

**Public statement by Croatian National Bank Governor, Dr Željko Rohatinski, on the decision to refuse the application for approval to Bayerische Landesbank (BLB) for its re-entry into the Croatian banking system – 11 July 2007**

Decision-taking by the Croatian National Bank on the granting or refusing prior approval to BLB for an indirect acquisition of a qualifying holding in HAAB d.d., Zagreb and Slavonska banka d.d., Osijek was a sensitive issue because of its possible interpretation in the broader context of economic and political relations between Croatia and individual EU Member States, and particularly in the context of Croatia's further EU accession negotiations.

With that in mind, two aspects of this issue have been considered:

From the point of view of the "rules of the profession", the fact that the potential acquirer is a German bank of high international rating is irrelevant and so is the fact that the Austrian parent bank of both mentioned Croatian banks is trying to use this acquisition to solve some problems in its business operations. The most important criteria in evaluating the fitness and properness of the potential acquirer was the evaluation of BLB's previous business operations in Croatia as a former majority owner of Riječka banka. In that context, it was established that this bank's behaviour at the time of crisis in Riječka banka was far from the professional level that might be expected of a bank of such good reputation as is that of BLB (the crisis emerged as a result of failure of key control mechanisms in the bank, the owner abandoned the bank at the most critical moment, reconciling with the loss of capital invested and leaving to the Croatian Government and the CNB to deal with the run on the bank and prevent any domino effects, and their possible catastrophic repercussions). In the light of that, BLB was expected to provide firm guarantees that no similar scenario would happen in a hypothetical case of some future crisis. These guarantees, however, failed to materialise.

From the point of view of "political and economic reality", very important in the consideration of this issue were: the fact that BLB is a very respectable German bank in state ownership, the support that Germany has provided and continues to provide to Croatia on its path towards the EU, and the significance that economic relations with Germany have for our country. These considerations, the previous negative experience with the operations of BLB in Croatia aside, present arguments in favour of giving this bank an opportunity to begin anew its business operations in the Croatian market.

The CNB Council at its session held on 11 July considered both of these aspects and was unable to reach a final decision by the required majority vote. In such a situation, judging that any postponement in reaching a decision would only be detrimental to both BLB and the CNB, pursuant to powers referred to in Article 39, item 4 of the Croatian National Bank Act, I have reached a decision refusing the application of BLB for an indirect acquisition of qualifying holdings in HAAB d.d., Zagreb and in Slavonska banka.

I am fully aware of the weight of this decision and my personal responsibility, but I am also deeply convinced that it is the right decision.