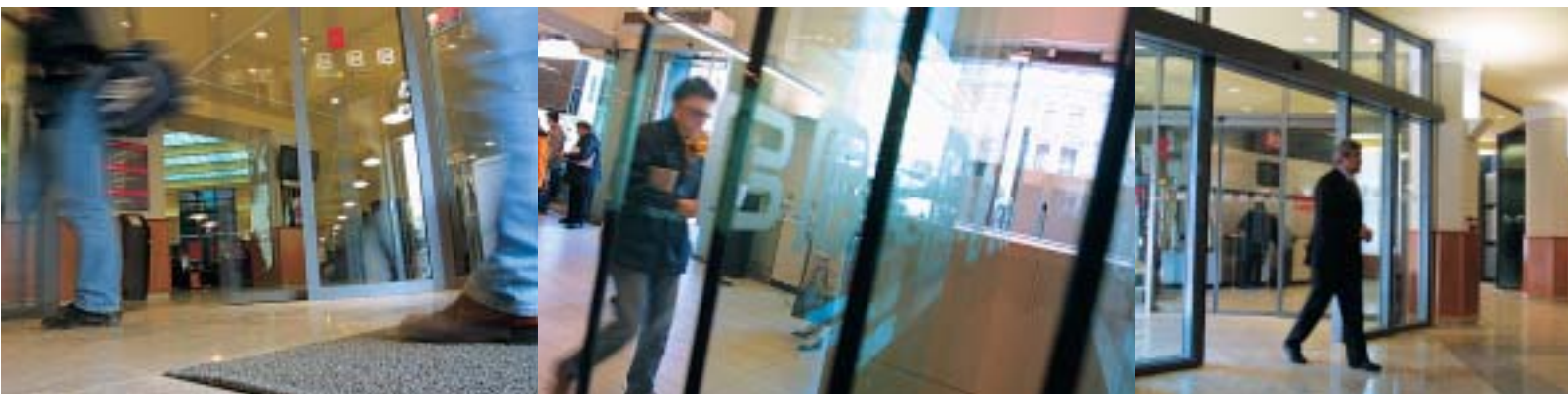


ANNUAL REPORT 2001



Table of contents



	page
Introduction	5
Four year summary and financial highlights	6
Report from the President of the Supervisory Board	9
Report from the President of the Management Board	13
Review of the Croatian economy in 2001	19
Organisational chart	23
Business description of the Bank and the Group	25
Corporate governance	49
Statement of responsibilities of the Management Board	51
Auditor's report	53
Financial statements for the Bank and the Group	54
Accounting policies	58
Notes to the Bank and the Group financial statements	62
Supplementary financial statements in EUR (unaudited)	94





The Management Board of Privredna banka Zagreb d.d. has the pleasure of presenting its Annual report to the shareholders of the Bank. This comprises summary financial information, management reviews, the audited financial statements and accompanying audit report, and unaudited supplementary statements in EUR. Audited financial statements are presented for the Bank and the Group.

Croatian and English version

This document comprises the Annual Report of Privredna banka Zagreb d.d. for the year ended 31 December 2001 expressed in English. This report is also published in Croatian for presentation to shareholders at the Annual General Meeting.

Legal status

The Annual Report includes the annual financial statements prepared in accordance with International Financial Reporting Standards and audited in accordance with International Standards on Auditing.

The Annual Report is prepared in accordance with section 276 of the Companies Act, which requires the Management Board to report to shareholders of the company at the Annual General Meeting.

Abbreviations

In this Annual Report, Privredna banka Zagreb d.d. is referred to as "the Bank" or "PBZ" or as "Privredna banka Zagreb", and Privredna banka Zagreb d.d., together with its subsidiary undertakings are referred to collectively as "the Group", "the Privredna banka Zagreb Group".

The central bank, the Croatian National Bank, is referred to as "the CNB". The State Agency for Deposit Insurance and Bank Rehabilitation is referred to as "DAB".

In this report, the abbreviations "HRK thousand", "HRK million", "DEM thousand", "DEM million", "USD thousand", "USD million" and "EUR thousand" or "EUR million" represents thousands and millions of Croatian kunas, German marks, US dollars and Euros respectively. The abbreviation Euro in currencies refers to euro and all other foreign currencies linked to the euro.

Exchange rates

The following mid exchange rates set by the CNB ruling on 31 December 2001 have been used to translate balances in foreign currency on that date:

DEM 1 = HRK 3.768237	USD 1 = HRK 8.356043
CHF 1 = HRK 4.977396	EUR 1 = HRK 7.370030

Four year summary and financial highlights

In HRK million



Group	2001	2000	1999	1998
Profit and loss account and balance sheet				
Total gross revenue	2,800	2,277	1,997	1,558
Net interest income	1,096	915	556	489
Net operating income	1,940	1,575	1,373	1,002
Net profit for the year	581	406	198	90
Total assets	31,473	22,309	17,188	17,900
Loans and advances to customers	13,167	9,878	6,446	7,930
Due to customers	23,757	15,194	9,839	8,788
Shareholders' funds	2,891	2,440	2,033	1,807
Other data				
Return on average equity	21.75%	17.74%	9.74%	4.98%
Return on average assets	2.16%	2.00%	1.15%	0.50%
Assets per employee	8.5	6.2	4.4	4.6
Cost income ratio	56.96%	58.52%	62.41%	66.27%



Bank

Profit and loss account and balance sheet

	2001	2000	1999	1998
Total gross revenue	2,230	1,909	1,680	1,347
Net interest income	754	687	499	402
Net operating income	1,480	1,275	1,112	860
Net profit for the year	517	379	221	119
Total assets	27,600	20,574	15,736	16,541
Loans and advances to customers	11,245	9,164	6,135	7,524
Due to customers	20,708	14,261	8,871	7,815
Shareholders' funds	2,754	2,391	2,025	1,803
Other data				
Return on average equity	24.33%	17.53%	10.91%	6.60%
Return on average assets	1.90%	1.82%	1.40%	0.72%
Assets per employee	9.6	6.9	4.8	4.8
Cost income ratio	53.38%	52.67%	57.82%	62.33%

Report from the President of the Supervisory Board



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On behalf of the Supervisory Board of Privredna banka Zagreb, I am pleased to present the results of Privredna banka Zagreb Group for the year 2001. In the present challenging environment the Group's financial performance was extraordinary in every aspect.

The business year 2001 was the second year of PBZ operations within Gruppo IntesaBci, the largest Italian banking group with international presence. Upon the merger of two large Italian financial corporations, Gruppo Intesa and Banca Commerciale Italiana into Gruppo IntesaBci, our Central European operations were further widened and strengthened. IntesaBci's mission in Europe is to attain an adequate position in terms of value creation, market share, product and service quality, and completeness of product range. Part of our strategy is strengthening international presence through direct acquisitions in the markets with high growth potential such as those in Central and Eastern Europe. Apart from our already established presence in Croatia and Hungary, during 2001 IntesaBci also extended its operations to Slovakia. In our Central European operations, Privredna banka Zagreb plays an important role in terms of both profitability and quality of service.

