

Zagreb, 13 December 2005

Pursuant to Article 39 paragraph 2 under i) of the Croatian National Bank Act (Official Gazette 36/2001) in connection with Article 40 of the Banking Act (Official Gazette 84/2002) and item 10.3. of the Decision Regulating Market Competition within the Banking Sector (Official Gazette 48/2003), deciding on an intended implementation of concentration notified by UniCredito Italiano S.p.A., Genova, Via Dante 1, the Republic of Italy, the Governor of the Croatian National Bank has adopted the following

DECISION

1. The concentration resulting on the market of universal banks and housing savings banks in the Republic of Croatia as a consequence of acquisition of Bayerische Hypo- und Vereinsbank AG and Bank Austria Creditanstalt AG by UniCredito Italiano S.p.A. is declared to be unacceptable.
2. UniCredito Italiano S.p.A. is hereby instructed to undertake the activities which will, within the time limit determined by the Croatian National Bank, result in a disposal of all the shares in Zagrebačka banka d.d. or HVB Splitska banka d.d. and all the shares in Prva stambena štedionica d.d. or Wustenrot stambena štedionica d.d., the holders of which are members of the UniCredit Group.
3. Until the disposal of the bank and housing savings bank shares, referred to in paragraph 2 of this Decision, UniCredito Italiano S.p.A. and its related persons shall be prohibited from entering into contracts with Bayerische Hypo- und Vereinsbank AG and their related persons and from taking legal or other actions, which could influence changes in assets, liabilities and capital in their subordinate companies and other related companies in the Republic of Croatia, relative to the status as at 2 September 2005.
4. UniCredito Italiano S.p.A. is hereby instructed to make sure that, until the disposal, referred to in paragraph 2 of this Decision, HVB Splitska banka d.d. and Zagrebačka banka d.d., as well as Prva stambena štedionica d.d. and Wustenrot stambena štedionica d.d., are not engaged in concerted practices on the market and that they continue with the effective competition on the Croatian market of universal banks and housing savings banks.
5. The interim decision of the Croatian National Bank, No. 357-020/09-05/ŽR of 15 September 2005 shall cease to be valid.
6. This Decision shall be final in an administrative procedure.
7. This Decision shall be published in the Official Gazette.

Statement of Reasons

1. On 2 September 2005, UniCredito Italiano S.p.A., Genoa, Via Dante 1, the Republic of Italy (hereinafter: UCI), through the authorized attorney Tin Dolički from the law firm Bogdanović, Dolički and partners, having its seat in Zagreb, A. von Humboldtta 4b, submitted to the Croatian National Bank (hereinafter: the CNB) an application for granting the prior approval for indirect acquisition of a qualifying holding in HVB Splitska banka d.d., having its seat in Split, Ruđera Boškovića 16 (hereinafter Splitska banka) and in Wustenrot stambenoj štedionici d.d., having its seat in Zagreb, Heinzelova 33a (hereinafter WŠŠ), and, consequently, information concerning the concentration of banks and housing savings banks in the Republic of Croatia, which would take place as a result of the previously mentioned indirect acquisitions.

Since in this particular case the concentration takes place of undertaking UCI, who is a majority shareholder in share capital of Zagrebačka banka d.d., having its seat in Zagreb, Paromlinska 2 (hereinafter: ZABA) and Bayerische Hypo- und Vereinsbank Aktiengesellschaft (hereinafter: HVB), who is, through Bank Austria Creditanstalt AG (hereinafter: BA-CA) a majority shareholder in share capital of Splitska banka, the CNB, in its letter of 6 September 2005, notified UCI that the respective information concerning the concentration of banks in the Republic of Croatia shall be considered as the Notification of Concentration of undertakings UCI and HVB (hereinafter: the Notification). In the same letter, an amendment to the Notification and to the application for granting the prior approval was requested. The information concerning a receipt of an incomplete Notification was announced on the CNB web site on 20 September 2005.

In view of the fact that preliminary analyses have indicated that the intended concentration could distort competition on the market of universal banks and on the market of housing savings banks in the Republic of Croatia, it has been assessed that there is a threat that activities will be undertaken by the participants in concentration and their related persons which could influence changes in the balance of assets, liabilities and capital of subordinate companies and other related persons in the Republic of Croatia, which could in turn be reflected on a change in a financial position, stability, market share and market power of subordinate persons and other related persons, who are participants in concentration in the Republic of Croatia. Accordingly, on 15 September 2005, the CNB issued an interim decision prohibiting UCI and its related persons from entering into contracts with HVB and its related persons, as well as from taking legal and other actions which could influence the changes in assets, liabilities and capital in their subordinate companies and other related persons in the Republic of Croatia, relative to the status as at 2 September 2005.

In the course of the previous procedure, meetings have been held with the attorney of the applicant and with the representatives of UCI and BA-CA, where the CNB representatives have informed the Notification applicant of the results of preliminary analyses of the impact of the respective concentration on the banking and the related financial markets. At these meetings, the representatives of the Notification applicant have informed the CNB of the activities which UCI and BA-CA intend to undertake

following the acquisition of HVB and BA-CA by UCI in order to eliminate the adverse impact of the respective concentration on the market competition on the relevant markets in the Republic of Croatia, i.e. of the intention of selling Splitska banka and WŠŠ.

