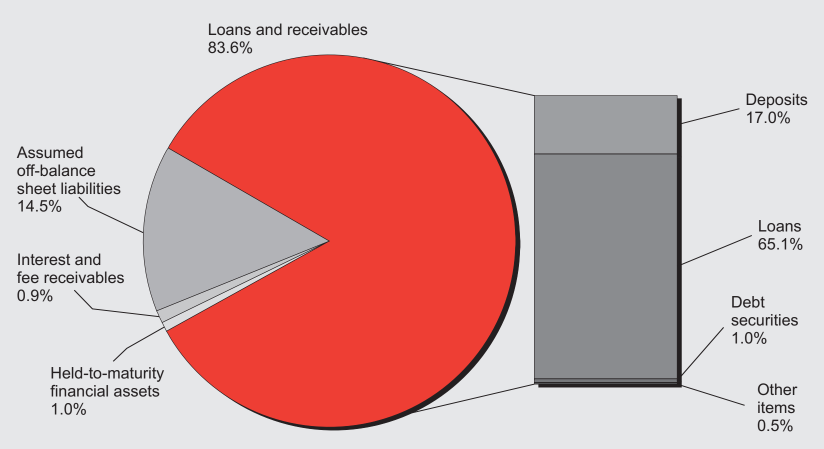
All the three medium-sized banks witnessed a marked growth in placements and assumed off-balance sheet liabilities of B and C category. As a result, medium-sized banks had the largest share of these placements and assumed off-balance sheet liabilities in total placements and off-balance sheet liabilities (10.3%). Traditionally the highest in small banks, this indicator stood at 9.9% in small banks at the end of the first half of 2010. It was the lowest in large banks (6.3%), although the growth rate of these placements and assumed off-balance sheet liabilities was considerably higher in large than in small banks. A higher level of B and C category placements and assumed off-balance sheet liabilities in small than in large banks was the result of a higher share of exposure to corporates and a smaller share of exposure to government units and households as less risky sectors. Small banks are also limited in their ability to service large and more stable corporates because of the larger amount of own funds that they have to provide under regulations governing exposure restrictions[14] in order to grant the same nominal amount of loan as large banks. In addition, their possibility of risk dispersion is smaller in cases of larger loans to bigger corporates. In relation to own funds, total large exposures of banks stood at 43.5% while those of small banks stood at 176.5%. In large and medium-sized banks, large exposures were substantially lower and stood at 29.9% and 52.9% of own funds, respectively.

Total losses, i.e. the total amount of provisions, including collectively assessed impairment provisions[15] were estimated at 3.7% of total placements and assumed off-balance sheet liabilities, showing this indicator's further growth; this trend started last year and reached its highest value since 2004. At the same time, the coverage of placements and assumed off-balance sheet liabilities classified into risk categories B and C fell from 43.4% at the end of 2009 to 40.9% at the end of the first half of 2010, continuing its falling trend for the tenth consecutive year. Value adjustments and provisions rose by a total of HRK 1.5bn or 11.3% in the first half of 2010 as a result of an increase in value adjustments and provisions for B and C category placements and assumed off-balance sheet liabilities

14 A credit institution's exposure to a single person or a group of connected persons after the use of credit risk mitigation techniques may not exceed 25% of a credit institution's own funds. The sum of all large exposures (exposure to a single person or a group of connected persons that equals or is higher than 10% of own funds) may not exceed 600% of a credit institution's own funds.

15 Credit institutions must maintain the level of impairment (value adjustment) of placements and provisions for off-balance sheet liabilities graded A in the amount that is not below 0.85% or above 1.20% of the total balance of placements and off-balance sheet liabilities graded A.

Figure 2.17 Structure of bank placements and assumed off-balance sheet liabilities, as at 30 June 2010



of 16.5% and a fall in value adjustments and provisions for A category placements and assumed off-balance sheet liabilities of 2.9%. The placements and assumed off-balance sheet liabilities of banks classified into risk category A fell sharply compared to the end of 2009, mainly as a result of methodological changes involving the exclusion of the available for sale asset portfolio, which was almost entirely classified into risk category A.

The loans and receivables portfolio, with over 3/4 of it consisting of loans (Figure 2.17), accounted for the major share of total placements and assumed off-balance sheet liabilities. Assumed off-balance sheet liabilities, over 90% of which consisted of various forms of credit lines and issued guarantees, came next. Guarantees were the riskiest component of the total off-balance sheet liabilities which accounted for 5.6% of B and C risk category items. Overall, off-balance sheet liabilities classified into risk categories B and C accounted for 5.0% of total placements and assumed off-balance sheet liabilities of these two categories. Claims arising from interest and fee recivables, which amounted to 0.9% of total placements and assumed off-balance sheet liabilities, accounted for 3.8% of B and C category placements and assumed off-balance sheet liabilities owing to a very large share of these claims classified into risk categories B and C (30.4%). It should be mentioned that 94.9% of interest and fee receivables classified into risk categories B and C were covered by value adjustments. B and C category loans (classified in the loans and receivables category) had a predominant effect on the quality of total exposure and they accounted for 89.8% of B and C category placements and assumed off-balance sheet liabilities of banks. Bank loans (classified in the loan and receivables category) are therefore further analysed below.

Loans

Granted bank loans (classified in the loan and receivables category) stood at HRK 264.8bn at the end of the first half of 2010, which is an increase of HRK 3.7bn or 1.4%, compared to the end of the previous year (Table 2.9). After three years of slowdown, initiated by CNB measures[16] and further

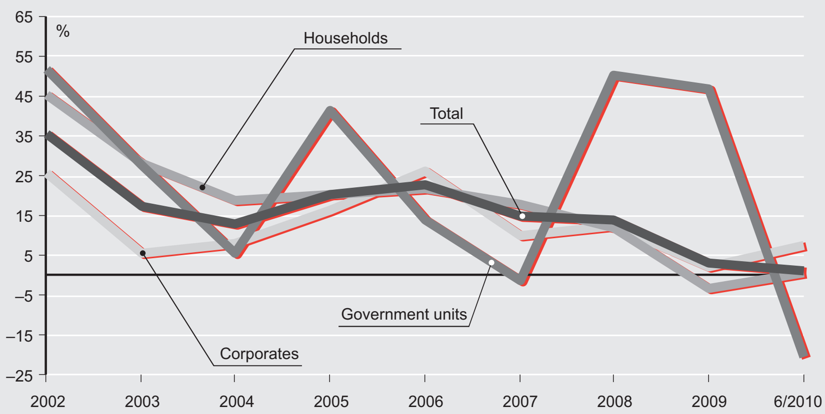
16 Restrictions on foreign borrowing were lifted in October 2008 and restrictions on bank placement and off-balance sheet liabilities growth were lifted in November 2009.

driven by the effects of recession, the credit activities of banks picked up slightly.[17] Loans to corporates rose considerably and loans to government units, the main generator of credit growth in 2009, declined considerably.[18]

Household loans, after falling in 2009, halting an upward trend in household lending present throughout the entire ten year period, rose slightly in the first half of 2010. In addition to home loans, the increase was also seen in other household loans (cash general purpose loans, overdraft facilities and all other household loans). The growth in home loans, and thus also in total household loans took place under the influence of the developments in the exchange rate of the kuna against the Swiss franc, which caused them to fall in real terms, while other household loans (cash general purpose loans, overdraft facilities and all other household loans) rose effectively (i.e. taking into account exchange rate developments). It was exactly the fall in other household loans, coupled with a decline in car purchase loans, that led to a fall in total household loans in 2009. Car purchase loans have not started to show signs of recovery; in addition, a fall in the first half of 2010 was also seen in mortgage loans and credit card loans.

During the observed half-year period, loans grew in 24 banks and fell in ten banks, nine of which were small banks. Nevertheless, loan growth was the fastest in small banks (2.9%) then in medium-sized and large banks where loans grew by 1.8% and 1.2%, respectively.

Figure 2.18 Rates of change of bank loans



Note: Annual rates of change except for June 2010 (the semi-annual rate of change).
From June 2010, loans comprise loans classified into loans and receivables category while household loans comprise loans to non-profit institutions serving households.

17 Due to methodological changes, the comparison of 2010 data with those in the previous periods is somewhat limited. In case of some banks, the fact that historical data on loans (for the periods ending in 2009), except loans as a form of financial assets, also include debt securities distributed in the loans and receivables portfolio, had a negative impact on the reported loan growth rate. As the majority of the mentioned debt securities involves RC bonds, this methodological change has contributed to a considerable fall in the amount of loans to government units and, owing to their high quality, to an increase in the share of B and C category loans in total loans, though to a lesser extent.

18 As from 31 March 2010, credit institutions submit credit exposure and credit quality data by means of reporting records (Decision on statistical and prudential reporting, OG 35/2010) and exposure distribution by sectors and by activities is determined in the CNB based on personal identification numbers of clients submitted by credit institutions and personal identification numbers database of the CBS. This makes data comparability as regards loan exposure distribution by sectors/activities in 2010 compared to earlier periods more difficult, while data comparability by activities has also been additionally limited due to the shift to NCEA 2007.

After trending downwards for many years (with only a brief break in 2006), the share of loans to corporates in total bank loans stopped falling at the end of the first half of 2010 owing to acceleration in their growth rate (Figure 2.18), while the share of household loans remained the same as at the end of the previous year. Large banks had the highest growth rate of loans to corporates; nevertheless, these loans accounted for the smallest share of total loans (38.5%) in this bank group. The share of loans to corporates was much higher in small banks and accounted for 57.5% of total loans of small banks. This was thus the only bank group with a higher share of loans to corporates than to households. Of 25 small banks, 17 focused on corporate lending and the remaining eight focused on household lending.

Household loans accounted for 47.3%, or the major share of total loans in large banks, with home loans accounting for the major share of household loans. Other loans (cash general purpose loans, overdraft facilities and all other household loans) accounted for the major share of the household credit portfolio of medium-sized and small banks. At the end of the first half of 2010, home loans granted by large banks accounted for a high 90% of home loans of all banks.

In 2008, the growth of home loans was the largest source of growth in household loans and in 2009, home loans were the only growing category of household loans. Due to a steady growth trend, which continued into 2010, particularly in case of large banks, home loans accounted for a little over one fifth of total bank loans at the end of June 2010 and their large share can undoubtedly be associated with a large share of construction in the credit portfolios of banks. After household loans and loans to the manufacturing sector, the next largest share of total bank loans went to the construction sector (Figure 2.19). The large share of loans covered by real estate property and the large share of loans to the construction sector and the real estate property business show the importance that developments in the real estate property market and residential real estate property financing have in the assessment of a bank's risk profile.

Home loans accounted for 20.9% of total bank loans, in terms of distribution by loan types, while working capital and investment loans accounted for the next largest shares (15.9% and 14.0%, respectively) of total loans. They also accounted for the largest share of partly recoverable and fully irrecoverable bank loans (22.3% and 19.8%, respectively). Partly recoverable and fully irrecoverable home loans accounted for 7.6% of total partly recoverable and fully irrecoverable bank loans. Loans for payments based on guarantees and similar instruments and financial leasing had the highest level of B and C risk category loans (87.7% and 58.3%, respectively). They were followed by construction loans,[19] 25.5% of them being classified into risk categories B and C.

The growth in the granted loans of banks which took place in the first half of 2010 was the result of an increase in the second quarter of the year, when loans, after four quarters of stagnation, rose by 2.1%. Loans to corporates, most notably loans for working capital, rose the most during that quarter, although loans to government units also rose substantially, while household loans, mainly home loans, grew at a somewhat slower rate. The growth in loans to corporates during this quarter was mainly due to increased loans to the construction sector, real estate property business and manufacturing. In addition to being the main generator of growth in total loans to corporates, the

19 Construction loan is a loan used for the financing of residential or commercial construction projects intended exclusively for market sale.

Table 2.9 Bank loans, end of period, in million HRK and %

	Dec. 2007		Dec. 2008			Dec. 2009			Jun. 2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans											
Government units	14,328.2	6.5	21,509.8	8.5	50.1	31,547.7	12.1	46.7	25,039.9	9.5	–20.6
Corporates	86,193.5	38.8	96,827.7	38.3	12.3	98,924.4	37.9	2.2	106,575.3	40.2	7.7
Households	112,364.3	50.6	125,922.6	49.8	12.1	122,195.0	46.8	–3.0	123,837.1	46.8	1.3
Home loans	45,231.6	20.4	52,317.5	20.7	15.7	52,959.6	20.3	1.2	54,993.0	20.8	3.8
Mortgage loans	2,934.8	1.3	3,130.1	1.2	6.7	3,084.2	1.2	–1.5	2,424.3	0.9	–21.4
Car loans	9,388.9	4.2	9,646.0	3.8	2.7	7,810.5	3.0	–19.0	6,902.2	2.6	–11.6
Credit card loans	4,923.3	2.2	5,529.7	2.2	12.3	5,022.3	1.9	–9.2	4,639.0	1.8	–7.6
Other household loans	49,885.7	22.5	55,299.3	21.9	10.9	53,318.4	20.4	–3.6	54,878.6	20.7	2.9
Other sectors	9,204.1	4.1	8,422.1	3.3	–8.5	8,472.0	3.2	0.6	9,391.9	3.5	10.9
Total	222,090.2	100.0	252,682.2	100.0	13.8	261,139.0	100.0	3.3	264,844.2	100.0	1.4
Partly recoverable and fully irrecoverable loans											
Government units	26.8	0.3	67.0	0.5	149.7	62.1	0.3	–7.4	64.3	0.3	3.5
Corporates	6,333.4	59.2	7,234.8	58.0	14.2	12,736.0	62.6	76.0	15,860.0	63.0	24.5
Households	4,206.0	39.3	4,998.4	40.1	18.8	7,081.3	34.8	41.7	8,581.8	34.1	21.2
Home loans	725.5	6.8	891.9	7.1	23.0	1,446.6	7.1	62.2	1,879.3	7.5	29.9
Mortgage loans	296.6	2.8	304.0	2.4	2.5	368.0	1.8	21.1	484.9	1.9	31.8
Car loans	292.7	2.7	277.6	2.2	–5.2	330.3	1.6	19.0	209.9	0.8	–36.5
Credit card loans	60.8	0.6	102.8	0.8	69.2	152.6	0.7	48.4	168.1	0.7	10.1
Other household loans	2,830.5	26.5	3,422.1	27.4	20.9	4,783.8	23.5	39.8	5,839.7	23.2	22.1
Other sectors	126.9	1.2	178.0	1.4	40.2	481.7	2.4	170.5	686.4	2.7	42.5
Total	10,693.2	100.0	12,478.3	100.0	16.7	20,361.1	100.0	63.2	25,192.5	100.0	23.7
Value adjustments of partly recoverable and fully irrecoverable loans											
Government units	11.9	0.2	14.5	0.2	21.9	5.5	0.1	–61.9	4.6	0.0	–16.7
Corporates	2,869.6	49.3	2,904.6	45.2	1.2	4,232.1	48.6	45.7	5,109.1	51.4	20.7
Households	2,818.9	48.4	3,391.3	52.7	20.3	4,309.5	49.5	27.1	4,625.6	46.5	7.3
Home loans	362.5	6.2	384.3	6.0	6.0	516.7	5.9	34.4	539.6	5.4	4.4
Mortgage loans	118.2	2.0	118.7	1.8	0.4	116.6	1.3	–1.7	143.4	1.4	23.0
Car loans	218.9	3.8	204.9	3.2	–6.4	206.4	2.4	0.8	86.8	0.9	–57.9
Credit card loans	47.2	0.8	89.0	1.4	88.3	125.6	1.4	41.2	134.0	1.3	6.7
Other household loans	2,072.0	35.6	2,594.4	40.4	25.2	3,344.2	38.4	28.9	3,721.6	37.4	11.3
Other sectors	120.4	2.1	118.9	1.8	–1.2	163.5	1.9	37.5	207.5	2.1	26.9
Total	5,820.7	100.0	6,429.3	100.0	10.5	8,710.6	100.0	35.5	9,946.8	100.0	14.2

Note: From June 2010 on, loans comprise loans classified into loans and receivables category while household loans comprise loans to non-profit institutions serving households.

construction sector also made the biggest contribution to the increase in partly recoverably and fully irrecoverable corporate loans. It was followed by trade which was the riskiest activity among those of high importance, with 16.6% of total loans to this activity being classified as B and C. In manufacturing and construction, at the end of the first half of 2010, this indicator stood at 13.2% and 11.9%, respectively.

The decline in quality of bank credit portfolios, prominent since the last quarter of 2008, continued into the first half of 2010. During that period, the strongest growth in partly recoverable and fully irrecoverable loans was seen in the corporate sector (where they accounted for 14.9% of total loans), as the sector which was obviously the hardest hit by the economic crisis, although these loans also grew considerably in the household sector. Special note should be taken of the growth in partly recoverable and fully irrecoverable home loans. They reached 3.4% of total home loans of banks, which indicates that these loans have lost the attribute of the best quality household loans. Car purchase loans had a lower share of B and C category loans (3.0%). In the light of their good quality,

Figure 2.19 Structure of bank loans by activities, as at 30 June 2010

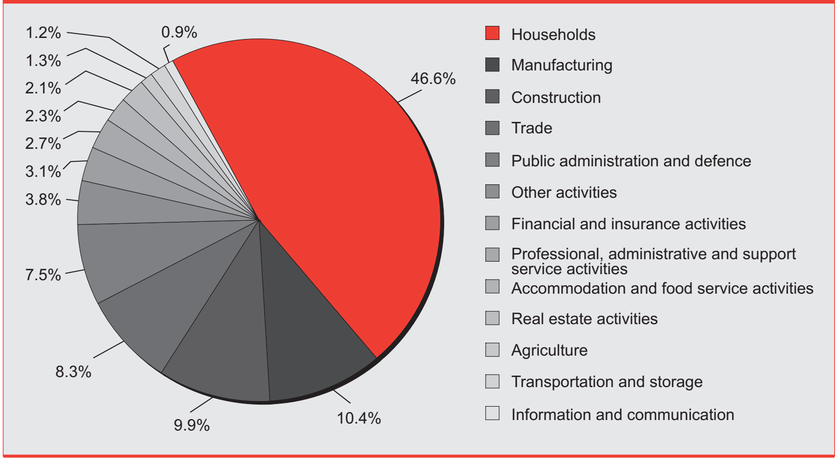
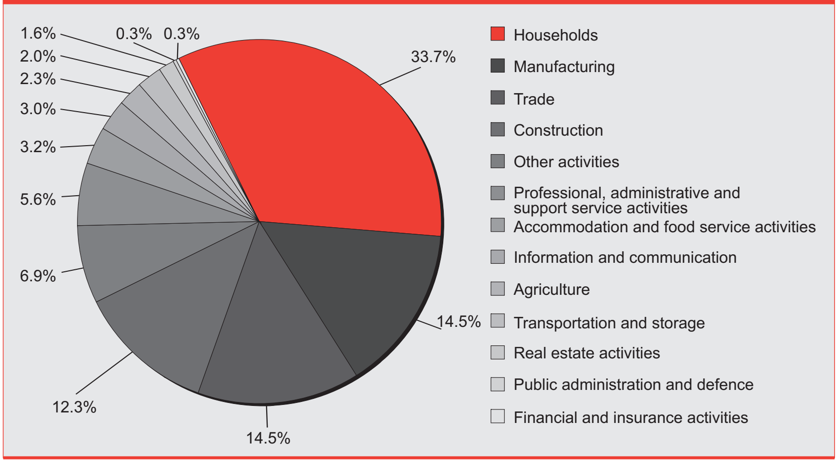


Figure 2.20 Structure of bank partly recoverable and fully irrecoverable loans by activities, as at 30 June 2010

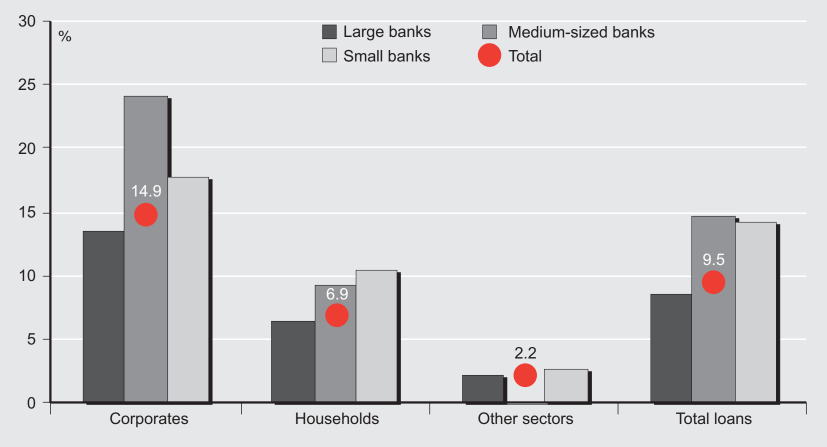


a noticeable fall in car purchase loans in this and in the preceding year can probably be associated with a fall in demand for this type of loans. Of household loans, mortgage loans, i.e. loans covered, like home loans, by real estate property, had the largest growth rate of B and C risk category loans.

In the first half of 2010, all sectors witnessed an increase in partly recoverable and fully irrecoverable loans, which rose by a total of HRK 4.8bn or 23.7%, reaching HRK 25.2bn, or 9.5% of total bank loans (Figure 2.21). Looking at quarterly rates of change in B and C risk category loans, one can observe a slowdown in their growth dynamics. It should be noted, however, that the largest share of growth in B and C category loans in 2009 was due to their increase in the last quarter of that year following considerable reclassification of loans and increased value adjustments in the number of banks, in accordance with the instructions of the CNB based on special examinations conducted in these banks. The banks probably also took a more rigorous approach to loan quality assessment and a more realistic presentation of their performance towards the end of the year.

Due but unpaid loan receivables accounted for 53.4% of the total amount of partly recoverable and

Figure 2.21 Share of bank partly recoverable and fully irrecoverable loans, as at 30 June 2010



fully irrecoverable loans. Value adjustments covered 74.1% of due but unpaid receivables for B and C loans, although this indicator differed substantially from sector to sector, standing at 57.1% in the corporate sector and 109.8% in the household sector. Most household loans belong to the so called small loans portfolio in which distribution into risk categories can be done on the basis of the criteria of timeliness in meeting obligations (the criteria of credit worthiness and the quality of instruments of collateral need not be applied). As a result, due but unpaid liabilities of households are better covered by value adjustments.[20]

Due but unpaid loan recivables accounted for 5.2% of the total amount of bank loans, which is equal to the value of this indicator at the end of 2009. The reason why this indicator held steady at the same level can probably be attributed to further heightened activities of banks relating to loan repayment prolongation and loan restructuring.

Loans in risk category A which involve a payment delay of over 90 days,[21] amounted to HRK 4.7bn and accounted for 1.8% of total bank loans (1.7% at the end of 2009) and due but unpaid receivables under these loans amounted to HRK 1.0bn, or 21.4% of these loans. Such loans had fallen by 6.8% from the end of the previous year. Corporates accounted for a little over two thirds of fully recoverable loans with a payment delay of over 90 days; the share of these loans in total corporate loans was 3.6%, with this indicator being the highest in small banks (10.0%).

There was a great difference in the growth rate of partly recoverable and fully irrecoverable loans between different bank groups in the first half of 2010. For instance, it was considerably lower in small banks than in the remaining two bank groups and it was the highest in medium-sized banks, which resulted in an almost equal share of these loans in these two bank groups (14.6% in medium-sized and 14.2% in small banks). This indicator was the lowest in large banks (8.6%), though in the period

20 Until 31 March 2010, the criterion of timeliness in meeting the obligations, as the only criterion for placement classification, could only be applied to the small loans portfolio and since that date credit institutions are obligated to classify placements (large exposures individually and separately from the small loans portfolio) that are not secured by eligible instruments of collateral into risk categories mainly on the basis of timeliness in meeting the obligations.

21 These loans may be classified into risk category A provided instruments of collateral have been activated.

since end-2008 (ever since a more marked growth in partly recoverable and irrecoverable loans took place), the growth in the level of these loans was the highest in large banks.

Currency-induced credit risk

Given the high level of foreign currency loans and kuna loans indexed to a foreign currency, risks of a credit quality deterioration might arise from unmatched currency positions of clients with bank loans in a foreign currency or in kuna indexed to a foreign currency, if the exchange rate of the kuna should weaken. Of the total amount of loans (net), 73.0% were exposed to a currency-induced credit risk (CICR). Hedged loans accounted for 6.7% of loans exposed to CICR, loans not subject to hedge assessment (as they are exempted from the obligation of assessment due to their small amount) accounted for 2.5% of these loans and the remaining 90.8% went to loans unhedged against CICR, i.e. to loans to clients with an unmatched currency position. In the first half of 2010, loans in euro or indexed to the euro rose considerably and accounted for 4/5 of the total foreign currency (and indexed) bank loans. Loans in Swiss francs (those indexed included) fell considerably in real terms, i.e. if exchange rate effects are excluded, which is probably due to the fact that they became less attractive on account of the marked fluctuation in the exchange rate of the kuna against the Swiss franc recently. The share of loans in Swiss francs (those indexed included) reached its peak towards the end of 2007 and has been falling ever since.

2.2.5 Liquidity risk

Sources of financing

At the end of the first half of 2010, total sources of financing of banks[22] stood at HRK 311.5bn, a slight decrease of HRK 1.8bn or 0.6% compared to the end of 2009. The absence of growth in the sources of financing can be attributed to their fall in large banks of HRK 3.8bn or 1.5%. By contrast, the sources of financing rose by HRK 1.7bn or 6.5% and HRK 297.7m or 1.0% in the group of small and medium-sized banks, respectively.

As regards the type of sources of financing, a decline in the total sources reflects a decline in received loans of HRK 2.2bn or 4.1%, in contrast to all other types of sources of financing, which rose, though not to such an extent as to offset the decline described. As a result, the share of received loans in the structure of total sources fell by 0.6 percentage points, while the share of deposits, stagnation notwithstanding, rose to 82.5% (Table 2.10). Issued subordinated and hybrid instruments continued to increase steadily, and their increase of HRK 331.7m or 9.7% was the largest relative increase of all the sources of financing during the observed semi-annual period.

There were no major changes in the structure of sources of financing of individual bank groups. Deposits were again the dominant source of financing in all bank groups, most notably in small banks,

22 The sources of financing include received deposits, received loans, issued debt securities and issued subordinated and hybrid instruments.

Table 2.10 Structure of bank sources of financing, end of period, in %

	Large banks		Medium-sized banks		Small banks		Total	
	Dec. 2009	Jun. 2010	Dec. 2009	Jun. 2010	Dec. 2009	Jun. 2010	Dec. 2009	Jun. 2010
Deposits	81.0	81.6	85.5	85.3	87.3	87.6	82.0	82.5
Loans	17.9	17.3	12.6	12.1	11.5	11.1	16.9	16.3
Debt securities issued	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid and subordinated instruments issued	1.0	1.0	2.0	2.6	1.1	1.2	1.1	1.2
TOTAL SOURCES OF FINANCING	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deposits and loans of majority foreign owner	22.0	22.2	8.3	8.4	1.8	3.2	19.1	19.2

where they accounted for 87.6% of the total sources of financing. Large banks again accounted for the largest share of received loans (17.3%) in the total sources of financing, although their share fell by 0.6 percentage points compared to the end of 2009. All bank groups increased the amount of issued subordinated and hybrid instruments, particularly medium-sized banks (35.3%), due almost entirely to the increase in one bank in this group.

A decline in the received loans of banks is the result of their decline in large banks of HRK 2.2bn or 4.6%. The increase in received loans in small banks and an almost equal decrease in medium-sized banks had a neutral effect on total bank indebtedness. By contrast, a decline in the received deposits of large banks of HRK 1.7bn was fully offset by their marked increase in small banks (HRK 1.6bn or 6.9%) and a small increase of HRK 212.9m or 0.9% in medium-sized banks, which ultimately led to a stagnation in total deposits of banks.

