

# Foreword

## Five years of experience

The **Croatian Banking Association (CBA)** celebrates its fifth anniversary, with two important events and several new projects. Five years after the press conference at which the establishment of the CBA was announced (26 May 1999), CBA hosted a meeting of the **European Banking Federation (EBF)** in Dubrovnik. On the first day, the 215th session of the EBF's Executive Board was held, and also the banking associations of the 10 new member countries of the EU were accepted into full membership of the Federation, which had 18 members until then. On the second day was held the 18th conference of the 17 new members (10 of whom held that status for the last time), which all members were allowed to attend. Besides the leadership of the Federation, representatives from some thirty countries also attended the meetings. Along with the full agenda and important decision-making, the CBA provided a pleasant and rich socializing program for the guests and their numerous escorts. On a gala dinner at the "Nautika" restaurant, the president of the CBA's Assembly, Mr Goran Gazivoda (HVB Splitska banka) held the introductory speech, and the City of Dubrovnik prepared a reception for the guests of the gathering, at the atrium of the Rector's Palace (Knežev dvor).

The annual assembly of the Croatian Banking Association was held exactly on the same date and the same place as the Founding Assembly - 15 October in the Esplanade hotel (which in the meantime became the Regent Esplanade). The assembly was in a working spirit, as usual, and besides the report and discussion on the CBA's activities, there were also presentations of the CBA's projects, which will be further described in this text. Special subjects were two Acts - the Act on Interest Rates and the Deposit Insurance Act, which were pushed to the parliamentary procedure without any consideration and real discussion, and which for the most part have not been in accordance with the legislation of the European Union, so they have to be changed soon.

During the past five years, the CBA has been working on all given goals, and solely as a result of hard work and support of the member banks, our Association has become and will remain a key factor of the banking system stability, working on strengthening of the basic foundation of banking - client's **trust in the banks**. Members of the CBA today make over 93% of the total assets of the banking system and through their affiliates they also form majority of other financial institutions (building savings companies, investment funds, pension funds, etc.). The working bodies of the CBA (committees and task forces) have held dozens of conferences and meetings with other institutions, and over a hundred outstanding banking experts who have attended, have helped with their knowledge and experience in fulfilment of the goals of the Association.

However, let us take a look at its history - the **Croatian Banking Association** was founded on 15 October 1999, as an economic interest group of the banking industry in Croatia. Thirteen banks signed the Articles of Association the Croatian Banking Association, setting up the main goals of the Association: protect, defend and promote the general interests of the entire banking system, encourage the development of human resources in the banking industry, promote professionalism and consistency in the implementation of general principles of banking, public and transparent business activities of the member banks and raise the banking business standard in Croatia, and in that manner, bring the Croatian banking system closer

to European Union standards. By joining the Croatian Banking Association, the member banks agree to respect the principles of the Association, especially the transparency and consistency in business dealing, based on the generally accepted ethical, professional and other standards of the profession, applying the good business customs and banking practice, and using the top standards for maintaining the reputation of the profession in the eyes of the public and clients.

## Projects

At the beginning of the 2004, the CBA established the **Information Exchange System** on bad debtors, by which the CBA put into practice the idea of cooperation and information exchange, and gave a concrete support to member banks for better management of credit risks. The Executive Board has, as an upgrade of the system, decided to establish a "full" credit registry in Croatia - **Croatian Registry of Credit Obligations (CROC)**. The first step in that direction was made after the CBA's General Assembly in November 2003 - by signing a Joint Development Agreement with the world's leading registers - a consortium of American TransUnion and Italian CRIF Decision systems (TUC). Within this process of development, Croatian banks chose a model and main characteristics for the registry and began an initiative for establishment of an independent company. The Articles of Incorporation were signed by 20 Croatian banks, and after all the formalities were made, **HROK d.o.o.** (CROC Ltd., [www.hrok.hr](http://www.hrok.hr)) was entered in the register of the Commercial Court at the beginning of 2005. As an independent institution, the CROC has finalized the negotiations on information system solution licensing with TUC, and has been currently working on the establishment of the infrastructure and other steps in order to make the first credit reports available to users by the beginning of 2006.