On 12 October 2005, UCI withdrew its application for granting the prior approval for indirect acquisition of a qualifying holding in Splitska banka and in WŠŠ, and the procedure initiated based on this application was suspended.

On 30 November 2005, the CNB received the amendment to the Notification, and, in accordance with item 8.4 of the Decision Regulating Market Competition within the Banking Sector, considers that date as the date of submitting the Notification, of which the CNB has issued a receipt to the Notification applicant.

Since in the previous procedure it has been assessed that the respective concentration could have as its effect a significant restriction, prevention and distortion of market competition in the banking and financial services market, or in any segment of that market, the conditions referred to in item 9.1.2 of the Decision Regulating Market Competition within the Banking Sector have been met for the initiation of the special concentration appraisal proceedings, and on 7 December 2005, the CNB issued a conclusion No. 470-020/05/ŽR on the initiation of the special concentration appraisal proceeding for that respective concentration.

The preliminary analysis of the impact of the respective concentration on the relevant market has not been delivered for comments to the Notification applicant, since in the course of several consultative meetings, the latter has been informed of all the results of the expert service analysis and of the CNB's standpoint, and during the entire appraisal proceeding (both appraisal of Notification and concentration appraisal) the applicant has been in a position to make comments, provide evidence and explanations concerning the circumstances and facts required for deciding on the acceptability of the respective concentration. In the course of the procedure, the Notification applicant expressed its readiness for resolving this problem by selling the shares of Splitska banka and WŠŠ.

II. The following facts have been established in the conducted procedure:

1. *Participants in Concentration*

UCI and HVB are participants in concentration.

The applicant has indicated in the Notification the following list of companies, with which it is directly or indirectly related:

- Auges SPA SIM in liquidazione, Piazza Bra 26/D, Verona, Italy (100%),
- Banca dell Umbria 1462 SPA, C.so Vannucci 39, Perugia, Italy (99.97%),
- Bank Pekao SA, 53/57 Grzybowska Street, 00-950 P.O. Box 1008, Warszawa, Poland (52.93%),
- Bulbank AD, 7 Sveta Nedelya Square, Sofia, Bulgaria (86.13%),
- C.R. Trieste Ireland Ltd, in voluntary liquidation, Harbourmaster Place, Cusrom House Dock, Dublin, Ireland (100%),

- Cassa & Assicurazioni SPA, in liquidazione, P.za Bra 26D, Verona, Italy (65%),
- Cassa Risparmio Carpi SPA, Piazza dei Martiri 3, Carpi, Italy (100%),
- Cordusio Immobiliare SPA, Via Calabria 31, Milano, Italy (100 %),
- Locat SPA, Via Zamboni 20, Bologna, Italy (99.83%),
- Pioneer Global Asset Management SPA, Galleria S. Carlo 6, Milano, Italy (100%),
- Tyrerescom Limited, LaTouche House, Dublin, Ireland (100%),
- Unibanka AS, Vajnorska 21, Bratislava, Republic of Slovakia (77.21%),
- UniCredit Audit SPA, Via Calabria 31, Milano, Italy (100%),
- UniCredit Banca D'Impresa SPA, Via Garibaldi 1, Verona, Italy (100%),
- UniCredit Banca Mediocredito SPA, Via Alassio 11C, Torino, Italy (96.06%),
- UniCredit Banca Mobiliare SPA, Via Tommaso Grossi 10, Milano, Italy (100%),
- UniCredit Banca SPA, Via Zamboni 20, Bologna, Italy (100%),
- UniCredit Delaware Inc, 9 East Loockerman Street, Dover, Delaware, USA (100%),
- UniCredit International Bank (Luxembourg) SA, 1 Allee Schaeffer L-2025, Luxembourg (100%),
- UniCredi Leasing Romania SA, Calea 13 Septembrie, Bucharest, Romania (100%),
- UniCredit Private Banking SPA, Via Alfieri 7, Torino, Italy (100%),
- UniCredit Produzioni Accentrate SPA, Via Alessandro Volta 1, Cologno Monzese, Milano, Italy (99.01%),
- UniCredit Real Estate SPA, Via Calabria 31, Milano, Italy (100%),
- UniCredit Romania SA, Splaiul Unirii 16, Bucharest, Romania (99.95%),
- UniCredit Servizi Informativi SPA, Via Livio Cambi 1, Milano, Italy (100%),
- UniCredit Xelion Banca SPA, Via Pirelli 32, Milano, Italy (100%),
- UniCredito Gestione Crediti SPA, Piazzetta Monte 1, Verona, Italy (97.81%),
- UniCredito Italiano Bank (Ireland) PLC, Dublin, Ireland (100%),
- UniCredito Italiano Capital Trust I, White Clay Center, Route 273, New York, USA (100%),
- UniCredito Italiano Capital Trust II, White Clay Center, Route 273, New York, USA (100%),
- UniCredito Italiano Funding LLC I, 615 South DuPont Highway, Dover, Delaware, USA (100%),
- UniCredito Italiano Funding LLC II, 615 South DuPont Highway, Dover, Delaware, USA (100%),
- Uniriscossioni SPA, Via dell Arcivescovado 6, Torino, Italy (100%),
- Xelion Doradcy Finansowi Sp. Zoo, Ul. Pulawska 107, Warszawa, Poland (50%),
- Zagrebačka banka d.d., Paromlinska 2, Zagreb, Croatia (81.69%),
- Živnostenska Banka as, Na Prikope 858/20, Prague, Czech Republik (96.63%).

