

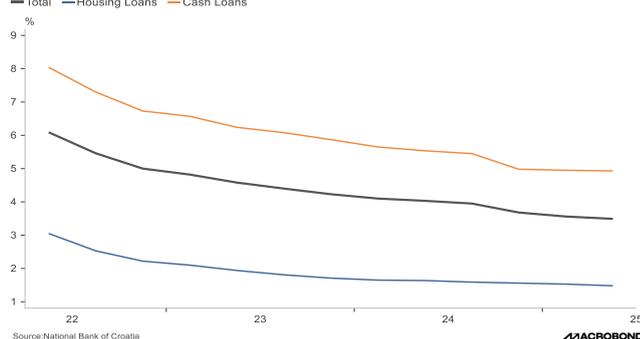
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Corporate loans' quality improvement trend maintained

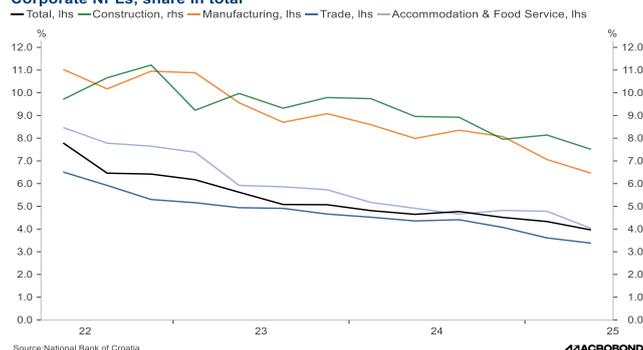
- In this year's Q3 we noted a continuation of a gradual slight decline of the NPL ratio in total loans, which reached 0.1 p.p. q-o-q, thus lowering the ratio to 2.3%. The same dynamics reduced the ratio in private sector loans (to 3.6%). Strong growth of corporate loans and solid economic activity resulted in a sharp decline of the NPL ratio of 0.3 p.p. (to 3.7%) in loans to non-financial corporations, which is now only 0.2 p.p. higher than the NPL ratio in household loans which stagnated in the last quarter at 3.5%. By comparison, ten or so years ago, or more accurately in late 2016, this difference was almost 18 p.p., which points to significant improvements of both credit policies and banks' risk management, as well as of economic environment and thus companies' operations in that period. Breakdown of corporate placements by activity reveals that the ratio's decrease largely arose from a sharp reduction in Construction of as much as 1.6 p.p. (to 5.9%). Manufacturing and Accommodation and food service activities had a somewhat more moderate decline of 0.3, i.e., 0.4 p.p. (to 6.2% and 3.7%), while Trade recorded slight growth of 0.1 p.p. (to 3.5%). Within the household loans by purpose, share in housing loans remained at 1.5%, overdrafts recorded a share decrease of 0.2 p.p. to 4.8%, while the share in cash loans recorded slight growth of 0.1 p.p. to 5.0%.