In the first half of 2010, the sources received from majority foreign owners[23] rose only slightly relative to the end of the previous year (HRK 51.1m or 0.1%) and stood at HRK 59.9bn or 19.2% of the total sources of financing. The financing continued mainly by an increase of the received loans from owners by HRK 2.0bn or 8.5%, with the received deposits falling by almost the same amount (5.4% in relative terms). Even though the major share of these changes again involved large banks, the growth in the sources from majority foreign owners during the observed period can be attributed to growth in the remaining two bank groups. The largest relative increase in these sources was reported by small banks (94.3%), while medium-sized banks increased their debt from this source by 3.2%. The sources of majority foreign owners in large banks fell by 0.8%. All bank groups saw a steady increase in the share of sources of funds received from majority foreign owners in total deposits and loans. This share rose to 22.4% in large banks, 8.7% in medium-sized and 3.3% in small banks. A total of 12 banks used the sources of the majority foreign owner; the amount involved ranged from 6.9% to 36.6% of all received loans and deposits.

A decline in the total amount of received loans of banks of HRK 2.2bn (4.1%) was due to a decline in the loans from domestic financial institutions of HRK 4.5bn and an increase in loans from foreign financial institutions of the remaining HRK 2.3bn (Table 2.11). These changes led to a fall in the share of loans from domestic financial institutions from 40.1% to 32.9% in favour of foreign financial institutions, in particular the majority foreign owner. Due to a fall in the loans of other domestic financial institutions (most notably the banks), the CBRD became an almost exclusive source of financing on

23 Further analysis of the sources of financing involves mainly received deposits and loans.

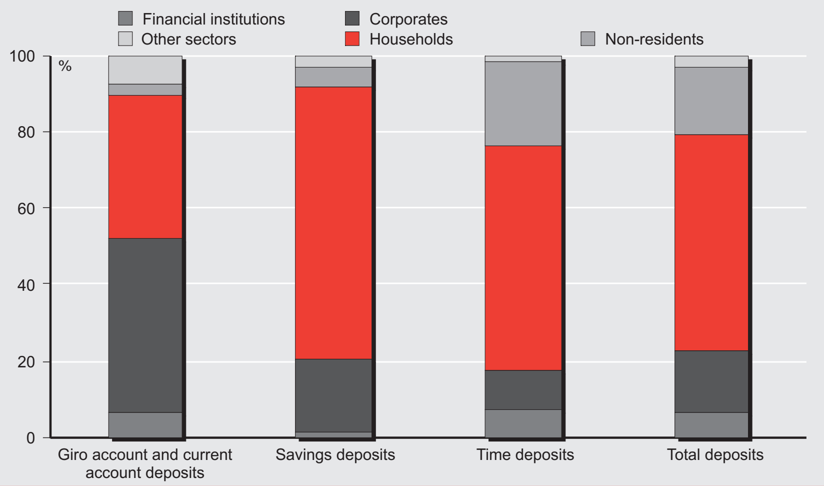
Table 2.11 Sectoral structure of received loans, end of period, in million HRK and %

	Dec. 2007		Dec. 2008			Dec. 2009			Jun. 2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans from government units	183.3	0.4	125.7	0.2	–31.4	62.2	0.1	–50.6	36.1	0.1	–41.9
Loans from financial institutions	20,573.0	39.3	19,270.0	37.0	–6.3	21,180.5	40.0	9.9	16,673.4	32.8	–21.3
Loans from corporates	189.4	0.4	3.5	0.0	–98.1	4.6	0.0	29.7	3.2	0.0	–31.4
Loans from foreign financial institutions	31,117.8	59.5	32,603.9	62.5	4.8	31,712.7	59.9	–2.7	34,068.7	67.1	7.4
Loans from other non-residents	248.3	0.5	129.3	0.2	–47.9	8.0	0.0	–93.8	7.1	0.0	–11.3
TOTAL LOANS RECEIVED	52,311.8	100.0	52,132.6	100.0	–0.3	52,968.0	100.0	1.6	50,788.5	100.0	–4.1
Loans from majority foreign owner	17,600.8	33.6	22,735.6	43.6	29.2	23,641.7	44.6	4.0	25,656.5	50.5	8.5

the domestic market, accounting for 87.4% of all domestic loans and 28.8% of the total received loans, while on the foreign market it was the majority foreign owner that accounted for 75.3% of all loans from non-residents and 50.5% of the total of received loans. It should be noted that medium-sized and small banks again relied predominantly on domestic loans, which accounted for 75.2% and 80.2%, respectively, of the total of received loans, while large banks relied predominantly on loans from non-residents, which accounted for 73.7% of total received loans, most notably those received from majority foreign owners, which accounted for 75.5% of loans received from non-residents.

On a semi-annual level, bank deposits held steady as a result of a very small increase in deposits of domestic sectors (HRK 409.1m or 0.2%), which accounted for the bulk or 82.1% of total deposits, and an almost identical decline in deposits of non-residents. The absence of any significant increase in domestic sectors' deposits is mainly due to opposite developments in the two largest domestic sectors, the corporate sector and households. Deposits of the household sector continued to grow steadily, though at a much slower rate (HRK 3.3bn or 2.4%) while corporate deposits continued to trend downwards, falling by HRK 3.0bn or 6.5%. Non-resident deposits fell by HRK 368.9m or 0.8% as a result of a decline in the deposits of majority foreign owners of almost HRK 2.0bn or 5.4% that banks failed to offset fully by means of an increase in deposits of other non-residents. As a result, the share of households increased by an additional 1.3 percentage points to 56.3% while the share of corporate deposits and deposits of majority foreign owners fell to 16.4% and 13.3%, respectively.

Figure 2.22 Sectoral structure of received deposits, as at 30 June 2010



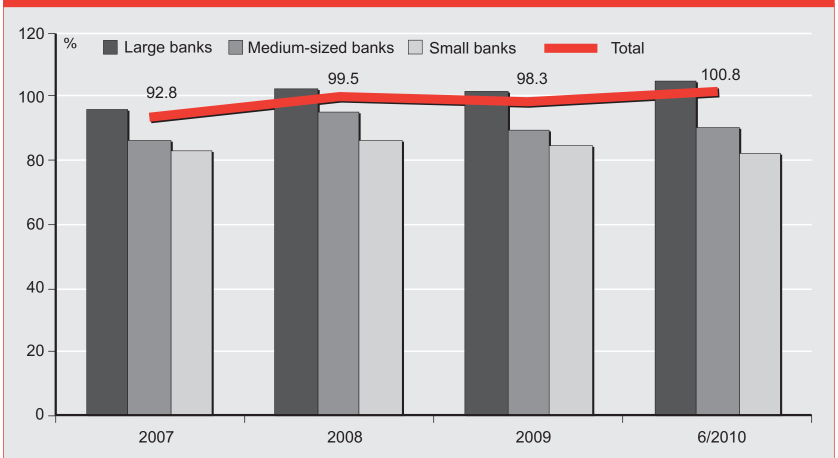
Despite stagnation in the total level of deposits, the maturity structure of deposits changed significantly in the first half of 2010 as seen in a decline in time deposits of HRK 2.8bn or 1.4% in favour of sight deposits, most notably giro and current account deposits which rose by HRK 2.1bn or 6.2% and savings deposits which rose by HRK 757.0m or 3.1%. Compared to the end of 2009, only government units and the household sector saw an increase in time deposits while all other sectors saw a decline in these deposits. The corporate sector again saw the biggest decline in time deposits, whose decline of HRK 4.4bn or 17.5% was only partly offset by a growth in sight deposits of HRK 1.4bn or 7.1%.

As a result of these changes, at the end of the first half of 2010, the share of giro and current account deposits rose to 14.3%, the share of savings deposits rose to 9.8%, while time deposits fell by 1.4 percentage points to 75.9% of all deposits.

As shown by the currency structure of deposits at the end of the first half of 2010, the share of foreign currency deposits continued to grow slowly but steadily. Foreign currency deposits were HRK 1.1bn or 0.6% higher than at the end of 2009, largely as a result of growth in household and other non-resident time foreign currency deposits. This led to an increase in the share of foreign currency deposits in total deposits (66.0%). Together with kuna deposits indexed to a foreign currency, the share of foreign currency deposits stood at 67.9%. Unlike the previous periods, euro deposits fell in the first half of 2010 (0.7%), the fall being evident even with the exchange rate effects excluded. The growth in foreign currency deposits was thus due to a real 7.7% growth in deposits in American dollars and a real 12.9% growth in deposits in Swiss francs, which led to an increase in their share in foreign currency and indexed deposits (6.3% and 5.2%, respectively). The share of euro deposits fell to 87.4% of total foreign currency and indexed deposits, and to 59.4% of the total deposits of banks.

The trend of decline in the share of kuna deposits in total deposits, which started in early 2008 continued into the first half of 2010. Kuna deposits fell by HRK 596.5m or 0.7%, to 32.1% of total deposits. This was mainly the result of a fall in time kuna deposits of other corporates of HRK 2.7bn or 27.1% and deposits of domestic and foreign financial institutions which fell by a total of HRK 1.3bn or 6.1%. Unlike several previous periods, household time kuna deposits trended upwards, increasing by 5.8%. Kuna deposits with a currency clause fell by 8.2% or HRK 438.0m.

Figure 2.23 Bank loans granted/deposits received

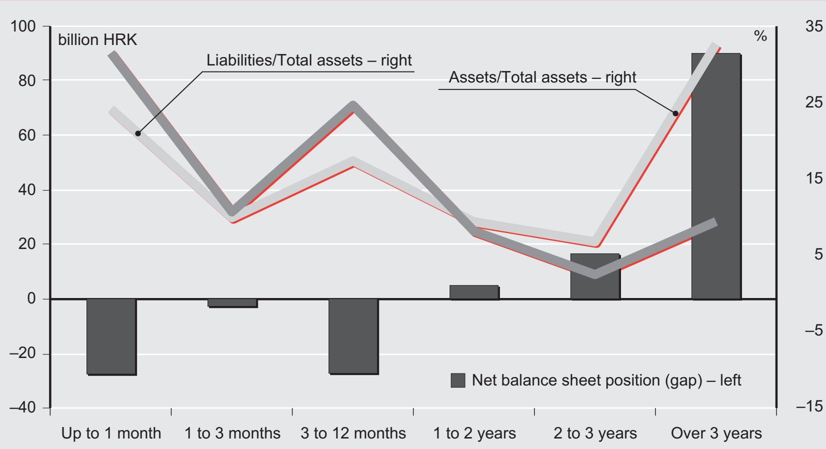


The increase in loans granted and the stagnation in deposits received at the end of the first half of this year led to an increase in their ratio relative to the end of 2009 (Figure 2.23). Large banks again had the biggest impact on the level of this ratio, which was the highest in this bank group, and stood at over 100% (104.4%). In medium-sized and small banks this ratio was 89.7% and 81.8%, respectively.

Maturity adjustment of bank assets and liabilities

At the end of the first half of 2010, short-term bank liabilities again exceeded short-term bank assets, thus causing a maturity structure mismatch or a negative cumulative gap[24] in the short-term maturity category (up to one year) (Figure 2.24). Compared to the end of 2009, this mismatch increased, although the largest gap, that with up to one month maturity, decreased. An increase in the cumulative short-term mismatch is the result of a significant decline in assets with the remaining maturity up to one year (HRK 8.2bn or 4.0%) compared with a decline in the liabilities of the same maturity (HRK 2.3bn or 0.9%).

Figure 2.24 Asset and liability maturity match or mismatch, as at 30 June 2010



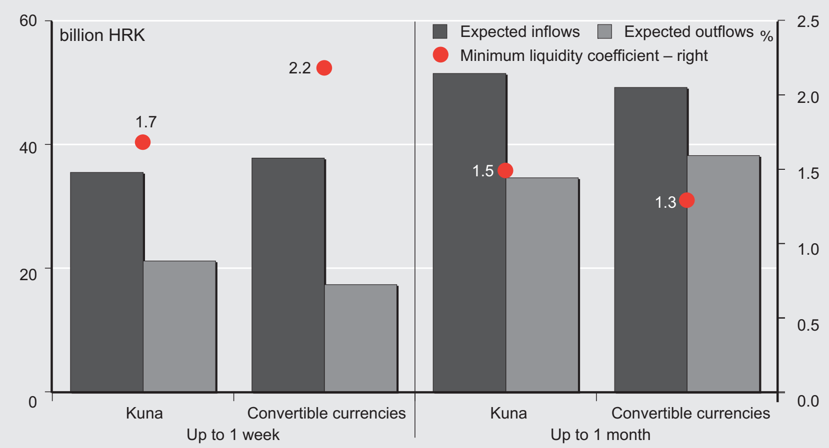
A fall in short-term assets was mainly due to a fall in short-term loans (government units saw a marked decline in short-term and an increase in long-term loans) followed by a fall in deposits with banking institutions and the CNB. As regards bank liabilities with remaining maturity up to one year, time deposits fell the most, particularly time deposits up to one month (by HRK 10.0bn or 21.1%). The share of deposits with the remaining maturity of up to one year fell from 85.0% to 83.9% of total deposits. Influenced by a fall in the shortest maturity loans (up to one month) received from financial institutions, the share of loans with the remaining maturity of up to one year fell slightly from 47.3% at the end of 2009 to 46.9%. As a result, the coverage of short-term liabilities by short-term assets fell by 2.5 percentage points to 77.2% during the observed period, a level equal to that at the end of June 2009.

24 This represents the difference between net assets and liabilities with the same period until maturity.

Minimum liquidity coefficient

On 30 June 2010, the minimum liquidity coefficient (MLC) of banks for kuna stood at 1.7 in the period up to one week and at 1.5 in the period up to one month (Figure 2.5).[25] The MLC for convertible currencies stood at 2.2 in the period up to one week and at 1.3 in the period up to one month.[26] The reported MLCs suggest that the banks, in the framework of the given one week and one month period and under a stress scenario defined by the CNB[27] have sufficient liquidity (assets and inflows) in kuna and in convertible currencies to meet all the estimated liquidity needs.

Figure 2.25 Minimum liquidity coefficient, as at 30 June 2010



As expected, large banks had the lowest MLC values in kuna (1.5 and 1.4) and in convertible currencies (2.0 and 1.2), while these coefficients were slightly higher in medium-sized and small banks. The reported MLC values for medium-sized banks in kuna were 2.0 and 1.5 and were significantly higher in convertible currencies and stood at 4.3 and 3.3. Small banks reported the highest values of this indicator which stood at 2.8 and 2.2 in kuna and 5.2 and 3.4 in convertible currencies. All this points to the conclusion that banks, particularly small banks, maintain higher levels of surplus inflows over outflows in convertible currencies than in kuna. Furthermore, large banks in general maintain considerably lower levels of estimated surplus liquidity, which is partially because large banks expect to be able to access domestic and foreign sources of funds faster and more easily than do the other two groups.

As at 30 June 2010, the total readily marketable assets[28] of banks stood at HRK 53.6bn, accounting

25 Minimum liquidity coefficient (MLC) is calculated as the ratio of expected inflows (currently negotiable assets included) and the expected outflows in the last two given periods (up to one week and up to one month). MLC is calculated for kuna, all convertible currencies combined and for each non-convertible currency individually. MLC has to equal or be greater than 1 on each day for the up to one week and up to one month periods.

26 No bank reported MLC for non-convertible currencies. It has to be calculated provided outflows in a non-convertible currency account for over 1% of the total assets of a credit institution.

27 Assets and liabilities categories which are taken into account in MLC calculation are adjusted by the prescribed volatility adjustments or volatility adjustments obtained by the credit institution on the basis of own estimates of volatility adjustments. Only one large bank used own estimates of volatility adjustments.

28 Readily marketable assets (RMA) are those liquid assets which are available to the credit institution and which may be turned into cash quickly (within four working days) and easily (with no significant losses).

for 14.1% of the total assets of banks. The banks were thus able to liquidate a little over one tenth of their total assets without any major losses within four working days. Small banks maintained the highest share of readily marketable assets in total assets (17.3%) and medium-sized banks and large banks maintained somewhat lower shares of readily marketable assets in total assets (16.4% and 13.5%, respectively).

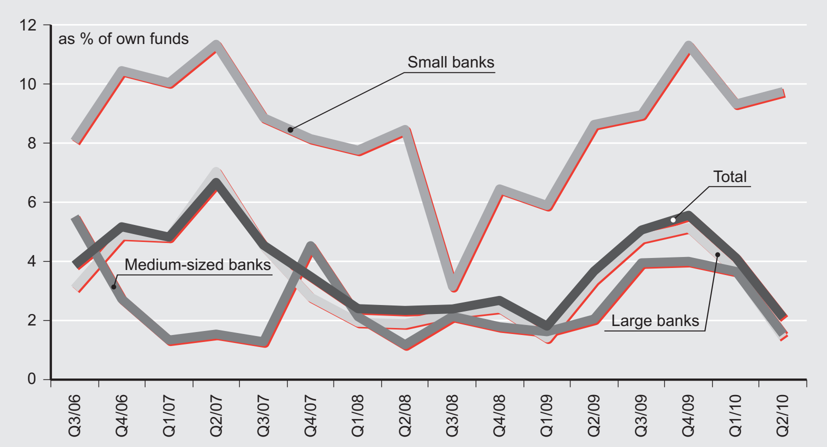
Readily marketable assets were equally distributed to assets in kuna (HRK 27.2bn or 50.7%) and assets in convertible currencies (HRK 26.4bn, or the remaining 49.3%). The bulk of the highly liquid assets in kuna (HRK 20.7bn or 76.0%) comprised deposits with the CNB and T-bills of the Ministry of Finance while the bulk of readily marketable assets (HRK 23.4bn or 88.7%) in convertible currencies comprised deposits with credit institutions and securities available for sale. Money assets accounted for a little over 10% of the total readily marketable assets (10.8%).

2.2.6 Currency adjustment of bank assets and liabilities

In terms of currency structure, items in foreign currencies and items in kuna indexed to a foreign currency accounted for the major share of the balance sheet of banks. At the end of the first half of 2010, these items accounted for 65.2% of the total assets and 68.2% of the total liabilities (capital excluded). Due to a high level of items in foreign currency and in kuna indexed to a foreign currency, changes in the total assets and liabilities are related to developments in the exchange rate of the kuna, particularly against the most widely represented currencies in bank balance sheets.

Kuna assets rose from the end of 2009 (HRK 1.6bn or 1.2%) while the kuna countervalue of the foreign currency assets, i.e. assets in foreign currencies and assets in kuna indexed to a foreign currency, fell by a total of HRK 0.5bn or 0.2%. The fall in total foreign currency assets was caused by a fall in assets in euro of 1.4%, which was greater than the increase in assets in Swiss francs (1.6%) and the increase in assets in American dollars (19.4%). As a result of these changes, total assets rose by a slight 0.3% in the first half of 2010.

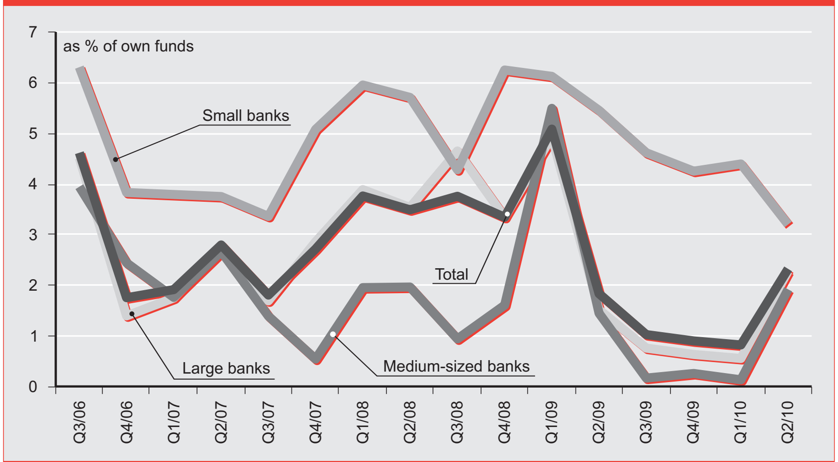
Figure 2.26 Long foreign exchange position of banks, quarterly averages



A decline in the foreign exchange share of assets largely reflected changes in the exchange rate of the kuna against the three major currencies: the euro, the Swiss franc, and the American dollar, which accounted for 99.1% of the total foreign exchange assets at the end of the first half of 2010. From the end of 2009, the kuna strengthened against the euro by 1.5% but considerably weakened against the Swiss franc and the American dollar, by 10.4% and 15.9%, respectively. Exchange rate effects excluded, it is evident that assets in euro recorded only a negligible real growth of 0.1%, while the real growth in assets in American dollars was much slower (3.5%) and assets in Swiss francs fell by 8.9% in real terms. The total change in foreign exchange assets involved a real fall of almost 1.0%, which led to a real fall in total assets of 0.2%.

In the second quarter of 2010, large and medium-sized banks had a bigger short than long position, amounting to 2.3% and 1.9% of own funds, respectively. Long foreign exchange position of small banks amounted to 9.7% of own funds.

Figure 2.27 Short foreign exchange position of banks, quarterly averages



The effects of depreciation of the exchange rate of the kuna against the Swiss franc and a real fall in loans denominated in Swiss francs or indexed to that currency had the largest impact on the described developments in bank assets. These effects excluded, the real amount of loans denominated in Swiss francs or indexed to that currency was HRK 3.1bn or 9.2% lower at the end of the first half of 2010 than at the end of 2009. By contrast, appreciation of the exchange rate of the kuna against the euro compared to the end of 2009, caused a fall in the growth in euro loans, which was bigger in real terms and stood at HRK 6.7bn or 4.6%. As regards foreign currency liabilities of banks, the total effect of exchange rate changes was insignificant, due to the similar amounts of the opposite changes in the exchange rate of the kuna against the euro, the Swiss franc and the American dollar. At the end of the first half of 2010, the banks reported a profit on exchange rate differentials of HRK 1.6bn. However, this profit should be viewed in the context of a simultaneously incurred loss on derivatives trading since banks use some of their derivative financial instruments to hedge their open positions exposed to currency risk.

The euro accounted for 80.8%, or the largest share of foreign currency and foreign currency indexed assets at the end of the first half of 2010. It was followed by the Swiss franc (14.0%) and the American dollar (4.3%) while all other foreign currencies accounted for less than 0.9% of the total foreign currency assets. Compared to the end of 2009, the largest change in the share of foreign currency assets involved a decline in the share of the euro of 1.0 percentage points. The euro accounted for a somewhat bigger share of foreign currency liabilities than foreign currency assets (86.0%), while the Swiss franc and the American dollar accounted for smaller shares in foreign currency liabilities than in assets (7.8% and 5.4%, respectively). The fall in the share of euro in foreign currency liabilities, of 2.8 percentage points since the end of 2009, was bigger than that in assets.

Unlike the second half of 2009 and the first quarter of 2010, the average quarterly short foreign exchange position of banks in the second quarter exceeded the long position and stood at 2.3% of banks' own funds. The largest number of banks had an average quarterly open long foreign exchange position, but on an overall level, mainly under the influence of a short position in two large banks, the long position was smaller than the short position and amounted to 2.1% of banks' own funds.

2.2.7 Interest rate risk in the non-trading book

At the end of the first half of 2010, exposure to interest rate risk in the non-trading book on overall bank level, measured by a change in the economic value of the non-trading book in the conditions of a standard interest rate shock stood at HRK 1.7bn.[29] The ratio of change in the economic value and banks' own funds stood at 3.1% (Table 2.12), largely below the prescribed maximum of 20%.[30] Large banks had the highest ratio of change in the economic value and banks' own funds (3.5%). They were followed by small banks (1.8%) and medium-sized banks, which had the lowest ratio of change in the economic value and banks' own funds (0.3%) and thus the smallest potential change in the net present value of non-trading book positions.

Looking by currencies, a positive net weighted position was reported in kuna (HRK 872.4m), in euro (HRK 756.1m) and in Swiss francs (HRK 108.9m), while a smaller, negative position was shown in American dollars and all other less important currencies.

Overall, almost 91.0% of assets and 94.4% of liabilities of banks were sensitive to interest rate changes, and almost one half of that base was made up of positions with interest rates subject to change based on a decision of a credit institution's management board (administered interest rate): 41.2% on the assets side and 45.3% on the liabilities side. Positions with variable interest rates came next and accounted for 32.1% of interest rate-sensitive assets, while the share of these positions on the side of interest rate-sensitive liabilities was somewhat smaller and stood at 20.7%. Positions with fixed interest rate accounted for the remaining 26.7% of interest rate-sensitive assets and 34.0% of interest rate-sensitive liabilities.

29 Economic value of the non-trading book of a credit institution is the estimate of the present value of all expected net cash flows of the non-trading book positions of a credit institution, i.e. the expected cash flows of a credit institution's assets reduced by the expected cash flows of a credit institution's liabilities. The non-trading book comprises all balance-sheet and off-balance sheet items of a credit institution other than those considered to be trading book positions. All interest rate sensitive non-trading book positions are distributed, by all major currencies individually and for all other currencies on an aggregate basis, in time zones and are then weighted by weights based on a standard interest rate shock and estimated modified duration for each time zone. A standard interest rate shock is a parallel shift in interest rates of 200 basis points.

30 Total net weighted positions of banks and bank peer groups are calculated by aggregating the same positions by individual forms and currencies used as a basis for the calculation of total position, which enables the netting of positive and negative values of individual banks.

Table 2.12 Interest rate risk in the non-trading book, as at 30 June 2010, in million HRK and %

Currency	Interest rate type	Net position (before weighting)	Net weighted position
HRK	Administered interest rate	–10,705.6	–124.7
	Variable interest rate	19,072.0	488.7
	Fixed interest rate	8,316.8	508.3
EUR	Administered interest rate	–6,714.7	357.6
	Variable interest rate	34,896.4	495.0
	Fixed interest rate	–22,611.3	–96.4
CHF	Administered interest rate	28,159.8	288.5
	Variable interest rate	–9,746.4	–179.3
	interest rate	–1,977.9	–0.2
USD	Administered interest rate	–2,467.1	–19.8
	Variable interest rate	1,087.3	4.0
	Fixed interest rate	1,767.7	–4.0
Other	Administered interest rate	–5,258.8	–30.8
	Variable interest rate	1,886.4	–2.6
	Fixed interest rate	1,724.1	–12.6
Change in the economic value of the non-trading book			1,671.6
Own funds			53,278.8
Relative ratio: Change in the economic value of the non-trading book/Own funds			3.1

The analysis of interest rate gap suggests that the banks are most sensitive to interest rates fall in the shortest-term category (up to 1 month), which is characterised by considerable surplus assets of banks, particularly loans granted with a variable interest rate. The received sight deposits and savings deposits, which are distributed in time zones of 6-12 months in accordance with the instructions, led to a negative gap in that zone. As a result, the cumulative gap up to 1 year was not large and made up only 3.3% of interest rate-sensitive assets. All time zones, beginning with a 1 to 2 year zone to an over 20 year zone, were positive, i.e. the banks reported a surplus of interest rate-sensitive assets relative to interest rate-sensitive liabilities, though the amount of this surplus was relatively small.

In conclusion, the analysis of the non-trading book items in terms of their possible revaluation, i.e. interest rate change, has confirmed the relatively low exposure of banks to interest rate risk in the non-trading book since the largest net exposure was seen in the shortest term category with the smallest estimated modified duration and thus the smallest effect on the change in the economic value of non-trading book interest rate sensitive positions. Longer term categories had a bigger estimated modified duration and thus a much greater impact on the net weighted position. The banks, as stated previously, keep smaller amounts of surplus assets in these positions.

2.2.8 Capital adequacy

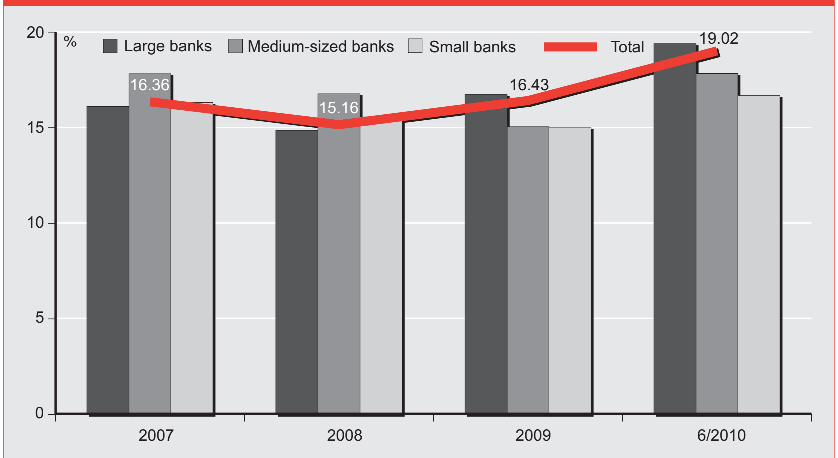
At the end of the first half of 2010, the capital adequacy ratio of banks was 19.02%, which is an increase of 2.59 percentage points compared to 16.43%[31] at the end of the previous year (Figure 2.28).