In addition to the indicated related persons, Locat Leasing Croatia d.o.o. also operates in Croatia, which is a member of the UCI group.

As regards the companies in Croatia, with which HVB is directly or indirectly related, the applicant has indicated the following companies in the Notification:

- HVB Splitska banka (99.74% of interest in share capital),
- Wüstenrot stambena štedionica d.d. (25% of interest in share capital),
- ALLIB Leasing d.o.o. za leasing (xx% of interest in share capital),
- CAIB d.d. (xx% of interest in share capital),
- CAIB Invest d.o.o. (xx% of interest in share capital),
- HVB Leasing Croatia d.o.o. za leasing (xx% of interest in share capital),
- INPROX Osijek d.o.o. (xx% of interest in share capital),
- Leasfinanz d.o.o. za leasing automobila i trgovinu (xx% of interest in share capital),
- Tržište novca i kratkoročnih vrijednosnica d.d. (xx% of interest in share capital),
- Zagra Leasing d.o.o. za financiranje (xx% of interest in share capital).

The following companies have been indicated in the Notification, which are directly or indirectly related with ZABA:

- Allianz Zagreb d.d. (19.90% of interest in share capital);
- Allianz ZB d.o.o. za upravljanje obveznim mirovinskim fondom (49% of interest in share capital)
- Allianz ZB d.o.o. za upravljanje dobrovoljnim mirovinskim fondovima (49% of interest in share capital)
- Hrvatski registar obveza po kreditima d.o.o. (14% of interest in share capital)
- Centar Gradski podrum d.o.o. (100% of interest in share capital)
- Centar Kaptol d.o.o. (100% of interest in share capital)
- Istraturist Umag, hotelijerstvo i turizam d.d. (71.80% of interest in share capital)
- Marketing Zagrebačke banke d.o.o. (100% of interest in share capital)
- Pominvest d.d. (88.66% of interest in share capital)
- Prva stambena štedionica d.d. (100% of interest in share capital)
- ZABA turizam d.o.o. (100% of interest in share capital)
- Zagreb nekretnine d.o.o. (100% of interest in share capital)
- ZB Invest d.o.o. (100% of interest in share capital)
- UniCredit Zagrebačka banka d.d. (93.98% of interest in share capital)
- UPI poslovni sistem d.o.o. (48.79% in the ownership of UniCredit Zagrebačka banka d.d.)
- Zane BH d.o.o. (100.00% in the ownership of Zagreb nekretnine d.o.o.)

According to the CNB's data, the following should also be added to the indicated list of persons related with ZABA:

- Istra Golf d.o.o.(100% in the ownership of Istraturist d.d.) and
- Allianz reosiguranje d.d. za reosiguranje (the only founder is Allianz Zagreb d.d.).

According to the CNB's data, Splitska banka had interest in the following companies, as at 30 June 2005:

- SB Nekretnine d.o.o. (100% of voting rights),
- Marivaturist d.d. (81.75% of voting rights),
- HVB Leasing Croatia d.o.o. (25% of voting rights),
- Tržište novca i kratkoročnih vrijednosnica d.d. (3.95% of voting rights),
- Hrvatski registar obveza po kreditima d.o.o. (10% of voting rights),
- MBU d.o.o. (8.25% of voting rights),
- Adria Bank AG (4.16% of voting rights),
- Središnja depozitarna agencija d.d. (0.001% voting rights),
- Zagrebačka burza d.d. (2.22% of voting rights),
- Units in the fund Select novčani otvoreni investicijski fond.

In the case of ZABA, in addition to capital, there is a strong personal relationship, both between the companies within the ZABA Group, and in relation to other, non-related companies. Undertakings that are not part of the ZABA Group and in whose management or supervisory board persons who are members of management or supervisory boards of the ZABA Group are appointed, are the following:

- Medika d.d. Zagreb;
- Coca-Cola Beverages Hrvatska d.d., Zagreb;
- Vetropack Straža tvornica stakla d.d., Hum na Sutli;
- Elektro-kontakt d.d., Zagreb;
- Ingra d.d., Zagreb;
- Sunčani Hvar d.d., Hvar;
- Puris d.d., Pazin;
- Holcim (Hrvatska) d.o.o. Koromačno;
- Pliva d.d., Zagreb;
- Zagrebačka pivovara d.d., Zagreb.

The indicated data on the companies related with the participants of concentration imply that the respective concentration on the Croatian market results in the establishment of an economic unity between ZABA and Splitska banka, and their related persons and subordinate companies.

2. Legal Form of Concentration

The legal form of the respective concentration is acquisition of majority of shares of the undertaking HVB by the undertaking UCI.

3. Legal Basis for Concentration

A Business Combination Agreement concluded between UCI and HVB on 12 June 2005, represents a legal basis for concentration. Under this Agreement, UCI and HVB agreed to combine their banking activities. In accordance with the terms and conditions of this Agreement, UCI launched a public take-over bid for all the shares in the HVB share capital.

As a part of this transaction, UCI also launched the public share per share offers, with a possibility of cash payment for the entire share capital of BA-CA and BPH S.A. (HVB subsidiary in Poland). The offer relating to BA-CA depends on a successful conclusion of the bid for HVB.