The macroeconomic environment in Croatia was improved during 2001. The GDP growth in 2001 is expected to be around 3.9 percent which is slightly stronger growth than the one recorded in 2000. Declining inflation reflected in a growth in retail prices of 2.6 percent at the end of 2001, coupled with the stable exchange rate further strengthen the stability of the macroeconomic environment. It has been particularly encouraging that during 2001 Croatia improved the degree of its integration in the international market. As has been seen in other advanced transition economies an increase in openness as well as in the level of international integration creates strong and stable foundations for the future economic development of the country. Taking into account generally positive trends, it is reasonable to expect further growth of the economy in 2002. Reforms and recently announced privatisation projects are an additional argument in favour of this expectation.

The rising confidence of the Croatian public in the domestic banking system has been demonstrated clearly in the wake of the euro. The overall deposits in the banking system increased in 2001 by 47.5 percent or EUR 4.2 billion, which is unprecedented growth among transition economies.

Improvements in Croatia's economic performance enhanced by the growth and strengthening of the banking sector have created new challenges and opportunities for the Privredna banka Zagreb Group. Its performance shows that the Group has responded to these challenges successfully. The financial indicators demonstrate substantial progress, particularly in profitability. Return on the average equity of the Group reached 21.75 percent which is an increase of 4.1 percentage points over 2000. The improvement in profitability is even more pronounced if compared to 1999 when return on the average equity stood at 9.74 percent. Return on the average assets of the Group also grew to 2.16 percent as opposed to 2 percent in 2000 and 1.15 percent in 1999.

Apart from profitability, significant improvements have been achieved in other activity indicators. The total balance sheet of the Group exceeded HRK 31 billion, which represents an increase of 41 percent in comparison to 2000. This growth can mainly be attributed to the increases in corporate and retail deposits. These results indicate strong confidence by domestic companies and individuals in PBZ, and demonstrate an excellence in business performance.

The aforementioned achievements have not been earned spontaneously. They have emerged as an outcome of enhanced inter-group synergies, improved corporate governance and technological innovations. In that regard, I am pleased to announce that the development of an advanced information system on a regional level within IntesaBci Group has recently commenced. The aim of this project is to generate the uniform quality of services and the increased business efficiency of branches in the countries where IntesaBci is present. The improved management and coordination of our operations will not only improve the way we generate revenues or interact internally but it will further strengthen relations with our clients. The success of Privredna banka Zagreb has been so far very much a team effort with our core values in front. Strong leadership and committed work predominately determine our results. With this in mind, we intend to excel further in our work and do our utmost to meet the expectations of our clients and shareholders. Finally, on behalf of the Supervisory Board, I would like to thank the staff and the management of Privredna banka Zagreb Group for their exceptional efforts. I take this opportunity to express my deepest appreciation to my predecessor, the former President of the Supervisory Board - Mr Enrico Meucci, for the accomplishments he made in the success of Privredna banka Zagreb. I am also grateful to my fellow colleagues in the Supervisory Board for their constructive contribution.

Respectfully,



Dr. György Surányi
President of the
Supervisory Board
5 March 2002



It is a great honour and pleasure to present, on behalf of the Management Board, the operating results of the Privredna banka Zagreb Group for the year 2001. Last year marked the second year of the Bank's operation as a member of the IntesaBci Group. In association with our strategic partner, and in compliance with principal guidelines of its strategic plan, the Privredna banka Zagreb Group achieved very good operating results, experienced a record deposit growth, and significantly improved its market share in Croatia.

Financial performance

The PBZ Group recorded net profit for 2001 in the amount of HRK 581 million, which represents an increase of 43 percent. An additional importance of this result lies in the fact that it was an outcome of a significant growth in revenues from core banking activities, and this growth was achieved while facing strongest competition so far in the banking market. Key performance indicators also show considerable improvements. An upward trend in return on average equity was continued, which thus, on the Group level, was 21.7 percent, while the Bank reached the level of 24.3 percent. Earnings per share increased by 43 percent, amounting to HRK 35.2 per share. A stronger interest on the part of investors, based on the expectations of such positive developments, directly led to a sharp rise in the price of PBZ shares on the Zagreb Stock Exchange, which made a PBZ share one of the high-yielders on the exchange. The consolidated balance sheet of the PBZ Group grew by 41 percent, exceeding the level of HRK 31 billion. The most important contribution came from the growth of loan portfolio in the areas of both corporate banking and retail banking, as well as from investments in securities. Such a trend in loan portfolio was accompanied with rather strict criteria of loan approval and advanced risk monitoring procedures, which, in addition to a higher volume of loans, resulted in the better quality of the portfolio. The asset growth was financed out of an extremely fast growth of deposit base. Total deposits of the PBZ Group in 2001 rose by 61.0 percent, while the overall banking industry recorded a deposit growth of 47.5 percent. We are particularly proud of a truly impressive growth in retail deposits. Namely, retail deposits grew by 71.5 percent, in comparison with their 51.8 percent growth in the entire banking system. We are pleased to confirm that the inflow of deposits caused by the euro conversion once again demonstrated the high level of confidence that PBZ enjoys in the eyes of Croatian citizens.

Quality of banking products and services

On top of improved financial performance, we made considerable progress in the quality of our operations. In this respect, I should emphasise the introduction of a range of new products and services offered to the clients of the Privredna banka Zagreb Group. I strongly believe that, through technological innovations and a new approach to product distribution, we managed to meet successfully the demands of our clients.

We expanded and significantly modernised the branch network of Privredna banka Zagreb, whose recognisable logo is present in all regions of Croatia. With the new concept of product sale based on a client-oriented approach, and with modernised distribution channels, we have substantially increased the number of transactions. Furthermore, electronic transactions accounted for 50 percent of the total volume of transactions.

The most important branches of the Bank in the country have 0 to 24 zones, thus allowing our customers uninterrupted access to their funds. Our clients also have non-stop access to the Bank's services through internet banking, at any time they find most convenient, and at the places where they need it most. The network of ATMs and EFT POS terminals was further expanded, which makes us the leading bank in the country in that respect.

We have efficiently developed an electronic payment system and provided a swift and smooth transfer of client accounts to the Bank. An additional dimension of quality of our payment system services will be supported by the implementation of corporate internet banking. Through the use of this product, our corporate clients will have the possibility to make payments, buy and sell foreign currencies and, of course, monitor the account balance. As part of an integral pilot project on the Group level, Međimurska banka was the very first bank in Croatia that offered the so called fast loans over the internet.

PBZ maintained a dominant role in primary and secondary capital markets. During 2001, Privredna banka Zagreb acted as a co-agent and the leading arranger of two bond issues of the Ministry of Finance in total amount of EUR 400 million.

We are particularly proud of the fact that Privredna banka Zagreb was the arranger and agent of first corporate bond issues in the Croatian market. In late 2001 and at the beginning of 2002 we successfully arranged bond issues of Belišće and Plava Laguna, amounting to EUR 29 million.

In addition, in the field of mergers and acquisitions, we negotiated a number of mandates with large corporate clients.

New partnerships

Along with overall improvements of political and economic conditions in the country, the number of direct foreign investments in Croatia also increased. The volume of trade with neighbouring countries went up as well. For this reason, the Italian Desk was set up within Privredna banka Zagreb, whose purpose is to facilitate further the cooperation and, in general, relations between Croatian and Italian small and medium enterprises. Given the past track record of cross-border interaction, we are certain that we made a good decision.