31 In the EU, this indicator stood at 13.2% at the end of 2009 (Source: *EU Banking Sector Stability*, ECB, September 2010).

Although the increase in the capital adequacy ratio during the observed period was due to growth in banks' own funds, the change in the methodology of exposure calculation, most notably credit risk exposure, had much more to do with this increase. The new manner of capital adequacy calculation (Basel II) which is applied as of 31 March 2010, almost completely disregards the effect of currency-induced credit risk, which had so far accounted for over one half of credit risk-weighted exposures. It should be noted that currency-induced credit risk has not been left out of the new capital adequacy framework with the introduction of new rules but that it has, together with other risks, become an integral part of the second pillar[32] of the new framework, i.e. regulations related to internal capital of credit institutions.

Looking by bank groups, medium-sized banks reported the largest increase in capital adequacy ratio, up by 2.8 percentage points to 17.84%. They were followed by large banks whose capital adequacy ratio rose by 2.7 percentage points and stood at 19.40%, the highest capital adequacy ratio of all bank groups. With an increase of 1.7 percentage points, small banks reported the smallest change in their capital adequacy ratio which stood at 16.68%. The bulk of bank assets (84.8%) again went to banks with a capital adequacy ratio above 15%, though eight small banks had a capital adequacy ratio below 13%, and one of them had a capital adequacy ratio below the legally prescribed minimum of 12% (Table 2.15).

Figure 2.28 Bank capital adequacy ratio



At the end of the first half of 2010, banks' own funds stood at HRK 53.3bn (Table 2.13), increasing by HRK 717.5m or 1.4% from the end of 2009. The major part of this increase was due to an increase in what is its by far the largest component, original own funds, which rose by HRK 566.4m or 1.1% following a distribution of previous year profit in reserves and retained earnings. A much smaller impact on the increase in own funds came from an increase in additional own funds of HRK 161.4m or 4.7%, entirely due to an increase in issued subordinated and hybrid instruments.

All bank groups, particularly banks in the group of large banks and to a lesser extent those in the group of small banks, reported an increase in the amount of own funds. The increase in own funds

32 The goal of new regulations is to enhance capital adequacy framework in two dimensions - development of regulations that, in addition to minimum capital requirements (pillar 1) as a quantitative dimension, also include the qualitative dimension, i.e. supervisory review (pillar 2) and market discipline (pillar 3).

in these bank groups was due to an increase in both components, although the increase in additional own funds was relatively larger (3.6% and 11.3%, respectively) than the increase in original own funds (1.2% and 2.1%, respectively). Owing to a large increase (15.8%) in additional own funds, the group of medium-sized banks halted the downward trend in the amount of own funds present in 2009, with its own funds at the end of the first half of 2010 narrowly exceeding those at the end of 2009.

To determine the capital requirements for credit risk, credit counterparty and dilution risk and free deliveries (hereinafter: credit risk) all the banks applied the standardised approach.[33] The total net balance and off-balance sheet exposures, before the use of credit risk mitigation techniques and con-

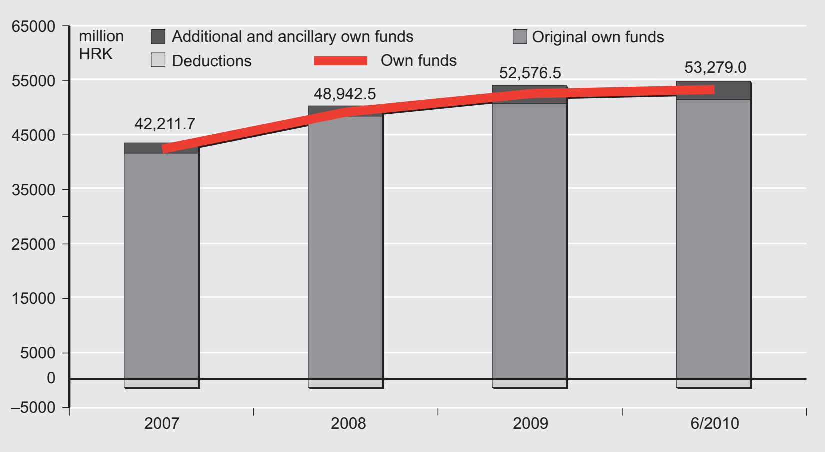
Table 2.13 Own funds, capital requirements and capital adequacy ratio of banks, as at 30 June 2010, in million HRK and %

	Large banks		Medium-sized banks		Small banks		Total	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Own funds	44,724.2	100.0	4,286.1	100.0	4,268.5	100.0	53,278.8	100.0
ORIGINAL OWN FUNDS	43,413.5	97.1	3,732.0	87.1	3,962.1	92.8	51,107.6	95.9
Paid up capital (excl. cumulative preferential shares) net of own shares	22,169.4	49.6	3,214.2	75.0	3,416.9	80.0	28,800.5	54.1
Reserves and retained earnings	21,424.5	47.9	589.6	13.8	628.2	14.7	22,642.2	42.5
ADDITIONAL OWN FUNDS	2,652.8	5.9	636.3	14.8	315.7	7.4	3,604.9	6.8
Paid-up cumulative preferential shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid and subordinated instruments	2,652.8	5.9	636.3	14.8	315.7	7.4	3,604.9	6.8
ITEMS DEDUCTED FROM ORIGINAL OWN FUNDS AND ADDITIONAL OWN FUNDS	–1,342.2	–3.0	–82.2	–1.9	–9.3	–0.2	–1,433.6	–2.7
ANCILLARY OWN FUNDS (for market risk coverage)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital requirements	27,665.9	100.0	2,883.4	100.0	3,071.6	100.0	33,620.9	100.0
CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	24,838.6	89.8	2,528.5	87.7	2,728.5	88.8	30,095.6	89.5
Standardised approach	24,838.6	89.8	2,528.5	87.7	2,728.5	88.8	30,095.6	89.5
Corporates	10,118.7	36.6	1,016.0	35.2	841.6	27.4	11,976.3	35.6
o/w: Secured by real estate property	0.0	0.0	8.7	0.3	26.7	0.9	35.4	0.1
Retail	12,388.9	44.8	1,285.0	44.6	1,556.6	50.7	15,230.4	45.3
o/w: Secured by real estate property	4.2	0.0	15.2	0.5	39.8	1.3	59.2	0.2
Other	2,331.1	8.4	227.5	7.9	330.3	10.8	2,888.9	8.6
SETTLEMENT/DELIVERY RISKS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
POSITION, FOREIGN EXCHANGE AND COMMODITY RISKS	369.3	1.3	61.3	2.1	37.1	1.2	467.8	1.4
o/w: Internal models	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Traded debt instruments	251.1	0.9	27.4	0.9	0.0	0.0	278.5	0.8
Foreign exchange	104.7	0.4	8.6	0.3	37.1	1.2	150.5	0.4
Other risks	13.4	0.0	25.4	0.9	0.0	0.0	38.8	0.1
RISK OF EXCEEDING THE PERMITTED EXPOSURE LIMITS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OPERATIONAL RISK	2,458.1	8.9	293.5	10.2	306.0	10.0	3,057.5	9.1
Simplified approach	0.0	0.0	110.3	3.8	274.4	8.9	384.7	1.1
Standardised approach	2,458.1	8.9	183.2	6.4	31.5	1.0	2,672.8	7.9
Advanced measurement approach	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Surplus/deficit of own funds	17,058.3	–	1,402.8	–	1,196.9	–	19,658.0	–
Capital adequacy ratio	19.40	–	17.84	–	16.68	–	19.02	–

33 New rules in the area of credit risk enable the use of external credit risk assessments under the standardised approach or the use of an IRB, internal ratings-based approach.

version of off-balance sheet items, rose slightly compared to the end of the previous year (HRK 7.2bn or 1.6%). However, the net amount of exposures after the use of all recognised credit risk mitigation techniques and conversion of off-balance sheet items fell by HRK 4.2bn or 1.0%, compared to the end of 2009. A higher level in net credit risk exposure and a lower base that is being weighted have been made possible by virtue of the new methodology of calculation, i.e. the use of recognised credit risk mitigation techniques, which ultimately result in a lower capital requirement.

Figure 2.29 Bank own funds



The use of different credit risk mitigation techniques such as unfunded credit protection and the financial collateral simple method effectively imply a substitution of weights, so that individual exposure to an obligor receives a weight of the protection provider (unfunded credit protection), i.e. the weight that the credit institution would assign in case of a direct exposure to a collateral (financial collateral simple method). In the first period of use (March 2010), the banks substituted original risk weights by lower risk weights for a total of HRK 18.8bn worth of net exposure amount and in the second period of use (June 2010) they increased the use of these techniques, transferring to lower risk weights almost HRK 26.0bn worth of net exposure amount (5.9% of net exposures). Given that the bulk of the transfer relied on received guarantees (83.5%) and that the largest share of the transfer involved the central government and the central bank categories (HRK 20.8bn), it is clear that the banks mostly resorted to high-impact government-issued guarantees or collateral. This can be evidenced by looking at the change in the structure of weights at the end of the second quarter of 2010, which shows that the banks reduced the most the exposure amounts carrying a 100% risk weight (HRK 14.1bn), then exposure amounts that carry a 20% risk weight (HRK 8.3bn) and finally those that carry a 50% risk weight (HRK 7.1bn). At the same time, the largest increase (HRK 17.8bn) was reported in exposures carrying a 0% risk weight.

All the banks used weight substitution techniques to cut capital requirements for credit risk, in amounts ranging from 0.1% to 19.4% of the net exposure amount though these techniques were used the most by large banks that substituted original risk weights for HRK 23.4bn worth of exposure amount by lower weights.

In addition to techniques that make weight substitution possible, eight banks (four large, two medium-sized and two small banks) used the financial collateral comprehensive method, which enables reduction in the net credit risk exposure amount (the weighting base). The total reduction in the exposure amount based on this method stood at HRK 10.1bn in the first quarter of its use while at the end of the second quarter of 2010, as the banks increased the use of these techniques, the amount of reduction in the exposure amount totalled HRK 12.9bn, or almost 3.0% of the total net exposure amount. The banks used the financial collateral comprehensive method in a range from 1.1% to 18.7% of the net exposure amount.

Table 2.14 Breakdown of net exposure to credit risk by risk weights, as at 30 June 2010, in million HRK

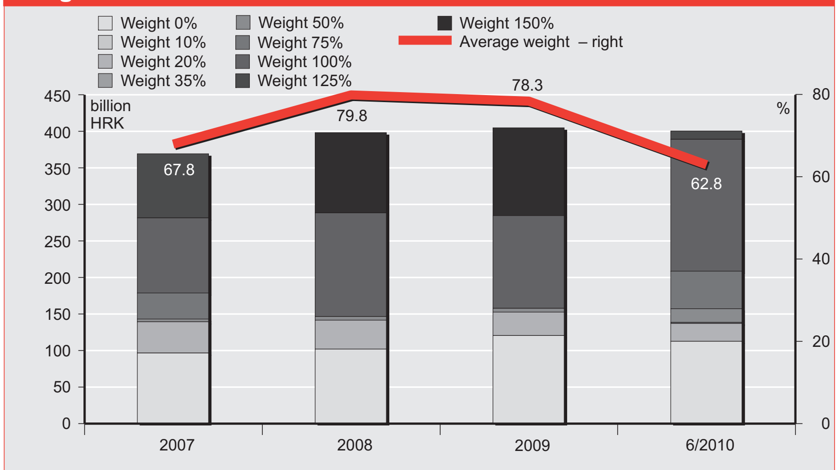
	Retail	Corporates	Central governments and central banks	Institutions	Public sector entities	Local and regional self-government	Collective investment undertakings	Other	Total
Total exposure	138,186.0	96,967.9	102,555.5	32,531.0	3,995.4	3,715.8	449.8	21,090.5	399,491.8
On-balance sheet items	130,020.6	79,195.4	101,134.1	30,587.5	3,368.2	3,659.2	449.8	18,295.7	366,710.6
Off-balance sheet items	8,164.6	17,239.0	1,421.4	972.3	376.7	56.6	0.0	337.8	28,568.3
Securities transactions and long settlement transactions	0.0	358.5	0.0	287.5	250.6	0.0	0.0	2,457.0	3,353.6
Derivative financial instruments	0.8	175.0	0.0	683.6	0.0	0.0	0.0	0.0	859.4
Contracts for novation and other netting agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Breakdown of total exposure by risk weights									
Weight 0%	0.0	0.0	96,395.3	568.6	2,404.4	0.0	0.0	12,142.5	111,510.9
Weight 10%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Weight 20%	0.0	10.1	15.9	24,391.6	40.6	0.0	2.0	145.8	24,606.0
Weight 35% (residential real estate property)	950.0	267.7	0.0	0.0	0.0	0.0	0.0	0.7	1,218.4
Weight 50%	325.6	511.6	6,109.0	6,878.9	1,545.6	3,710.7	0.0	4.8	19,086.1
o/w: Commercial real estate property	321.6	402.8	0.0	1.8	0.0	0.0	0.0	1.8	728.0
Weight 75%	50,971.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50,971.3
Weight 100%	81,424.7	89,397.9	33.0	677.5	2.3	2.2	385.9	8,782.8	180,706.3
o/w: Past due items	2,151.4	2,570.1	0.0	6.5	0.0	2.2	0.0	2.0	4,732.3
Weight 150%	4,514.5	6,633.2	2.2	14.4	2.5	2.8	61.9	13.6	11,245.1
o/w: Past due items	3,563.1	2,828.2	0.2	0.0	0.0	1.0	0.0	13.4	6,405.9
Other risk weights	0.0	147.4	0.0	0.0	0.0	0.0	0.0	0.0	147.4
Credit risk mitigation techniques – substitution effects									
Total outflow	–1,442.1	–10,537.3	0.0	–2,469.1	–10,745.0	–403.0	0.0	–363.3	–25,959.8
Total inflow	56.7	289.3	20,810.7	429.3	54.4	203.6	0.0	4,115.7	25,959.8

The use of the new manner of calculation of exposures weighted for credit risk resulted in a HRK 65.1bn or 20.6% lower weighted exposure amount relative to the end of 2009 as well as in a substantially lower average weight for credit risk (62.8% compared to 78.3% at the end of 2009) (Figure 2.30). However, the total capital requirements for credit risk, which stood at HRK 30.1bn did not fall so much (HRK 1.4bn or 4.7%), due to the increased minimum capital adequacy ratio (12% compared to the previous 10%).

The structure of the total net amount of bank exposure by credit risk weights (Table 2.14) shows that the largest share of exposure is weighted by a 100% risk weight (HRK 180.7bn or 45.3%), that the bulk of this exposure amount does not have a credit assessment (HRK 103.7bn) and that past due items (whose value adjustments of the unsecured part of the exposure are greater than 20%) accounted for only HRK 4.7bn (1.2%). Almost 30% of the total amount of exposure was weighted by a 0% risk weight, followed by the amounts weighted by a 75% and a 20% risk weight, respectively. The worst credit quality step, a 150% risk-weight, involved the amount of HRK 11.2bn (2.8%), with past due items (whose value adjustments of the unsecured part of the exposure amount are below 20%) accounting for HRK 6.4bn of this amount. Exposure amounts secured by residential or commercial real estate property accounted for only 0.5% of the total amount of exposure and other risk weights for less than 0.1% of the total amount of exposure.

As shown by the structure of the total net exposure amount by exposure categories (Table 2.14), the largest exposure was that towards retail category[34] (HRK 138.2bn or 34.6%). Within this category, 36.9% of the exposure amount met the conditions for the assignment of a 75% risk weight, while the largest share of the exposure, 58.9%, carried a risk weight of 100%. On account of the substitution techniques used, the category of exposure to the central governments and the central banks came second in order of importance. Amounting to HRK 102.6bn, it accounted for 25.7% of the total net exposure amount and was deemed almost entirely non-risky (risk weight 0%). The exposure to corporates followed with HRK 97.0bn, or 24.3% of the total net exposure amount. It was predominantly assigned a risk weight of 100% (HRK 89.4bn or 92.2%) because most corporates to which banks are exposed have no credit assessment. The average weight for the corporate sector thus stood at 102.9%. The remaining exposure categories accounted for 15.5% of the net weighted exposure amount.

Figure 2.30 Breakdown of net exposure to credit risk by risk weights



At the end of the first half of 2010, capital requirements stood at HRK 33.6bn, increasing by HRK 1.6bn or 5.1% compared to the end of 2009. The increase in capital requirements is the result of the introduced capital requirements for operational risk. While they stood at HRK 3.1bn, the capital requirements for credit risk fell by HRK 1.5bn (4.7%) to HRK 30.1bn. A decline in the capital requirements for credit risk is mainly the result of a new method of calculation of the weighted exposure amount, particularly its much lower sensitivity to currency induced credit risk. The decline notwithstanding, capital requirements for credit risk were again the most significant component of the total capital requirements (89.5%), and were followed by capital requirements for operational risk which

34 The exposure category retail may, in addition to exposure to natural persons and subject to fulfilment of some conditions (exposure amount up to HRK 2.5m, over 500 accounts per product type) also include exposures to small and medium-sized corporates, sole traders, those employed in crafts and trades and freelance occupations. A 75% risk weight may be used provided the listed conditions are met. When these conditions have not been met, in case of natural persons, exposures have to be weighted by a 100% risk weight.

accounted for 9.1% of total capital requirements (Figure 2.31). Capital requirements for market risks accounted for the remaining 1.4% of the total capital requirements. These requirements rose slightly (HRK 61.9m or 15.3%) due to an increase in the prescribed minimum capital adequacy ratio.

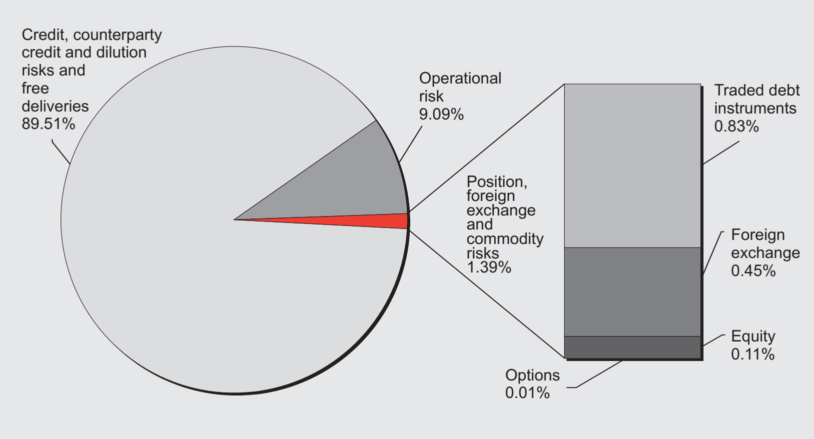
Capital requirements for operational risk came second in terms of importance, immediately after capital requirements for credit risk, and accounted for 9.1% of the total capital requirements. The total amount of own funds allocation needed for the coverage of operational risk stood at HRK 3.1bn. Large banks allocated the bulk of this amount (79.3%), i.e. HRK 2.5bn, which accounted for 8.9% of their total capital requirements. Capital requirements for operational risks of medium-sized banks totalled HRK 293.5m or 10.2% of their total capital requirements, while capital requirements for operational risks of small banks accounted for almost 10% of their total capital requirements of HRK 306.0m.

In the assessment of capital requirements for operational risk, nine banks decided on the standardised approach and the remaining 25 banks on the basic indicator approach. In the assessment of operational risk exposure, all large banks used the standardised approach, two medium-sized banks used the standardised approach and one the basic indicator approach. By contrast, small banks mainly used the basic indicator approach (24 small banks) in the assessment of operational risk exposure while only one small bank used the standardised approach.

The classification of business activities in business lines for the purposes of calculation of the capital requirements for operational risk by means of the standardised approach suggests that the highest values of the basic indicator[35] were reported in the business lines retail and corporate banking, followed by trading and sale, while other business lines were mainly estimated as less important.

The introduction of capital requirements for operational risk led to an increase in the total capital requirements and a fall in unutilised own funds from HRK 22.0bn to HRK 19.5bn, though it still accounted for a large share of own funds (36.9%). Large banks had the biggest share of unutilised own

Figure 2.31 Structure of bank total capital requirements, as at 30 June 2010



35 The basic indicator is gross income calculated in accordance with the regulations. The basic indicator is the basis for the calculation of capital requirements for operational risk both under the basic indicator approach and the standardised approach.

Table 2.15 Breakdown of bank capital adequacy ratio, end of period

	Dec. 2007		Dec. 2008		Dec. 2009		Jun. 2010	
	Number of banks	Share in bank assets (%)	Number of banks	Share in bank assets (%)	Number of banks	Share in bank assets (%)	Number of banks	Share in bank assets (%)
Ratio lower than 10%	0	0.0	0	0.0	0	0.0	0	0.0
Ratio from 10% to 12%	8	25.5	4	11.8	6	5.8	1	0.0
Ratio from 12% to 15%	3	15.7	14	31.9	11	25.9	13	15.2
Ratio from 15% to 20%	15	52.8	9	50.6	9	55.3	10	70.6
Ratio higher than 20%	7	6.0	7	5.8	8	13.0	10	14.2

Note: From 31 March 2010 on, the minimum capital adequacy ratio is 12% (10% prior to this date).

funds (HRK 17.1bn or HRK 2.8bn on average per bank). Unutilised own funds of medium-sized banks stood at HRK 1.4bn or a little less than HRK 0.5bn per bank, while unutilised own funds in small banks amounted to HRK 1.2bn or HRK 47.9m per bank.

2.3 Housing savings banks

The number of housing savings banks in the first half of 2010 was 5, or the same as in the previous year. Their assets declined by 5.0% and accounted for 1.7% of the total assets of credit institutions in the Republic of Croatia. The ownership structure of housing savings banks has not changed either, with four housing savings banks in the majority, direct or indirect, ownership of foreign shareholders. At the end of the first half of 2010, their assets made up 97.1% of the total assets of all housing savings banks, and the one housing savings bank in majority state ownership continued to increase its share in the total assets of all housing savings banks. Following a 10.0% increase in its assets in the first half of 2010, this housing savings bank accounted for 2.9% of the total housing savings banks assets.

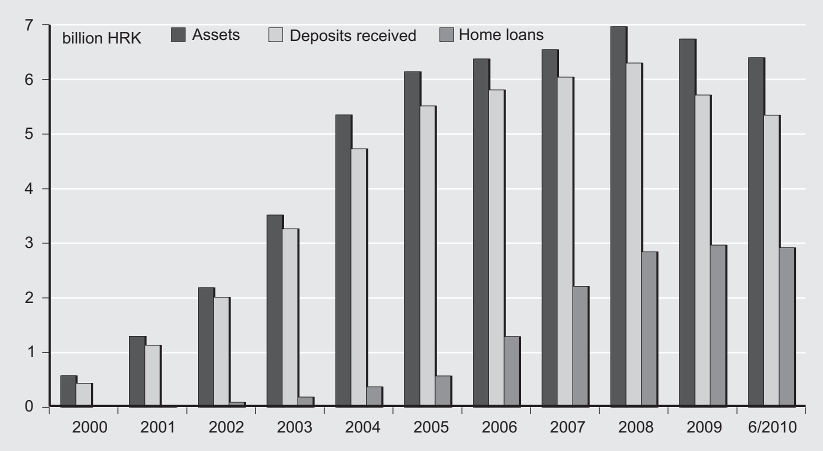
The number of employees in housing savings banks rose by 23 to 414, increasing their share in the total number of employees in credit institutions from 1.8% to 1.9%. By contrast, assets per employee fell from HRK 17.2m to HRK 15.5m.

2.3.1 Balance sheet

The fall in total balance sheet assets of housing savings banks accelerated in the first half of 2010. Its decline accelerated from 3.3% in 2009 to 5.0% in the first six months of 2010 (Table 2.16). The reason for this decline lies in a further contraction in household deposits as the predominant source of housing savings banks funding. They fell by 6.4%. Unlike 2009, when, a fall in deposits notwithstanding, household loans of housing savings banks rose slightly (4.4%), in the first half of 2010 they fell by 1.7% to HRK 2.9bn, or 45.7% of total housing savings banks assets.

The second housing savings banks asset item in terms of size, investments in securities and other financial instruments, rose by 9.7% during the same period, with their share in total assets increasing by almost three percentage points, from 18.7% to 21.6%. Following a fall in securities investments

Figure 2.32 Assets, deposits and loans of housing savings banks



over the previous years, these investments rose by 9.7% in the first half of 2010. This was mainly the result of a significant increase in investments in T-bills of the Ministry of Finance (43.0%) which accounted for 30.5% of the total securities investments. All housing savings banks reported an increase in the share of securities in assets and in one of them securities again accounted for over one half of total assets.

In addition to T-bills of the Ministry of Finance, the securities portfolio of housing savings banks contained only one more instrument, RC bonds, which accounted for 69.5% of total securities investments.

Table 2.16 Structure of housing savings bank assets, end of period, in million HRK and %

	Dec. 2007		Dec. 2008			Dec. 2009			Jun. 2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Money assets and deposits with the CNB	0.02	0.00	0.02	0.00	13.33	0.02	0.00	23.53	0.02	0.00	–9.52
Money assets	0.02	0.00	0.02	0.00	13.33	0.02	0.00	23.53	0.02	0.00	–9.52
Deposits with the CNB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposits with banking institutions	47.08	0.72	259.74	3.73	451.66	177.76	2.64	–31.56	59.44	0.93	–66.56
MoF treasury bills and CNB bills	255.54	3.90	327.72	4.70	28.25	295.39	4.38	–9.87	422.39	6.60	43.00
Securities and other financial instruments held for trading	156.80	2.40	76.52	1.10	–51.20	0.00	0.00	–100.00	0.00	0.00	0.00
Securities and other financial instruments available for sale	1,246.37	19.04	1,121.08	16.09	–10.05	71.47	1.06	–93.63	82.06	1.28	14.82
Securities and other financial instruments held to maturity	871.21	13.31	692.70	9.94	–20.49	794.53	11.79	14.70	780.50	12.20	–1.76
Securities and other financial instruments not traded in active markets but carried at fair value	528.44	8.07	241.45	3.47	–54.31	99.66	1.48	–58.72	98.66	1.54	–1.01
Derivative financial assets	6.66	0.10	0.00	0.00	–100.00	0.00	0.00	0.00	0.00	0.00	0.00
Loans to financial institutions	106.52	1.63	273.94	3.93	157.17	117.00	1.74	–57.29	97.32	1.52	–16.82
Loans to other clients	3,172.30	48.47	3,780.69	54.28	19.18	4,847.85	71.94	28.23	4,620.97	72.21	–4.68
Investments in subsidiaries and associates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Foreclosed and repossessed assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tangible assets (net of depreciation)	8.05	0.12	8.75	0.13	8.67	7.47	0.11	–14.59	7.40	0.12	–0.98
Interest, fees and other assets	195.96	2.99	240.86	3.46	22.92	383.17	5.69	59.08	280.73	4.39	–26.73
Net of: Collectively assessed impairment provisions	50.13	0.77	58.00	0.83	15.71	55.86	0.83	–3.69	50.37	0.79	–9.82
TOTAL ASSETS	6,544.81	100.00	6,965.47	100.00	6.43	6,738.46	100.00	–3.26	6,399.12	100.00	–5.04

Housing savings banks distributed over one half of MoF T-bills and RC bonds to the held-to-maturity portfolio (59.3%). This portfolio shrank by 1.7% during the observed period. By contrast, the available-for-sale portfolio rose by 42.3% and accounted for 33.6% of the total securities investments at the end of the first half of 2010. The remaining 7.1% of investments were distributed in the securities portfolio which is not actively traded and is carried at fair value through profit and loss.

Housing savings banks placements to the financial sector almost halved, falling by 46.8%. Deposits of housing savings banks with banks fell by two thirds (66.6%) and loans to financial institutions by 16.8% at the end of the first half of the year.