Upon the completion of the respective transaction, UCI will take control over HVB and over BA-CA and BPH S.A.

The take-over bid for HVB was published on 26 August 2005 and the time limit for bids should have expired on 10 October 2005. The take-over bid for BA-CA was published on the same day as the bid for HVB, a time limit for bids beginning as of 29 August 2005 and should have been concluded on 17 October 2005. The contract stipulates that the take-over will take place if UCI acquires a minimum of 65% of HVB shares.

The time limit for a purchase of HVB shares was subsequently extended to 24 October 2005, and the time limit for voluntary bids for purchase of BA-CA shares was extended to 31 October 2005.

Within the determined time limit, 80% of HVB shareholders accepted the UCI's offer, which implies that the take-over was successfully completed.

4. Analysis of the relevant market

A take-over of HVB by UCI represents an extraterritorial concentration, which has a significant impact on the domestic (Croatian) market.

The provisions of item 1 of the Decision regulate that for the purpose of that Decision, the definition of term relevant market applies as appropriately in accordance with the regulations governing market competition. Pursuant to the Regulation on the Method of Determining the Relevant Market (Official Gazette 51/2004), the relevant market, in terms of Article 7 of the Competition Act (Official Gazette 122/2003), is defined as a market for individual products that are objects of carrying on activities of undertakings in a particular geographic area.

In accordance with the Regulation, following the detailed analyses, the areas have been identified where the activities of HVB and UCI and their related companies overlap in the Republic of Croatia. Accordingly, and taking account of the specific characteristics of each segment of the banking and financial sector and its legal governance in the Republic of Croatia, the relevant market has, eventually, been defined as follows:

- market of universal banking services in the territory of the Republic of Croatia,
- market of housing savings and home loans granted by housing savings banks in the Republic of Croatia,
- pension funds market in the Republic of Croatia,
- investment funds market in the Republic of Croatia, and
- leasing market in the Republic of Croatia.

In the respective case, the relevant market consists of several segments. The reason for this is the scope of business activities of ZABA and Splitska banka, i.e. their direct and indirect presence (in terms of business activities) in markets other than banking services market, where their operations or business presence overlap. Accordingly, the effects of these banking activities will also be reflected on the markets other than banking services market, through companies related with these banks.

After defining the relevant market, the effects of the respective transaction have been examined on each of the segments of the relevant market.

The largest part of the analysis had been prepared before the Notification was received, since the CNB, through regular bank reports, also collects data required for calculating the market share and other market concentration indicators. Furthermore, the CNB also receives data of some other institutions, which were required for processing this issue, and it monitors and analyses situation and developments in the individual segments of the banking and financial industry on an on-going basis. Upon insight into the documentation enclosed with the Notification, it has been established that the applicant has not provided any evidence or appropriate explanations which would contest the results obtained by CNB's expert service analysis.

4.1 Market of Universal Banking Services in the Republic of Croatia

In the previous procedure, possible effects of the respective concentration on the market of universal banking services have been analysed at the national and at the county level, which includes the analysis of the market shares of banks participating in the concentration, as well as the market shares of the major competitors, market structure and concentration indices (market share of the two largest banks, CR2 and market share of the five largest banks, CR5) and Herfindahl-Hirschman index (hereinafter: HHI), as at 31 December 2004 and 30 June 2005.

bank	market share				market share			
	31 December 2004				30 June 2005			
	assets	business network	deposits	loans	assets	business network	deposits	loans
ZABA	25.12%	12.63%	28.33%	23.92%	25.15%	12.80%	27.15%	24.32%
Splitska	9.36%	10.70%	6.45%	9.43%	9.36%	10.60%	6.58%	9.29%
Total	34.48%	23.34%	34.78%	33.35%	34.51%	23.40%	33.73%	33.61%

The above table shows that the business entity ZABA + Splitska banka would have more than 30% of market share on the market of universal banking services in the Republic of Croatia, according to all three (3) key indicators. The analysis further shows that the first largest competitor, as at 30 June 2005, has 19.02% of market share in terms of assets, and the second competitor has 10.89% market share, the third 10.77% and the fourth one 10.21%, which implies that after the realisation of the intended concentration, the largest bank, i.e. the banking group, would significantly outdo its competitors, in terms of the market share level.

	market concentration indicators - 31 December 2004					
	CR2	CR2 group	CR5	CR5 group	HHI 1	HHI 2
present status	43.00%	44.29%	74.26%	76.06%	1,363.15	1,447.05
ZABA+Splitska	52.36%	53.65%	81.71%	85.42%	1,832.57	1,917.40
change	9.36 p.p.	9.36 p.p.	7.45 p.p.	9.36 p.p.	469.42	470.35
	market concentration indicators - 30 June 2005					
	CR2	CR2 group	CR5	CR5 group	HHI 1	HHI 2
present status	43.26%	44.17%	74.28%	76.04%	1,371.22	1,445.30
ZABA+Splitska	52.62%	53.53%	81.75%	85.39%	1,841.85	1,915.92
delta	9.36 p.p.	9.36 p.p.	7.47 p.p.	9.36 p.p.	470.63	470.62

In the case of realisation of the economic unity between ZABA and Splitska banka, large changes in indicators CR2 and CR5, and in particular in HHI 1 and HHI 2, would take place (HHI 1 representing the concentration indicator with respect to individual banks and HHI 2 with respect to banking groups).