On several occasions, the CBA's Executive Board and other working bodies have considered different methods to quantify the regulation expenses of the banks, because they directly influence the competitiveness of our banks in relation to the banks of the neighbouring countries in the region. On the CBA's General Assembly, a new study proposal has been accepted, called "**Indicators of regulatory burden on banks in the six countries of the Central Europe and Croatia**", commissioned from "Arhivanalitika" consulting company. The study was successfully conducted and the Executive Board has accepted the final report as a beginning of the CBA's more systematized scientific approach to the regulatory problems. The study abstract is available on the CBA's website and the professional gathering on that subject has been planned for autumn 2005. The study conclusions will serve the banks to identify expenses and open a dialogue with the regulatory institutions, but we hope it will also provide them with methodology for bringing new regulations during their terms of office, and to quantify possible relaxing of the existing regulations.

The other project is much wider and the CBA takes a part in it as the main, but not the only party: "**Development prospects of the banking financial agencies in Croatia**". The final material will serve for a long-term better understanding of the role of the globalization processes in the professional and political circles and the key position of financial institutions and market in that process, better understanding of the basic EU regulations and of the best method of formal and real convergence with the EU standards, with the beginning of the affirmation of the principle of partnership of the private and public sectors, and a process of

consultations in the revision of the regulations.

Some parts of this project have already been completed, such as the Section on Securitization, sent to the Croatian National Bank as the basis for discussion and bringing of the necessary regulations for the development of such banking technique.

### Activities

Within the scope of its activities, the Croatian Banking Association also cooperates with a range of other institutions, particularly with the two most important institutions in the Croatian banking industry - the **Croatian National Bank (CNB)** and the **Ministry of Finance**. We participate in drawing up of laws, regulatory acts, implementation provisions and other regulations on banking and finance industry. Such cooperation, on one hand, leads to the adoption of quality regulations, because it gives an insight into the feasibility of the regulations to those who have brought it, and on the other hand enables the banks to present and discuss their voice and interests in the early stage of adoption, so the parties who proposed the regulation could bring the best decisions in the interest of the Croatian financial system stability. In cases when the regulatory measures are not to the interest of banks, or even cause a direct damage, CBA tries to consider all reasons and to start discussion with expert argumentation, in order to change or moderate the effects of such measures.

Besides the formal participation in the **National Payment System Committee**, founded at the initiative of the Croatian National Bank, and the **Interest Rate Determination Committee**, founded in accordance with the Law on Interest Rates, the CBA also participates in all the other task forces convened by those two institutions on a permanent or ad hoc basis. On operational basis, the CBA representatives participate in the **Committee of Participants in the National Clearing System (NCS)** under the leadership of the **Croatian Financial Agency (FINA)** and also in the **Coordination Committee of the Task Force for Cash Centres**, with the aim of establishing cash centres in accordance with the CNB's regulations, and in cooperation with other banks, the rationalization of the current system of cash handling in Croatia, together with infrastructural development, which will considerably increase the banking standards. In autumn 2005, a decision on possible establishment of an independent joint venture is expected, which would fulfil all the goals of this demanding project.

Through a collective membership in the Croatian Employers' Association (HUP), as a non-voting member, we participate in the work of **Croatian Committee on Finance and State Budget** of the Croatian Parliament, where we have an opportunity to present our standpoints on banking and economy in general, for all bills and other topics discussed at the Committee's sessions. Along with the Croatian Employers' Association and three chambers (Croatian Chamber of Economy, Croatian Chamber of Crafts and Trade and Croatian Bar Association), the CBA has founded the **Croatian National Committee of the International Chamber of Commerce (ICC)**, and the director and the president of the CBA's General Assembly are by definition also members of the Executive Board of ICC Croatia.

In accordance with its mandate, the Croatian Banking Association actively participates in a series of other projects and contacts with Croatian and foreign organizations, providing information on Croatian banking, answering the proposals and questions,

connecting the interested institutions with our member banks, or other Croatian institutions. The initiative examples, where CBA works on creation of actual banking projects, are the UNDP's project (United Nations Development Programme) on the Corporate social responsibilities and USAID's project (United States Agency for International Development) on mortgage finance in the countries of the Eastern Europe.

Some of the concrete results of the CBA's work for the previous year are the introduction of the IBAN standard (International Bank Account Number) in Croatia; negotiating a new tariff structure of the National Clearing System (NCS); cutting the deposit insurance premium; major changes in the foreign payment system.

### Working Methods

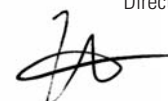
The main body of the Croatian Banking Association is its **Executive Board**, which once a month gathers the presidents and the members of the Management Boards of all major banks and brings all strategic decisions and procedures for the future actions of the CBA. Without an active contribution of the leading people of the Croatian banking, it would be very difficult to run the Association along its path and achieve the results that we have made.