In 2009, received deposits fell for the first time (9.3%). Their fall accelerated in the first half of 2010 to 6.4% (Table 2.17). At the same time, received loans, which accounted for only a little over 3% total liabilities and capital, rose by almost one half (48.1%), thus increasing their share in balance sheet assets to 3.1%.

The decline in deposits was greater than the decline in loans granted, so that granted loans to received deposits ratio of housing savings banks continued to grow. Following a large increase of over

Table 2.17 Structure of housing savings bank liabilities and capital, end of period, in million HRK and %

	Dec. 2007		Dec. 2008			Dec. 2009			Jun. 2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans from financial institutions	0.18	0.00	0.15	0.00	–18.23	134.65	2.00	–	199.39	3.12	48.08
Short-term loans	0.00	0.00	0.00	0.00	0.00	134.54	2.00	–	199.30	3.11	48.14
Long-term loans	0.18	0.00	0.15	0.00	–18.23	0.11	0.00	–23.65	0.09	0.00	–17.70
Deposits	6,038.37	92.26	6,298.11	90.42	4.30	5,713.30	84.79	–9.29	5,346.33	83.55	–6.42
Giroaccountandcurrentaccountdeposits	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Savings deposits	0.04	0.00	0.04	0.00	2.56	0.00	0.00	0.00	95.03	1.49	–
Time deposits	6,038.33	92.26	6,298.07	90.42	4.30	5,713.30	84.79	–9.28	5,251.31	82.06	–8.09
Other loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Short-term loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Derivative financial liabilities and other financial liabilities held for trading	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt securities issued	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Short-term debt securities issued	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term debt securities issued	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subordinated instruments issued	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Hybrid instruments issued	39.93	0.61	91.31	1.31	128.65	96.13	1.43	5.28	95.36	1.49	–0.80
Interest, fees and other liabilities	223.86	3.42	263.36	3.78	17.64	375.08	5.57	42.42	310.39	4.85	–17.25
TOTAL LIABILITIES	6,302.34	96.30	6,652.92	95.51	5.56	6,319.16	93.78	–5.02	5,951.47	93.00	–5.82
Share capital	357.09	5.46	450.89	6.47	26.27	487.89	7.24	8.21	487.89	7.62	0.00
Current year profit/loss	–44.72	–0.68	12.91	0.19	–128.87	49.38	0.73	282.45	20.16	0.32	–59.17
Retained earnings/loss	–15.93	–0.24	–61.58	–0.88	286.53	–50.03	–0.74	–18.76	–1.31	–0.02	–97.39
Legal reserves	2.51	0.04	3.44	0.05	37.00	4.80	0.07	39.62	5.46	0.09	13.66
Reserves provided for by the articles of association and other capital reserves	0.00	0.00	0.62	0.01	–	0.14	0.00	–77.83	0.28	0.00	106.57
Unrealised gains/losses on value adjustments of financial assets available for sale	–56.49	–0.86	–93.74	–1.35	65.94	–72.88	–1.08	–22.25	–64.83	–1.01	–11.04
Reservesarisingfromhedgingtransactions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Previous year profit/loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL CAPITAL	242.47	3.70	312.55	4.49	28.90	419.31	6.22	34.16	447.66	7.00	6.76
TOTAL LIABILITIES AND CAPITAL	6,544.81	100.00	6,965.47	100.00	6.43	6,738.46	100.00	–3.26	6,399.12	100.00	–5.04

20 percentage points in 2009, this ratio increased by further 1.4 percentage points, reaching 88.3%.

Owing to profit generated in the first six months of 2010, total balance sheet capital of housing savings banks rose by 6.8% and stood at HRK 447.7m (Table 2.17). The increase in capital accompanied by a simultaneous decline in assets led to an increase in its share in total liabilities and capital of housing savings banks, from 6.2% to 7.0%.

2.3.2 Income statement

Following a strong growth in profits in 2009, the pre-tax profits of housing savings banks were 10.1% lower in the first half of 2010 than in the same period in the previous year (Table 2.18). One housing savings bank reported a loss and of the remaining four, two reported increased profit relative to the same period 2009.

The fall in the profit of housing savings banks was mostly due to a fall in interest income. The effect of this decline was stronger than the effect of a much larger income from repealed loss provision expenses and the effect of profit on the sale and changes in the fair value of securities (substantial losses were incurred on securities sale and changes in fair value in the first half of 2009). General administrative expenses and depreciation played a significant role in the fall in income in one housing savings bank.

Net income of housing savings banks fell by HRK 8.3m or 9.5%. Net interest income declined by one fourth (24.3%) and net income from fees and commissions by 7.7%. Interest income declined by 13.8%, largely due to a fall in interest income from loans granted to public corporates which are covered by government guarantees. The most significant interest income category, i.e. interest income from household loans, rose by a small 0.8%, increasing its share in total interest income from 46.0% in the same period previous year to 53.7% at the end of the observed period 2010. Income from fees

Table 2.18 Housing savings bank income statement, in million HRK

	Jan.-Jun. 2009	Jan.-Jun. 2010
Net interest income	73.37	55.54
Total interest income	174.20	150.25
Total interest expenses	100.83	94.71
Net income from fees and commissions	30.12	27.81
Total income from fees and commissions	34.47	32.14
Total expenses on fees and commissions	4.35	4.33
Net other non-interest income	–16.56	–4.67
Other non-interest income	–5.40	5.08
Other non-interest expenses	11.16	9.75
Net non-interest income	13.56	23.14
General administrative expenses and depreciation	62.08	65.40
Net operating income before loss provisions	24.85	13.28
Total expenses on loss provisions	–2.48	–11.29
Expenses on value adjustments and provisions for identified losses	0.10	–5.76
Expenses on collectively assessed impairment provisions	–2.57	–5.53
Income/loss before taxes	27.33	24.57
Income tax	5.77	4.41
Current year profit/loss	21.56	20.16

and commissions also fell significantly (6.8%) while expenses on fees and commissions were only slightly smaller (0.5%).

Given an increase in general administrative expenses and depreciation of 5.3%, operating income (net operating income before loss provisions) fell by 46.6%. The housing savings banks tried to offset its decline by repealing loss provision expenses.

A fall in net income, accompanied by a simultaneous increase in general administrative expenses and depreciation, led to a further worsening in the cost effectiveness of housing savings banks. At the end of June 2010, general administrative expenses and depreciation accounted for 83.1% of net income, an increase from the 71.4% of the end of the same period 2009.

A decline in income compared to the same period 2009 led to a fall in profitability indicators. The return on average assets (ROAA) of housing savings banks fell from 0.8% at the end of the first half of 2009 to 0.7% at the end of the first half of 2010, while the return on average equity (ROAE) fell from 12.5% to 9.3%.

2.3.3 Credit risk

In the first half of 2010, housing savings banks reduced their total placements and assumed off-balance sheet liabilities. As a result, compared to their end-2009 balance, they fell by HRK 722.0m or 11.3% (Table 2.19). The exclusion of the portfolio of financial assets available for sale from placements and assumed off-balance sheet liabilities classified into risk categories had an influence on this change.

Total placements and assumed off-balance sheet liabilities of categories B and C fell by 42.5% (HRK 9.8m) or almost one half during the observed period. Fully irrecoverable placements and assumed off-balance liabilities (risk category C) fell by a high 80.2%, while partly recoverable placements and assumed off-balance sheet liabilities (risk category B) fell by 34.0%. As a result, risk categories B and C accounted for only 0.2% of total placements and assumed off-balance sheet liabilities at the end of the first half of 2010. The share of placements and assumed off-balance sheet liabilities classified into risk category A, their fall notwithstanding, rose to a high 99.8%, so collectively assessed impairment provisions again accounted for the major share of total value adjustments and provisions.

In the same way as towards the end of 2009, two housing savings banks classified all their placements and assumed off-balance sheet liabilities into risk category A, while three housing savings banks classified part of their exposures as partly recoverable or fully irrecoverable.

The portfolio of loans and receivables accounted for 84.3% or a major share of the total placements and assumed off-balance sheet liabilities. Loans were predominant and accounted for 77.3% or HRK 3.9bn of this amount although the share of debt securities was also large and stood at HRK 1.0bn or 21.1%. Home loans accounted for almost 80% of loans (distributed in the loans and receivables portfolio). A fall in home loans classified into risk categories B and C of HRK 9.8m or 42.7% led to a further improvement in the quality of home loans. The share of home loans classified into risk categories B and C was 0.5%.

Table 2.19 Classification of housing savings bank placements and assumed off-balance sheet liabilities by risk categories, end of period, in million HRK and %

Risk category	Dec. 2007		Dec. 2008			Dec. 2009			Jun. 2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
A	5,670.27	99.69	6,598.48	99.53	16.37	6,385.10	99.64	–3.23	5,672.85	99.77	–11.15
B-1, B-2 and B-3	14.93	0.26	24.57	0.37	64.59	18.76	0.29	–23.63	12.37	0.22	–34.06
C	2.87	0.05	6.47	0.10	125.27	4.22	0.07	–34.74	0.84	0.01	–80.20
Total	5,688.07	100.00	6,629.52	100.00	16.55	6,408.08	100.00	–3.34	5,686.06	100.00	–11.27

Table 2.20 Coverage of housing savings bank total placements and assumed off-balance sheet liabilities by total value adjustments and provisions, end of period, in million HRK and %

	Dec. 2007	Dec. 2008	Dec. 2009	Jun. 2010
Total value adjustments against placements and provisions for assumed off-balance sheet liabilities	57.56	69.77	64.24	53.15
Value adjustments and provisions	6.36	10.75	8.09	2.52
Collectively assessed value adjustments and provisions	51.21	59.02	56.16	50.63
Total placements and assumed off-balance sheet liabilities	5,688.07	6,629.52	6,408.08	5,686.06
Coverage	1.01	1.05	1.00	0.93

2.3.4 Capital adequacy

Own funds of housing savings banks rose by 4.2% and stood at HRK 518.7m. Original own funds rose by 5.4% (HRK 21.8m), owing to an increase in reserves and retained earnings while additional own funds fell by a little less than one percent (0.7%), due to a fall in the amount of issued hybrid instruments. None of the housing savings banks reported ancillary own funds (for market risk coverage).

The capital adequacy ratio rose from 16.32% to 19.01% during the observed half-year period. Despite a somewhat higher increase in total capital requirements compared to own funds, the change in the calculation methodology introduced by the new subordinate legislation (Basel II) led to an increase in the capital adequacy ratio of housing savings banks.

Total capital requirements rose by 7.4%, although the highest among them, capital requirements for credit risk, declined by 7.1%. The introduction of new regulations led to a decline in the risk weighted exposure amount for credit risk as a result of repealed increased weights for currency-induced credit risk. A high level of exposure to government units and assignment of a 75% risk weight to the retail category, led to low average weight for credit risk (37.0%). However, the introduction of capital requirements for operational risk led to an increase in total capital requirements and an increase was also seen in capital requirements for position, currency and commodity risks, i.e. capital requirements for currency risk as the only market risk reported by housing savings banks. A the end of the first half of 2010, capital requirements for credit risk thus accounted for 85.4% of total capital requirements (compared to 98.7% at the end of 2009), while capital requirements for operational risk and capital requirements for market risks accounted for 12.5% and 2.1%, respectively, of total capital requirements.

3 Notes on methodology

End-of the year data on the business operations of credit institutions are based on unconsolidated audited financial reports while data for the first half of the year are based on unconsolidated preliminary financial reports delivered by credit institutions to the Croatian National Bank.

Table 2.1 Bank peer groups and their share in total bank assets

In accordance with the selected criterion – the relative share of assets of an individual bank in total bank assets – this table shows the bank peer groups. Banks (including savings banks) have been divided into three peer groups: large, medium-sized and small banks. Large banks are banks whose assets exceed 5% of the total assets of all banks, medium-sized banks are banks whose assets are greater than 1% and less than 5% of the total assets of all banks, and small banks are banks whose assets are less than 1% of the total assets of all banks. See Attachment I, List of Credit Institutions by Peer Groups, for the composition of individual bank groups.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank assets.

Figure 2.1 Shares of assets, loans and deposits of the largest banks in total assets, loans and deposits

This figure shows the shares of the two largest banks, the five largest banks and the ten largest banks in total assets, loans and deposits of all banks. The criterion for selecting the two largest banks, the five largest banks and the ten largest banks is the size of their assets.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of assets, loans and deposits of banks.

Figure 2.2 Herfindahl-Hirschman index (HHI)

The Herfindahl-Hirschman index (HHI), which is used to measure the degree of concentration of assets, is calculated on the basis of the following formula:

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

Granted loans and received deposits concentration indices are calculated by applying the same formula. The Herfindahl-Hirschman index can vary from 0 (perfectly competitive industry) to 10 000 (monopoly).
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of assets, loans and deposits of banks.

Table 2.2 Ownership structure of banks and their share in total bank assets

With respect to ownership structure, banks in the Republic of Croatia are divided into domestic and foreign-owned banks. Banks under domestic ownership are divided into private domestic banks and state-owned domestic banks. A bank is classified as a private domestic bank if it is majority owned by domestic natural and legal persons, or as a state-owned domestic bank if it is majority owned by governmental units. A bank is classified as a foreign-owned bank if it is majority owned by foreign natural and legal persons. Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank assets. Up to 31 December

2009, the source of data on the ownership structure of banks was form PD3 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006) and, as of 31 March 2010, it is report PD32 (Decision on supervisory reports of credit institutions, OG 35/2010).

Table 2.3 Number of employees, operating units and ATMs

This table shows data on the number of employees, operating units and ATMs for each individual bank peer group and for all banks combined.
Bank reports prescribed by the Decision on the obligation to submit the report on payment operations data (OG 189/2004) are the source of data on the number of operating units and ATMs. Up to 31 December 2009, the source of data on the number of employees was form PD3 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006) and as of 31 March 2010 the source of data is reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010).

Table 2.4 Territorial distribution of operating units and ATMs by counties

The total number of operating units and the total number ATMs of all banks in the Republic of Croatia are classified by counties. Data for the City of Zagreb are included in the data for Zagreb County.
Bank reports prescribed by the Decision on the obligation to submit the report on payment operations data (OG 189/2004) are the source of data on the number of operating units and ATMs of banks.

Figure 2.3 Concentration of bank operating units and ATMs by counties

This figure shows in horizontal lines the relative share of the number of operating units and ATMs of banks by counties at the end of the reporting period. Data for the City of Zagreb are included in the data for Zagreb County.
Reports of banks prescribed by the Decision on the obligation to submit the report on payment operations data (OG 189/2004) are the source of data on the number of operating units and ATMs of banks.

Table 2.5 Structure of bank assets

This table shows bank assets items, the share of each item in total assets of all banks and the change in the balance relative to the balance at the end of the previous period.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank assets.

Figure 2.4 Rates of change in bank peer group assets

This figure shows the rates of change in assets relative to the balance at the end of the previous period for each bank peer group and for all banks combined.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank assets.

Figure 2.5 Structure of bank peer group assets

This figure shows the structure of assets for each bank peer group and for all banks combined. Bank asset items consist of six positions: money assets and deposits with the CNB, deposits (with banking institutions), securities (including T-bills), loans (loans to financial institutions and other clients), other assets (derivative financial assets, investments in subsidiaries, associates and joint ventures, foreclosed and repossessed assets, tangible assets net of depreciation, and interest, fees and other

assets) and collectively assessed impairment provisions.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank assets.

Table 2.6 Structure of bank liabilities and capital

This table shows bank liabilities and capital items, the share of each item in total liabilities and capital of all banks and the change in the balance since the end of the previous period.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank liabilities and capital.

Figure 2.6 Structure of bank peer group liabilities and capital

This figure shows the structure of liabilities and capital for each bank peer group and for all banks combined. Bank liabilities and capital items consist of six positions: deposits (giro account and current account deposits, savings deposits and time deposits), loans (loans from financial institutions and other loans), securities (issued debt securities, issued subordinated instruments and issued hybrid instruments), other liabilities (derivative financial liabilities and other financial liabilities held for trading, and interest, fees and other liabilities) and capital.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank liabilities and capital.

Figure 2.7 Structure of bank standard off-balance sheet items

This figure shows the structure of standard off-balance sheet items of banks by instruments at the end of the reporting period.
Report IBS (Decision on supervisory reports of credit institutions, OG 35/2010) is the source of data on the amount of standard off-balance sheet items of banks.

Figure 2.8 Structure of bank derivative financial instruments (notional amount)

This figure shows the structure of derivative financial instruments (notional amount) by instruments at the end of the reporting period.
Report IBS (Decision on supervisory reports of credit institutions, OG 35/2010) is the source of data on the amount of derivative financial instruments of banks.

Figure 2.9 Bank income before taxes

The amount of income (loss) before taxes is shown for each bank peer group and all banks combined, for all the observed reporting periods.
Form RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of income (loss) before taxes of banks.

Table 2.7 Bank income statement

Income statement items are shown for each bank peer group and for all banks combined.
Form RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on income statement.

Figure 2.10 Structure of bank net income

The columns show the share of net interest income, net income from fees and commissions and net other non-interest income in total net income of individual bank peer groups and all banks combined at the end of the reporting period.
Form RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the net income of banks.

Figure 2.11 Bank return on average assets (ROAA)

The return on average assets of each bank peer group and of all banks combined is calculated as a ratio between income before taxes (on an annual level) and average assets of bank peer groups and all banks combined. The average assets of bank peer groups and all banks combined are calculated as the arithmetic mean of the balance in assets at the end of the reporting period and the balance in assets at the end of the previous year of those bank peer groups and all banks combined.
Forms BS1-2 and RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) are the source of data on return on average assets.

Figure 2.12 Bank return on average equity (ROAE)

The return on average equity of each bank peer group and all banks combined is calculated as a ratio between income after taxes (on an annual level) and average assets of bank peer groups and all banks combined. The average equity of bank peer groups and all banks combined is calculated as the arithmetic mean of the balance in equity at the end of the reporting period and the balance in equity at the end of the previous year of those bank peer groups and all banks combined.
Forms BS1-2 and RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) are the source of data on return on average equity.

Figure 2.13 Income from interest-bearing assets and expenses on interest-bearing liabilities

Income from interest-bearing assets is the ratio between total interest income (on an annual level) and average interest-bearing assets. Expenses on interest-bearing liabilities are the ratio between total interest expenses (on an annual level) and average interest-bearing liabilities. The spread is the difference between the share of interest income in the average interest-bearing assets and the share of interest expenses in the average interest-bearing liabilities.
Interest-bearing assets comprise deposits with the CNB, deposits with banking institutions, debt securities (excluding debt securities held for trading), loans to financial institutions and loans to other clients. The average interest-bearing assets are calculated as the arithmetic mean of the balance in interest-bearing assets at the end of the reporting period and the balance in interest-bearing assets at the end of the previous year.
Interest-bearing liabilities comprise received loans, received deposits, issued debt securities, issued subordinated instruments and issued hybrid instruments. The average interest-bearing liabilities are calculated as the arithmetic mean of the balance in interest-bearing liabilities at the end of the reporting period and the balance in interest-bearing liabilities at the end of the previous year.
Forms BS1-2 and RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) are the source of data on income from interest-bearing assets and expenses on interest-bearing liabilities.

Figure 2.14 Weighted averages of bank monthly interest rates

The base for the calculation of the weighted averages of bank monthly interest rates on kuna and foreign currency loans are the amounts of loans disbursed during the reporting month at certain interest rates.

Exempted are interest rates on giro and current account overdrafts, for which the weighted averages were calculated based on the balance of these loans at the end of the reporting month.
Interest rates on kuna deposits not tied to a currency clause comprise interest rates on giro account and current account deposits, savings deposits and time deposits. The averages of interest rates on total kuna deposits not tied to a currency clause and total foreign currency deposits are weighted by the end-of-the period balances of all categories included in the calculation. The exceptions are kuna and foreign currency time deposits, whose weighted averages are calculated on the basis of deposits received in the reporting month.
Data on interest rates of banks have been obtained from regular reports of banks and the source of data on interest rates of banks is the CNB statistics.

Figure 2.15 Bank assets per employee

The asset to employee ratio is shown for each bank peer group and for all banks combined.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on bank assets. Up to 31 December 2009, the source of data on the number of employees was form PD3 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006) and as of 31 March 2010 the source of data is reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010).

Figure 2.16 Bank operating expenses

The ratio of operating expenses (general administrative expenses and depreciation) and the sum of net interest and net non-interest income is shown for each bank peer group and for all banks combined.
Form RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on operating expenses, net interest and net non-interest income of banks.

Table 2.8 Classification of bank placements and assumed off-balance sheet liabilities by risk categories

This table shows the placements and assumed off-balance sheet liabilities of banks (gross) by risk categories and the relevant amounts of placement value adjustments and provisions for off-balance sheet items. The coverage is the ratio between value adjustments/provisions and placements and assumed off-balance sheet liabilities.
Up to 31 December 2009, the source of data on the classification of placements and assumed off-balance sheet liabilities were forms RS1 and PIV1 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006) and as of 31 March 2010 they are reports RS2 and PIV2 (Decision on supervisory reports of credit institutions, OG 35/2010).

Figure 2.17 Structure of bank placements and assumed off-balance sheet liabilities

This figure shows the structure of exposure to credit risk (gross) of balance sheet (placements) and off-balance sheet items. The placements are divided into the loans and receivables category and into the category of financial assets held to maturity, with claims from interest and fees being covered under the item interest and fee receivables. The structure of the loans and receivables category is shown by instruments.
Report RS2 (Decision on supervisory reports of credit institutions, OG 35/2010) is the source of data on the structure of placements and assumed off-balance sheet liabilities of banks.

Figure 2.18 Rates of change of bank loans

As regards loans to selected sectors and total loans (gross), the figure shows the rates of change relative to the balance at the end of the previous period. As of 31 March 2010, loans include exclusively loans distributed in the loans and receivables category and household loans include loans to non-profit institutions serving households.
Up to 31 December 2009, the source of data on bank loans was form RS1 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006) and as of 31 March 2010, the source of data is report RS2 (Decision on supervisory reports of credit institutions, OG 35/2010). As of 31 March 2010, the distribution of exposure by institutional sectors is conducted by the CNB in accordance with the System of National Accounts, SNA 93 and the European System of Accounts 1995 (ESA 95), based on reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010).

Table 2.9 Bank loans

This table shows the loan amounts (gross), the amounts of partly recoverable and fully irrecoverable loans (gross) and value adjustments of partly recoverable and fully irrecoverable loans for selected sectors and types of household loans. As of 31 March 2010, loans include exclusively loans distributed in the loans and receivables category and household loans include loans to non-profit institutions serving households.
Up to 31 December 2009, the source of data on bank loans and value adjustments was form RS1 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006) and as of 31 March 2010, the source of data is report RS2 (Decision on supervisory reports of credit institutions, OG 35/2010). As of 31 March 2010, the distribution of exposure by institutional sectors is conducted by the CNB in accordance with the System of National Accounts, SNA 93 and the European System of Accounts 1995 (ESA 95), based on reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010).

Figure 2.19 Structure of bank loans by activities

This figure shows the structure of bank loans (gross) by activities at the end of the reporting period. The distribution of exposure by activities is conducted by the CNB in accordance with the National Classification of Economic Activities 2007, based on reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010).

Figure 2.20 Structure of bank partly recoverable and fully irrecoverable loans by activities

This figure shows the structure of partly recoverable and fully irrecoverable loans of banks (gross) by activities at the end of the reporting period. The distribution of exposure by activities is conducted by the CNB in accordance with the National Classification of Economic Activities 2007, based on reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010).

Figure 2.21 Share of bank partly recoverable and fully irrecoverable loans

The total partly recoverable and fully irrecoverable loans (gross) of bank peer groups and all banks combined are expressed as a share of total loans (gross) of bank peer groups and all banks combined. Shown are the selected sectors and total loans at the end of the reporting period. Loans include exclusively loans distributed in the loans and receivables portfolio and household loans include loans to non-profit institutions serving households.
Report RS2 (Decision on supervisory reports of credit institutions, OG 35/2010) is the source of data

on bank loans and the distribution of exposure by institutional sectors is conducted by the CNB in accordance with the System of National Accounts, SNA 93 and the European System of Accounts 1995 (ESA 95), based on reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010).

Table 2.10 Structure of bank sources of financing

The structure of the sources of financing is shown for each bank peer group and all banks combined by instruments. The share of deposits and received loans of the majority foreign owner are shown separately.
Forms BS1-2, BS/DEP1-8 and BS/OK1-9 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) are the source of data on the sources of bank financing.

Table 2.11 Sectoral structure of received loans

The amount of loans received from institutional sectors and their shares in total received loans are shown for all banks. The amount and the share of loans from the majority foreign owner in total received loans are shown separately.
Form BS/OKI-9 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the received loans of banks.

Figure 2.22 Sectoral structure of received deposits

This figure shows the share of an individual institutional sector in giro account and current account deposits, savings deposits, time deposits and total deposits. Form BS/DEP1-8 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the received deposits.

Figure 2.23 Bank loans granted/deposits received

This figure shows the ratio between total net loans granted by individual bank peer groups and all banks combined and total deposits received by individual bank peer groups and all banks combined at the end of the reporting period.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on granted loans and received deposits.

Figure 2.24 Asset and liability maturity match or mismatch

The maturity match or mismatch between assets and liabilities is shown by remaining maturity and on a net basis. The structure of assets by remaining maturity is calculated as a ratio between assets classified by remaining maturity terms and total assets at the end of the reporting period. The liabilities by remaining maturity are calculated as a ratio between liabilities classified by remaining maturity terms and total assets at the end of the reporting period. The net balance sheet position (gap) shows the mismatch between the maturity structures of assets and liabilities and represents the difference between assets and liabilities classified by remaining maturity terms.
Form BS/ROC1-14 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the assets and liabilities classified by remaining maturity terms.

Figure 2.25 Minimum liquidity coefficient

Minimum liquidity coefficient (MLC) is calculated as the ratio between the expected inflows (readily negotiable assets included) and the expected outflows in two given periods (up to one week and up

to one month). MLC is calculated for kuna, all convertible currencies combined and for each non-convertible currency separately (where outflows in an individual non-convertible currency account for over 1% of the total assets of a credit institution). MLC for periods up to one week and up to one month has to equal or be greater than 1 on each day.
Form KL (Decision on liquidity risk management, OG 2/2010) is the source of data on MLC.

Figure 2.26 Long foreign exchange position of banks

Each bank peer group ratio between its long foreign exchange position (f/c claims exceeding f/c liabilities) and its own funds is calculated by adding up first the quarterly average long foreign exchange positions of banks belonging to an individual bank peer group and then by adding up in the same manner own funds of all banks in the respective peer group. The sums thus calculated are mutually divided.
Form VR-2 (Decision on the limitation of bank exposure to foreign exchange risk, OG 17/2003, 39/2006, 130/2006 and 25/2009 and the Decision on the limitation of credit institution exposure to foreign exchange risk, OG 38/2010) is the source of data on the long foreign exchange position. Up to 31 March 2010, the source of own funds data was form JK2 (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009) and as of 31 March 201, it is form JKAP (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009 and 2/2010).

Figure 2.27 Short foreign exchange position of banks

Each bank peer group ratio between its short foreign exchange position (f/c liabilities exceeding f/c claims) and its own funds is calculated by first adding up quarterly average short foreign exchange positions of banks belonging to an individual bank peer group and then by adding up own funds of all banks in the respective peer group. The sums thus calculated are mutually divided.
Form VR-2 (Decision on the limitation of bank exposure to foreign exchange risk, OG 17/2003, 39/2006, 130/2006 and 25/2009 and the Decision on the limitation of credit institution exposure to foreign exchange risk, OG 38/2010) is the source of data on the short foreign exchange position of banks. Up to 31 March 2010, the source of own funds data was form JK2 (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009) and as of 31 March 2010 it is form JKAP (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009 and 2/2010).

Table 2.12 Interest rate risk in the non-trading book

Interest rate risk in the non-trading book is measured by a change in its economic value in the conditions of a standard interest rate shock. A standard interest rate shock is a parallel shift in interest rates of 200 basis points. A change in the economic value of the non-trading book is calculated as a sum total of net weighted positions across all time zones, for each major currency individually (a currency that constitutes over 5% of the total balance sheet assets) and for other currencies on an aggregate basis. The ratio between the change in the economic value and bank own funds must not exceed 20%.
Forms EVKI-FKS, EVKI-PKS, EVKI-AKS and EVKI-ZBR (Decision on the management of interest rate risk in the non-trading book, OG 2/2010 and 34/2010) are the source of data on the interest rate risk in the non-trading book.