I would also like to point to our cooperation with the Ministry for Crafts, Small and Medium Enterprises and with the City of Zagreb in the area of special lending to craftsmen, small and medium-size enterprises that was arranged in several Croatian counties, and also in Zagreb. So far, we have granted 928 loans in the amount of HRK 228 million.

Privredna banka Zagreb Group

Apart from strengthening the market position of the Bank, we made substantial progress in business operations of the entire Privredna banka Zagreb Group. Riadria banka, Privredna banka Laguna banka, and Međimurska banka represent profitable members of the Group which recorded an impressive business growth, increasing their respective market shares in the regional markets in which they operate. PBZ American Express is the leading card company in the country. With 283 thousand issued cards, PBZ American Express generates annual turnover of over HRK 5 billion.

PBZ Kapital is one of the leading brokers in Croatia, whose number of clients is constantly on the rise, which in 2001 resulted in a virtually threefold increase of net profit compared to 2000. PBZ Invest, a company for investment fund management, successfully manages three investment funds: PBZ Novčani fond, PBZ Global fond, and PBZ International bond fond. PBZ Invest ranks among top institutions in this particular line of business.

The long-expected and several times postponed pension system reform was undoubtedly one of the most important events last year in the Croatian financial market. Although the process of pension reform formally started on 1 January 2002, during first half of 2001 all interested parties - banks and insurance companies, initi-

ated thorough preparations aimed at securing a better position for themselves in the market.

In cooperation with our partner, insurance company Croatia osiguranje d.d., during 2001 we established PBZ Croatia osiguranje d.d., a company for pension fund management. The intention was to provide jointly to our customers the needed security, reliability, knowledge and experience in managing the pension funds, in other words, everything necessary for this type of operations. We are convinced that we will play an important role in this field in Croatia.

Internal restructuring

Internally, we accepted the corporate governance approach of IntesaBci and implemented it on the Group level. We have completed adequate and efficient reorganisation of the Bank, which was thoroughly upheld with decentralisation and delegation of authority. Furthermore, important steps have been taken and significant improvements have been made in risk management. We have implemented the value-at-risk approach as the new standard in risk management. With these kind of actions, we improved and stimulated business processes, established closer relations with our customers and enhanced productivity.

We also continued focusing on core banking and financial activities. In this respect, the process of downsizing the Group engagement in non-banking activities has been accelerated.

Dividend

As a final point, I am very pleased to announce that, given the results accomplished, as well as sufficient capital adequacy of 13.6 percent (in accordance with the Croatian National Bank regulations), the Management Board of Privredna banka Zagreb will propose, at the Annual General Meeting, payment of dividends to shareholders of about HRK 12.5 per share. This amount represents an increase in dividends by 36 percent over last year.

I would also like to take this opportunity and express my gratitude to the management and all employees of the Privredna banka Zagreb Group for their contribution to the achievement of such successful results. Also, I would like to thank our distinguished clients and business partners for their professionalism in mutual contact and trust they have placed in us. I would particularly like to express most sincere gratitude to the former President of the Supervisory Board, Mr Enrico Meucci, and all members of the Supervisory Board now chaired by Mr György Surányi, for their cooperation and continued support.



Božo Prka, M.S.
President of the Management Board
5 March 2002





During 2001 positive trends continued in many segments of the economy. It could be expected that the economic growth, measured by the growth rate of GDP, will be about 3.9 percent. At the same time, with the slower rise in oil derivatives prices as well as in the administratively controlled prices, the pace of increase in the overall level of prices has slowed down as well. In December 2001 the retail prices were 2.6 percent higher than in December 2000, while the average growth rate of retail prices amounted to 4.9 percent.

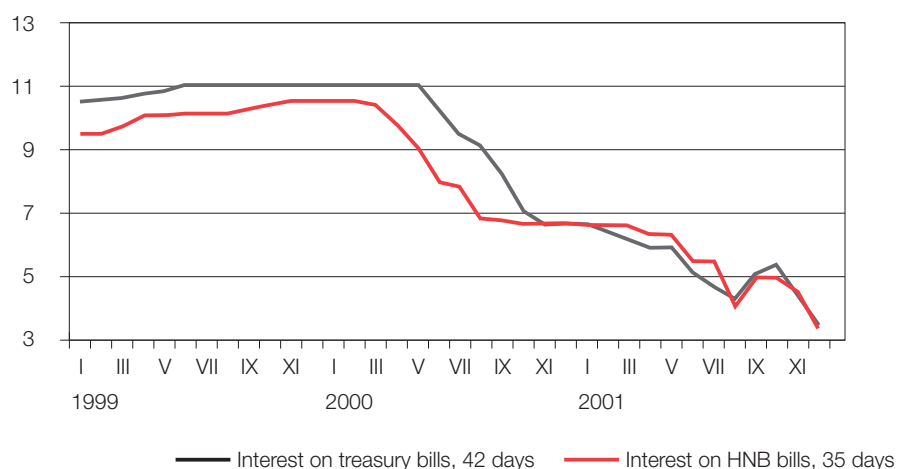
During the last year, the GDP growth has been primarily determined by the growth of personal consumption. Personal consumption grew by 4.8 percent during the first three quarters. As opposed to the previous three years growth in investments has been registered - on average 7.4 percent. The importance of recovery in investments is even more pronounced since it took place in parallel with the reduction of capital expenditures of the public sector.

In spite of the economic activity growth, the unemployment rate measured by the Croatian employment agency, has continued to rise. In December 2001, the unemployment rate reached 23.1 percent. However, the data of the Croatian employment agency also show signs of greater dynamics on the labour market. An increase has been registered in demand for labour through the Croatian employment office as well as an increase in the number of persons who have succeeded in finding a job through the Croatian employment agency. In contrast to the Croatian employment agency, a labour force survey has indicated a decline in the unemployment rate - from 17 percent in the second half of 2000 to 15.4 percent in the first half of 2001. Having in mind the developments regarding the other indirect indicators of purchasing power and living standard, we believe that the labour force survey more closely reflects the actual position of employment i.e. unemployment.

The high liquidity of the banking system and growing competition have resulted in declining interest rates. In December 2001 the interest rates in daily trading on the money market, amounted on average to 2.67 percent in contrast to 4.46 percent in December 2000. The lending rates of the banks followed the same trend. The average interest rate on kuna loans in November 2001 amounted to 9.56 percent in contrast to 10.45 percent in December 2000.