More about the activities of each Committee of the Croatian Banking Association can be found below, as well as on our web site [www.hub.hr](http://www.hub.hr). Now, I wish once again to thank the member banks of the Croatian Banking Association for their cooperation, time and support, as well as our associates, without whose eagerness and openness we would not be able to achieve such results. With special thanks to the presidents of the CBA's Committees who wrote about the work in their committees, I will mention in the activities of some of one of working groups of the CBA.

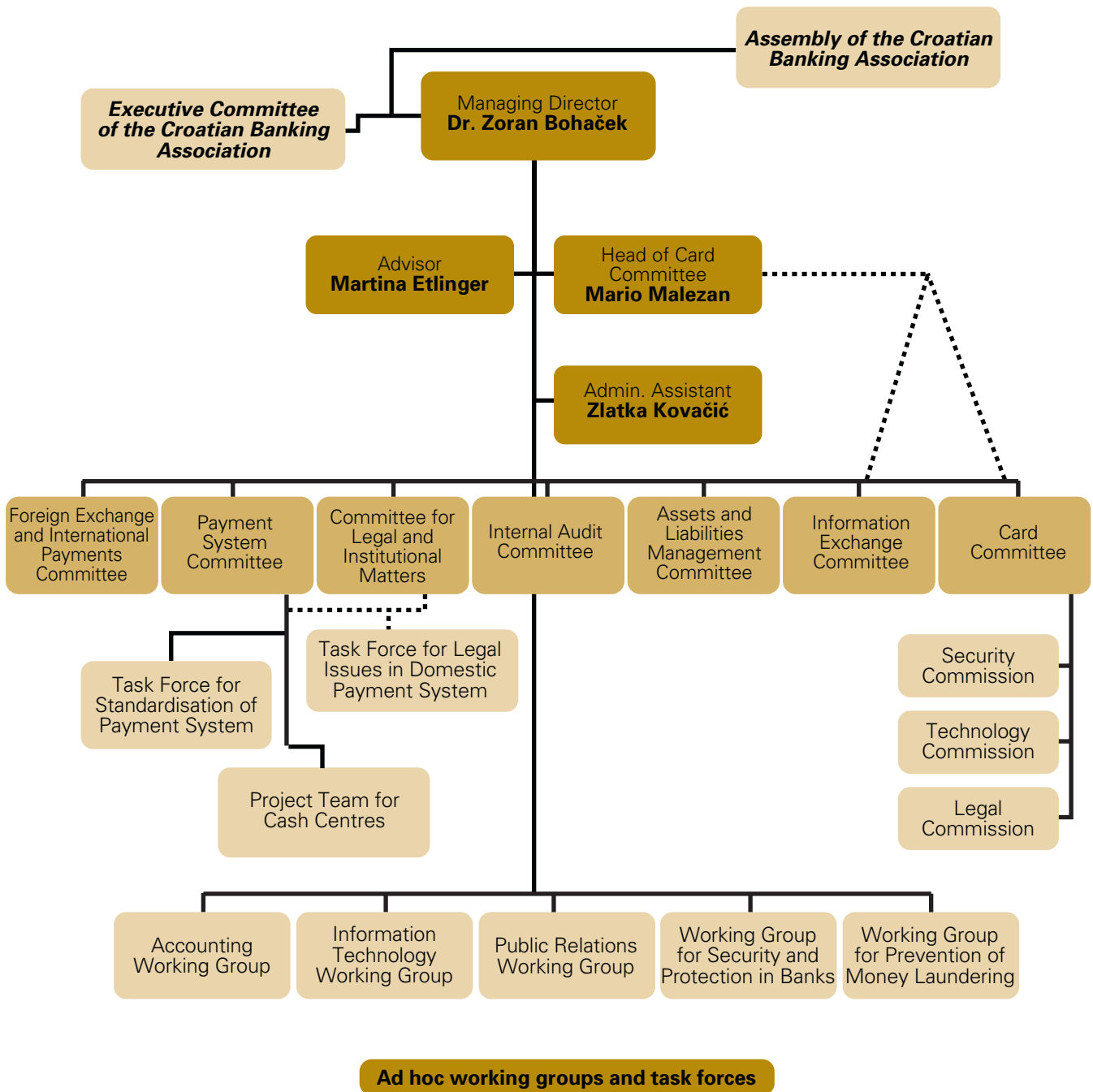
**The Working Group for the Security and Protection in Banks**, besides its regular meetings and cooperation with the Ministry of Internal Affairs, which is confirmed also by the presentation of annual CBA reward to the members of the police force, for solving the criminal acts against banks, participated also in drawing up of the regulations on the implementation of the Law on Minimum Protection Measures in Transactions with Cash and Valuables. At the recent meeting of the CBA delegation with the heads of the General and Crime Police Departments the strengthening of cooperation was agreed, which will be finalized in autumn 2005. At the beginning of the year, the **Working Group for Accounting** was established; dealing with accounting issues specific to banking business and negotiating about them with other institutions for accounting regulations and standards.