Figure 2.28 Bank capital adequacy ratio

The capital adequacy ratio is calculated as a ratio between total own funds of individual bank peer groups and total own funds of all banks combined and total risk exposure of individual bank peer groups and all banks combined. Up to 31 December 2009, the total risk exposure was calculated as the sum of assets weighted by credit risk (including risky and derivative off-balance sheet items weighted by credit

risk), increased by total foreign exchange position exposure to currency risk, capital requirements for position risks (multiplied by 10), capital requirements for settlement risk and capital requirements for counterparty risk (multiplied by 10), and capital requirements for exceeding the permissible exposure limits (multiplied by 10). As of 31 March 2010, the total risk exposure is calculated as the sum of exposures to credit, counterparty credit and dilution risks and free deliveries, increased by the initial capital requirements for settlement/delivery risk (multiplied by 12.5), the initial capital requirements for position, foreign exchange and commodity risk (multiplied by 12.5), the initial capital requirements for exceeding the permissible exposure limits (multiplied by 12.5) and the initial capital requirements for operational risk (multiplied by 12.5). As of 31 March 2010, the banks have to maintain a minimum capital adequacy ratio of 12% (previously 10%).
Up to 31 December 2009, the source of data on the capital adequacy of banks was form SAK (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009) and as of 31 March 2010 it is form SAJK (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009 and 2/2010).

Table 2.13 Own funds, capital requirements and capital adequacy ratio of banks

This table shows the structure of own funds and capital requirements and the capital adequacy ratio at the end of the reporting period for each bank peer group and all banks combined (see the accompanying explanation with Figure 2.28 and Figure 2.29).
Up to 31 December 2009, the source of data on the capital adequacy of banks was forms JK2 and SAK (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009) and as of 31 March 2010 it is forms JKAP and SAJK (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009 and 2/2010).

Figure 2.29 Bank own funds

The columns show the components of own funds at the end of the reporting period. Original own funds is the amount of original own funds net of deduction items, while additional own funds and ancillary own funds represent those amounts of additional own funds and ancillary own funds that are included in own funds (after application of the limits). Own funds are reduced by deduction items. As of 31 March 2010, one half of the total amount of deduction items is deducted from original own funds and half from additional own funds.
Up to 31 December 2009, the source of data on the own funds of banks was form JK2 (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009) and as of 31 March 2010 it is form JKAP (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009 and 2/2010).

Table 2.14 Breakdown of net exposure to credit risk by risk weights

This table shows the net exposure to credit risk after the use of credit risk mitigation techniques. The net exposure is shown by exposure classes and credit risk-weights. The category Other includes the following exposure classes: exposures to multilateral development banks, exposures to international organisations, exposures in the form of covered bonds and other exposures. The line items total outflow and total inflow show the substitution effects of credit risk mitigation techniques, i.e. the effect of substitution of the risk weight of the obligor by the risk weight of the protection provider (or collateral). Form SP by individual exposure classes (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009 and 2/2010) is the source of data on the net exposure of banks to credit risk.

Figure 2.30 Breakdown of net exposure to credit risk by risk weights

The columns show the structure of the net exposure to credit risk (after the use of credit risk mitigation techniques) by credit risk-weights. The average weight is calculated as a ratio between the weighted exposure and net exposure to credit risk.
Up to 31 December 2009, the source of data on the net exposure of banks that is weighted for credit risk and weighted exposure was forms PBA1, PIRS1 and KOIRS (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009) and as of 31 March 2010 it is form SP by individual exposure classes (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009 and 2/2010).

Figure 2.31 Structure of bank total capital requirements

The total capital requirements of banks is the sum total of capital requirements for credit risk (including counterparty, dilution and free delivery risks), settlement/delivery risk, position, currency and commodity risk, the risk of exceeding the permissible exposure limits and operational risk.
Form SAJK (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009 and 2/2010) is the source of data on the capital requirements.

Table 2.15 Breakdown of bank capital adequacy ratio

This table shows the number of banks and their share of assets in the total assets of banks by buckets of the capital adequacy ratio.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank assets. Up to 31 December 2009, the source of data on the capital adequacy ratio of banks was form SAK (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009) and as of 31 March 2010, it is form SAJK (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009 and 2/2010).

Figure 2.32 Assets, deposits and loans of housing savings banks

This figure shows the amount of assets, received deposits and granted home loans (gross) of housing savings banks.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of assets and received deposits of housing savings banks. Up to 31 December 2009, the source of data on housing savings banks loans was form RS1 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006) and as of 31 March 2010 the source of data is form RS2 (Decision on supervisory reports of credit institutions, OG 35/2010).

Table 2.16 Structure of housing savings bank assets

This table shows asset items of housing savings banks, the share of each item in total assets of all housing savings banks and the change in the balance relative to the balance at the end of the previous period.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of assets of housing savings banks.

Table 2.17 Structure of housing savings bank liabilities and capital

This table shows liabilities and capital items of housing savings banks, the share of each item in total

liabilities and capital of all housing savings banks and the change in the balance relative to the balance at the end of the previous period.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of liabilities and capital of housing savings banks.

Table 2.18 Housing savings bank income statement

This table shows the amounts of income statement items of housing savings banks.
Form RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on income statement of housing savings banks.

Table 2.19 Classification of housing savings bank placements and assumed off-balance sheet liabilities by risk categories

This table shows the classification of placements and assumed off-balance sheet liabilities (gross) of housing savings banks by risk categories and their share in the total placements and assumed off-balance sheet liabilities classified into risk categories.
Up to 31 December 2009, the source of data on the classification of placements and assumed off-balance sheet liabilities of housing savings banks was form RS1 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006) and as of 31 March 2010, the source of data is form RS2 (Decision on supervisory reports of credit institutions, OG 35/2010).

Table 2.20 Coverage of housing savings bank total placements and assumed off-balance sheet liabilities by total value adjustments and provisions

The coverage is calculated by adding up placement value adjustments and provisions for assumed off-balance sheet liabilities (for categories B-1, B-2, B-3 and C) and collectively assessed placement value adjustments and provisions for assumed off-balance sheet liabilities for (for risk category A) and by dividing the amount thus obtained by the amount of total placements and assumed off-balance sheet liabilities.
Up to 31 December 2009, the source of data on the ratio of total housing savings bank value adjustments and provisions and total placements and assumed off-balance sheet liabilities was forms PIV1 and RS1 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006) and as of 31 March 2010, it is reports RS2 and PIV2 (Decision on supervisory reports of credit institutions, OG 35/2010).

4 List of credit institutions

The list of credit institutions contains contact data and data on members of management and supervisory boards, shareholders and auditors of credit institutions. The key financial data and capital adequacy ratios are also enclosed.

Data on shareholders who hold 3% or more of share in the share capital of an institution, and financial and capital adequacy data are as at 30 June 2010. They are based on unconsolidated preliminary financial reports submitted to the Croatian National Bank by credit institutions.

Data on members of management and supervisory boards are as at 1 September 2010.

Data on auditors relate to audits performed in 2009.

A ŠTEDNA BANKA MALOG PODUZETNIŠTVA d.d.

Radnička cesta 45, 10000 Zagreb
Phone: + 358 1 22 26 522
Fax: + 358 1 22 26 523
BAN[1] 6717002
www.abanka.hr

Management board

Dubravka Filipčić – chairperson, Andreja Bučanac

Supervisory board

Goran Crnčević – chairperson, Edo Crnčević
Marin Crnčević, Jakov Čović Pavišić
Tonči Peović

Shareholders	Share in share capital (%)
1. Spectator ulaganja d.o.o.	9.79
2. Adut Ager d.o.o.	9.79
3. Goran Crnčević	9.60
4. Mirna Nagler Crnčević	9.60
5. Marin Crnčević	9.60
6. Edo Crnčević	9.60
7. Spectator Internacional d.o.o.	9.40
8. Astrum ulaganja d.o.o.	9.29
9. Diligent data d.o.o.	8.17
10. Matjaž Marinšek	6.20
11. Alen Bokšić	5.16
12. Krešimir Boranić	3.79

Audit firm for 2009:
HLB Revidicon d.o.o., Varaždin

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	3,010
Money assets	202
Deposits with the CNB	2,807
Deposits with banking institutions	54
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	0
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	1,400
Loans to other clients	8,181
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	904
Interest, fees and other assets	386
Net of: Collectively assessed impairment provisions	107
TOTAL ASSETS	13,828

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	4,582
Giro account and current account deposits	2,646
Savings deposits	1
Time deposits	1,935
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	502
TOTAL LIABILITIES	5,084
Capital	8,745
TOTAL LIABILITIES AND CAPITAL	13,828

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	550
Total interest income	705
Total interest expenses	156
Net income from fees and commissions	-67
Total income from fees and commissions	25
Total expenses on fees and commissions	92
Net other non-interest income	-28
Other non-interest income	3
Other non-interest expenses	31
Net non-interest income	-94
General administrative expenses and depreciation	4,298
Net operating income before loss provisions	–3,843
Total expenses on loss provisions	–12
Expenses on value adjustments and provisions for identified losses	76
Expenses on collectively assessed impairment provisions	-88
Income (loss) before taxes	–3,831
Income tax	0
Current year profit (loss)	–3,831

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	170
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	0
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	170

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

67.87

1 Bank account number.

BANCO POPOLARE CROATIA d.d.

Petrovaradinska 1, 10000 Zagreb
Phone: + 358 1 46 53 400
Fax: + 358 1 46 53 409
BAN 4115008
www.bpc.hr

Management board

Goran Gazivoda – chairperson, Ivan Dujmović

Supervisory board

Giuseppe Malerbi – chairperson, Lorenzo Chiappini
Samuele Fraizzoli, Paolo Taverna, Željko Perić,

Shareholders	Share in share capital (%)
1. Banco Popolare Società Cooperativa	97.98

Audit firm for 2009:
Ernst & Young d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	231,536
Money assets	32,142
Deposits with the CNB	199,394
Deposits with banking institutions	352,809
MoF treasury bills and CNB bills	93,471
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	923
Securities and other financial instruments held to maturity	19,824
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	62,390
Loans to other clients	1,538,716
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	754
Tangible assets (net of depreciation)	61,639
Interest, fees and other assets	31,543
Net of: Collectively assessed impairment provisions	18,776
TOTAL ASSETS	2,374,829

Liabilities and capital	
Loans from financial institutions	256,066
Short-term loans	37,954
Long-term loans	218,112
Deposits	1,775,749
Giro account and current account deposits	144,270
Savings deposits	42,072
Time deposits	1,589,407
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	120
Interest, fees and other liabilities	92,663
TOTAL LIABILITIES	2,124,598
Capital	250,231
TOTAL LIABILITIES AND CAPITAL	2,374,829

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	46,249
Total interest income	84,643
Total interest expenses	38,394
Net income from fees and commissions	7,281
Total income from fees and commissions	8,662
Total expenses on fees and commissions	1,382
Net other non-interest income	4,495
Other non-interest income	6,389
Other non-interest expenses	1,894
Net non-interest income	11,776
General administrative expenses and depreciation	44,900
Net operating income before loss provisions	13,125
Total expenses on loss provisions	2,450
Expenses on value adjustments and provisions for identified losses	628
Expenses on collectively assessed impairment provisions	1,822
Income (loss) before taxes	10,675
Income tax	0
Current year profit (loss)	10,675

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	10,145
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	4,076
Margin credit lines	0
Other credit lines and commitments	26,252
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	40,472

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

12.53

BANKA BROD d.d.

Zajčeva 21, 35000 Slavonski Brod
Phone: + 358 35 44 57 11
Fax: + 358 35 44 57 55
BAN 4124003
www.banka-brod.hr

Management board

Zdenko Vidaković – chairperson
Mićo Tomičić

Supervisory board

Damir Kreso – chairperson
Pero Ćosić
Damir Tus

Shareholders	Share in share capital (%)
1. Mićo Tomičić	8.06
2. Damir Kreso	7.93
3. Mara Tomičić	7.83
4. Maja Vidaković	7.83
5. Zdenko Vidaković	7.83
6. Slobodanka Kreso	7.57
7. Razija Kreso	6.13
8. Neđo Jelčić	5.95
9. Mirko Vidaković	5.58
10. Karlo Tomičić	5.43
11. Višnja Rački	3.59
12. Željko Rački	3.44

Audit firm for 2009:
BDO Revizija Zagreb d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	199,547
Money assets	117,144
Deposits with the CNB	82,403
Deposits with banking institutions	44,419
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	0
Securities and other financial instruments held to maturity	17,429
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	1
Loans to financial institutions	5,500
Loans to other clients	244,147
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	563
Tangible assets (net of depreciation)	4,281
Interest, fees and other assets	6,858
Net of: Collectively assessed impairment provisions	3,974
TOTAL ASSETS	518,772

Liabilities and capital	
Loans from financial institutions	1,656
Short-term loans	0
Long-term loans	1,656
Deposits	438,720
Giro account and current account deposits	14,958
Savings deposits	6,561
Time deposits	417,201
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	21,384
TOTAL LIABILITIES	461,761
Capital	57,011
TOTAL LIABILITIES AND CAPITAL	518,772

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	8,288
Total interest income	21,585
Total interest expenses	13,297
Net income from fees and commissions	1,885
Total income from fees and commissions	2,739
Total expenses on fees and commissions	854
Net other non-interest income	1,709
Other non-interest income	2,130
Other non-interest expenses	421
Net non-interest income	3,594
General administrative expenses and depreciation	7,965
Net operating income before loss provisions	3,916
Total expenses on loss provisions	1,044
Expenses on value adjustments and provisions for identified losses	982
Expenses on collectively assessed impairment provisions	62
Income (loss) before taxes	2,872
Income tax	574
Current year profit (loss)	2,298

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	6,672
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	177
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	6,849

Derivative financial instruments	
Options	3,684
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	3,684

Capital adequacy ratio, in %
as at 30 June 2010

15.54

BANKA KOVANICA d.d.

P. Preradovića 29, 42000 Varaždin
Phone: + 358 42 40 34 03
Fax: + 358 42 21 21 48
BAN 4133006
www.kovanica.hr

Management board

Radojka Olić – chairperson
Darko Kosovec, Gian Luigi Bonfe

Supervisory board

Pier Luigi Martelli – chairperson
Ivan Majdak, Vladimiro Renzi
Davor Štern, Gian Primo Gardi

Shareholders	Share in share capital (%)
1. Cassa di Risparmio della Repubblica di San Marino S.p.A.	99.02

Audit firm for 2009:
Nexia revizija d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	132,391
Money assets	14,193
Deposits with the CNB	118,198
Deposits with banking institutions	147,096
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	12,434
Securities and other financial instruments held to maturity	6,084
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	14,000
Loans to other clients	929,261
Investments in subsidiaries and associates	141
Foreclosed and repossessed assets	11,717
Tangible assets (net of depreciation)	30,320
Interest, fees and other assets	26,479
Net of: Collectively assessed impairment provisions	11,369
TOTAL ASSETS	1,298,553

Liabilities and capital	
Loans from financial institutions	50,926
Short-term loans	26,928
Long-term loans	23,998
Deposits	1,023,085
Giro account and current account deposits	24,124
Savings deposits	35,740
Time deposits	963,221
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	92,355
Interest, fees and other liabilities	57,380
TOTAL LIABILITIES	1,223,746
Capital	74,807
TOTAL LIABILITIES AND CAPITAL	1,298,553

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	15,303
Total interest income	43,407
Total interest expenses	28,103
Net income from fees and commissions	2,163
Total income from fees and commissions	2,989
Total expenses on fees and commissions	826
Net other non-interest income	–6,214
Other non-interest income	–4,196
Other non-interest expenses	2,017
Net non-interest income	–4,051
General administrative expenses and depreciation	28,741
Net operating income before loss provisions	–17,489
Total expenses on loss provisions	7,963
Expenses on value adjustments and provisions for identified losses	7,285
Expenses on collectively assessed impairment provisions	677
Income (loss) before taxes	–25,451
Income tax	0
Current year profit (loss)	–25,451

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	12,484
Uncovered letters of credit	8,392
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	2,311
Margin credit lines	0
Other credit lines and commitments	40,129
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	63,316

Derivative financial instruments	
Options	528
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	528

Capital adequacy ratio, in %
as at 30 June 2010

12.60

BANKA SPLITSKO-DALMATINSKA d.d.

114. brigade 9, 21000 Split
Phone: + 358 21 54 02 80
Fax: + 358 21 36 84 48
BAN 4109006
www.bsd.hr

Management board

Ante Blažević – chairperson
Ivo Krolo

Supervisory board

Irena Kalebić Bašić – chairperson
Nediljko Ivančević
Ivan Filipović

Shareholders	Share in share capital (%)
1. Juroslav Buljubašić	31.49
2. Hypo Alpe-Adria-Bank d.d.	9.93
3. Mirko Vukušić	9.13
4. Joško Dvornik	5.75
5. Blue Line International INC	5.51
6. Nataša Vuković	5.30
7. Venči Čulić Meić	4.49
8. Irena Kalebić Bašić	3.85
9. Mira Marić-Banje	3.72
10. own shares	3.10
11. Jakiša Medić	3.02

Audit firm for 2009:
BAŠREVIZOR d.o.o., Split

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	31,718
Money assets	7,758
Deposits with the CNB	23,960
Deposits with banking institutions	50,116
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	7,627
Securities and other financial instruments available for sale	44
Securities and other financial instruments held to maturity	957
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	0
Loans to other clients	173,067
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	230
Tangible assets (net of depreciation)	16,083
Interest, fees and other assets	5,823
Net of: Collectively assessed impairment provisions	2,231
TOTAL ASSETS	283,434

Liabilities and capital	
Loans from financial institutions	94
Short-term loans	0
Long-term loans	94
Deposits	218,233
Giro account and current account deposits	2,825
Savings deposits	4,625
Time deposits	210,784
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	12,063
TOTAL LIABILITIES	230,390
Capital	53,044
TOTAL LIABILITIES AND CAPITAL	283,434

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	6,662
Total interest income	12,043
Total interest expenses	5,381
Net income from fees and commissions	553
Total income from fees and commissions	793
Total expenses on fees and commissions	240
Net other non-interest income	–209
Other non-interest income	387
Other non-interest expenses	597
Net non-interest income	343
General administrative expenses and depreciation	6,571
Net operating income before loss provisions	434
Total expenses on loss provisions	218
Expenses on value adjustments and provisions for identified losses	–54
Expenses on collectively assessed impairment provisions	271
Income (loss) before taxes	217
Income tax	165
Current year profit (loss)	51

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	86
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	1,094
Margin credit lines	0
Other credit lines and commitments	0
Other standard risky off-balance sheet items	305
Total standard off-balance sheet items	1,486

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

21.84

BKS BANK d.d.

Mljekarski trg 3, 51000 Rijeka
Phone: + 358 51 35 35 55
Fax: + 358 51 35 35 66
BAN 2488001
www.bks.hr

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

Audit firm for 2009:
KPMG Croatia d.o.o., Zagreb

Management board

Goran Rameša – chairperson
Christian Peter Pettinger

Supervisory board

Herta Stockbauer – chairperson
Heimo Penker, Ludwig-Hubert Ankele
Josef Morak, Harald Richard Brunner

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	117,865
Money assets	4,938
Deposits with the CNB	112,926
Deposits with banking institutions	82,661
MoF treasury bills and CNB bills	7,149
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	1,376
Securities and other financial instruments held to maturity	19,416
Securities and other financial instruments not traded in active markets but carried at fair value	15,195
Derivative financial assets	0
Loans to financial institutions	25,200
Loans to other clients	423,590
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	383
Tangible assets (net of depreciation)	24,164
Interest, fees and other assets	16,822
Net of: Collectively assessed impairment provisions	6,171
TOTAL ASSETS	727,649

Liabilities and capital	
Loans from financial institutions	60,315
Short-term loans	12,726
Long-term loans	47,588
Deposits	516,746
Giro account and current account deposits	141,671
Savings deposits	44,372
Time deposits	330,702
Other loans	64,741
Short-term loans	28,774
Long-term loans	35,967
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	13,444
TOTAL LIABILITIES	655,246
Capital	72,404
TOTAL LIABILITIES AND CAPITAL	727,649

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	9,483
Total interest income	17,542
Total interest expenses	8,059
Net income from fees and commissions	1,443
Total income from fees and commissions	2,491
Total expenses on fees and commissions	1,048
Net other non-interest income	739
Other non-interest income	1,238
Other non-interest expenses	500
Net non-interest income	2,182
General administrative expenses and depreciation	12,240
Net operating income before loss provisions	–575
Total expenses on loss provisions	1,185
Expenses on value adjustments and provisions for identified losses	562
Expenses on collectively assessed impairment provisions	623
Income (loss) before taxes	–1,760
Income tax	0
Current year profit (loss)	–1,760

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	41,013
Uncovered letters of credit	1,087
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	18,581
Margin credit lines	0
Other credit lines and commitments	18,426
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	79,107

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

12.97

CENTAR BANKA d.d.

Amruševa 6, 10000 Zagreb
Phone: + 358 1 48 03 444
Fax: + 358 1 48 03 441
BAN 2382001
www.centarbanka.hr

Management board

Fran Renko – chairperson, Gordana Amančić

Supervisory board

Dragutin Biondić – chairperson, Igor Knežević
Zlatko Mateša, Dragutin Kalogjera, Milenko Umićević

Shareholders	Share in share capital (%)
1. Heruc d.d.	41.23
2. Privredna banka Zagreb d.d. (custody account)	7.78
3. Heruc Euroholding LTD	3.85

Audit firm for 2009:
Nexia revizija d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	109,605
Money assets	9,354
Deposits with the CNB	100,251
Deposits with banking institutions	77,920
MoF treasury bills and CNB bills	69,630
Securities and other financial instruments held for trading	7,669
Securities and other financial instruments available for sale	9,568
Securities and other financial instruments held to maturity	43,065
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	5,600
Loans to other clients	1,138,686
Investments in subsidiaries and associates	5,000
Foreclosed and repossessed assets	30,251
Tangible assets (net of depreciation)	5,480
Interest, fees and other assets	37,820
Net of: Collectively assessed impairment provisions	13,690
TOTAL ASSETS	1,526,603

Liabilities and capital	
Loans from financial institutions	434,747
Short-term loans	115,600
Long-term loans	319,147
Deposits	851,284
Giro account and current account deposits	89,339
Savings deposits	44,794
Time deposits	717,151
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	42,876
TOTAL LIABILITIES	1,328,906
Capital	197,697
TOTAL LIABILITIES AND CAPITAL	1,526,603

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	27,064
Total interest income	55,461
Total interest expenses	28,396
Net income from fees and commissions	6,329
Total income from fees and commissions	8,593
Total expenses on fees and commissions	2,264
Net other non-interest income	1,110
Other non-interest income	2,066
Other non-interest expenses	956
Net non-interest income	7,438
General administrative expenses and depreciation	27,250
Net operating income before loss provisions	7,253
Total expenses on loss provisions	1,680
Expenses on value adjustments and provisions for identified losses	989
Expenses on collectively assessed impairment provisions	691
Income (loss) before taxes	5,573
Income tax	1,144
Current year profit (loss)	4,430

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	148,004
Uncovered letters of credit	17,114
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	2,037
Margin credit lines	0
Other credit lines and commitments	50,405
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	217,559

Derivative financial instruments	
Options	23,308
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	23,308

Capital adequacy ratio, in %
as at 30 June 2010

12.40

CREDO BANKA d.d.

Zrinsko-Frankopanska 58, 21000 Split
Phone: + 358 21 34 04 10
Fax: + 358 21 38 06 83
BAN 2491005
www.credobanka.hr

Management board

Šime Luketin – chairperson, Mato Mišić

Supervisory board

Boris Barać – chairperson, Mirko Vuković
Dražen Bilić

Shareholders	Share in share capital (%)
1. Mirko Vuković	32.73
2. Boris Barać	24.17
3. Kvarner Vienna Insurance Group d.d.	6.66
4. Simag d.o.o.	4.66
5. Marko Vuković	4.49
6. Alkom d.o.o.	4.18
7. HPB d.d. (custody account)	3.23

Audit firm for 2009:
Kalibović i partneri d.o.o., Split

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	255,550
Money assets	23,853
Deposits with the CNB	231,696
Deposits with banking institutions	136,778
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	10,816
Securities and other financial instruments held to maturity	36,243
Securities and other financial instruments not traded in active markets but carried at fair value	5
Derivative financial assets	0
Loans to financial institutions	15,555
Loans to other clients	1,140,626
Investments in subsidiaries and associates	20
Foreclosed and repossessed assets	8,743
Tangible assets (net of depreciation)	19,772
Interest, fees and other assets	45,085
Net of: Collectively assessed impairment provisions	14,722
TOTAL ASSETS	1,654,471

Liabilities and capital	
Loans from financial institutions	182,296
Short-term loans	47,201
Long-term loans	135,095
Deposits	1,234,060
Giro account and current account deposits	97,653
Savings deposits	79,280
Time deposits	1,057,127
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	43,648
Interest, fees and other liabilities	59,100
TOTAL LIABILITIES	1,519,105
Capital	135,366
TOTAL LIABILITIES AND CAPITAL	1,654,471

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	22,841
Total interest income	55,212
Total interest expenses	32,371
Net income from fees and commissions	4,804
Total income from fees and commissions	5,750
Total expenses on fees and commissions	946
Net other non-interest income	4,767
Other non-interest income	5,439
Other non-interest expenses	671
Net non-interest income	9,571
General administrative expenses and depreciation	19,336
Net operating income before loss provisions	13,076
Total expenses on loss provisions	9,823
Expenses on value adjustments and provisions for identified losses	8,269
Expenses on collectively assessed impairment provisions	1,555
Income (loss) before taxes	3,252
Income tax	163
Current year profit (loss)	3,089

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	145,594
Uncovered letters of credit	8,575
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	1,460
Margin credit lines	0
Other credit lines and commitments	14,451
Other standard risky off-balance sheet items	183
Total standard off-balance sheet items	170,261

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

12.46

CROATIA BANKA d.d.

Kvaternikov trg 9, 10000 Zagreb
Phone: + 358 1 23 91 120
Fax: + 358 1 23 91 470
BAN 2485003
www.croatiabanka.hr

Management board

Ivan Purgar – chairperson
Marko Gabela

Supervisory board

Ivan Pažin – chairperson, Kamilo Vrana
Ivan Tomljenović, Branka Grabovac
Tatjana Knezović

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

Audit firm for 2009:
BDO Revizija Zagreb d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	194,307
Money assets	24,017
Deposits with the CNB	170,289
Deposits with banking institutions	257,457
MoF treasury bills and CNB bills	152,381
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	91,042
Securities and other financial instruments held to maturity	1,713
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	33,450
Loans to other clients	982,431
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	46,945
Tangible assets (net of depreciation)	27,747
Interest, fees and other assets	49,261
Net of: Collectively assessed impairment provisions	12,819
TOTAL ASSETS	1,823,913

Liabilities and capital	
Loans from financial institutions	272,171
Short-term loans	42,233
Long-term loans	229,938
Deposits	1,229,841
Giro account and current account deposits	149,142
Savings deposits	76,895
Time deposits	1,003,805
Other loans	21,678
Short-term loans	21,580
Long-term loans	98
Derivative financial liabilities and other financial liabilities held for trading	2
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	70,000
Interest, fees and other liabilities	81,671
TOTAL LIABILITIES	1,675,364
Capital	148,550
TOTAL LIABILITIES AND CAPITAL	1,823,913

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	20,899
Total interest income	53,450
Total interest expenses	32,551
Net income from fees and commissions	2,888
Total income from fees and commissions	5,718
Total expenses on fees and commissions	2,830
Net other non-interest income	3,938
Other non-interest income	5,669
Other non-interest expenses	1,732
Net non-interest income	6,825
General administrative expenses and depreciation	34,181
Net operating income before loss provisions	–6,457
Total expenses on loss provisions	12,635
Expenses on value adjustments and provisions for identified losses	14,019
Expenses on collectively assessed impairment provisions	–1,384
Income (loss) before taxes	–19,093
Income tax	0
Current year profit (loss)	–19,093

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	60,568
Uncovered letters of credit	2,778
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	43,324
Margin credit lines	0
Other credit lines and commitments	0
Other standard risky off-balance sheet items	3,307
Total standard off-balance sheet items	109,976

Derivative financial instruments	
Options	48,665
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	48,665

Capital adequacy ratio, in %
as at 30 June 2010

17.69

ERSTE & STEIERMÄRKISCHE BANK d.d.

