

## **Bosnia: Bank Fraud Revelations**

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Probe into Hercegovacka Bank scandal implicates top Bosnian Croat leaders.

A clutch of high-ranking Bosnian Croat officials were behind one of the biggest cases of corruption in post-war Bosnia-Herzegovina, a report into the Hercegovacka Bank has found.

The 90-page document, which only covers the first phase of an investigation into the mass fraud and embezzlement carried out through the bank, has taken over 18 months to complete.

The report, commissioned by the Office of the High Representative, is based on documentation seized when SFOR troops raided the bank's central office in Mostar and branches across Bosnia on April 5, 2001.

The OHR, which suspected that the bank formed the financial backbone of Bosnian Croat hard liners and criminals, appointed Toby Robinson as a provisional administrator and put her in charge of the investigation. On December 16, Robinson outlined her findings to journalists at a press conference in Mostar.

Copies of the report have been submitted to the OHR and to the federal public prosecutor.

The High Representative, Paddy Ashdown, told IWPR that his office will spend at least five or six days studying the findings before any announcements are made about possible action. In the meantime, IWPR has obtained a copy of the report, which describes how high-ranking Bosnian Croats procured money from the government of neighbouring Croatia then used it to carry out fraud and embezzlement on a massive scale.

The power and influence of the Hercegovacka Bank became obvious on the day of the SFOR raids, when "spontaneous" gatherings of people attacked alliance soldiers and international officials.

SFOR vehicles were set on fire in Mostar, while 40 km to the south-west in Grude, rioters broke into the Hercegovacka Bank branch, taking international investigators hostage. Eventually, SFOR and the inspectors were forced to withdraw, enabling the rioters to remove documentation and money.

More documents were stolen three weeks later, when another group of rioters stormed the bank's central offices.

Despite the loss of some documents, investigators seized enough paperwork to construct a detailed picture of how the bank worked. The report traces the genesis of the Hercegovacka Bank to 1997.

Conceived as part of a so-called Herzegovina holding conglomerate, made up of financial, telecommunications, publishing and trading companies, the bank was the brainchild of Bosnian Croat hard liners. They approached the late Croatian president Franjo Tudjman in early 1998, in order to raise capital. Funds were requested, for example, to provide legal counsel for high-ranking Croats under investigation by The Hague tribunal. Before long, Zagreb started forwarding funds to the bank.

"From March 1998 to early 2001, 647 million German marks were deposited in the Hercegovacka Bank by the Croatian government. At least 216 million marks intended as payments for soldiers, pensions and assistance for widows of war veterans, were used for other purposes," Robinson told journalists. "Some of the shareholders used the bank to finance a planned attempt to force a change in the constitution of Bosnia-Herzegovina," she added, referring to an attempt by Bosnian Croat hard liners to establish a separate Bosnian Croat entity two years ago.

The report alleges that in March 2001, high-ranking Bosnian Croat hard liners withdrew 1.3 million marks from the bank to pay the salaries of Bosnian Croat soldiers serving in the federal army. The payments were intended to buy the loyalty of the troops in question.

When they weren't seeking to undermine the federal state, the same hard line politicians were supposedly lining their pockets with enormous sums of money. Ante Jelavic, a former HDZ leader and ex-member of the Bosnian presidency, was named as a major player.

Jelavic and his supporters appointed themselves or their acolytes to key positions in ministries, related agencies, private companies and banks, which enabled them to exercise control over the bank's funds. Without such a network of highly-placed and interconnected people, fraud on such a scale would have been impossible. Jelavic's group then borrowed money from the bank, which they used to buy shares, making themselves part-owners.

As part-owners, they took advantage of their positions to circumvent the laws and regulations of Bosnia, taking out new loans without repaying the previous ones. The report lists over a dozen examples where the bank allegedly failed to take any action to get its money back. Instead, it continued turning over money received from Croatia.

The group also reportedly established more than 120 fictitious companies to import fuel and other lucrative goods without paying taxes or customs duties. The bulk of the profit was then laundered through the bank. It is estimated that at least 13 million euro were embezzled in this way. A month before the bank was raided, Jelavic was removed from office by the previous High Representative, Wolfgang Petritsch, and banned from any political activity, following his persistent obstruction of the peace process.

Other leading figures named include General Ljubo Cesic Rojs, a HDZ deputy in the Croatian parliament, retired HVO general Stanko Sopta, former Federation minister of defense General Miroslav Prce and senior federal defence ministry official General Ivan Medic. All are believed to have used the funds for personal gain.

Robinson told reporters that even before the international community broke into the bank, it was insolvent. Payments from the Croatian government had diminished over the three years. Dragan Covic, a senior HDZ leader and the current Croatian member of the Bosnian presidency, will have to explain why in his capacity as federal finance minister, he authorised the Hercegovacka Bank to receive Croatian funds, despite obvious indications of its uncertain financial position.

Federal prosecutor Marinko Jurcevic has been appointed to prove the report's findings in court, a formidable task, which could take years.

Meanwhile, Ashdown is expected to decide on the future of the bank by the end of the year. Federal banking laws allow for three possible courses of action. Hercegovacka could be liquidated, sold or recapitalised and restructured. Sources say that a potential buyer has already shown an interest, which still owns 30 branches, an office in Zurich, and employs 650 people in Bosnia. On the other hand, a restructuring would send a reassuring message to Bosnian Croats and also form an important gesture to the Catholic church, which holds shares in the bank.

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