My special thanks go to a small, but brave CBA team, for without their efforts to conduct all our activities in the best possible way, we would not be able to make our banking and other partners view our Croatian Banking Association as a reliable partner, associate and support in their ideas and initiatives. Thank you, Martina, Zlatka and Mario!

Dr. Zoran Bohaček  
Director



# Croatian Banking Association Structure



# Our Activities

## Foreign Exchange and International Payments Committee

The establishing of the Foreign Exchange Committee was approved by the Executive Board of the CBA in 2002, but its founding was not formal until 2004, when its president and deputies were appointed and the Rules of Procedure adopted. During the past term, the Committee has actively considered all present issues in the foreign exchange field, which surfaced after the new **Foreign Exchange Operations Act** and all other regulations in connection with it became effective. One of the most important issues dealt with by the Committee during the past term were the CNB's objections on the draft of the new **Directions on Implementation of the Decision Governing the Conditions for and the Manner of Performing External (International) Payment Operations**, with the aim to make the regulation more operative and liberal in respect to the current Direction, as well as to direct banks' responsibilities to its function as a service, and not quasi-taxation or controlling business, which is forced upon the banks through acts and provisions governing the foreign exchange.

The Committee has also been giving opinions and proposals in connection with the adoption of the **Decision on structuring and managing of the International Bank Account Number (IBAN)**, which resulted in setting of a reasonable period for giving the banks enough time to adapt their information systems.

The representatives of the Committee initiated also amendment to the **Decision on amendments to the decision on structuring bank accounts, banks' payment codes, conditions and manner of opening bank accounts and the contents of the registry of business entities' bank accounts**, issued in November 2004, making all Croatian banks conduct operations with the non-residents in contradiction with the provisions of that Decision, since the Croatian currency operations for non-residents are subject to the regulations governing external payment operations, and the implementation of the Decision did not leave any time for the banks to upgrade their information system support. The CBA's initiative to coordinate the terms for implementation of this regulation with the Decision on construction and managing the International Bank Account Number resulted in the **Decision on amendments to the decision on structuring bank accounts, banks' payment codes, conditions and manner of opening a bank account and the contents of the registry of bank accounts of business entities**.

During the reported term, members of the Foreign Exchange Committee have considered a possibility of **introducing documentary letters of credit as a payment security in the domestic payment system**, which has the client's interest, but such a service has not been offered by any bank so far.

In the same context, the Committee participated also in giving objections to the new **Civil Obligations Act**, which among the rest, governs the operations with

documentary letters of credit and bank guarantees, and its provisions have a direct effect on conducting operations and introduction of the documentary letter of credit into the payment system.

## Payment System Committee

Since its foundation in 2002 until now, the National Payment System Committee has had at its agenda numerous open issues, problems, and suggestions for a more efficient functioning of the payment system in the country.

The Committee has always included task forces in its activities, for their efficacy and expert knowledge:

- for standardization of payment system
- for legal issues in payment system
- for commercial cash centres.

During 2004 and 2005, the activities of the Committee took place through special task forces, connecting the work of this Committee with the Foreign Exchange Committee:

- for foreign-based restraints
- for capital investment
- for IBAN definition and opening of non-resident bank accounts

Task forces working on the Committee's specific issues have been:

- for expanding the Unified Register of Business Entities' Accounts
- for reports on CNB payment system.

During 2004 and until 2005, the Committee actively participated in solving numerous open issues, such as the problem of processing drafts in the payment system, after the decision was adopted that drafts do not enter the priority order of payment, or amendments to the **Execution Law**, which is partly in collision with the **Croatian Law on Domestic Payment System** and subordinate regulations adopted on its basis. The Committee took the obligation to define the precise data content of payment system reports according to the **Decision on the compulsory payment system data report delivery**.