Jadranski trg 3a, 51000 Rijeka
Phone: + 358 62 37 50 00
Fax: + 358 62 37 60 00
BAN 2402006
www.erstebank.hr

Management board

Petar Radaković – chairperson
Tomislav Vuić, Boris Centner
Slađana Jagar

Supervisory board

Herbert Juranek – chairperson
Franz Kerber, Kristijan Schellander
Gerhard Maier, Peter Nemschak
Reinhard Ortner, Ernst Gideon Loudon

Shareholders	Share in share capital (%)
1. ESB Holding GMBH	96.09

Audit firm for 2009:
Ernst & Young d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	5,684,777
Money assets	687,628
Deposits with the CNB	4,997,149
Deposits with banking institutions	3,292,601
MoF treasury bills and CNB bills	1,567,725
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	2,589,491
Securities and other financial instruments held to maturity	269,243
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	69,408
Loans to financial institutions	412,964
Loans to other clients	34,118,847
Investments in subsidiaries and associates	167,358
Foreclosed and repossessed assets	47,441
Tangible assets (net of depreciation)	402,885
Interest, fees and other assets	665,047
Net of: Collectively assessed impairment provisions	438,158
TOTAL ASSETS	48,849,627

Liabilities and capital	
Loans from financial institutions	2,040,717
Short-term loans	722,197
Long-term loans	1,318,520
Deposits	35,532,638
Giro account and current account deposits	3,449,269
Savings deposits	2,908,134
Time deposits	29,175,236
Other loans	3,621,249
Short-term loans	795,774
Long-term loans	2,825,475
Derivative financial liabilities and other financial liabilities held for trading	258,437
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	1,703,658
TOTAL LIABILITIES	43,156,700
Capital	5,692,927
TOTAL LIABILITIES AND CAPITAL	48,849,627

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	669,489
Total interest income	1,351,197
Total interest expenses	681,709
Net income from fees and commissions	156,687
Total income from fees and commissions	211,645
Total expenses on fees and commissions	54,957
Net other non-interest income	113,950
Other non-interest income	118,517
Other non-interest expenses	4,567
Net non-interest income	270,637
General administrative expenses and depreciation	366,965
Net operating income before loss provisions	573,161
Total expenses on loss provisions	236,802
Expenses on value adjustments and provisions for identified losses	246,346
Expenses on collectively assessed impairment provisions	-9,543
Income (loss) before taxes	336,358
Income tax	67,404
Current year profit (loss)	268,954

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	1,398,299
Uncovered letters of credit	134,342
Guaranteed bills of exchange	876
Accepted bills of exchange	0
Revolving loans	481,542
Margin credit lines	0
Other credit lines and commitments	1,162,093
Other standard risky off-balance sheet items	10,244
Total standard off-balance sheet items	3,187,396

Derivative financial instruments	
Options	225,494
Swaps	2,433,319
Forwards	18,484,504
Futures	0
Warrants	0
Other derivative financial instruments	21,672
Total notional amount of derivative financial instruments	21,164,989

Capital adequacy ratio, in %
as at 30 June 2010

15.98

HRVATSKA POŠTANSKA BANKA d.d.

Jurišićeva 4, 10000 Zagreb
Phone: + 358 1 48 04 574
Fax: + 358 1 48 10 791
BAN 2390001
www.hpb.hr

Management board

Čedo Maletić – chairperson
Dubravka Kolarić

Supervisory board

Zdravko Marić – chairperson
Drago Jakovčević, Robert Jukić
Marijo Dragun, Grga Ivezić
Vedran Duvnjak

Shareholders	Share in share capital (%)
1. Hrvatska pošta d.d.	40.67
2. Croatian Privatisation Fund	31.85
3. Croatian Pension Insurance Administration	26.59

Audit firm for 2009:
BDO Revizija Zagreb d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	2,200,095
Money assets	515,821
Deposits with the CNB	1,684,274
Deposits with banking institutions	896,713
MoF treasury bills and CNB bills	1,136,369
Securities and other financial instruments held for trading	428,112
Securities and other financial instruments available for sale	262,797
Securities and other financial instruments held to maturity	531,569
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	680
Loans to financial institutions	225,780
Loans to other clients	7,737,153
Investments in subsidiaries and associates	99,652
Foreclosed and repossessed assets	112,297
Tangible assets (net of depreciation)	159,163
Interest, fees and other assets	459,490
Net of: Collectively assessed impairment provisions	99,275
TOTAL ASSETS	14,150,594

Liabilities and capital	
Loans from financial institutions	1,564,692
Short-term loans	445,243
Long-term loans	1,119,449
Deposits	9,769,056
Giro account and current account deposits	2,163,253
Savings deposits	1,239,361
Time deposits	6,366,441
Other loans	38,485
Short-term loans	0
Long-term loans	38,485
Derivative financial liabilities and other financial liabilities held for trading	869
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	649,327
Interest, fees and other liabilities	1,430,747
TOTAL LIABILITIES	13,453,176
Capital	697,418
TOTAL LIABILITIES AND CAPITAL	14,150,594

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	185,333
Total interest income	415,791
Total interest expenses	230,458
Net income from fees and commissions	102,725
Total income from fees and commissions	294,747
Total expenses on fees and commissions	192,022
Net other non-interest income	17,982
Other non-interest income	30,341
Other non-interest expenses	12,359
Net non-interest income	120,707
General administrative expenses and depreciation	193,868
Net operating income before loss provisions	112,172
Total expenses on loss provisions	58,126
Expenses on value adjustments and provisions for identified losses	66,613
Expenses on collectively assessed impairment provisions	–8,487
Income (loss) before taxes	54,046
Income tax	0
Current year profit (loss)	54,046

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	666,928
Uncovered letters of credit	92,182
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	308,175
Margin credit lines	0
Other credit lines and commitments	973,835
Other standard risky off-balance sheet items	973
Total standard off-balance sheet items	2,042,092

Derivative financial instruments	
Options	0
Swaps	115,333
Forwards	75,606
Futures	70,442
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	261,382

Capital adequacy ratio, in %
as at 30 June 2010

12.25

HYPO ALPE-ADRIA-BANK d.d.

Slavonska avenija 6, 10000 Zagreb
Phone: + 358 0800 49 76 47
Fax: + 358 1 60 07 000
BAN 2500009
www.hypo-alpe-adria.hr

Management board

Markus Ferstl – chairperson
Ivo Bilić, Brane Golubić
Tadija Vrdoljak

Supervisory board

Gottwald Kranebitter – chairperson
Wolfgang Edelmüller, Alexander Slana
Sebastian Firlinger, Goran Radman

Shareholders	Share in share capital (%)
1. Hypo Alpe-Adria-Bank International AG	100.00

Audit firm for 2009:
Deloitte d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	4,229,945
Money assets	426,216
Deposits with the CNB	3,803,729
Deposits with banking institutions	990,240
MoF treasury bills and CNB bills	1,023,015
Securities and other financial instruments held for trading	123,488
Securities and other financial instruments available for sale	3,149,574
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	18,989
Loans to financial institutions	409,349
Loans to other clients	28,202,295
Investments in subsidiaries and associates	37,859
Foreclosed and repossessed assets	100,082
Tangible assets (net of depreciation)	309,413
Interest, fees and other assets	601,022
Net of: Collectively assessed impairment provisions	275,588
TOTAL ASSETS	38,919,684

Liabilities and capital	
Loans from financial institutions	1,394,327
Short-term loans	9,279
Long-term loans	1,385,048
Deposits	25,483,690
Giro account and current account deposits	1,947,043
Savings deposits	1,428,534
Time deposits	22,108,113
Other loans	2,303,785
Short-term loans	2,285,233
Long-term loans	18,552
Derivative financial liabilities and other financial liabilities held for trading	228,463
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	2,273,299
Interest, fees and other liabilities	879,115
TOTAL LIABILITIES	32,562,679
Capital	6,357,006
TOTAL LIABILITIES AND CAPITAL	38,919,684

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	518,368
Total interest income	1,047,528
Total interest expenses	529,160
Net income from fees and commissions	153,440
Total income from fees and commissions	184,233
Total expenses on fees and commissions	30,793
Net other non-interest income	24,742
Other non-interest income	50,814
Other non-interest expenses	26,072
Net non-interest income	178,182
General administrative expenses and depreciation	307,823
Net operating income before loss provisions	388,727
Total expenses on loss provisions	203,921
Expenses on value adjustments and provisions for identified losses	253,448
Expenses on collectively assessed impairment provisions	–49,526
Income (loss) before taxes	184,806
Income tax	37,748
Current year profit (loss)	147,058

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	3,283,681
Uncovered letters of credit	59,007
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	138,663
Margin credit lines	0
Other credit lines and commitments	1,090,284
Other standard risky off-balance sheet items	694,978
Total standard off-balance sheet items	5,266,613

Derivative financial instruments	
Options	0
Swaps	7,473,065
Forwards	18,855
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	7,491,919

Capital adequacy ratio, in %
as at 30 June 2010

27.96

IMEX BANKA d.d.

Tolstojeva 6, 21000 Split
Phone: + 358 21 40 61 00
Fax: + 358 21 34 55 88
BAN 2492008
www.imexbanka.hr

Management board

Branko Buljan – chairperson
Ružica Šarić

Supervisory board

Darko Medak – chairperson
Dubravka Ostojić, Slavka Petrov

Shareholders	Share in share capital (%)
1. Branko Buljan	77.98
2. Ivka Mijić	22.02

Audit firm for 2009:
Maran d.o.o., Split

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	175,479
Money assets	16,197
Deposits with the CNB	159,282
Deposits with banking institutions	155,651
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	1,854
Securities and other financial instruments available for sale	0
Securities and other financial instruments held to maturity	8,426
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	6,500
Loans to other clients	989,618
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	42,727
Interest, fees and other assets	25,636
Net of: Collectively assessed impairment provisions	11,410
TOTAL ASSETS	1,394,482

Liabilities and capital	
Loans from financial institutions	79,046
Short-term loans	10,000
Long-term loans	69,046
Deposits	1,129,260
Giro account and current account deposits	90,515
Savings deposits	18,885
Time deposits	1,019,859
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	41,000
Interest, fees and other liabilities	37,756
TOTAL LIABILITIES	1,287,062
Capital	107,420
TOTAL LIABILITIES AND CAPITAL	1,394,482

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	28,527
Total interest income	61,034
Total interest expenses	32,506
Net income from fees and commissions	2,054
Total income from fees and commissions	3,217
Total expenses on fees and commissions	1,164
Net other non-interest income	254
Other non-interest income	2,098
Other non-interest expenses	1,844
Net non-interest income	2,308
General administrative expenses and depreciation	14,151
Net operating income before loss provisions	16,684
Total expenses on loss provisions	8,443
Expenses on value adjustments and provisions for identified losses	7,806
Expenses on collectively assessed impairment provisions	637
Income (loss) before taxes	8,241
Income tax	1,648
Current year profit (loss)	6,593

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	50,499
Uncovered letters of credit	3,845
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	7,976
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	62,319

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

13.03

ISTARSKA KREDITNA BANKA UMAG d.d.

Miloševa 1, 52470 Umag
Phone: + 358 52 70 23 59
Fax: + 358 52 70 23 87
BAN 2380006
www.ikb.hr

Management board

Miro Dodić – chairperson
Marina Vidič, Klaudija Paljuh

Supervisory board

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

	Shareholders	Share in share capital (%)
1.	Intercommerce d.o.o.	17.16
2.	Tvornica cementa Umag d.o.o.	15.31
3.	Serfin d.o.o.	9.84
4.	Assicurazioni Generali S.p.a.	7.76
5.	Marijan Kovačić	6.91
6.	Branko Kovačić	3.64
7.	Plava laguna d.d.	3.63
8.	Nerio Perich	3.45
9.	Milenko Opačić	3.40

Audit firm for 2009:
PricewaterhouseCoopers d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	408,513
Money assets	68,140
Deposits with the CNB	340,373
Deposits with banking institutions	349,448
MoF treasury bills and CNB bills	68,516
Securities and other financial instruments held for trading	442
Securities and other financial instruments available for sale	2,805
Securities and other financial instruments held to maturity	55,179
Securities and other financial instruments not traded in active markets but carried at fair value	7,194
Derivative financial assets	0
Loans to financial institutions	13,400
Loans to other clients	1,304,513
Investments in subsidiaries and associates	20
Foreclosed and repossessed assets	4,340
Tangible assets (net of depreciation)	50,565
Interest, fees and other assets	23,747
Net of: Collectively assessed impairment provisions	17,500
TOTAL ASSETS	2,271,183

Liabilities and capital	
Loans from financial institutions	48,048
Short-term loans	11,985
Long-term loans	36,063
Deposits	1,927,706
Giro account and current account deposits	232,269
Savings deposits	324,907
Time deposits	1,370,530
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	10,752
Interest, fees and other liabilities	53,669
TOTAL LIABILITIES	2,040,175
Capital	231,008
TOTAL LIABILITIES AND CAPITAL	2,271,183

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	28,849
Total interest income	61,592
Total interest expenses	32,743
Net income from fees and commissions	9,232
Total income from fees and commissions	11,105
Total expenses on fees and commissions	1,873
Net other non-interest income	6,396
Other non-interest income	7,546
Other non-interest expenses	1,149
Net non-interest income	15,629
General administrative expenses and depreciation	29,138
Net operating income before loss provisions	15,340
Total expenses on loss provisions	4,228
Expenses on value adjustments and provisions for identified losses	4,959
Expenses on collectively assessed impairment provisions	–731
Income (loss) before taxes	11,112
Income tax	2,117
Current year profit (loss)	8,995

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	40,588
Uncovered letters of credit	8,347
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	19,087
Margin credit lines	0
Other credit lines and commitments	31,227
Other standard risky off-balance sheet items	681
Total standard off-balance sheet items	99,931

Derivative financial instruments	
Options	7,715
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	7,715

Capital adequacy ratio, in %
as at 30 June 2010

14.13

JADRANSKA BANKA d.d.

Starčevićeva 4, 22000 Šibenik
Phone: + 358 22 24 21 00
Fax: + 358 22 33 58 81
BAN 2411006
www.jadranska-banka.hr

Management board

Ivo Šinko – chairperson
Marija Trlaja, Mirko Goreta

Supervisory board

Miro Petric – chairperson
Duje Stančić, Stipe Kuvač
Mile Paić, Petar Škender

Shareholders	Share in share capital (%)
1. Mango Investments LTD	6.69
2. Croatia osiguranje d.d.	6.48
3. Alfa d.d.	6.26
4. Josip Stojanović	4.80
5. Ugo grupa d.o.o.	4.58
6. Tiskara Malenica d.o.o.	4.05
7. Importanne d.o.o.	4.04
8. Vodovod i odvodnja d.o.o.	3.39
9. Rivijera hoteli i kampovi d.d.	3.17

Audit firm for 2009:
Šibenski Revicon d.o.o., Šibenik

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	292,678
Money assets	69,676
Deposits with the CNB	223,002
Deposits with banking institutions	308,254
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	22,534
Securities and other financial instruments held to maturity	363,979
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	10,100
Loans to other clients	1,250,754
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	118,544
Tangible assets (net of depreciation)	24,837
Interest, fees and other assets	51,761
Net of: Collectively assessed impairment provisions	17,929
TOTAL ASSETS	2,425,513

Liabilities and capital	
Loans from financial institutions	145,638
Short-term loans	82,993
Long-term loans	62,645
Deposits	1,800,138
Giro account and current account deposits	178,941
Savings deposits	310,599
Time deposits	1,310,598
Other loans	20,445
Short-term loans	0
Long-term loans	20,445
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	15,535
Hybrid instruments issued	0
Interest, fees and other liabilities	56,718
TOTAL LIABILITIES	2,038,474
Capital	387,039
TOTAL LIABILITIES AND CAPITAL	2,425,513

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	31,879
Total interest income	71,222
Total interest expenses	39,343
Net income from fees and commissions	7,658
Total income from fees and commissions	9,509
Total expenses on fees and commissions	1,850
Net other non-interest income	3,692
Other non-interest income	7,010
Other non-interest expenses	3,319
Net non-interest income	11,350
General administrative expenses and depreciation	28,687
Net operating income before loss provisions	14,542
Total expenses on loss provisions	884
Expenses on value adjustments and provisions for identified losses	–389
Expenses on collectively assessed impairment provisions	1,273
Income (loss) before taxes	13,657
Income tax	2,793
Current year profit (loss)	10,864

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	77,778
Uncovered letters of credit	13,630
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	140,127
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	231,535

Derivative financial instruments	
Options	17,742
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	17,742

Capital adequacy ratio, in %
as at 30 June 2010

18.59

KARLOVAČKA BANKA d.d.

I. G. Kovačića 1, 47000 Karlovac
Phone: + 358 47 41 75 01
Fax: + 358 47 61 42 06
BAN 2400008
www.kaba.hr

Management board

Sandi Šola – chairperson
Marijana Trpčić-Reškovac

Supervisory board

Danijel Žamboki – chairperson
Goran Vukšić, Ivica Horvat
Josip Paladino, Darko Tipurić

Shareholders	Share in share capital (%)
1. Sandi Šola	19.54
2. Mate Šarić	9.63
3. Batheja Pramod	5.47
4. Marijan Šarić	4.94
5. Société Générale-Splitska banka d.d. (custody account)	4.06
6. Privredna banka Zagreb d.d. (custody account)	4.05
7. Dario Šimić	3.95
8. Goran Ivanišević	3.39
9. Ivan Guerrero Devlahovich	3.01

Audit firm for 2009:
Revidicon d.o.o., Varaždin

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	216,748
Money assets	29,702
Deposits with the CNB	187,046
Deposits with banking institutions	247,647
MoF treasury bills and CNB bills	148,451
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	1,408
Securities and other financial instruments held to maturity	158,780
Securities and other financial instruments not traded in active markets but carried at fair value	51,029
Derivative financial assets	0
Loans to financial institutions	50,098
Loans to other clients	1,148,013
Investments in subsidiaries and associates	44,372
Foreclosed and repossessed assets	34,420
Tangible assets (net of depreciation)	66,972
Interest, fees and other assets	47,969
Net of: Collectively assessed impairment provisions	13,611
TOTAL ASSETS	2,202,297

Liabilities and capital	
Loans from financial institutions	220,944
Short-term loans	84,835
Long-term loans	136,109
Deposits	1,707,313
Giro account and current account deposits	275,387
Savings deposits	254,779
Time deposits	1,177,147
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	32,395
Interest, fees and other liabilities	62,789
TOTAL LIABILITIES	2,023,442
Capital	178,854
TOTAL LIABILITIES AND CAPITAL	2,202,297

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	30,365
Total interest income	69,569
Total interest expenses	39,204
Net income from fees and commissions	8,265
Total income from fees and commissions	12,600
Total expenses on fees and commissions	4,335
Net other non-interest income	5,388
Other non-interest income	8,986
Other non-interest expenses	3,598
Net non-interest income	13,653
General administrative expenses and depreciation	40,765
Net operating income before loss provisions	3,253
Total expenses on loss provisions	17,577
Expenses on value adjustments and provisions for identified losses	18,008
Expenses on collectively assessed impairment provisions	–431
Income (loss) before taxes	–14,323
Income tax	0
Current year profit (loss)	–14,323

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	0
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	7,745
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	7,745

Derivative financial instruments	
Options	8,768
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	8,768

Capital adequacy ratio, in %
as at 30 June 2010

12.46

KREDITNA BANKA ZAGREB d.d.

Ulica grada Vukovara 74, 10000 Zagreb
Phone: + 358 1 61 67 373
Fax: + 358 1 61 16 466
BAN 2481000
www.kbz.hr

Management board

Nelsi Rončević – chairperson
Ivan Dropulić

Supervisory board

Mirjana Krile – chairperson
Ankica Čeko, Gordana Letica
Irena Severin, Nadira Eror

	Shareholders	Share in share capital (%)
1.	Euroherc osiguranje d.d.	18.38
2.	Agram životno osiguranje d.d.	17.60
3.	Jadransko osiguranje d.d.	17.48
4.	Euroleasing d.o.o.	11.79
5.	Euro daus d.d.	9.18
6.	Euroduhan d.d.	4.32
7.	Euroagram nekretnine d.o.o.	4.13
8.	Eurodom d.o.o.	3.09

Audit firm for 2009:
Nexia revizija d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	177,294
Money assets	36,637
Deposits with the CNB	140,656
Deposits with banking institutions	174,543
MoF treasury bills and CNB bills	24,364
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	52,188
Securities and other financial instruments held to maturity	6,220
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	38
Loans to financial institutions	1,000
Loans to other clients	1,108,958
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	11,884
Tangible assets (net of depreciation)	33,154
Interest, fees and other assets	58,705
Net of: Collectively assessed impairment provisions	12,426
TOTAL ASSETS	1,635,923

Liabilities and capital	
Loans from financial institutions	47,983
Short-term loans	26,300
Long-term loans	21,683
Deposits	1,231,680
Giro account and current account deposits	207,818
Savings deposits	67,948
Time deposits	955,913
Other loans	35,967
Short-term loans	35,967
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	48,888
TOTAL LIABILITIES	1,364,517
Capital	271,406
TOTAL LIABILITIES AND CAPITAL	1,635,923

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	27,307
Total interest income	58,182
Total interest expenses	30,875
Net income from fees and commissions	6,449
Total income from fees and commissions	11,510
Total expenses on fees and commissions	5,061
Net other non-interest income	4,296
Other non-interest income	5,145
Other non-interest expenses	849
Net non-interest income	10,745
General administrative expenses and depreciation	29,241
Net operating income before loss provisions	8,811
Total expenses on loss provisions	4,756
Expenses on value adjustments and provisions for identified losses	5,394
Expenses on collectively assessed impairment provisions	–638
Income (loss) before taxes	4,054
Income tax	811
Current year profit (loss)	3,243

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	78,610
Uncovered letters of credit	11,824
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	66,652
Margin credit lines	0
Other credit lines and commitments	9,676
Other standard risky off-balance sheet items	8,101
Total standard off-balance sheet items	174,863

Derivative financial instruments	
Options	24,336
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	24,336

Capital adequacy ratio, in %
as at 30 June 2010

19.34

MEĐIMURSKA BANKA d.d.

V. Morandinija 37, 40000 Čakovec
Phone: + 358 40 34 00 00
Fax: + 358 40 34 00 92
BAN 2392007
www.mb.hr

Management board

Nenad Jeđud – chairperson
Ljiljana Horvat, Davor Vodanović

Supervisory board

Ivan Krolo – chairperson
Siniša Špoljarec
Ivanka Petrović, Dajana Kobeščak
Đurđica Ognjenović

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

Audit firm for 2009:
Ernst & Young d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	437,691
Money assets	75,255
Deposits with the CNB	362,437
Deposits with banking institutions	378,613
MoF treasury bills and CNB bills	404,099
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	12,035
Securities and other financial instruments held to maturity	2,981
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	65,631
Loans to other clients	1,537,036
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	7,061
Tangible assets (net of depreciation)	35,736
Interest, fees and other assets	25,294
Net of: Collectively assessed impairment provisions	27,128
TOTAL ASSETS	2,879,049

Liabilities and capital	
Loans from financial institutions	100,509
Short-term loans	33,400
Long-term loans	67,109
Deposits	2,154,168
Giro account and current account deposits	359,822
Savings deposits	402,954
Time deposits	1,391,392
Other loans	151,063
Short-term loans	0
Long-term loans	151,063
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	78,941
TOTAL LIABILITIES	2,484,681
Capital	394,368
TOTAL LIABILITIES AND CAPITAL	2,879,049

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	40,679
Total interest income	80,318
Total interest expenses	39,638
Net income from fees and commissions	15,581
Total income from fees and commissions	17,359
Total expenses on fees and commissions	1,778
Net other non-interest income	2,150
Other non-interest income	2,883
Other non-interest expenses	733
Net non-interest income	17,731
General administrative expenses and depreciation	31,656
Net operating income before loss provisions	26,755
Total expenses on loss provisions	390
Expenses on value adjustments and provisions for identified losses	4,547
Expenses on collectively assessed impairment provisions	–4,156
Income (loss) before taxes	26,364
Income tax	5,344
Current year profit (loss)	21,020

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	54,118
Uncovered letters of credit	736
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	30,089
Margin credit lines	0
Other credit lines and commitments	173,936
Other standard risky off-balance sheet items	722
Total standard off-balance sheet items	259,601

Derivative financial instruments	
Options	8,886
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	8,886

Capital adequacy ratio, in %
as at 30 June 2010

20.17

NAVA BANKA d.d.

Tratinska 27, 10000 Zagreb
Phone: + 358 1 36 56 777
Fax: + 358 1 36 56 700
BAN 2495009
www.navabanka.hr

Management board[2]

Stipan Pamuković – chairperson

Supervisory board

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

Shareholders	Share in share capital (%)
1. GIP Pionir d.o.o.	29.33
2. Kemika d.d.	15.46
3. Paron d.o.o.	12.51
4. Munis d.o.o.	9.70

Audit firm for 2009:
BDO Revizija Zagreb d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	32,636
Money assets	3,098
Deposits with the CNB	29,539
Deposits with banking institutions	26,618
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	26,816
Securities and other financial instruments held to maturity	1,346
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	200
Loans to other clients	190,624
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	7,763
Tangible assets (net of depreciation)	5,709
Interest, fees and other assets	9,813
Net of: Collectively assessed impairment provisions	2,147
TOTAL ASSETS	299,380

Liabilities and capital	
Loans from financial institutions	13,874
Short-term loans	13,350
Long-term loans	524
Deposits	236,572
Giro account and current account deposits	29,689
Savings deposits	3,119
Time deposits	203,765
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	5,000
Interest, fees and other liabilities	8,799
TOTAL LIABILITIES	264,245
Capital	35,135
TOTAL LIABILITIES AND CAPITAL	299,380

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	1,237
Total interest income	8,524
Total interest expenses	7,287
Net income from fees and commissions	548
Total income from fees and commissions	940
Total expenses on fees and commissions	392
Net other non-interest income	–6,714
Other non-interest income	–6,438
Other non-interest expenses	276
Net non-interest income	–6,167
General administrative expenses and depreciation	5,148
Net operating income before loss provisions	–10,078
Total expenses on loss provisions	–754
Expenses on value adjustments and provisions for identified losses	–623
Expenses on collectively assessed impairment provisions	–131
Income (loss) before taxes	–9,324
Income tax	0
Current year profit (loss)	–9,324

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	31,982
Uncovered letters of credit	1,915
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	0
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	33,897

Derivative financial instruments	
Options	1,028
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	1,028

Capital adequacy ratio, in %
as at 30 June 2010

13.68

2 On 8 September 2010, Mr Janko Hrnjak obtained prior approval from the Croatian National Bank to perform the function of a management board member in Nava banka d.d.

OBRTNIČKA ŠTEDNA BANKA d.d.

Ilica 49/I, 10000 Zagreb
Phone: +385 1/6401-800
Fax: +385 1/6401-819
BAN 6716000
www.oba.hr

Shareholders	Share in share capital (%)
1. several shareholders	none of the shares is higher than 3%

Management board

Suzana Barada – chairperson, Davorin Rimac

Supervisory board

Zlatko Cahun – chairperson, Krešimir Rastija

Audit firm for 2009:
BDO Revizija Zagreb d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	15,586
Money assets	2,777
Deposits with the CNB	12,809
Deposits with banking institutions	7,209
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	0
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	640
Loans to other clients	90,559
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	141
Tangible assets (net of depreciation)	4,482
Interest, fees and other assets	8,489
Net of: Collectively assessed impairment provisions	1,047
TOTAL ASSETS	126,059

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	114,808
Giro account and current account deposits	8,940
Savings deposits	16,415
Time deposits	89,453
Other loans	1,299
Short-term loans	0
Long-term loans	1,299
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	66
Interest, fees and other liabilities	2,392
TOTAL LIABILITIES	118,564
Capital	7,495
TOTAL LIABILITIES AND CAPITAL	126,059

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	1,909
Total interest income	4,236
Total interest expenses	2,326
Net income from fees and commissions	902
Total income from fees and commissions	1,107
Total expenses on fees and commissions	206
Net other non-interest income	260
Other non-interest income	348
Other non-interest expenses	88
Net non-interest income	1,161
General administrative expenses and depreciation	5,595
Net operating income before loss provisions	–2,525
Total expenses on loss provisions	–252
Expenses on value adjustments and provisions for identified losses	–146
Expenses on collectively assessed impairment provisions	–107
Income (loss) before taxes	–2,272
Income tax	0
Current year profit (loss)	–2,272

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	772
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	1,532
Margin credit lines	0
Other credit lines and commitments	0
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	2,304

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

8.00

OTP BANKA HRVATSKA d.d.