The European Commission Guidelines on the Assessment of Horizontal Mergers under the Council Regulation on the Control of Concentration between Undertakings (2004/C 31/03), provides that concentrations in which the common market share of the concentration participants does not exceed 25%, do not, in general, lead to a prevention, restriction or distortion of market competition. The said Guidelines, among other things, also recommend that, with an exception of individual cases, the post-merger HHI between 1 000 and 2 000 and its change (delta) below 250 may be assessed as acceptable.

Accordingly, it can be concluded that in this case, the implementation of concentration would lead, according to all the criteria (assets, deposits, loans) to an increase in the market share to more than 25%, and to a change in HHI 1 and HHI 2 of more than 250, the post-merger HHI rising above 1 800, which implies that the market concentration is increasing to the level causing concern of the competition protection authorities.

Bearing in mind that the above described rules are of a general nature, i.e. that they are applicable to all sectors and that the banking sector, in this regard, should be considered considerably more sensitive (and even more important) sector compared to all other sectors, and that the effects spill over from this sector to all other sectors, the indicators previously stated have even greater significance.

By analysing data at the county level, the general situation deteriorates even more. Although it is not encompassed by the definition of the relevant market, the market of counties has also been analysed for the purpose of obtaining a more detailed insight into the impact of the respective transaction. More specifically, UCI, in its Notification, indicated that overlapping between ZABA and Splitska banka exists only in four (4) counties. The analyses show that in case of economic unity of ZABA+Splitska banka

would result in overlapping of business network in almost all counties, and that in four (4) counties indicated by UCI, the aggregate market shares of these banks exceed 40% and even 50%. It should be noted here that these are economically very active counties (County of Zagreb and the City of Zagreb, County of Krapina-Zagorje, County of Varaždin, County of Split-Dalmatia) the share of which in total deposits of the Republic of Croatia is 70.43% and the share in total loans in the Republic of Croatia 58.36%.

Although the market of universal banking services has been established as the relevant market, in terms of products, market shares by types of loans and deposits have also been analysed in order to obtain a more detailed insight into distribution of loans and deposits. In the case of loans granted to the Republic of Croatia, government funds and public enterprises, the aggregate share of ZABA and Splitska banka would exceed 40%, but these are specific and relatively restrictive market segments. Similarly, ZABA and Splitska banka have a significant share in deposits of the local government and HBOR, but this, at present, does not seem to be the most important competition policy issue in the Croatia's banking sector.

As regards the home loans market, the aggregate share of ZABA and Splitska banka would exceed 50% of that important segment, which accounts for one third of the total household loans. ZABA alone participates in this market with approximately 40%. In addition, the aggregate share of ZABA and Splitska banka in current and giro accounts of households also exceeds 40%. In view of the fact that household loans are frequently linked to giro or current accounts, this information points to a conclusion that ZABA and Splitska banka together will have a considerably larger market power in the retail segment.

In its Notification, UCI stresses that xx (marked as business secret).. . According to the former, the competitors are willing to xx (marked as business secret),.. . The analysis showed that xx (business secret), but detailed analysis of reasons for that xx (marked as business secret) has not been carried out, since it has been assessed that this is not crucial for the appraisal of the respective concentration.

UCI also asserts that clients are not loyal to banks in Croatia, but that they are rather price-sensitive. This assertion is contested by the fact that there is not much room in the Croatian banking market for a standard loyalty to one bank, since the clients mainly have to do business with a certain bank. The analysis shows that loan demand in Croatia rises and falls, relative to the interest rates. Regardless of the fact that it is probably true that clients are interest rates sensitive, instruments of collateral, requested by individual banks from clients as a precondition for granting the loan, also play a significant role in selecting the bank where a loan will be taken out. In addition, deposits are frequently linked to loans - for instance, banks require deposits for granting the loan in the first place. Although a detailed analysis of the clients' loyalty to banks has not been conducted, there is a reason to doubt the clients' level of mobility and simplicity of changing banks.

The remarks concerning the poor mobility of clients mainly refer to households, which is supported by the fact that interest rates on household deposits are mostly lower, compared to corporate deposits, and that household lending interest rates are higher than corporate lending interest rates. By the realisation of the respective

concentration, a banking group would be formed, which would be the strongest one in the household segment, which gives reasons for concern that this group would have the market power that could be used for an increase in the interest rate spread for households.

4.2. *Market of Housing Savings Banks and Home Loans Granted by Housing Savings Banks in the Republic of Croatia*

Housing savings banks market is regulated by a special law, there are large market access barriers, the market is socially sensitive and there are only four (4) competitors on the market: Prva stambena štedionica d.d. (subsidiary of ZABA - hereinafter: PSS), Raiffeisen stambena štedionica d.d., PBZ stambena štedionica d.d. and WSS.

All housing savings banks, apart from WSS, are related, in terms of ownership, with the banks with a registered office in the Republic of Croatia and they are owned by the banking groups. WSS is not owned by any of the banking groups in the territory of the Republic of Croatia, since the majority ownership has been taken over by housing savings banks in Germany and Austria and BA-CA has 25% interest in its share capital.

Market shares of housing savings banks, as at 31 December 2004 and 30 June 2005, are shown below.