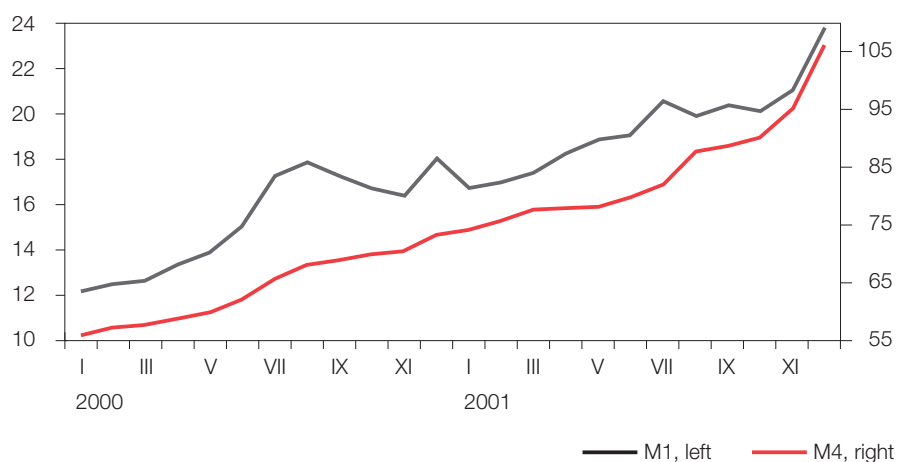
Interest rates, monthly average on annual level



Growth of monetary aggregates in 2001 were predominantly determined by the growth of citizens' foreign exchange deposits. The monetary aggregate M4 (the broadest money) additionally accelerated its growth in 2001 - after it grew by 29 percent in 2000. In December 2001, the monetary aggregate M4 was 44.7 percent or HRK 32.8 billion higher than in December 2000. At the same time, foreign exchange deposits of citizens grew by 54 percent or HRK 22.3 billion, while the growth of corporate foreign currency deposits was fairly modest - HRK 2.3 billion or 45.4 percent. It is important to mention that the introduction of the euro has given a strong impulse to foreign exchange deposits growth. During the last two months of 2001, citizens' deposits increased by HRK 12.4 billion which is equal to one half of the overall increase in citizens' deposits.



Monetary aggregates in HRK billion

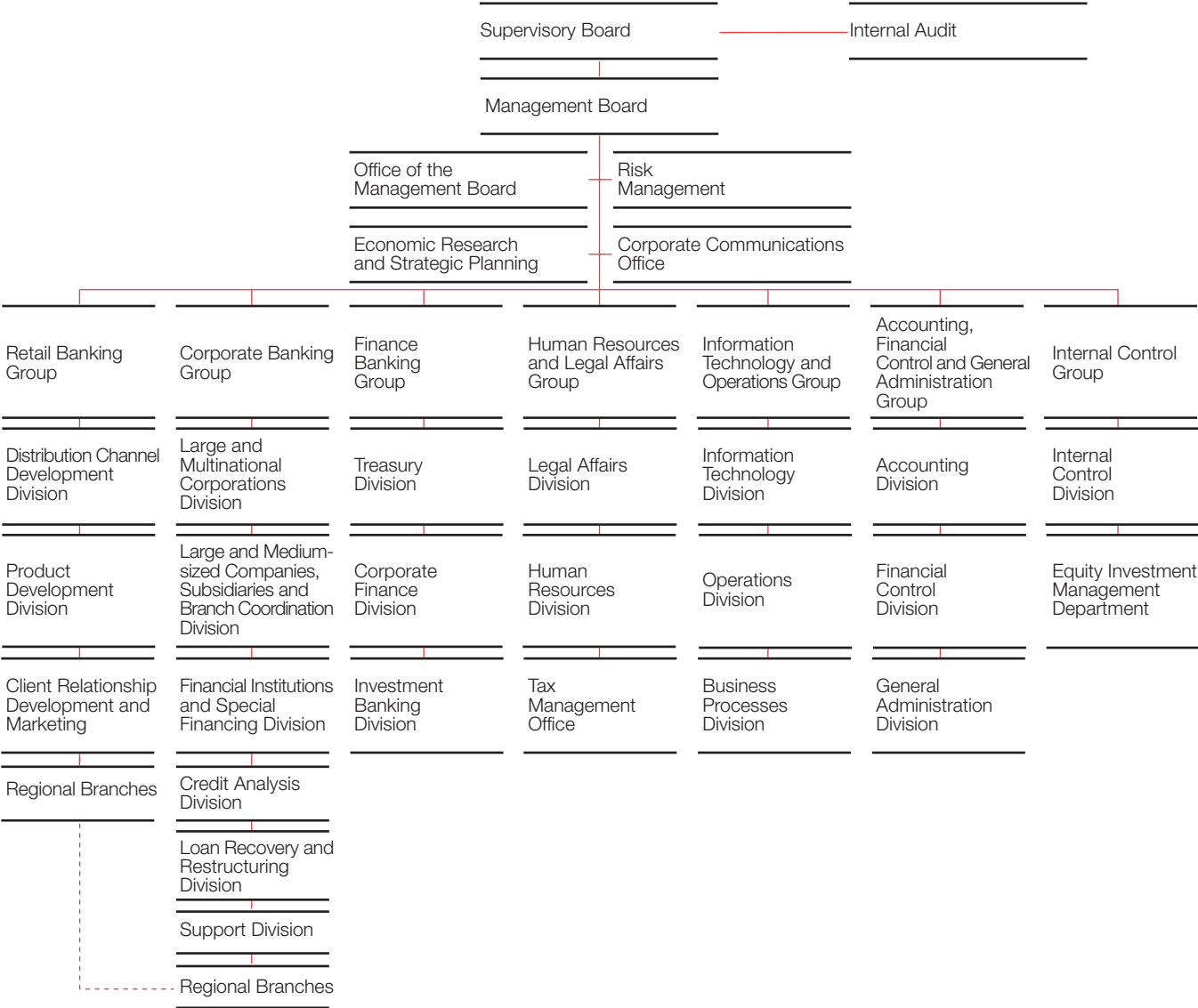


Although the credit activity of the banks has been more dynamic than in 2000, the rise of deposits has been much stronger than the increase in the overall placements of the banks. In 2001 the banks' placements to the private sector increased by approximately 23 percent. As opposed to the situation in 2000 when a decline in corporate placements was recorded, in 2001 overall corporate lending increased by approximately 18 percent. As a result of the developments described, the total consolidated assets of the banking system increased from 70 percent of GDP in 2000 to approximately 82 percent of GDP at the end of 2001. During 2001, the conditions for the strengthening of non-banking intermediaries were created which all together should contribute to greater dynamics of the capital market. In the last quarter of 2001, the pension funds were authorised and registration of members began. Furthermore, at the beginning of 2002 several issues of corporate debt securities were arranged showing the growing sophistication of economic agents.



The continually strong foreign exchange inflow has caused persistent pressures on exchange rate appreciation. In relation to the euro, the kuna appreciated by 2.9 per-cent measured as December 2001 over December 2000. However, exchange rate movement in August, when 5.9 percent depreciation was recorded, clearly showed that financial liberalisation should be approached with caution. Non-typical oscillations of the exchange rate during the summer months among other causes originated as the consequence of the liberalisation of the foreign exchange operations of corporates. A certain decrease in the overall deficit of the consolidated general government was recorded in 2001. A series of steps were initiated in order to stabilise public finance including the restriction of salaries in the public sector. However, continued broadening of current deficit is still a source of concern since it clearly shows that the restrictions initiated have not resulted in the improved medium-term sustainability of public finance.

Organisational chart





Business description of the Bank



24

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Privredna banka Zagreb d.d. was founded in 1962 and it is a fully licensed bank in Croatia. The PBZ Group is a financial group that provides a full range of services to its clients in Croatia.

Organisational Structure and Business Activities

Today, PBZ is the first bank in terms of subscribed share capital and the second bank in terms of total assets in Croatia. Privredna banka Zagreb has consistently been a leading financial institution on the Croatian market with an established business base and recognised national brand name.

With its nation-wide network of 151 outlets PBZ is one of two banks that cover in full the area of the Republic of Croatia. The PBZ Group offers a diverse range of specialised services which include banking (Privredna banka Zagreb, Riadria banka, Privredna banka Laguna banka, Međimurska banka), credit card services (PBZ American Express), leasing (PBZ Leasing), fund management (PBZ Invest), brokerage services (PBZ Kapital) and real estate (Adria Investing, PBZ Nekretnine).