Domovinskog rata 3, 23000 Zadar
Phone: + 358 62 20 16 02
Fax: + 358 23 20 18 59
BAN 2407000
www.otpbanka.hr

Management board

Damir Odak – chairperson
Zorislav Vidović, Balazs Pal Bekeffy

Supervisory board

Antal Gyorgy Kovacs – chairperson
Gabor Czikora, Laszlo Kecskés
Gabor Kovacs, Csaba Attila Farago
Anita Szorad, Zsolt Szabo

Shareholders	Share in share capital (%)
1. OTP Bank NYRT	100.00

Audit firm for 2009:
Deloitte d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	1,509,085
Money assets	184,752
Deposits with the CNB	1,324,333
Deposits with banking institutions	1,216,232
MoF treasury bills and CNB bills	217,899
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	818,838
Securities and other financial instruments held to maturity	21,883
Securities and other financial instruments not traded in active markets but carried at fair value	29,098
Derivative financial assets	8
Loans to financial institutions	28,750
Loans to other clients	8,457,686
Investments in subsidiaries and associates	82,211
Foreclosed and repossessed assets	178
Tangible assets (net of depreciation)	198,860
Interest, fees and other assets	240,808
Net of: Collectively assessed impairment provisions	90,617
TOTAL ASSETS	12,730,918

Liabilities and capital	
Loans from financial institutions	746,643
Short-term loans	11,348
Long-term loans	735,295
Deposits	9,224,925
Giro account and current account deposits	1,167,724
Savings deposits	1,129,371
Time deposits	6,927,829
Other loans	773,076
Short-term loans	0
Long-term loans	773,076
Derivative financial liabilities and other financial liabilities held for trading	2,742
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	36,780
Hybrid instruments issued	0
Interest, fees and other liabilities	304,512
TOTAL LIABILITIES	11,088,677
Capital	1,642,241
TOTAL LIABILITIES AND CAPITAL	12,730,918

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	173,919
Total interest income	360,226
Total interest expenses	186,308
Net income from fees and commissions	46,755
Total income from fees and commissions	64,127
Total expenses on fees and commissions	17,372
Net other non-interest income	16,578
Other non-interest income	28,332
Other non-interest expenses	11,754
Net non-interest income	63,333
General administrative expenses and depreciation	150,580
Net operating income before loss provisions	86,672
Total expenses on loss provisions	45,069
Expenses on value adjustments and provisions for identified losses	56,355
Expenses on collectively assessed impairment provisions	–11,287
Income (loss) before taxes	41,604
Income tax	8,214
Current year profit (loss)	33,390

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	139,241
Uncovered letters of credit	25,458
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	153,847
Margin credit lines	0
Other credit lines and commitments	700,031
Other standard risky off-balance sheet items	40
Total standard off-balance sheet items	1,018,617

Derivative financial instruments	
Options	129,270
Swaps	94,753
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	224,024

Capital adequacy ratio, in %
as at 30 June 2010

17.03

PARTNER BANKA d.d.

Vončinina 2, 10000 Zagreb
Phone: + 358 1 46 02 215
Fax: + 358 1 46 02 289
BAN 2408002
www.paba.hr

Management board

Martina Dalić – chairperson
Ante Žigman

Supervisory board

Borislav Škegro – chairperson
Ivan Ćurković
Božo Čulo

Shareholders	Share in share capital (%)
1. Metroholding d.d.	99.99

Audit firm for 2009:
Nexia revizija d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	92,529
Money assets	10,154
Deposits with the CNB	82,375
Deposits with banking institutions	90,875
MoF treasury bills and CNB bills	43,460
Securities and other financial instruments held for trading	1
Securities and other financial instruments available for sale	81,120
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	4,485
Loans to other clients	903,907
Investments in subsidiaries and associates	197
Foreclosed and repossessed assets	10,191
Tangible assets (net of depreciation)	32,991
Interest, fees and other assets	27,479
Net of: Collectively assessed impairment provisions	8,996
TOTAL ASSETS	1,278,239

Liabilities and capital	
Loans from financial institutions	242,907
Short-term loans	70,181
Long-term loans	172,726
Deposits	829,271
Giro account and current account deposits	117,281
Savings deposits	39,011
Time deposits	672,979
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	33,711
TOTAL LIABILITIES	1,105,889
Capital	172,350
TOTAL LIABILITIES AND CAPITAL	1,278,239

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	23,986
Total interest income	48,118
Total interest expenses	24,133
Net income from fees and commissions	3,050
Total income from fees and commissions	4,997
Total expenses on fees and commissions	1,947
Net other non-interest income	1,420
Other non-interest income	2,820
Other non-interest expenses	1,399
Net non-interest income	4,470
General administrative expenses and depreciation	24,676
Net operating income before loss provisions	3,780
Total expenses on loss provisions	2,019
Expenses on value adjustments and provisions for identified losses	3,015
Expenses on collectively assessed impairment provisions	–995
Income (loss) before taxes	1,761
Income tax	534
Current year profit (loss)	1,227

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	60,981
Uncovered letters of credit	25,938
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	10,276
Margin credit lines	0
Other credit lines and commitments	18,903
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	116,099

Derivative financial instruments	
Options	21,404
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	21,404

Capital adequacy ratio, in %
as at 30 June 2010

13.98

PODRAVSKA BANKA d.d.

Opatička 3, 48300 Koprivnica
Phone: + 358 62 65 50 00
Fax: + 358 62 65 52 00
BAN 2386002
www.poba.hr

Management board

Julio Kuruc – chairperson
Davorka Jakir, Marijan Marušić

Supervisory board

Miljan Todorović – chairperson
Sigilfredo Montinari, Dario Montinari
Jurica (Đuro) Predović, Dolly Predović
Maurizio Dallocchio, Filippo Disertori

Shareholders	Share in share capital (%)
1. Lorenzo Gorgoni	9.87
2. Antonia Gorgoni	9.77
3. Assicurazioni Generali S.p.a.	9.54
4. Cerere S.R.L.	9.53
5. Miljan Todorović	8.33
6. Andrea Montinari	5.76
7. Dario Montinari	5.76
8. Piero Montinari	5.76
9. Sigilfredo Montinari	5.76
10. Giovanni Semeraro	4.11
11. Luigi Liaci	3.94

Audit firm for 2009:
Deloitte d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	412,992
Money assets	35,614
Deposits with the CNB	377,377
Deposits with banking institutions	196,645
MoF treasury bills and CNB bills	42,594
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	492,580
Securities and other financial instruments held to maturity	59,396
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	20,000
Loans to other clients	1,370,277
Investments in subsidiaries and associates	1,530
Foreclosed and repossessed assets	7,403
Tangible assets (net of depreciation)	69,074
Interest, fees and other assets	72,724
Net of: Collectively assessed impairment provisions	21,490
TOTAL ASSETS	2,723,725

Liabilities and capital	
Loans from financial institutions	95,529
Short-term loans	14,378
Long-term loans	81,152
Deposits	2,177,402
Giro account and current account deposits	313,091
Savings deposits	295,711
Time deposits	1,568,600
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	84,781
TOTAL LIABILITIES	2,357,711
Capital	366,014
TOTAL LIABILITIES AND CAPITAL	2,723,725

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	38,455
Total interest income	82,113
Total interest expenses	43,657
Net income from fees and commissions	13,294
Total income from fees and commissions	19,190
Total expenses on fees and commissions	5,896
Net other non-interest income	5,061
Other non-interest income	7,208
Other non-interest expenses	2,148
Net non-interest income	18,355
General administrative expenses and depreciation	49,424
Net operating income before loss provisions	7,387
Total expenses on loss provisions	–90
Expenses on value adjustments and provisions for identified losses	–90
Expenses on collectively assessed impairment provisions	0
Income (loss) before taxes	7,477
Income tax	1,500
Current year profit (loss)	5,977

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	45,201
Uncovered letters of credit	27,959
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	11,986
Margin credit lines	0
Other credit lines and commitments	136,937
Other standard risky off-balance sheet items	423
Total standard off-balance sheet items	222,506

Derivative financial instruments	
Options	384
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	384

Capital adequacy ratio, in %
as at 30 June 2010

17.65

PRIMORSKA BANKA d.d.

Scarpina 7, 51000 Rijeka
Phone: + 358 51 35 57 77
Fax: + 358 51 33 27 62
BAN 4132003
www.primorska.hr

Management board

Anto Pekić – chairperson
Zdenko Šošić

Supervisory board

Jože Perić – chairperson
Gordana Pavletić, Franco Brunati

Shareholders	Share in share capital (%)
1. Francesco Signorio	49.59
2. Svetlana Signorio	8.80
3. Carlo Di Dato	8.40
4. Cofisi S.A.	7.51
4. Domenico Petrella	5.72
5. IBS S.R.L.	5.19
7. J.L.L. Marc Jourdan	4.46

Audit firm for 2009:
HLB Revidicon d.o.o., Varaždin

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	21,924
Money assets	4,424
Deposits with the CNB	17,500
Deposits with banking institutions	37,111
MoF treasury bills and CNB bills	9,702
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	19,221
Securities and other financial instruments held to maturity	4,552
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	0
Loans to other clients	71,912
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	760
Interest, fees and other assets	5,546
Net of: Collectively assessed impairment provisions	1,194
TOTAL ASSETS	169,534

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	112,816
Giro account and current account deposits	5,316
Savings deposits	11,294
Time deposits	96,206
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	23,500
Interest, fees and other liabilities	6,063
TOTAL LIABILITIES	142,378
Capital	27,156
TOTAL LIABILITIES AND CAPITAL	169,534

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	1,323
Total interest income	4,593
Total interest expenses	3,270
Net income from fees and commissions	84
Total income from fees and commissions	468
Total expenses on fees and commissions	384
Net other non-interest income	–498
Other non-interest income	138
Other non-interest expenses	636
Net non-interest income	–414
General administrative expenses and depreciation	5,279
Net operating income before loss provisions	–4,370
Total expenses on loss provisions	122
Expenses on value adjustments and provisions for identified losses	142
Expenses on collectively assessed impairment provisions	–20
Income (loss) before taxes	–4,492
Income tax	0
Current year profit (loss)	–4,492

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	708
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	2,520
Other standard risky off-balance sheet items	1,818
Total standard off-balance sheet items	5,046

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

50.07

PRIVREDNA BANKA ZAGREB d.d.

F. Račkoga 6, 10000 Zagreb
Phone: + 358 1 63 60 000
Fax: + 358 1 63 60 063
BAN 2340009
www.pbz.hr

Management board

Božo Prka – chairperson
Jonathan Charles Locke, Ivan Gerovac
Gabriele Pace, Mario Henjak
Draženko Kopljar, Dinko Lucić
Andrea Pavlović

Supervisory board

György Surányi – chairperson
Nora Kocsis, Massimo Pierdicchi
Massimo Malagoli, Beata Kisné Földi
Branko Jeren, Giampiero Trevisan

Shareholders	Share in share capital (%)
1. Intesa Bci Holding International S.A.	76.59
2. European Bank for Reconstruction and Development (EBRD)	20.88

Audit firm for 2009:
Ernst & Young d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	8,543,789
Money assets	1,270,657
Deposits with the CNB	7,273,132
Deposits with banking institutions	5,846,893
MoF treasury bills and CNB bills	1,484,617
Securities and other financial instruments held for trading	27,662
Securities and other financial instruments available for sale	527,732
Securities and other financial instruments held to maturity	728,007
Securities and other financial instruments not traded in active markets but carried at fair value	403,060
Derivative financial assets	5,406
Loans to financial institutions	955,657
Loans to other clients	43,573,901
Investments in subsidiaries and associates	374,031
Foreclosed and repossessed assets	19,508
Tangible assets (net of depreciation)	757,176
Interest, fees and other assets	1,087,822
Net of: Collectively assessed impairment provisions	541,622
TOTAL ASSETS	63,793,638

Liabilities and capital	
Loans from financial institutions	2,828,787
Short-term loans	1,383,892
Long-term loans	1,444,895
Deposits	43,756,994
Giro account and current account deposits	7,097,751
Savings deposits	5,672,695
Time deposits	30,986,547
Other loans	5,266,021
Short-term loans	173,355
Long-term loans	5,092,666
Derivative financial liabilities and other financial liabilities held for trading	50,060
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	2,063,762
TOTAL LIABILITIES	53,965,623
Capital	9,828,015
TOTAL LIABILITIES AND CAPITAL	63,793,638

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	897,714
Total interest income	1,692,968
Total interest expenses	795,253
Net income from fees and commissions	232,232
Total income from fees and commissions	333,245
Total expenses on fees and commissions	101,013
Net other non-interest income	41,585
Other non-interest income	89,851
Other non-interest expenses	48,266
Net non-interest income	273,817
General administrative expenses and depreciation	581,716
Net operating income before loss provisions	589,816
Total expenses on loss provisions	159,659
Expenses on value adjustments and provisions for identified losses	144,859
Expenses on collectively assessed impairment provisions	14,800
Income (loss) before taxes	430,157
Income tax	87,142
Current year profit (loss)	343,015

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	2,644,161
Uncovered letters of credit	277,632
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	3,379,796
Margin credit lines	0
Other credit lines and commitments	5,289,564
Other standard risky off-balance sheet items	28,015
Total standard off-balance sheet items	11,619,168

Derivative financial instruments	
Options	245,335
Swaps	6,081,019
Forwards	389,539
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	6,715,893

Capital adequacy ratio, in %
as at 30 June 2010

19.25

RAIFFEISENBANK AUSTRIA d.d.

Petrinjska 59, 10000 Zagreb
Phone: + 358 1 45 66 466
Fax: + 358 1 48 11 624
BAN 2484008
www.rba.hr

Management board

Zdenko Adrović – chairperson
Vlasta Žubrinić-Pick, Jasna Širola
Zoran Košćak, Vesna Ciganek Vuković
Mario Žižek

Supervisory board

Herbert Stepic – chairperson
Heinz Hoedl, Franz Rogi
Peter Lennkh, Martin Gruell
Lovorka Penavić, Johannes Kellner

Shareholders	Share in share capital (%)
1. Raiffeisen International Bank-Holding AG	73.43
2. Raiffeisenbank-Zagreb Beteiligungs GmbH	24.48

Audit firm for 2009:
Deloitte d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	4,499,457
Money assets	563,751
Deposits with the CNB	3,935,705
Deposits with banking institutions	2,000,937
MoF treasury bills and CNB bills	794,145
Securities and other financial instruments held for trading	4,017,163
Securities and other financial instruments available for sale	11,114
Securities and other financial instruments held to maturity	577,842
Securities and other financial instruments not traded in active markets but carried at fair value	394,455
Derivative financial assets	99,111
Loans to financial institutions	642,415
Loans to other clients	25,588,758
Investments in subsidiaries and associates	210,745
Foreclosed and repossessed assets	1,047
Tangible assets (net of depreciation)	383,457
Interest, fees and other assets	832,641
Net of: Collectively assessed impairment provisions	310,812
TOTAL ASSETS	39,742,474

Liabilities and capital	
Loans from financial institutions	2,563,217
Short-term loans	1,726,223
Long-term loans	836,994
Deposits	22,282,962
Giro account and current account deposits	4,130,970
Savings deposits	2,882,118
Time deposits	15,269,874
Other loans	7,764,172
Short-term loans	3,985,449
Long-term loans	3,778,722
Derivative financial liabilities and other financial liabilities held for trading	433,092
Debt securities issued	129,283
Short-term debt securities issued	0
Long-term debt securities issued	129,283
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	1,010,122
TOTAL LIABILITIES	34,182,846
Capital	5,559,628
TOTAL LIABILITIES AND CAPITAL	39,742,474

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	614,514
Total interest income	1,125,230
Total interest expenses	510,716
Net income from fees and commissions	168,098
Total income from fees and commissions	210,993
Total expenses on fees and commissions	42,895
Net other non-interest income	51,542
Other non-interest income	69,369
Other non-interest expenses	17,827
Net non-interest income	219,640
General administrative expenses and depreciation	430,465
Net operating income before loss provisions	403,689
Total expenses on loss provisions	137,445
Expenses on value adjustments and provisions for identified losses	100,722
Expenses on collectively assessed impairment provisions	36,723
Income (loss) before taxes	266,244
Income tax	0
Current year profit (loss)	266,244

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	3,228,848
Uncovered letters of credit	159,565
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	576,092
Margin credit lines	0
Other credit lines and commitments	1,624,807
Other standard risky off-balance sheet items	2,322,473
Total standard off-balance sheet items	7,911,784

Derivative financial instruments	
Options	44,970
Swaps	22,078,096
Forwards	13,085,784
Futures	779,885
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	35,988,735

Capital adequacy ratio, in %
as at 30 June 2010

17.77

SAMOBORSKA BANKA d.d.

Tomislavov trg 8, 10430 Samobor
Phone: + 358 1 33 62 530
Fax: + 358 1 33 61 523
BAN 2403009
www.sabank.hr

Management board

Marijan Kantolić – chairperson
Verica Ljubičić

Supervisory board

Dragutin Plahutar – chairperson
Želimir Kodrić, Milan Penava
Nevenka Plahutar, Martin Jazbec

Shareholders	Share in share capital (%)
1. Aquae Vivae d.d.	82.33
2. Samoborka d.d.	5.15
3. Tigra d.o.o.	3.13

Audit firm for 2009:
Revizija servis d.o.o., Zabok

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	43,211
Money assets	11,359
Deposits with the CNB	31,852
Deposits with banking institutions	119,552
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	258
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	37
Loans to financial institutions	2,650
Loans to other clients	169,481
Investments in subsidiaries and associates	43
Foreclosed and repossessed assets	3,486
Tangible assets (net of depreciation)	31,091
Interest, fees and other assets	4,516
Net of: Collectively assessed impairment provisions	2,912
TOTAL ASSETS	371,412

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	274,396
Giro account and current account deposits	62,483
Savings deposits	56,947
Time deposits	154,966
Other loans	40
Short-term loans	40
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	12,177
TOTAL LIABILITIES	286,613
Capital	84,800
TOTAL LIABILITIES AND CAPITAL	371,412

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	5,691
Total interest income	9,546
Total interest expenses	3,854
Net income from fees and commissions	881
Total income from fees and commissions	1,945
Total expenses on fees and commissions	1,064
Net other non-interest income	650
Other non-interest income	861
Other non-interest expenses	211
Net non-interest income	1,531
General administrative expenses and depreciation	5,823
Net operating income before loss provisions	1,399
Total expenses on loss provisions	–115
Expenses on value adjustments and provisions for identified losses	–142
Expenses on collectively assessed impairment provisions	27
Income (loss) before taxes	1,513
Income tax	303
Current year profit (loss)	1,211

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	10,561
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	14,039
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	24,600

Derivative financial instruments	
Options	38,521
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	38,521

Capital adequacy ratio, in %
as at 30 June 2010

34.13

SLATINSKA BANKA d.d.

Nazorova 2, 33520 Slatina
Phone: + 358 33 84 04 00
Fax: + 358 33 55 15 66
BAN 2412009
www.slatinska-banka.hr

Management board

Angelina Horvat – chairperson
Elvis Mališ

Supervisory board

Ružica Vađić – chairperson
Tomislav Rosandić, Blaženka Eror Matić
Hrvoje Markovinović, Denis Smolar

Shareholders	Share in share capital (%)
1. State Agency for Bank Rehabilitation and Deposit Insurance	8.32
2. Dragutin Sokačić	7.89
3. Velebit osiguranje d.d.	4.76
4. Raiffeisenbank Austria d.d. (custody account)	4.38
5. Privredna banka Zagreb d.d. (custody account)	4.08
6. Vaba d.d. banka	3.81
7. HPB d.d. (custody account)	3.78
8. Hypo Alpe-Adria-Bank d.d. (custody account)	3.31
9. Milivoj Mrkoci	3.26
10. Finesa Capital d.d.	3.16
11. Josip Galić	3.12
12. Croatia Lloyd d.d.	3.02

Audit firm for 2009:
BDO Revizija Zagreb d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	146,359
Money assets	23,815
Deposits with the CNB	122,544
Deposits with banking institutions	123,875
MoF treasury bills and CNB bills	108,831
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	14,382
Securities and other financial instruments held to maturity	42,803
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	37,701
Loans to other clients	642,573
Investments in subsidiaries and associates	5,984
Foreclosed and repossessed assets	3,953
Tangible assets (net of depreciation)	27,371
Interest, fees and other assets	9,889
Net of: Collectively assessed impairment provisions	8,622
TOTAL ASSETS	1,155,098

Liabilities and capital	
Loans from financial institutions	32,188
Short-term loans	0
Long-term loans	32,188
Deposits	890,921
Giro account and current account deposits	75,559
Savings deposits	74,628
Time deposits	740,734
Other loans	16,659
Short-term loans	0
Long-term loans	16,659
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	48,697
TOTAL LIABILITIES	988,465
Capital	166,633
TOTAL LIABILITIES AND CAPITAL	1,155,098

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	16,399
Total interest income	37,924
Total interest expenses	21,524
Net income from fees and commissions	4,560
Total income from fees and commissions	6,039
Total expenses on fees and commissions	1,478
Net other non-interest income	–440
Other non-interest income	1,734
Other non-interest expenses	2,174
Net non-interest income	4,120
General administrative expenses and depreciation	17,371
Net operating income before loss provisions	3,148
Total expenses on loss provisions	320
Expenses on value adjustments and provisions for identified losses	350
Expenses on collectively assessed impairment provisions	–30
Income (loss) before taxes	2,828
Income tax	993
Current year profit (loss)	1,835

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	8,008
Uncovered letters of credit	487
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	661
Margin credit lines	0
Other credit lines and commitments	27,874
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	37,030

Derivative financial instruments	
Options	6,960
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	6,960

Capital adequacy ratio, in %
as at 30 June 2010

21.90

SOCIÉTÉ GÉNÉRALE-SPLITSKA BANKA d.d.

Boškovićeva 16, 21000 Split
Phone: + 358 21 30 43 04
Fax: + 358 21 30 43 04
BAN 2330003
www.splitskabanka.hr

Management board

Pierre Boursot – chairperson
Henri Bellenger, Frederique Guin
Zvonimir Akrap

Supervisory board

Jean-Didier Reigner – chairperson
Patrick Pierre Gelin, Patrick Renouvin

Shareholders	Share in share capital (%)
1. Société Générale	100.00

Audit firm for 2009:
Ernst & Young d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	3,933,894
Money assets	411,457
Deposits with the CNB	3,522,437
Deposits with banking institutions	2,992,710
MoF treasury bills and CNB bills	368,809
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	693,710
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	5,817
Loans to financial institutions	408,358
Loans to other clients	17,875,524
Investments in subsidiaries and associates	60,107
Foreclosed and repossessed assets	1,896
Tangible assets (net of depreciation)	237,012
Interest, fees and other assets	562,042
Net of: Collectively assessed impairment provisions	210,886
TOTAL ASSETS	26,928,993

Liabilities and capital	
Loans from financial institutions	1,106,274
Short-term loans	36,337
Long-term loans	1,069,937
Deposits	13,461,684
Giro account and current account deposits	2,345,872
Savings deposits	1,892,259
Time deposits	9,223,554
Other loans	7,568,644
Short-term loans	359,489
Long-term loans	7,209,155
Derivative financial liabilities and other financial liabilities held for trading	6,096
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	379,545
Hybrid instruments issued	0
Interest, fees and other liabilities	1,089,950
TOTAL LIABILITIES	23,612,193
Capital	3,316,800
TOTAL LIABILITIES AND CAPITAL	26,928,993

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	375,071
Total interest income	680,534
Total interest expenses	305,463
Net income from fees and commissions	117,932
Total income from fees and commissions	143,337
Total expenses on fees and commissions	25,405
Net other non-interest income	86,881
Other non-interest income	91,773
Other non-interest expenses	4,892
Net non-interest income	204,813
General administrative expenses and depreciation	304,133
Net operating income before loss provisions	275,751
Total expenses on loss provisions	79,011
Expenses on value adjustments and provisions for identified losses	99,841
Expenses on collectively assessed impairment provisions	–20,830
Income (loss) before taxes	196,740
Income tax	39,087
Current year profit (loss)	157,653

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	2,100,702
Uncovered letters of credit	53,631
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	2,702,793
Margin credit lines	0
Other credit lines and commitments	680,938
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	5,538,064

Derivative financial instruments	
Options	42,999
Swaps	1,151,582
Forwards	120,033
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	1,314,614

Capital adequacy ratio, in %
as at 30 June 2010

13.99

ŠTEDBANKA d.d.

Slavonska avenija 3, 10000 Zagreb
Phone: + 358 1 63 06 620
Fax: + 358 1 61 87 015
BAN 2483005
www.stedbanka.hr

Management board

Ante Babić – chairperson
Krešimir Starčević, Christian Panjol-Tuflija

Supervisory board

Ivo Andrijanić – chairperson
Đuro Benček, Petar Ćurković

Shareholders	Share in share capital (%)
1. Šted-Nova d.d.	80.74
2. Željko Udovičić	9.87
3. Paveko 2000 d.o.o.	6.35
4. Redip d.o.o.	3.04

Audit firm for 2009:
BDO Revizija Zagreb d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	100,494
Money assets	4,441
Deposits with the CNB	96,054
Deposits with banking institutions	107,289
MoF treasury bills and CNB bills	6,697
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	70,491
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	170
Loans to financial institutions	17,906
Loans to other clients	790,624
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	17,808
Tangible assets (net of depreciation)	11,404
Interest, fees and other assets	16,032
Net of: Collectively assessed impairment provisions	8,825
TOTAL ASSETS	1,130,091

Liabilities and capital	
Loans from financial institutions	53,716
Short-term loans	15,590
Long-term loans	38,126
Deposits	713,796
Giro account and current account deposits	39,551
Savings deposits	43,234
Time deposits	631,010
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	37,914
TOTAL LIABILITIES	805,427
Capital	324,664
TOTAL LIABILITIES AND CAPITAL	1,130,091

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	18,268
Total interest income	36,588
Total interest expenses	18,320
Net income from fees and commissions	3,629
Total income from fees and commissions	4,592
Total expenses on fees and commissions	963
Net other non-interest income	7,237
Other non-interest income	8,041
Other non-interest expenses	805
Net non-interest income	10,865
General administrative expenses and depreciation	8,920
Net operating income before loss provisions	20,213
Total expenses on loss provisions	4,738
Expenses on value adjustments and provisions for identified losses	5,043
Expenses on collectively assessed impairment provisions	–304
Income (loss) before taxes	15,474
Income tax	4,470
Current year profit (loss)	11,004

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	133,458
Uncovered letters of credit	15,543
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	6,633
Other standard risky off-balance sheet items	5,090
Total standard off-balance sheet items	160,723

Derivative financial instruments	
Options	281,508
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	61
Total notional amount of derivative financial instruments	281,569

Capital adequacy ratio, in %
as at 30 June 2010

27.36

VABA d.d. banka Varaždin

Aleja kralja Zvonimira 1, 42000 Varaždin
Phone: + 358 42 65 94 00
Fax: + 358 42 65 94 01
BAN 2489004
www.vaba.hr

Management board

Igor Čičak – chairperson
Natalija Jambrečić

Supervisory board

Vladimir Košćec – chairperson
Marina Bača, Balz Thomas Merkli
Anisur Rehman Khan, Mensur Jašarević

Shareholders	Share in share capital (%)
1. Validus d.d.	29.09
2. Balkan Financial Sector	16.54
3. Pluris d.d.	8.99
4. Gara Secundus d.o.o.	4.31
5. Finesa Conceptus d.o.o.	3.53
6. Jozo Kalem	3.53
7. Inter Finance d.o.o.	3.53

Audit firm for 2009:
KPMG Croatia d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	158,854
Money assets	19,181
Deposits with the CNB	139,673
Deposits with banking institutions	28,297
MoF treasury bills and CNB bills	66,929
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	156,307
Securities and other financial instruments held to maturity	19,765
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	166
Loans to financial institutions	6,500
Loans to other clients	893,507
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	2,642
Tangible assets (net of depreciation)	26,801
Interest, fees and other assets	43,700
Net of: Collectively assessed impairment provisions	8,989
TOTAL ASSETS	1,394,479

Liabilities and capital	
Loans from financial institutions	83,963
Short-term loans	74,600
Long-term loans	9,363
Deposits	995,922
Giro account and current account deposits	70,905
Savings deposits	16,620
Time deposits	908,397
Other loans	100,184
Short-term loans	100,184
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	5
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	2,877
Interest, fees and other liabilities	56,072
TOTAL LIABILITIES	1,239,024
Capital	155,456
TOTAL LIABILITIES AND CAPITAL	1,394,479

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	22,399
Total interest income	49,426
Total interest expenses	27,027
Net income from fees and commissions	1,925
Total income from fees and commissions	3,074
Total expenses on fees and commissions	1,150
Net other non-interest income	2,357
Other non-interest income	4,355
Other non-interest expenses	1,998
Net non-interest income	4,281
General administrative expenses and depreciation	23,236
Net operating income before loss provisions	3,444
Total expenses on loss provisions	1,377
Expenses on value adjustments and provisions for identified losses	1,677
Expenses on collectively assessed impairment provisions	–300
Income (loss) before taxes	2,067
Income tax	0
Current year profit (loss)	2,067

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	18,259
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	2,634
Margin credit lines	0
Other credit lines and commitments	35,945
Other standard risky off-balance sheet items	2,246
Total standard off-balance sheet items	59,083

Derivative financial instruments	
Options	1,953
Swaps	0
Forwards	14,387
Futures	0
Warrants	0
Other derivative financial instruments	14,540
Total notional amount of derivative financial instruments	30,880

Capital adequacy ratio, in %
as at 30 June 2010

13.39

VENETO BANKA d.d.