Housing savings banks	31 December 2004		30 June 2005	
	Assets (in 000)	Market share	Assets (in 000)	Market share
Prva stambena štedionica d.d.	2,020,753	38.69%	2,069,670	38.93%
Raiffeisen stambena štedionica d.d.	2,092,865	40.07%	2,052,246	38.60%
Wüstenrot stambena štedionica d.d.	716,392	13.71%	723,643	13.61%
PBZ stambena štedionica d.d.	393,533	7.53%	471,253	8.86%
Total	5,223,543	100.00%	5,316,812	100.00%

As a result of the implementation of the respective concentration, the share of housing savings banks within the UCI-HVB group would be more than 50% in this market. Such a change in market structure on the market that is concentrated to a great extent already, would have adverse effect on competition.

4.3 *Market of Pension Funds in the Republic of Croatia*

According to the statistical data available to the CNB, both direct and indirect market shares of UCI and direct and indirect shares of HVB on the market of voluntary and compulsory pension funds in the Republic of Croatia, shown in thousands of kuna and in percentage, are as follows:

Net assets of voluntary pension funds	31 Dec 2003	30 Jun 2004	31 Dec 2004	30 Jun 2005
- total	29,591	46,923	96,916	132,406
AZ Profit	2,482	6,246	17,247	25,307
AZ Benefit	366	1,433	1,433	7,533
Total AZ funds (open-ended, voluntary)	2,848	7,679	18,680	32,840
Share of AZ funds (open-ended, voluntary)	xx%	xx%	xx%	xx%
AZ-VIP ZDMF	0	27	322	699
AZ-Dalekovod ZDMF	0	0	487	2,007
AZ-HKZP	0	0	0	1,169
Total AZ funds (ZDMF)	0	27	809	3,875
AZ DMF total	2,848	7,706	19,489	36,715
Share of all AZ funds	xx%	xx%	xx%	xx%

Net assets of compulsory pensions funds	31 Dec 2003	30 Jun 2004	31 Dec 2004	30 Jun 2005
	4,677,339	5,916,752	7,913,237	9,464,355
A-Z OMF	1,983,689	2,509,820	3,314,903	3,933,546
Share of A-Z OMF	xx%	xx%	xx%	xx%

HVB is not present in this market segment, while UCI is present through pension funds ZABA and Allianz AG - A-Z funds, which have significant market shares in this market.

A bank's support in the pension funds market is very important, since a bank is one of the distribution channels for participants in this market. Accordingly, the impact of the respective concentration on this market should be viewed from the aspect of creating the economic unity between ZABA and Splitska banka, which would jointly and in a concerted manner act in this market segment as well. The fact is that A-Z fund has over 40% of the market share in the market of compulsory pension funds, but this market share is probably a result of the efficiency of this business entity, strong marketing efforts and good business decisions of the management (e.g. strategic alliance with Allianz AG).

Significant competitive changes, as a consequence of the respective concentration, are not to be expected in this segment of the relevant market.

4.4. Investment Funds Market in the Republic of Croatia

A strong development in the fund industry took place in the Republic of Croatia over the past years. A large number of entities operate in the segment of investment funds (open- and closed-ended). Banks are also very active in this market. Generally, an investment fund management company manages both closed-ended and open-ended funds, which differ in view of the investment structure and, accordingly, the expected return per unit in the fund.

The presence of UCI and HVB in this market, in percentage and in thousands of kuna, is shown below:

Investment funds' assets - total	31 Dec 2003	30 Jun2004	31 Dec 2004	30 Jun 2005
	4,286,192	4,875,684	6,061,849	10,382,591
Select Eurobond	93,198	82,911	91,327	91,920
Select Europe	52,210	53,216	57,307	57,457
Select Novčani	61,436	136,621	156,332	254,194
Total Select funds	206,844	272,748	304,966	403,571
Share of Select funds	xx%	xx%	xx%	xx%
ZB Plus	541,430	863,721	919,105	1,547,461
ZB Europlus	329,090	241,037	287,381	154,582
ZB Global	80,488	89,565	116,176	260,248
ZB Bond	347,281	255,811	245,196	241,056
ZB Trend	206,094	275,767	281,119	334,085
ZB Euroaktiv	0	42,823	44,756	74,759
Total ZB funds	1,504,383	1,768,724	1,893,733	2,612,191
Share of ZB funds	xx%	xx%	xx%	xx%
Total Select funds and ZB funds	1,711,227	2,041,472	2,198,699	3,015,762
Share of Select funds and ZB funds together	xx%	xx%	xx%	xx%

UCI, through ZABA, is very active in this market, although ZB funds have recorded a downward trend in the market share as of 30 June 2004. This can be accounted for by the fact that the industry's assets grew faster than the assets of the ZB funds. HVB is present here through funds managed by CAIB Invest d.o.o. (a sister company of Splitska banka) - Select funds, which also record a downward trend in market share as of 30 June 2004, participating thus in this market with a share of xx% as at 30 June 2005 (business secret).

The impact of the respective concentration in this market would be a creation of the economic unity between ZB funds and Select funds, which would together have xx% (business secret) of the market share (based on data as at 30 June 2005). However, since Splitska banka, which has an extremely broad network of sub-branches, is one of the distribution channels of Select funds, and is at the same time their depositary bank, the formation of the economic unity between ZABA and Splitska banka and a merger of their network of sub-branches, would significantly strengthen the market position of ZB funds and Select funds.