In early 2000, Privredna banka Zagreb became a member of IntesaBci Spa - the largest Italian banking group and one of the most significant financial institutions in Europe. This partnership, supported by the Croatian Government through its minority shareholding stake, has provided new opportunities for development and granted PBZ greater accessibility to the markets of the European Union.

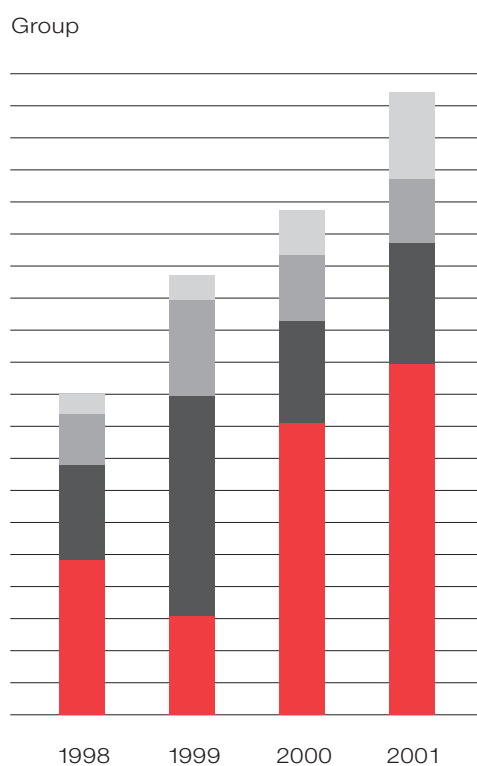
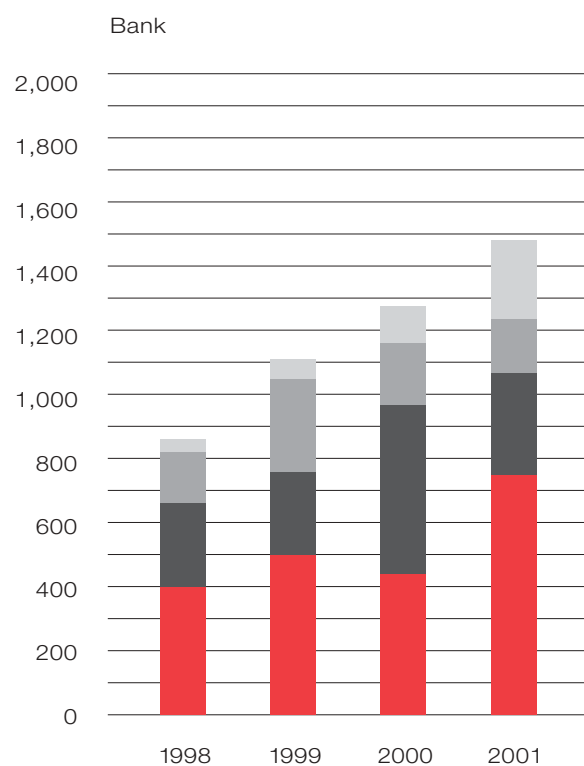
The strategic plan of the Bank has set guidelines for the continued development of PBZ as a modern financial institution providing a wide range of universal banking products and services. The year 2001 marked the second year of PBZ operations with its new strategic partner. Overall results have proven very satisfactory both financially and in terms of significant achievements in the area of reorganisation and redesign of business processes. Along with adopting the standards set out by IntesaBci for business and corporate governance, PBZ has continued to focus on its development as a modern, client oriented, progressive financial institution.

PBZ is committed to continued progress in its economic performance well into the future as well as solidifying its position as a product leader in offering the most progressive banking products to the marketplace. This will ensure that the Bank will continue to be able to set standards of the highest quality for product innovations and services offered both to its domestic and international clients.

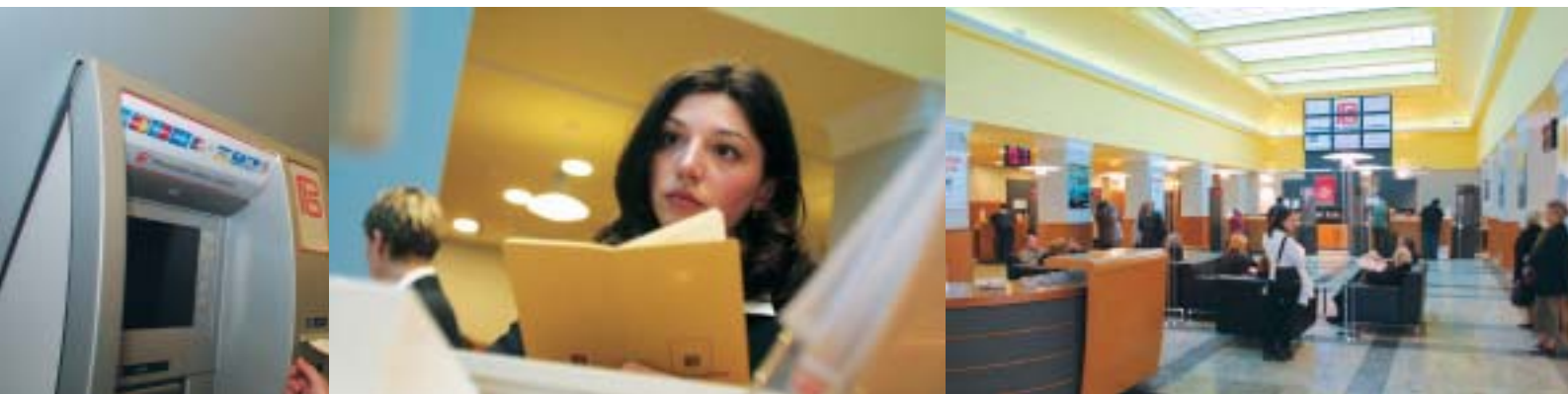


Operating Income

(in HRK million)



	Bank				Group			
	1998	1999	2000	2001	1998	1999	2000	2001
Net interest income	402	499	687	754	489	556	915	1,096
Net fee and commission income	265	258	282	314	294	439	316	379
Net foreign exchange gains	156	295	193	170	163	302	211	198
Other operating income	37	60	113	242	56	76	133	267



This commitment to quality and advanced banking practices is clearly witnessed through Privredna banka Zagreb being awarded Euromoney's 2001 award for the Best Bank in Croatia.