NPL ratio in corporate loans 3.7%, in household loans 3.5%

Household NPLs, share in total



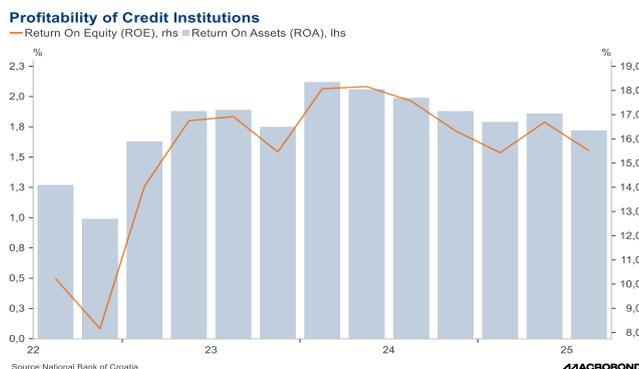
Corporate NPLs, share in total



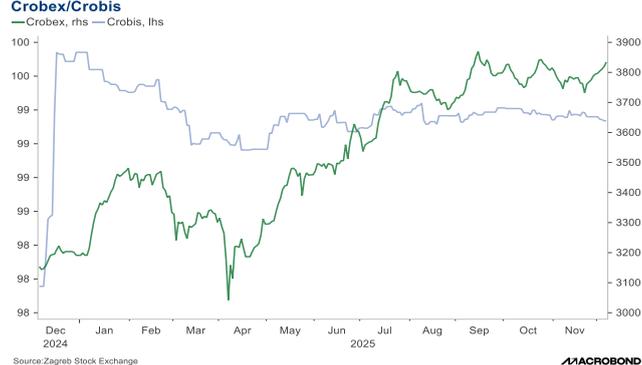
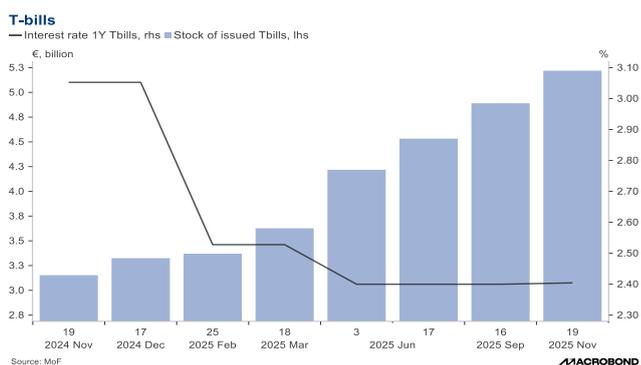
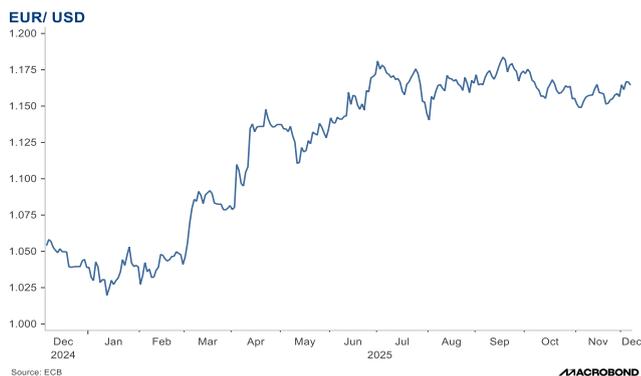
- In the first nine months, the net profit of credit institutions declined 6.0% y-o-y (EUR -72 million) to EUR 1.1 billion due to 4.3%, i.e., EUR 74 million of lower net interest income. The latter declined mostly due to lower income from deposits at the central bank, due to

the easing of the ECB's monetary policy, i.e., the reduction of key interest rates. Net fee income increased by 10.9% (EUR 49 million), and all other income by 19.4% (EUR 31 million), but gross operating profit increased only by 0.2%. Simultaneously, operating costs recorded an increase of 5.9% which led to the reduction of efficiency, so the CNB's cost to income ratio increased 2.2 p.p. y-o-y to 41.3%. Consequently, credit institutions recorded lower returns on assets (-0.3 p.p.) and equity (-2.1 p.p.) compared to the same period last year of 1.7% and 15.5%. Capitalisation remained strong with the total capital ratio up by 0.1 p.p. y-o-y, to 23.1%.

Lower credit institutions' return on assets and equity in Q3



- Strengthening of expectations that the Fed will reduce interest rates at this week's meeting led to the dollar depreciating. At the end of the week, the exchange rate was 1.1645 dollars to the euro, up by 0.7% w-o-w.
- Euribor recorded a slight decline w-o-w for the shortest maturity, and growth for longer maturities up to 4 bps. At the end of the week, 3M was 2.08% and 6M was 2.15%. The first round of subscriptions of 3M T-bills open to natural persons with an annual yield of 2.50% starts this week. The targeted amount of the issue is EUR 1.6 billion.
- Crobex maintained its upward trend by rising 1.0% w-o-w to 3,834 points due to growth of almost all sectoral indices (CROBEXindustry +0.6% to 3,363, CROBEXnutris +0.5% to 797, CROBEXtourist -0.8% to 4,933). Crobis stagnated at 99.2 points.



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ECONOMIC RESEARCH

Ivana Jović
Ana Lokin

TRANSLATION

Ana Biloš
Jelena Marinović

www.pbz.hr