The Committee initiated resolving the issue of closure of bank accounts which were not opened according to the Law on Domestic Payment System, or were opened in banks facing liquidation or receivership.

The Committee has prepared a proposal of a new NCS service pricing, in agreement with the CNB and the Financial Agency, and its implementation is expected by the middle of this year.

Most of the Committee's activities were done through the Task Force for Commercial Cash Centres owned by banks. This task force was founded when banks decided to try and cut the expenses of cash supply for banks and their clients, and abandon the project of cash centres, launched by the CNB in cooperation with the Financial

Agency. This task force has prepared an analysis of the resources available to banks for cash transactions, necessary investments for starting of commercial cash centres, as well as the cost/benefit analysis for such cash centres. This was the basis for the decision of the CBA's Executive Board to launch a project of cash centres in banks' ownership. Therefore, the development of this project in the next period will be among the top priorities of the Payment System Committee. This Committee will in future closely cooperate with the Foreign Exchange Committee, because the fields of Croatian and foreign payment systems are becoming closer in their activities.

We expect the Committee will be successful in solving the payment system problems in the next term and also have support of the CBA member banks.

### **Committee for Legal and Institutional Matters**

The Committee for Legal and Institutional Matters starts initiatives of interest to legal structures in the CBA member banks, gives proposals to the Executive Board and other Committees, provides opinions and proposals concerning the issues of legal scope proposed by the Executive Board or other CBA bodies.

The Committee for Legal and Institutional Matters has dealt with the following issues: provisions regulating execution (distrainments), receivership regulations, legal matters connected with information exchange between the banks, issues of the Execution Law, Law on Interest Rates, Civil Obligations Act and other regulations relevant for banking operations.

In connection with the **Act on Amendments to the Execution Law**, the Committee for Legal and Institutional Matters has sent banks' commentary with proposals for amendments of certain articles to the Ministry of Justice, in order to gain clarity and precision.

The Committee for Legal and Institutional Matters has considered the **Bankruptcy Law**, and sent a proposal for its amendments to the Ministry of Justice. The standpoint of the Committee for Legal and Institutional Matters is that the new amendment does not set clearly the terms for court hearings on separation of purchase, i.e. settling matters with the creditors.

The banks' opinion is that the Act on Amendments to the Bankruptcy Law has considerably damaged creditors, and the banks have asked for an amendment to the Bankruptcy Law, in order to re-establish the creditors' rights for settling their claims in the process of distraint, in accordance with the Bankruptcy Law in the form prior to the new amendment. Also, an amendment was proposed in order to

determine more precisely the terms for court hearings on separation of purchase, i.e. settling matters with the creditors.

In connection with the **Act on Amendments to the Land Registry Act**, The Committee for Legal and Institutional Matters, after the request of the Executive Board of the CBA, considered the current situation and found problems, resulting from its application, being the frequent refusals of clients' applications for registration, because of their sloppiness and incompleteness, and it is considered that it damaged the principles of helping lay clients and land register priority principles. The Ministry of Justice was informed on that matter and asked to consider the negative impacts of the **Act on Amendments to the Land Registry Act**, consider the proposal to go back to the old solution or find a new one. The Ministry of Justice has declared its opinion to the proposal of the Committee for Legal and Institutional Matters.....

The Committee for Legal and Institutional Matters also considered a **draft Law on the Registry of Court and Notary Public Securities of Creditors' Claims on Personal Property and Rights**, and sent its commentary via CBA to the Ministry of Justice.

CLIM has also considered legal aspects of the **Information Exchange System and the Croatian Registry on Credit Obligations (CROC)**, and given suggestions concerning the existing legal issues with a text of consent by a client - physical person.

The Committee for Legal and Institutional Matters has also considered a measure of Marginal Obligatory Reserve requirement, adopted by the CNB. The Committee's standpoint on the Marginal Obligatory Reserve requirement has a retroactive effect, because the retroactive application of its provisions changes the conditions for bank operations, forcing upon them an increased payment obligation for the marginal obligatory reserve also for the basic rate since before the implementation and effectiveness of the above decision. This standpoint was declared to the Executive Committee and a letter was sent to the CNB.

### **Assets and Liabilities Management Committee**

The Assets and Liabilities Management Committee deals with all the issues in the field of assets and liabilities management and its members are, as a rule, banks' treasury managers.