Retail Banking Group

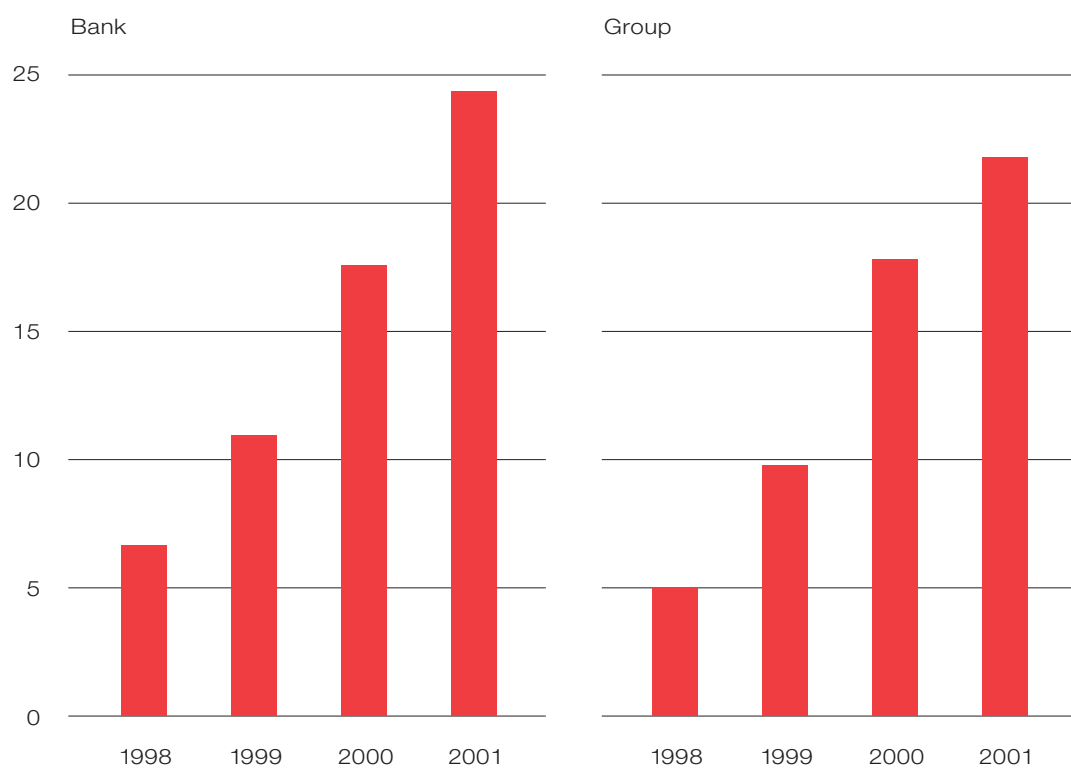
The business year 2001 in PBZ was characterised by a record rise in retail deposits by HRK 5.85 billion which equals 18.2 percent of the Croatian retail deposit market (as opposed to 15.7 percent at the end of 2000). Besides the specific circumstances on the market (the introduction of the euro, which resulted in depositing of cash denominated in DEM and other EURO IN currencies in the Bank by an enormous number of citizens, and disbursement of insured savings of the banks in bankruptcy at the beginning of 2001, of which a significant part remained with the Bank), this rise is, at the same time, the result of the organised activity of the Bank's marketing and strong PBZ brand in general.

In the area of loans, PBZ recorded an excellent credit growth by placing over HRK 2.5 billion, which led to an increase in its share of the loan market from 16.7 percent at the beginning of the year to 17.2 percent by the year end. During 2001, the Bank continued with the development of the existing and introduction of new products (revolving loans for American Express, developed by PBZ American Express, and Master Card holders, quick consumer loans on the basis of credit scoring). A great diversification of supply of the credit loans as well as efficiency in approving them enabled the Bank to have the same success as in the previous year, when it was the major Croatian retail credit provider. The rise in the loan portfolio was followed by better monitoring of the loan risk exposure and strict collection of credit receivables.

In addition to the reasons mentioned, the rise in deposits and loans is the result of activities undertaken relating to the reorganisation and further rationalisation of traditional distribution channels-network - through the opening of new or redesigning existing organisational units based on a new business policy i.e. greater orientation towards clients and their needs. Thus, the branch is three-dimensional, consisting of three units: 0-24 zone area and information desk, personal banking and transaction banking.



Return on average equity (percent)



	Bank				Group			
	1998	1999	2000	2001	1998	1999	2000	2001
Return on average equity	6.60	10.91	17.53	24.33	4.98	9.74	17.74	21.75



The Bank is developing modern distribution channels as well as its traditional ones. At the end of 2001 PBZ had 663 thousands cards (Europay and VISA debit and revolving credit cards) which is a growth of 57 percent y-o-y. In addition, having franchise rights to issue American Express cards, PBZ American Express reached an impressive number of over 283 thousand cards issued. PBZ is the Croatian leader in banking card acquisition for both global payment schemes, MasterCard and Visa. It is important to point out the expansion of the ATM network by 69 percent and EFT POS terminals by 62 percent.

Privredna banka Zagreb also expanded its distribution channels and products by applying the most advanced technology in order to implement its PBZ 365 services; PBZ365TEL telephone banking service and PBZ365SMS service. Moreover, PBZ has introduced internet banking through its PBZ365NET and PBZ365WAP services. These achievements have firmly established PBZ as the Croatian market leader in electronic banking as well as the technological leader in the Croatian financial market.

Retail operations in Privredna banka Zagreb comprise the following areas: the Division for the development of distribution channels, the Division for product development and the Division for development of client relationships and marketing.

Division for the development of distribution channels

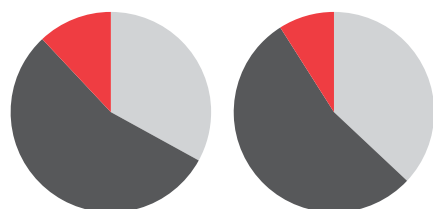
This division is responsible for defining, structuring, implementing and monitoring classical and direct distribution channels for the delivery of retail products and services (branch network, ATM and EFT POS network, PBZ 365 services - telephone banking, internet banking, SMS banking, WAP banking, sales agents). It prepares and coordinates the budget and supervises the achievements of its goals for all distribution channels. It chooses the appropriate distribution channels for end products intended for specific targeted client groups. In association with the Division for product development and the Division for the development of client relationships and marketing, it chooses the right moment for the launch of a new product/service and is responsible for informing distribution channels of all pursuant marketing activities which will have an effect on them.



Customer Loans / Bank

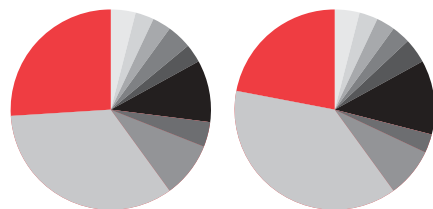
(in HRK million)

Analysis by type of customer



	2000	%	2001	%
Citizens	3,635	33	4,929	37
Companies	6,194	55	7,053	54
Public sector and other	1,330	12	1,227	9

Analysis by sector



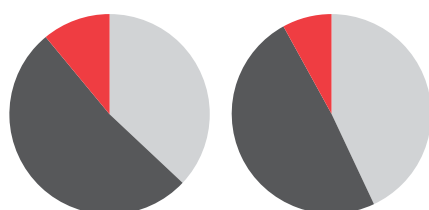
	2000	%	2001	%
Agriculture, forestry and fishing	471	4	544	4
Food and drinks productions	343	3	456	3
Oil refining	357	3	338	3
Energy products - trade	472	4	445	3
Construction	344	3	537	4
Wholesale and retail trade	1,078	10	1,574	12
Hotels, restaurants	479	4	402	3
Transport and communication	1,020	9	1,039	8
Citizens	3,653	33	4,929	37
Other	2,960	27	2,945	23