By examining the impact of the respective concentration, without the realisation of the economic unity between ZABA and Splitska banka, it can be reasonably concluded that no significant anti-competitive effects would take place. It should be noted, that the investment funds' market may not be viewed separately, i.e. that, with respect to fungibility on the supply side, there is a large number of substitutes - products of insurance companies (especially life insurance), products of housing savings banks and products of voluntary pension funds represent a substitute for units in investment funds, as a result of which the market is wider than the investment funds' market itself. The market access barriers, although they exist in a form of legislation, are not so large as in the case of the previously described market segments. This is also confirmed by a significant increase in the number of market participants in this market over the past few years.

4.5 Leasing Market in the Republic of Croatia

Market shares of UCI and HVB leasing companies operating in the Republic of Croatia, in percentages and in thousands of kuna, are presented in the table below.

Assets of leasing companies - total	31 Dec 2003	30 Jun 2004	31 Dec 2004	30 Jun 2005
ALLIB Leasing	14,393.00	27,196.00	32,672.00	34,095.00
III.ZAGRA Leasing	89,014.00	159,141.00	329,405.00	709,873.00
Locat Leasing	247,119.00	365,446.00	692,924.00	826,309.00
HVB Leasing Croatia	698,518.00	695,324.00	669,595.00	683,715.00
TOTAL (all leasing companies in the Republic Croatia)	12,605,690.00	13,639,825.00	16,492,716.00	18,439,438.00
HVB + UCI leasing companies	1,049,044.00	1,247,107.00	1,724,596.00	2,253,992.00
Share	xx%	xx%	xx%	xx%

The implementation of the respective concentration would result in xx% market share (business secret) in the assets of the leasing market in the Republic of Croatia. Accordingly, it is reasonable to assume that the realisation of the respective concentration would not result in significant anti-competitive effects on this market segment. This is supported by the fact that this market generally has small barriers to access and that a large numbers of undertakings operate in this market, of which some are equity-related with banks. Furthermore, bank loans for a purchase of motor vehicles represent a substitute for the leasing companies' products, which are in Croatia still mostly focused on car leasing.

III. Item 7.1 of the Decision Regulating Market Competition within the Banking Sector prescribes the obligation of notifying the Croatian National Bank of the intended concentration, which, in line with in 6.1 of the same Decision, may take place as a result of mergers, acquisition of controlling interest or dominant influence, acquisition of majority shares or majority voting rights at a bank's general assembly, or otherwise by acquiring control or dominant influence in accordance with the provisions of the Company Act, Banking Act and regulations governing market competition. The Banking Act, Article 11, paragraph 2 regulates that controlling company controls a dependent company if it, among other things, has direct or indirect majority participation in its capital or direct or indirect majority of its voting rights. UCI has, by the acquisition of HVB, acquired indirect control in Splitska banka and indirect qualifying holding, allowing UCI to exercise dominant influence on WŠŠ, as a result of which concentration, in terms of item 6.1 of the Decision Regulating Market Competition within the Banking Sector, has taken place. Accordingly, this is the case of extraterritorial concentration which effects concentration on the markets in the Republic of Croatia of which the CNB must be notified.

Item 1.5 of the Decision Regulating Market Competition within the Banking Sector prescribes that a concentration which creates or strengthens a dominant position of one or more banks individually or as a group, as a result of which market competition is significantly prevented, restricted or distorted, is one of the practices which prevent, restrict or distort market competition. The previously indicated provision points to the basic tests to be conducted in the concentration notification appraisal proceeding, i.e. in the concentration appraisal proceeding: the test of dominant

position and the test of significant prevention, restriction or distortion of market competition within the banking sector.

The Decision Regulating Market Competition within the Banking Sector does not define dominant position, but it rather refers in item 1.3 to the definition of dominant position regulated by the Competition Act (Official Gazette, No. 122/03).

A dominant position is defined in Article 15, paragraph 1 of the Competition Act, as a position, when due to its market power, the undertaking can act in the relevant market independently, to a great extent, of its competitors, consumers, buyers or suppliers. This is especially the case when an undertaking:

1. has no competitors in the relevant market, and/or
2. holds a position of significant market power in the relevant market in relation to its real or potential competitors, and especially in relation to the following:
 - market share and position;
 - financial power;
 - access to sources of supply or to the market itself;
 - connected undertakings;
 - legal or factual barriers for other undertakings to enter the market;
 - the capability of an undertaking to dictate market conditions considering its supply or demand; and
 - the capacity of an undertaking to eliminate other competitors from the market by directing them to other undertakings.

In accordance with paragraph 2 of the same Article, an undertaking is presumed to be in a dominant position when it holds more than 40% of the market share in the relevant market. The previously mentioned provision represents a rebuttable presumption, which implies that a dominant position is determined on a case-by-case basis and that, if the existence of the circumstances laid down in the definition of a dominant position is established, it may be determined that the dominant position exists even if the undertaking's market share is below 40%.

Article 15, paragraph 3 of the Competition Act also prescribes that it is presumed that more undertakings are in a dominant position when three or fewer undertakings hold more than 60% of the common market share in the relevant market or five or fewer undertakings hold more than 80% of the common market share in the relevant market. If the intended concentration is realised, the first three banks will hold a common market share of 64.2%, while the first five banks will hold a common market share of 85.4%, which points to a creation and strengthening of dominant position of several banks as a group, as well.