A frequent topic is the analysis of measures in the field of central banking operations of the Croatian National Bank and any other decisions affecting the banking operations on both domestic and international financial markets. Along with its reactive role, the Committee also regularly plays a proactive role with its incentives

directed towards the development of new instruments on the Croatian banking market (as well as initiating dialogues with the regulatory bodies) or aiming to explain specific regulations (asking for interpretations or amendments in cases when those regulations are not in compliance with the best professional practice).

In addition to the dialogues with the Croatian National Bank (CNB) and the Croatian Securities Commission (CROSEC), on the operative level the Committee cooperates with all other institutions such as the Central Depository Agency (CDA), Zagreb Money Market (ZMM) and the Varaždin and Zagreb Stock Exchanges.

In the course of its work on the project "**Indicators of regulatory burden on banks in the six countries of the Central Europe and Croatia**", the Committee as a professional authority, discussed the proposed methods and presented the proposals and ideas based on which the study was conducted and concluded with success. Within the scope of its another project in cooperation with the Arhivalitika Company - "**Development Prospects of Financial Agency Services in Croatia**", the Committee was directly involved in the chapter concerning the issues of development of securitisation operations in Croatia, and its members participated in the other chapters of the project, on as needed basis.

The reference indicators **ZIBOR** (Zagreb Interbank Offered Rate) and **ZAGREB FIXING FOR BONDS** have been announced within the framework of the Croatian Banking Association since mid 2002 as agreed with and under coordination and supervision from the Assets and Liabilities Management Committee of the Croatian Banking Association. In early 2005, the regulations for these indicators were changed and the incentive was made for a better technical implementation of quotations and calculations.

**ZIBOR** (Zagreb Interbank Offered Rate) is a unique reference offered interest rate for Kuna (HRK) on the Croatian interbank market reflecting the average rates of the referential Croatian banks for deposits in Kuna based on internationally recognized maturities, ranging from overnight borrowings up to 6-month loans.

**ZAGREB FIXING FOR BONDS** has been designed as a benchmark or reference indicator for the prices of Croatian bonds on the domestic fixed income market. The list of bonds has been defined by the most active banks on the market ("market makers") which in this way, by regular daily contributions and announcements of bid and ask quotations of the prices of specific bonds, contribute to a more transparent and more liquid market and make possible its further development. In addition to providing as transparent information from the domestic capital market as possible, the aim of the fixing is to be a unique benchmark for the portfolio evaluation.

### Internal Audit Committee

Within the last few years, technology of operations in banks experiences significant changes. As a result, there emerges a need to establish new methods of managing risks in daily operations and redesigning current internal audit systems. Internal audit in banks have an assignment to observe these changes and through specific methods detect weaknesses in established control check-points chain.

Due to own insights and partially due to impetus from the international community, Croatian banking regulation framework is changing and in its extensiveness is related to the set of practical issues. So that internal audit would perform all tasks stemming from international standards and the Banking Law, on Committee sessions, most attention was put on discussing implementation particular sub-acts, as they are sometimes incomprehensible, and therefore problematic to implement. Such issues dominated all Committee sessions, since its establishment in 2001. Still remains current the issue of coordinating internal audits within a group of legal entities (companies), together with a topic of competence and assignments of internal audit of owner-bank ('mother-bank') in relation to other group members.

Priority of Committee's work for the following period was defined as well. Namely, in a sense of developing methods to detect risk and weak points in internal control, a need to improve auditing skills and keeping educational series on topics such as IT audit and treasury audit. Mentioned two topics were selected as first ones in a set of educational series and seminars which are to be organized by the Committee, that is, through the Association.

### Card Committee

Members of the Card Committee are the principal members of MasterCard International and VISA: Zagrebačka banka d.d., Privredna banka d.d., Erste & Steiermarkische bank d.d., Splitska banka d.d., Raiffeisenbank Austria d.d., Hrvatska Poštanska Banka d.d., Slavonska banka d.d., Hypo Alpe-Adria Bank d.d., as well as the card companies: PBZ American Express d.o.o. and Diners Club Adriatic d.d.

The activities of the Card Committee cover the non-competitive fields of card operations at the level of MC, VISA, AmEx and Diners brands, such as: security, technology and law.

The Committee encompasses the following commissions:

- **Security Commission;**
- **Technology Commission;**
- **Legal Commission.**

In the preceding year, the Committee was engaged in the issues of amending the Penal Code in the field of card business (Draft Amendments to the Penal Code from March 2004), the Croatian National Bank's initiative for the structuring of the statistics of card payment transactions and the structuring of the appertaining database, enacting the provisional injunction of usury advertisements, participation of card departments in the Information Exchange System (bad debtors' list), defining security standards, as well as new types of card fraud and abuse.