Customer Loans / Group

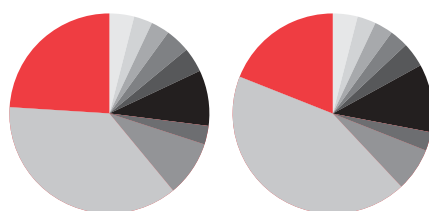
(in HRK million)

Analysis by type of customer



	2000	%	2001	%
Citizens	4,490	37	6,584	43
Companies	6,187	52	7,566	49
Public sector and other	1,331	11	1,236	8

Analysis by sector



	2000	%	2001	%
Agriculture, forestry and fishing	481	4	586	4
Food and drinks productions	343	3	477	3
Oil refining	357	3	397	3
Energy products - trade	472	4	454	3
Construction	351	3	590	4
Wholesale and retail trade	1,113	9	1,760	11
Hotels, restaurants	479	4	492	3
Transport and communication	1,050	9	1,083	7
Citizens	4,490	37	6,584	43
Other	2,872	24	2,963	19



Division for product development

Together with the Division for the development of client relationships and marketing and the Division for the development of distribution channels, this Division monitors the macroeconomic environment, the activities of direct competitors as well as the market position of the Bank concerning retail operations. It controls the entire process of defining products for a targeted group of clients, determines the prices of the products and delivers end products to the Division for the development of distribution channels, to which it proposes an appropriate approach and suitable moment for the product launch.

In cooperation with the Division for the development of distribution channels, it participates in the monitoring of overall profitability (product distribution).

Division for the development of client relationships and marketing

The activities of this Division include the selection and coordination of appropriate marketing campaigns for retail products of the Bank and services. It prepares proposals for marketing budget and oversees it throughout the year. It is responsible for disclosing business information to the public. It continuously monitors and improves the quality of services throughout the branch network and constantly monitors new and existing products of competing banks. The activities relating to the analysis and segmentation of the market include: monitoring the profitability of segmented client databases, the analysis of existing products and services intended for individual client segments and their requirements.

Corporate Banking Group

PBZ is one of the leading Croatian banks when it comes to corporate banking, with a wide range of products and services offered to its corporate clients both locally and internationally. It is important to emphasise that PBZ was one of the few banking institutions with double digit growth in loans to the corporate sector in 2001. Loans to corporate clients increased by 13.9 percent which was equivalent to HRK 859 million.

It is important to note that the number of corporate clients also increased with 4.8 thousand new corporate depositors registered during the course of last year. As we have strengthened our business relationships with a large number of Croatian com-



panies through offering an extensive array of products and services, it has become hard to find a major company in Croatia that does not bank with PBZ.

The aforementioned increase in corporate activity was a result of intensive lending and other activities with state-owned and majority state-owned clients engaged in road building, energy, the oil and wood industry, shipbuilding, engineering and chemical industry as well as with clients from private sector.

With regard to the largest clients, support to the shipbuilding industry continued through the expansion of the business with new clients in co-operation with IntesaBci in terms of PBZ counter-guarantees. In the previous year the client structure was also broadened with the dominance of large foreign chain stores with various types of business co-operation established through cross selling of all products of the Bank.

This Banking Group also played a significant role as an arranger and participant in syndicated loans and appeared, for the first time, as a co-arranger in the foreign syndicated loans market. Owing to the support of IntesaBci, PBZ concluded a Contract on a long term facility with the European Investment Bank to the amount of EUR 16 million for financing SME projects related to infrastructure, industry, tourism, the energy industry, services and environment protection.

Intensive activities related to the recovery of non-performing loans focused on Loan recovery and restructuring, and over EUR 18 million was recovered during the year. The Bank has been very active in lending to the Small and Medium Enterprises sector (SME), thus stimulating this sector's growth. PBZ has also been involved in financing programmes initiated by municipalities, counties and by the Ministry of Crafts and SMEs. With our strategic partner IntesaBci, we have established cooperation with numerous companies from Italy. In order to further improve this kind of cooperation, we have established the Italian Desk which acts as a liaison for clients doing business both in Croatia and in Italy while supporting their presence in both markets.

While we have traditionally kept good relations with banks from developed countries, we have also seen a marked increase in the development of business cooperation with banks from the former countries of Yugoslavia. The Bank has been active in syndicated loans, both as a participant and arranger, as well as in financing projects supporting Croatian exports.



Due to its wide network of correspondent banks, PBZ can offer its clients fast and affordable services in the processing of international payments as well as domestic foreign currency payments. While the bank intends to continue expanding its corporate business, one of its major tasks is the implementation of a new organisation in the Corporate Business Group as well as the introduction of a new IT system which will enable the bank to increase its competitiveness, the speed and level of service and, to offer new products to its clients based on advanced information technology. As part of this strategy, the Bank has taken important steps to improve its operations with clients.

We have introduced the position of Relationship Manager, responsible for the overall business relationship between the bank and its clients as well as for following up on clients' applications both in the Head Office and in the branches. Relationship Managers in branch offices offer complete services to local clients and are supported by Regional Managers - another new position in the Head Office introduced through this new reorganisation.

A new service introduced to enhance relations with clients is the Information Centre (the Information Centre and Complaint Office) where clients can receive information on the Bank's entire range of products and services. Since the Centre also serves as the Complaint Office, clients are given the opportunity to make comments or file complaints regarding corporate banking services. Through these services, we can constantly monitor the opinion of corporate customers.

Finally, new products such as project financing, forfeiting and factoring are being introduced along with internet banking for companies known as PBZCOM@NET. This is a product which we believe will enable our clients to use another very secure and efficient channel of communication.

The Corporate Banking Group consists of the following divisions: Large and multinational corporations division, Large and medium-sized companies, subsidiaries and branches coordination division, Financial institutions and special financing division, Credit analysis division, Loan recovery and restructuring division and Support division.



Large and multinational corporations division

The responsibilities of this division encompass large companies, state institutions and local government units, multinational companies (with the exception of Italian-owned multinationals) as well as managed funds operations.

Large and medium-sized companies, subsidiaries and branches coordination division

This division is responsible for operations with large and medium-sized companies; the coordination of branches and subsidiaries relating to operations with SMEs; Italian multinational companies and the subsidiaries of Italian companies. The Italian Desk is part of this division and is responsible for: quality support for the development of business relationships between Croatian and Italian clients and the Bank, offering complete banking services required by Italian companies in association with all the organisational units of the Bank, and providing full support for the conducting of business by our clients on both the Croatian and Italian markets.

Financial institutions and special financing division

This area of Corporate Banking Group is responsible for establishing, monitoring and promoting the complete scope of business relations with domestic and international banks and financial institutions. It sets terms and conditions relating to all banking products which PBZ offers to domestic and international financial institutions as well as the entire range of banking products offered through PBZ by these financial institutions.

Special financing includes: trade and project financing, credit and special arrangements with financial institutions both domestically and internationally, open lines of credit from international banks guaranteed by the state export agency (to support Croatian importers), buyers' loans to stimulate Croatian exports, arranging and participating in syndicated loans on behalf of the Bank and its clients, and new products - forfeiting and factoring.



Support division

This division offers full business support to all the organisational units within the Corporate Banking Group. In order to improve communications and relations with clients, the Support division has established an Information Centre and Complaints Office where clients can obtain all relevant information pertaining to the products and services of the Corporate Banking Group.

Finance Banking Group

In terms of finance banking Privredna banka Zagreb is a dominant participant on the Croatian market. PBZ has originated many contemporary products and has largely initiated the development of the financial market in the country.