Draškovićeva 58, 10000 Zagreb
Phone: + 358 1 48 02 666
Fax: + 358 1 48 02 571
BAN 2381009
www.venetobanka.hr

Management board

Siniša Žanetić – chairperson
Fernando Zavatarelli

Supervisory board

Gian-Quinto Perissinotto – chairperson
Pierluigi Ronzani, Innocente Nardi
Gaetano Caberlotto, Atos Varusio

Shareholders	Share in share capital (%)
1. Veneto Banca Holding S.C.P.A.	100.00

Audit firm for 2009:
PricewaterhouseCoopers d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	133,824
Money assets	9,790
Deposits with the CNB	124,034
Deposits with banking institutions	212,598
MoF treasury bills and CNB bills	147,645
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	212,555
Securities and other financial instruments held to maturity	71
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	3,000
Loans to other clients	438,747
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	1,743
Tangible assets (net of depreciation)	34,837
Interest, fees and other assets	44,865
Net of: Collectively assessed impairment provisions	7,437
TOTAL ASSETS	1,222,447

Liabilities and capital	
Loans from financial institutions	55,758
Short-term loans	28,300
Long-term loans	27,458
Deposits	713,953
Giro account and current account deposits	37,930
Savings deposits	23,643
Time deposits	652,380
Other loans	201,417
Short-term loans	0
Long-term loans	201,417
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	16,483
TOTAL LIABILITIES	987,611
Capital	234,836
TOTAL LIABILITIES AND CAPITAL	1,222,447

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	12,819
Total interest income	28,730
Total interest expenses	15,911
Net income from fees and commissions	1,513
Total income from fees and commissions	2,044
Total expenses on fees and commissions	530
Net other non-interest income	6,026
Other non-interest income	6,222
Other non-interest expenses	197
Net non-interest income	7,539
General administrative expenses and depreciation	27,785
Net operating income before loss provisions	–7,427
Total expenses on loss provisions	3,280
Expenses on value adjustments and provisions for identified losses	3,773
Expenses on collectively assessed impairment provisions	–493
Income (loss) before taxes	–10,707
Income tax	0
Current year profit (loss)	–10,707

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	79,744
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	16,435
Other standard risky off-balance sheet items	261
Total standard off-balance sheet items	96,440

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

28.77

VOLKSBANK d.d.

Varšavska 9, 10000 Zagreb
Phone: + 358 1 48 01 300
Fax: + 358 1 48 01 365
BAN 2503007
www.volksbank.hr

Shareholders	Share in share capital (%)
1. VB International AG	99.18

Audit firm for 2009:
Ernst & Young d.o.o., Zagreb

Management board

Tomasz Jerzy Taraba – chairperson
Andrea Kovacs-Wöhry, Dieter Hornbacher
Dubravka Lukić

Supervisory board

Michael Ivanovsky – chairperson
Gerhard Wöber, Joerg Poglits
Fausto Maritan, David Krepelka
Dragutin Bohuš

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	874,351
Money assets	59,724
Deposits with the CNB	814,627
Deposits with banking institutions	1,141,432
MoF treasury bills and CNB bills	105,220
Securities and other financial instruments held for trading	2,086
Securities and other financial instruments available for sale	53,135
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	5,233
Loans to financial institutions	323,028
Loans to other clients	5,169,335
Investments in subsidiaries and associates	1,950
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	12,102
Interest, fees and other assets	161,546
Net of: Collectively assessed impairment provisions	61,301
TOTAL ASSETS	7,788,117

Liabilities and capital	
Loans from financial institutions	289,350
Short-term loans	234,500
Long-term loans	54,850
Deposits	5,471,482
Giro account and current account deposits	499,243
Savings deposits	348,176
Time deposits	4,624,063
Other loans	45,319
Short-term loans	0
Long-term loans	45,319
Derivative financial liabilities and other financial liabilities held for trading	4,537
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	68,589
Interest, fees and other liabilities	255,633
TOTAL LIABILITIES	6,134,909
Capital	1,653,207
TOTAL LIABILITIES AND CAPITAL	7,788,117

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	114,155
Total interest income	208,587
Total interest expenses	94,432
Net income from fees and commissions	17,821
Total income from fees and commissions	20,503
Total expenses on fees and commissions	2,682
Net other non-interest income	2,212
Other non-interest income	12,013
Other non-interest expenses	9,801
Net non-interest income	20,033
General administrative expenses and depreciation	69,097
Net operating income before loss provisions	65,091
Total expenses on loss provisions	43,149
Expenses on value adjustments and provisions for identified losses	44,589
Expenses on collectively assessed impairment provisions	–1,440
Income (loss) before taxes	21,942
Income tax	0
Current year profit (loss)	21,942

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	78,857
Uncovered letters of credit	2,969
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	5,915
Margin credit lines	0
Other credit lines and commitments	235,248
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	322,988

Derivative financial instruments	
Options	41,855
Swaps	0
Forwards	948,997
Futures	0
Warrants	0
Other derivative financial instruments	3,884
Total notional amount of derivative financial instruments	994,737

Capital adequacy ratio, in %
as at 30 June 2010

28.43

ZAGREBAČKA BANKA d.d.

Paromlinska 2, 10000 Zagreb
Phone: + 358 1 63 05 250
Fax: + 358 1 61 10 533
BAN 2360000
www.zaba.hr

Management board

Franjo Luković – chairperson
Milivoj Goldštajn, Sanja Rendulić
Miljenko Živaljić, Marko Remenar
Daniela Roguljić Novak, Mario Agostini

Supervisory board

Erich Hampel – chairperson, Jakša Barbić
Franco Andretta, Robert Zadrazil
Carlo Marini, Carlo Vivaldi, Fabrizio Onida
Graziano Cameli, Manuel Bauer

Shareholders	Share in share capital (%)
1. Unicredit Bank Austria AG	84.23
2. Allianz SE	11.72

Audit firm for 2009:
KPMG Croatia d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	10,888,877
Money assets	1,844,904
Deposits with the CNB	9,043,973
Deposits with banking institutions	7,239,047
MoF treasury bills and CNB bills	1,595,647
Securities and other financial instruments held for trading	226,838
Securities and other financial instruments available for sale	4,604,190
Securities and other financial instruments held to maturity	589,078
Securities and other financial instruments not traded in active markets but carried at fair value	82,904
Derivative financial assets	57,798
Loans to financial institutions	1,286,887
Loans to other clients	63,717,763
Investments in subsidiaries and associates	917,890
Foreclosed and repossessed assets	29,994
Tangible assets (net of depreciation)	1,117,737
Interest, fees and other assets	1,991,130
Net of: Collectively assessed impairment provisions	692,817
TOTAL ASSETS	93,652,961

Liabilities and capital	
Loans from financial institutions	1,661,018
Short-term loans	584,635
Long-term loans	1,076,383
Deposits	67,564,378
Giro account and current account deposits	11,085,411
Savings deposits	5,492,645
Time deposits	50,986,322
Other loans	6,120,883
Short-term loans	7,487
Long-term loans	6,113,396
Derivative financial liabilities and other financial liabilities held for trading	391,689
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	3,199,708
TOTAL LIABILITIES	78,937,677
Capital	14,715,285
TOTAL LIABILITIES AND CAPITAL	93,652,961

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	1,258,844
Total interest income	2,533,593
Total interest expenses	1,274,750
Net income from fees and commissions	452,487
Total income from fees and commissions	523,154
Total expenses on fees and commissions	70,667
Net other non-interest income	146,625
Other non-interest income	195,551
Other non-interest expenses	48,926
Net non-interest income	599,112
General administrative expenses and depreciation	778,062
Net operating income before loss provisions	1,079,894
Total expenses on loss provisions	418,390
Expenses on value adjustments and provisions for identified losses	470,634
Expenses on collectively assessed impairment provisions	–52,244
Income (loss) before taxes	661,503
Income tax	128,044
Current year profit (loss)	533,460

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	5,415,362
Uncovered letters of credit	649,759
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	2,920,078
Margin credit lines	0
Other credit lines and commitments	10,433,483
Other standard risky off-balance sheet items	235,661
Total standard off-balance sheet items	19,654,343

Derivative financial instruments	
Options	207,900
Swaps	18,967,624
Forwards	4,896,599
Futures	0
Warrants	0
Other derivative financial instruments	322,965
Total notional amount of derivative financial instruments	24,395,088

Capital adequacy ratio, in %
as at 30 June 2010

19.96

HPB STAMBENA ŠTEDIONICA d.d.

Savska 58, 10000 Zagreb
Phone: + 358 1 55 53 903
Fax: + 358 1 55 53 905
www.hpb.hr

Management board

Dunja Vidošević – chairperson
Jasminka Makarun

Supervisory board

Čedo Maletić – chairperson
Dubravka Kolarić, Mato Filipović
Alen Stojanović, Boženka Mostarčić

Shareholders	Share in share capital (%)
1. Hrvatska poštanska banka d.d.	100.00

Audit firm for 2009:
BDO Revizija Zagreb d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	0
Money assets	0
Deposits with the CNB	0
Deposits with banking institutions	804
MoF treasury bills and CNB bills	25,143
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	37,633
Securities and other financial instruments held to maturity	44,070
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	0
Loans to other clients	68,049
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	24
Interest, fees and other assets	13,616
Net of: Collectively assessed impairment provisions	1,348
TOTAL ASSETS	187,990

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	145,693
Giro account and current account deposits	0
Savings deposits	0
Time deposits	145,693
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	16,712
TOTAL LIABILITIES	162,405
Capital	25,585
TOTAL LIABILITIES AND CAPITAL	187,990

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	2,561
Total interest income	4,671
Total interest expenses	2,110
Net income from fees and commissions	1,523
Total income from fees and commissions	1,854
Total expenses on fees and commissions	331
Net other non-interest income	–386
Other non-interest income	89
Other non-interest expenses	475
Net non-interest income	1,137
General administrative expenses and depreciation	2,927
Net operating income before loss provisions	771
Total expenses on loss provisions	–65
Expenses on value adjustments and provisions for identified losses	0
Expenses on collectively assessed impairment provisions	–65
Income (loss) before taxes	836
Income tax	0
Current year profit (loss)	836

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	0
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	2,220
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	2,220

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

48.34

PBZ STAMBENA ŠTEDIONICA d.d.

Radnička cesta 44, 10000 Zagreb
Phone: + 358 1 63 63 730
Fax: + 358 1 63 63 731
www.stambena.pbz.hr

Management board

Mirko Brozović – chairperson
Branimir Čosić

Supervisory board

Dinko Lucić – chairperson
Dražen Kovačić, Nenad Štimac
Andrea Pavlović, Damir Novotny

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

Audit firm for 2009:
Ernst & Young d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	0
Money assets	0
Deposits with the CNB	0
Deposits with banking institutions	3,783
MoF treasury bills and CNB bills	69,107
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	0
Securities and other financial instruments held to maturity	255,076
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	0
Loans to other clients	1,035,792
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	125
Interest, fees and other assets	22,283
Net of: Collectively assessed impairment provisions	11,318
TOTAL ASSETS	1,374,847

Liabilities and capital	
Loans from financial institutions	163,327
Short-term loans	163,327
Long-term loans	0
Deposits	1,095,083
Giro account and current account deposits	0
Savings deposits	95,004
Time deposits	1,000,080
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	10,000
Interest, fees and other liabilities	26,142
TOTAL LIABILITIES	1,294,552
Capital	80,295
TOTAL LIABILITIES AND CAPITAL	1,374,847

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	10,724
Total interest income	32,915
Total interest expenses	22,191
Net income from fees and commissions	2,249
Total income from fees and commissions	3,078
Total expenses on fees and commissions	830
Net other non-interest income	–202
Other non-interest income	807
Other non-interest expenses	1,009
Net non-interest income	2,046
General administrative expenses and depreciation	5,186
Net operating income before loss provisions	7,585
Total expenses on loss provisions	–955
Expenses on value adjustments and provisions for identified losses	0
Expenses on collectively assessed impairment provisions	–955
Income (loss) before taxes	8,540
Income tax	1,570
Current year profit (loss)	6,969

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	0
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	1,087
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	1,087

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

135.25

PRVA STAMBENA ŠTEDIONICA d.d.

Savska 60-62, 10000 Zagreb
Phone: + 358 1 60 65 127
Fax: + 358 1 60 65 120
www.prva-stambena.hr

Management board

Snježana Herceg – chairperson
Katarina Šobat

Supervisory board

Daniela Roguljić Novak – chairperson
Davor Pavlić, Danimir Gulin

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

Audit firm for 2009:
KPMG Croatia d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	0
Money assets	0
Deposits with the CNB	0
Deposits with banking institutions	1,992
MoF treasury bills and CNB bills	236,747
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	36,252
Securities and other financial instruments held to maturity	189,179
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	41,318
Loans to other clients	1,261,109
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	1,270
Interest, fees and other assets	123,965
Net of: Collectively assessed impairment provisions	14,241
TOTAL ASSETS	1,877,592

Liabilities and capital	
Loans from financial institutions	93
Short-term loans	0
Long-term loans	93
Deposits	1,572,161
Giro account and current account deposits	0
Savings deposits	24
Time deposits	1,572,137
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	143,392
TOTAL LIABILITIES	1,715,647
Capital	161,945
TOTAL LIABILITIES AND CAPITAL	1,877,592

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	11,381
Total interest income	39,147
Total interest expenses	27,765
Net income from fees and commissions	8,488
Total income from fees and commissions	9,745
Total expenses on fees and commissions	1,257
Net other non-interest income	–2,907
Other non-interest income	812
Other non-interest expenses	3,718
Net non-interest income	5,581
General administrative expenses and depreciation	6,550
Net operating income before loss provisions	10,413
Total expenses on loss provisions	–3,882
Expenses on value adjustments and provisions for identified losses	–223
Expenses on collectively assessed impairment provisions	–3,659
Income (loss) before taxes	14,295
Income tax	2,844
Current year profit (loss)	11,451

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	0
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	8,341
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	8,341

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

14.42

RAIFFEISEN STAMBENA ŠTEDIONICA d.d.

Radnička cesta 47, 10000 Zagreb
Phone: + 358 1 60 06 100
Fax: + 358 1 60 06 199
www2.raiffeisenstambena.hr

Management board

Hans Christian Vallant – chairperson
Franjo Franjić

Supervisory board

Johann Ertl – chairperson
Neven Vranković, Christian Ratz

Shareholders	Share in share capital (%)
1. Raiffeisen Bausparkasse GmbH	100.00

Audit firm for 2009:
Deloitte d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	4
Money assets	4
Deposits with the CNB	0
Deposits with banking institutions	47,408
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	0
Securities and other financial instruments held to maturity	224,354
Securities and other financial instruments not traded in active markets but carried at fair value	92,297
Derivative financial assets	0
Loans to financial institutions	50,000
Loans to other clients	1,119,797
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	3,287
Interest, fees and other assets	106,561
Net of: Collectively assessed impairment provisions	13,040
TOTAL ASSETS	1,630,668

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	1,371,219
Giro account and current account deposits	0
Savings deposits	0
Time deposits	1,371,219
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	50,649
Interest, fees and other liabilities	96,447
TOTAL LIABILITIES	1,518,316
Capital	112,352
TOTAL LIABILITIES AND CAPITAL	1,630,668

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	13,034
Total interest income	39,598
Total interest expenses	26,564
Net income from fees and commissions	6,895
Total income from fees and commissions	8,717
Total expenses on fees and commissions	1,823
Net other non-interest income	–2,243
Other non-interest income	–526
Other non-interest expenses	1,718
Net non-interest income	4,651
General administrative expenses and depreciation	24,033
Net operating income before loss provisions	–6,348
Total expenses on loss provisions	–6,013
Expenses on value adjustments and provisions for identified losses	–5,727
Expenses on collectively assessed impairment provisions	–287
Income (loss) before taxes	–334
Income tax	0
Current year profit (loss)	–334

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	0
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	7,745
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	7,745

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

17.49

WÜSTENROT STAMBENA ŠTEDIONICA d.d.

Heinzelova 33A, 10000 Zagreb
Phone: + 358 1 48 03 777
Fax: + 358 1 48 03 798
www.wuestenrot.hr

Management board

Zdravko Anđel – chairperson
Ivan Ostojić

Supervisory board

Franz Meingast – chairperson
Marlies Wiest-Jetter
Werner Wabscheg
Sigmund Raugust
Rainer Hager

Shareholders	Share in share capital (%)
1. Bausparkasse Wüstenrot AG	68.58
2. Wüstenrot Bank AG	25.63
3. Wüstenrot Versicherungs AG	5.79

Audit firm for 2009:
Ernst & Young d.o.o., Zagreb

Balance sheet
as at 30 June 2010, in thousand HRK

Assets	
Money assets and deposits with the CNB	16
Money assets	16
Deposits with the CNB	0
Deposits with banking institutions	5,452
MoF treasury bills and CNB bills	91,396
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	8,171
Securities and other financial instruments held to maturity	67,825
Securities and other financial instruments not traded in active markets but carried at fair value	6,364
Derivative financial assets	0
Loans to financial institutions	6,000
Loans to other clients	1,136,225
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	2,695
Interest, fees and other assets	14,309
Net of: Collectively assessed impairment provisions	10,424
TOTAL ASSETS	1,328,027

Liabilities and capital	
Loans from financial institutions	35,967
Short-term loans	35,967
Long-term loans	0
Deposits	1,162,177
Giro account and current account deposits	0
Savings deposits	0
Time deposits	1,162,177
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	34,708
Interest, fees and other liabilities	27,694
TOTAL LIABILITIES	1,260,546
Capital	67,481
TOTAL LIABILITIES AND CAPITAL	1,328,027

Income statement
as at 30 June 2010, in thousand HRK

Net interest income	17,841
Total interest income	33,920
Total interest expenses	16,079
Net income from fees and commissions	8,652
Total income from fees and commissions	8,741
Total expenses on fees and commissions	89
Net other non-interest income	1,070
Other non-interest income	3,898
Other non-interest expenses	2,828
Net non-interest income	9,722
General administrative expenses and depreciation	26,700
Net operating income before loss provisions	863
Total expenses on loss provisions	–375
Expenses on value adjustments and provisions for identified losses	187
Expenses on collectively assessed impairment provisions	–563
Income (loss) before taxes	1,238
Income tax	0
Current year profit (loss)	1,238

Off-balance sheet items
as at 30 June 2010, in thousand HRK

Standard off-balance sheet items	
Guarantees	0
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	9,435
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	9,435

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 30 June 2010

15.19

Attachment I

List of credit institutions by peer groups, end of period

Ordinal no. as at 30 June 2010	Name of credit institution and its registered office	Peer group identifier				
		Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Jun. 2010
1.	A štedna banka malog poduzetništva d.d., Zagreb[1)]	–	–	–	S	S
2.	Banco Popolare Croatia d.d., Zagreb[2)]	S	S	S	S	S
3.	Banka Brod d.d., Slavonski Brod	S	S	S	S	S
4.	Banka Kovanica d.d., Varaždin	S	S	S	S	S
5.	Banka Splitsko-dalmatinska d.d., Split	S	S	S	S	S
6.	BKS Bank d.d., Rijeka[3)]	S	S	S	S	S
7.	Centar banka d.d., Zagreb	S	S	S	S	S
8.	Credo banka d.d., Split	S	S	S	S	S
9.	Croatia banka d.d., Zagreb	S	S	S	S	S
10.	Erste & Steiermärkische Bank d.d., Rijeka	L	L	L	L	L
11.	Hrvatska poštanska banka d.d., Zagreb	MS	MS	MS	MS	MS
12.	Hypo Alpe-Adria-Bank d.d., Zagreb	L	L	L	L	L
13.	Imex banka d.d., Split	S	S	S	S	S
14.	Istarska kreditna banka Umag d.d., Umag	S	S	S	S	S
15.	Jadranska banka d.d., Šibenik	S	S	S	S	S
16.	Karlovačka banka d.d., Karlovac	S	S	S	S	S
17.	Kreditna banka Zagreb d.d., Zagreb	S	S	S	S	S
18.	Međimurska banka d.d., Čakovec	S	S	S	S	S
19.	Nava banka d.d., Zagreb	S	S	S	S	S
20.	Obrtnička štedna banka d.d., Zagreb[4)]	–	–	S	S	S
21.	OTP banka Hrvatska d.d., Zadar	MS	MS	MS	MS	MS
22.	Partner banka d.d., Zagreb	S	S	S	S	S
23.	Podravska banka d.d., Koprivnica	S	S	S	S	S
24.	Primorska banka d.d., Rijeka	S	S	S	S	S
25.	Privredna banka Zagreb d.d., Zagreb	L	L	L	L	L
26.	Raiffeisenbank Austria d.d., Zagreb	L	L	L	L	L
27.	Samoborska banka d.d., Samobor	S	S	S	S	S
28.	Slatinska banka d.d., Slatina	S	S	S	S	S
	Slavonska banka d.d., Osijek[5)]	MS	MS	MS	–	–
29.	Société Générale – Splitska banka d.d., Split[6)]	V	V	V	V	V
30.	Štedbanka d.d., Zagreb	S	S	S	S	S
31.	Vaba d.d. banka Varaždin, Varaždin	S	S	S	S	S
32.	Veneto banka d.d., Zagreb[7)]	S	S	S	S	S
33.	Volksbank d.d., Zagreb	MS	MS	MS	MS	MS
34.	Zagrebačka banka d.d., Zagreb	L	L	L	L	L
1.	HPB stambena štedionica d.d., Zagreb	HSB	HSB	HSB	HSB	HSB
2.	PBZ stambena štedionica d.d., Zagreb	HSB	HSB	HSB	HSB	HSB
3.	Prva stambena štedionica d.d., Zagreb	HSB	HSB	HSB	HSB	HSB
4.	Raiffeisen stambena štedionica d.d., Zagreb	HSB	HSB	HSB	HSB	HSB
5.	Wüstenrot stambena štedionica d.d., Zagreb	HSB	HSB	HSB	HSB	HSB

[1)] A štedna banka malog poduzetništva d.d. began operating on 1 April 2009. [2)] Banka Sonic d.d., Zagreb changed its name into Banco Popolare Croatia d.d., Zagreb on 23 April 2007. [3)] Kvarner banka d.d., Rijeka changed its name into BKS Bank d.d., Rijeka on 22 August 2008. [4)] Obrtnička štedna banka d.d., Zagreb began operating on 17 July 2008. [5)] Slavonska banka d.d., Osijek merged with Hypo Alpe-Adria-Bank d.d., Zagreb on 1 March 2009. [6)] HVB Splitska banka d.d., Split changed its name into Société Générale – Splitska banka d.d., Split on 10 July 2006. [7)] Gospodarsko-kreditna banka d.d., Zagreb changed its name into Veneto banka d.d., Zagreb on 6 April 2007.

Note:
L – large bank (share in total bank assets above 5%)
MS – medium-sized bank (share in total bank assets between 1% and 5%)
S – small bank (share in total bank assets below 1%)
HSB – housing savings bank

Attachment II

Credit institution groups subject to reporting to the CNB on a consolidated basis, as at 30 June 2010

	Credit institution group	Superordinate credit institution	Group members
1.	ERSTE & STEIERMÄRKISCHE BANK	Erste & Steiermärkische Bank d.d., Rijeka	Erste bank AD, Podgorica
			Erste delta d.o.o., Zagreb
			MBU d.o.o., Zagreb
			Erste nekretnine d.o.o., Zagreb
			S Immorent leasing Zeta d.o.o. za poslovanje nekretnina-ma, Zagreb
			Erste factoring d.o.o., Zagreb
			Erste d.o.o. za upravljanje obveznim mirovinskim fondom, Zagreb
2.	HRVATSKA POŠTANSKA BANKA	Hrvatska poštanska banka d.d., Zagreb	HPB-Stambena štedionica d.d., Zagreb
3.	HYPO ALPE-ADRIA-BANK	Hypo Alpe-Adria-Bank d.d., Zagreb	Hypo Alpe-Adria-Invest d.d., Zagreb
			Hypo Alpe-Adria-Nekretnine d.o.o., Zagreb
			Alpe Adria Centar d.o.o., Zagreb
			Magus d.o.o., Zagreb
			Projekt nekretnine d.o.o., Zagreb
4.	PRIVREDNA BANKA ZAGREB	Privredna banka Zagreb d.d., Zagreb	PBZ CARD d.o.o., Zagreb
			Međimurska banka d.d., Čakovec
			PBZ Leasing d.o.o., Zagreb
			PBZ Invest d.o.o., Zagreb
			PBZ-NEKRETNINE d.o.o., Zagreb
			PBZ stambena štedionica d.d., Zagreb
			Centurion financijske usluge d.o.o., Sarajevo
5.	RAIFFEISENBANK AUSTRIA	Raiffeisenbank Austria d.d., Zagreb	Raiffeisen Leasing d.o.o., Zagreb
			Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.o.o., Zagreb
			Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondom d.o.o., Zagreb
			Raiffeisen upravljanje nekretninama d.o.o., Zagreb
			Raiffeisen Consulting d.o.o., Zagreb
			Raiffeisen Invest d.o.o., Zagreb
			Raiffeisen Factoring d.o.o., Zagreb
			Raiffeisen mirovinsko osiguravajuće društvo d.o.o., Zagreb
6.	SOCIÉTÉ GÉNÉRALE – SPLITSKA BANKA	Société Générale – Splitska banka d.d., Split	SG Consumer Finance d.o.o., Zagreb
			SG Leasing d.o.o., Zagreb
7.	ZAGREBAČKA BANKA	Zagrebačka banka d.d., Zagreb	UniCredit Bank d.d., Mostar
			Prva stambena štedionica d.d., Zagreb
			ZB Invest d.o.o., Zagreb
			Pominvest d.d., Split
			Zagreb nekretnine d.o.o., Zagreb
			Allianz ZB društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o., Zagreb
			Allianz ZB mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.o.o., Zagreb

Abbreviations

bn	– billion
CBRD	– Croatian Bank for Reconstruction and Development
CNB	– Croatian National Bank
IAS	– International Accounting Standards
m	– million
MoF	– Ministry of Finance
ROAA	– return on average assets
ROAE	– return on average equtiy
CICR	– currency-induced credit risk

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