As regards the amendments to the current Penal Code, it has been recognized that the current Criminal Code does not sanction the offences in the field of card business in an appropriate way and in the course of 2004 cooperation was established with the Ministry of Justice, Administration and Local Self-Government and the State Attorney's Office aimed to include these issues in the Act on Amendments to the Penal Code. The aim of the Committee and the Ministry's Task Force for Amendments to the Penal Code is to harmonize the Penal Code with the EU legislation governing fraud and abuse with non-cash payment means.

As for increasing security of card operations, the Committee has undertaken a number of activities. In order to secure the ATM network, banks have installed images on ATM monitors directing clients to check whether the card slot appearance is original and a drawing directing them to hide their PIN entry. One of the measures is preventing the usury advertisements offering usury loans through cards. For that purpose, consent was asked from MC and VISA to issue an interim injunction of such advertisements on their behalf as well. The next measure aimed to increase security is participation of the banks' card departments in the Information Exchange System which is used to exchange a bad debtors' list (physical persons) among the banks. The lists are formed and exchanged near the end of a current month in accordance with the agreed criteria on a monthly basis.

Replacement of magnet stripe cards with chip cards has provided an opportunity for a significant increase of security in card operations by the introduction of PIN on chip credit and charge cards, which will significantly reduce certain types of fraud and abuse.

The security in card business will be improved also by security standards for our market stimulating traders to detect forged cards and certain types of fraud, while updating of MCC will provide more precise monitoring of traders' activities.

### Information Exchange Committee

In the course of 2003, the Information Exchange Committee defined the information exchange concept as well as the complete technical solution of the project, as well as the **Regulations on Using the Information Exchange System (IES)**. Upon the adoption of the Regulations by the Executive Board of the Croatian Banking Association as its bylaw, in March 2003, banks started exchanging the information in cooperation with the Financial Agency (FINA) which provides the information service.

Those banks that are not members of the CBA may participate in the exchange upon their signing of the agreement on acceptance of the Regulations and the testing with FINA.

Participants in the information exchange are obliged to act responsibly and to apply all measures for the protection of security and confidentiality of the information, in accordance with the laws and internal bylaws. It has been anticipated that the exchange of information via IES would last until the Croatian Registry of Credit Liabilities is established.

The first effects of the exchange have already been noticed in the increased discipline in fulfilling credit obligations and the collection of certain credit products that were on the verge of dubious has improved. Finally, the establishing of the information exchange will be of most advantage to clients as banks will eliminate potentially bad credits thereby reducing their risks and will be able to provide **more of, better and more affordable** credit products (higher amounts, with simplified procedure, and at lower interest) to debtors with good standing.

# CODE

## OF GOOD BANKING PRACTICE

Banks members of the **Economic Interest Grouping Croatian Banking Association** present this Code in order to:

- set standards of good conduct and open communication amongst banks and towards customers;
- increase the visibility and the reputation of the banking industry;
- promote responsibility, transparency and professionalism in the banking business.

### 1. General principles

- 1.1. THE CODE OF GOOD BANKING PRACTICE (referred to as Code in further text) is a voluntary framework by which banks regulate their business transactions with clients (individual and corporate) and other banks. The Code represents values that banks wish to accept and implement in their relations.
- 1.2. By accepting the Code banks set standards of good banking practice as a minimum to be maintained in business transactions. Competition and market conditions shall stimulate banks to achieve higher standards to the benefit of their clients.
- 1.3. The Code consists of basic elements that each bank should include in their internal rules and regulations.
- 1.4. The Code enables clients to become aware of methods by which banks conduct business transactions and to know what to expect when dealing with banks.

### 2. Principles of bank relations towards clients

- 2.1. Ethical and professional conduct
- 2.2. Application and respect of laws and regulations
- 2.3. Confidentiality of banking information
- 2.4. Objectivity in business transactions with clients
- 2.5. Competent usage of know-how and technology
- 2.6. Security and reliability of bank and payment systems
- 2.7. Transparency of banking fees and expenses
- 2.8. Quick and accurate correction of possible errors

### 3. Bank as a partner in financial transactions

- 3.1. Successful banking relations are based on trust that is achieved with honest and open dialogue of both parties, mutual understanding and freedom of choice.
- 3.2. Competence and knowledge are essential in achieving a partnership. Therefore, banks provide adequate education to their employees and associates so that they can entirely respond to their clients' needs. They are made aware of this Code and instructed to apply it.
- 3.3. Bank employees realise that their work and relations reflect the entire bank; therefore their mutual relations must be based on co-operation, respect and assistance.