The analyses that preceded the concentration notification and that were carried out by the insight into the documentation enclosed with the Notification, unambiguously showed that, although the respective transaction on the market of universal banking services in the Republic of Croatia would not result in a holding of exactly 40% of the market share by ZABA and Splitska banka, this would be the case of creation and strengthening of a dominant position on the segments of universal banking services market in the Republic of Croatia, i.e. at the county level and in individual segments of products.

Furthermore, the conducted procedure has shown that the respective transaction would lead to prevention, restriction and distortion of competition on the market of universal banking services in the Republic of Croatia and on its segments. This conclusion is based on the following facts:

- structure of the market of universal banking services as a consequence of the execution of the respective transaction - very high level of CR2, HHI indicators, 34.51% of market share of ZABA and Splitska banka in terms of assets, and 19.02% of the first competitor, the first three banks would hold a common market share over 60% and the first five banks would hold a common market share of more than 80%, which implies a creation and strengthening of the dominant position of several banks as a group as well, elimination from the market of a strong market player which is also the fifth largest bank, with a market share of about 9%, which all confirms strengthening of the oligopolic characteristics of this market;
- at present, there are no indications as to a possible entry of new competitors on the same market;
- there are legal requirements for the market access (large market access barriers);
- the realisation of the intended concentration would strengthen even more the financial power, position and operation of the concentration participants;
- by the establishment of this economic unity, the competitive pressure in mutual relationship between ZABA and Splitska banka would be eliminated and the market share they would acquire gives them strength to act, to a great extent, independently from other market competitors.

Accordingly, it has been established by the conducted procedure that the respective concentration would have a negative impact on the following segments of the relevant market:

1. market of universal banking services in the territory of the Republic of Croatia, and
2. market of housing savings banks and home loans granted by housing savings banks in the Republic of Croatia.

The creation of the economic unity between ZABA and Splitska banka, i.e. PSS and WSS, definitely leads to a significant weakening of market competition in the two above mentioned markets and it indirectly poses threat to free market competition on the pension funds' and investment funds' markets, particularly as a result of an absolutely superior distribution network (sub-branches and branches) which would be available to this entity.

In making such an assessment, the CNB has taken into account the objectives and the effects of the respective intended concentration.

The realised acquisition of HVB by UCI would result in a creation of the economic unity between ZABA and Splitska banka and their related companies (PSS + WSS, Locat Leasing d.o.o. + HVB Leasing Croatia d.o.o., ZB funds + Select funds) on the Croatian market. They would, in turn, strengthen their existing market shares and in

some market segments, they would have a dominant market position or would further strengthen the already existing dominant position.

This entity would unambiguously have a significant market power and even a dominant position in some market segments of the relevant market. Taking into account importance and sensitivity, as well as barriers to access to individual parts of the banking and financial markets, in a form of legal requirements and approvals, which constitute the relevant market, the respective concentration would not have positive effects on the protection and development of free market competition on the relevant market, and in particular, on the segments of the market of universal banking services and market of housing savings and home loans granted by the housing savings banks in the Republic of Croatia. On the contrary, a significant and permanent strengthening or creation of a dominant position of one entity (ZABA + Splitska banka and PSS + WSS) would take place in the individual segments of the relevant market, which would result in restriction of free market competition and, finally, strengthening of the market power of this entity would not be in the interest of consumers.

Furthermore, network of branches and sub-branches of ZABA and Splitska banka and their related companies, which would result from the respective concentration, would cover the entire territory of the Republic of Croatia to a considerably greater extent compared to the competitors' networks, which would undoubtedly bring a significant advantage to this entity, and put it in a privileged position on the market relative to other competitors.

In addition, it has been established that the respective concentration, after the sale of Splitska banka or ZABA and a share in WSS or PSS, would not lead to a creation or strengthening of dominant position for the companies within the UCI-HVB Group on the relevant market in the Republic of Croatia, i.e. that the implementation of concentration would not prevent, restrict or distort market competition on the relevant market in the Republic of Croatia as a whole, or in some of its segments.

Accordingly, it has been established that this is the case of a prohibited concentration, in terms of item 1.5 of the Decision Regulating Market Competition within the Banking Sector, which may be eliminated only by disposal of shares of one of the banks participating the concentration (ZABA or Splitska banka) and the shares of one of the housing savings banks participating in the concentration (PSS or WSS), as a result of which it has been decided as indicated in the disposition.

In view of the fact that it has been assessed that grounds still exist on which the interim Decision No. 357-020/09-05/ŽR of 15 September 2005 was issued, it has been decided as indicated in item 3 of the disposition. Since the acquisition of HVB by UCI has been realised, banks and savings banks participating in the concentration in the Republic of Croatia became the members of the same international banking group, it was necessary to prohibit their concerted practices on the market of universal banking services and on the market of housing savings banks in the Republic of Croatia, until disposal of the shares in one of the banks and in one of the savings banks.

Legal Remedy

This Decision shall be final in an administrative procedure and an appeal against it is not permitted. However, an administrative action before the Administrative Court of the Republic of Croatia may be brought within 30 days following the date of delivery of this Decision.

CROATIAN NATIONAL BANK
GOVERNOR
Željko Rohatinski, PhD