### 4. Bank information

- 4.1. A good working relationship is based on openness and trust, meaning that information exchanged between the bank and clients when doing business must be exact, complete and timely.
- 4.2. Fees for bank services, interest rates and other information are available to the clients in all branches. Banks oblige to deliver key data and changes to the Croatian Banking Association so as to make them uniformly available to the general public.
- 4.3. Banking communications, advertising and other marketing activities must be clear, true and unequivocal. They must not mislead the general public, transgress good business practice or inflict harm on others. Honest competition allows for all marketing means and forms of communication as long as such information stresses characteristics of a bank's business, advantages in its services, products or technology in order to achieve market expansion.



## 5. Client protection

- 5.1. Banking business does not only serve to execute banking transactions, being just a part of the wider economic and social environment. For this reason banks defend the integrity of the banking system as a whole and protect rights and interests of depositors, debtors and shareholders in the same way as their own interests and interests of their employees. Banks are conscious of their responsibility in ensuring transparency and regularity of the entire financial system.
- 5.2. All data regarding bank clients and business partners as well as value judgements obtained working with clients are considered bank secrets even after the end of client status. All personal data, including information concerning client accounts must not be divulged to anyone, including companies belonging to the same owner, except for cases clearly defined by the law, at client's direct demand or with their explicit consent.
- 5.3. Data concerning clients and their accounts are used only in order to enable efficient account management and supplying of banking services. Clients have right to access their information for the sake of verification and eventual correction of inaccuracies.
- 5.4. To protect clients and to respect regulations set by the Croatian National Bank, for particular transactions, including disclosure of personal data and account information, a positive client identification is needed.
- 5.5. Bank information systems should be specially protected from unauthorized access to bank files in order to protect interests of banks and clients and to preserve the integrity of data.
- 5.6. When a client notices a mistake in a banking transaction and informs the bank of such, a bank will attempt to verify the claim as timely as possible and correct such mistake without delay. If a longer time is necessary for verification of the claim, all measures shall be undertaken in order that temporary solution satisfying all parties can be taken. Banks determine procedures for submitting and dealing with clients' complaints within internal regulations.
- 5.7. In cases of financial difficulties of bank clients, the bank shall, while taking care of its own interests, act as a partner and as a first step be ready to open a discussion with the client. Clients are expected to inform their bank as soon as possible of existing or foreseeable future difficulties. That way, some difficulties in clients' business can be avoided and those that have already occurred can be handled in a proper way. Banks are partners with clients and only with clients' full co-operation can they offer a reasonable plan for consolidation, satisfactory to both parties.

## 6. Relations between banks

- 6.1. Banks adhere to same existing regulations in mutual relations and business transactions as they do with other business subjects, with a special emphasis on protecting interests of the bank industry and fairness with regards to relations, loyal competition, while trying to maintain good reputation of other banks.
- 6.2. If a bank signer of this Code encounters difficulties, experiences loss of clients' confidence or finds itself in a difficult business situation, the entire banking industry will suffer from negative repercussions. Since all banks, accepting the Code have also accepted the principles of good banking practice, every bank is ready to give another bank assistance at its request, undertaking all measures in order to retain client trust while preserving its own business interests.
- 6.3. Should problems or misunderstandings arise between banks that have accepted Code, banks commit themselves to attempt to find a solution constructively through dialogue based on the principles of good banking practice. If a dialogue between two (or more) parties does not result in a solution, banks shall primarily attempt to solve the dispute within the Croatian Banking Association.

## 7. Final provisions

- 7.1. This Code becomes effective on 1 January 2001, and all members of the Croatian Banking Association shall strive to align their business with its stipulations by 1 July 2000.
- 7.2. Furthermore, all other banks in Croatia will be made aware of the Code, and accepting its principles will allow them to use the Code of Good Banking Practice in their own business.
- 7.3. Amendments and supplements to the Code can be initiated by any member of the Croatian Banking Association, and must be unanimously accepted by all members in order to become effective 30 days following their acceptance.
- 7.4. The full text of the Code is available to the public at the Croatian Banking Association web site - <http://www.hub.hr>.

## 8. Signed in Zagreb on November 27th, 2000.