Treasury division

The Treasury division has become an important and active player in the Croatian market. Treasury operations comprise transactions on both the domestic and international money markets, foreign currency markets, capital markets and current liquidity management in line with ALCO decisions. It actively participates in trading securities issued by the Ministry of Finance, CNB bills as well as currency and short term cash derivatives on the money market. Treasury division operates in line with the stipulated procedures, bank policies and limits set by ALCO (Asset Liability Committee).

The Liquidity and trading department engages in the buying and selling of foreign currencies, money market transactions (trading in CNB bills and Treasury bills of the Ministry of Finance) and in capital markets (trading in government bonds and transactions with long term securities). An important part of the activities is covered by the Corporate Desk, which focuses on operations with clients and helps them meet their daily requirements.

The Cash management department engages in delivering, dispatching, processing and warehousing various shipments of valuables (i.e., foreign currencies). Privredna banka Zagreb has kept the role of the market maker on the money market and foreign exchange domestic markets and is an active player on the global markets.



Corporate finance division

Corporate finance division engages in mergers and acquisitions, capital market transactions as well as company and industry analysis. When involved in merger and acquisition transactions, Corporate finance division uses its extensive client relationship network with both domestic and international companies, as well as its detailed knowledge of the market and the region. This creates new value for the client through corporate and other activities that enable the client to gain a competitive edge.

Our operations are not restricted to Croatia but cover the entire region, thus offering our clients a complete and more comprehensive service. Our major areas of operations include the creation and execution of corporate activities such as mergers, acquisitions and divestments, counselling in financial and operational restructuring, project management and financing and participating in privatisation processes.

The main business activities of capital market department are arranging fixed-income securities, structuring debt and equity issues and underwriting, providing debt and equity syndication and advisory services to corporations, government entities and institutions. Privredna banka Zagreb, as a Joint lead arranger, participated in all domestic and Sovereign Bond Issues totalling EUR 730 million and as Co-manager we took part in all Eurobond Issues of the Republic of Croatia in the period 1998-2002, which amounted EUR 2.5 billion.

Privredna banka Zagreb, with the first Commercial Paper Issue linked to Pliva (a leading pharmaceutical Company in Croatia), created the market for short term corporate securities with fixed maturity and has developed a solid base of quality clients. The Commercial Paper Issue for Plava Laguna was also arranged and led by Privredna banka Zagreb.

At the beginning of 2002, as Sole-arranger and Issue Agent, Privredna banka Zagreb tapped the domestic markets, with the first public domestic Corporate bond Issue for Belišće, Croatia's largest producer of packaging paper and corrugated boxes, for EUR 17 million. Privredna banka Zagreb, as Sole-arranger and Issue Agent as well, placed the second domestic Corporate Bond Issue in the amount of EUR 12 million for Plava laguna, providing itself once again as the leader and the major innovator on the Croatian capital markets.



With a highly skilled team of people and a thorough coverage of the domestic marketplace, this Division offers high quality analysis of the domestic market. Detailed analyses are completed in association with other divisions of the Bank. Following the success of these activities, the Corporate finance division finds itself at the forefront of investment banking.

Investment Banking Division

Privredna Banka Zagreb offers a wide range of investment services through the Investment banking division. Custody department offers custodial services for securities, both in Croatia and in other relevant global markets. Due to the relationships established with five of the leading global securities custodians, PBZ has gained the position of the leading securities custodian in Croatia.

In line with global standards, the Bank's custodial services include the safekeeping and settlement of securities, corporate activities, proxy voting, collection of income and cash management reporting, etc.

Margin trading

PBZ is currently the only bank in Croatia offering margin trading or loans for the purchase of securities. Margin trading is available to individuals and corporate entities aiming to invest in the Croatian capital markets.

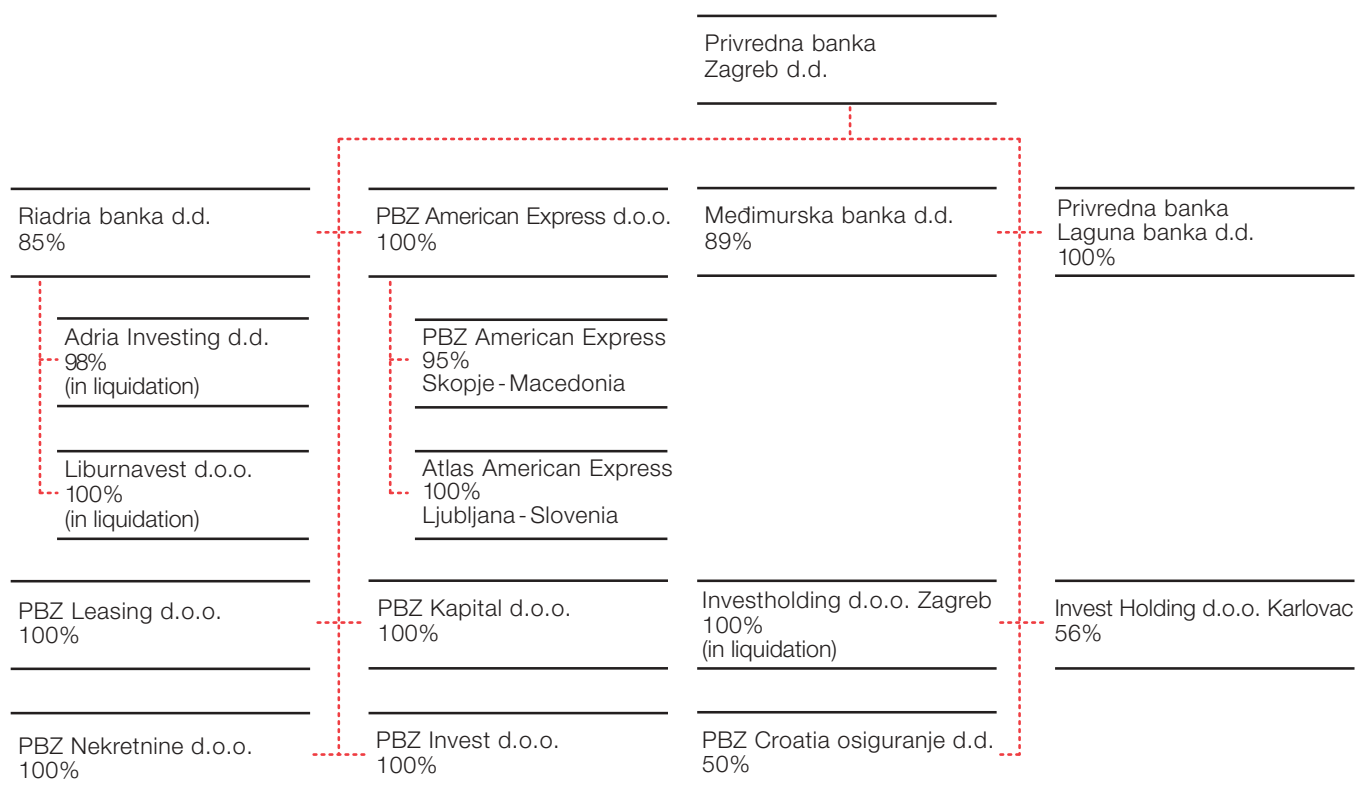
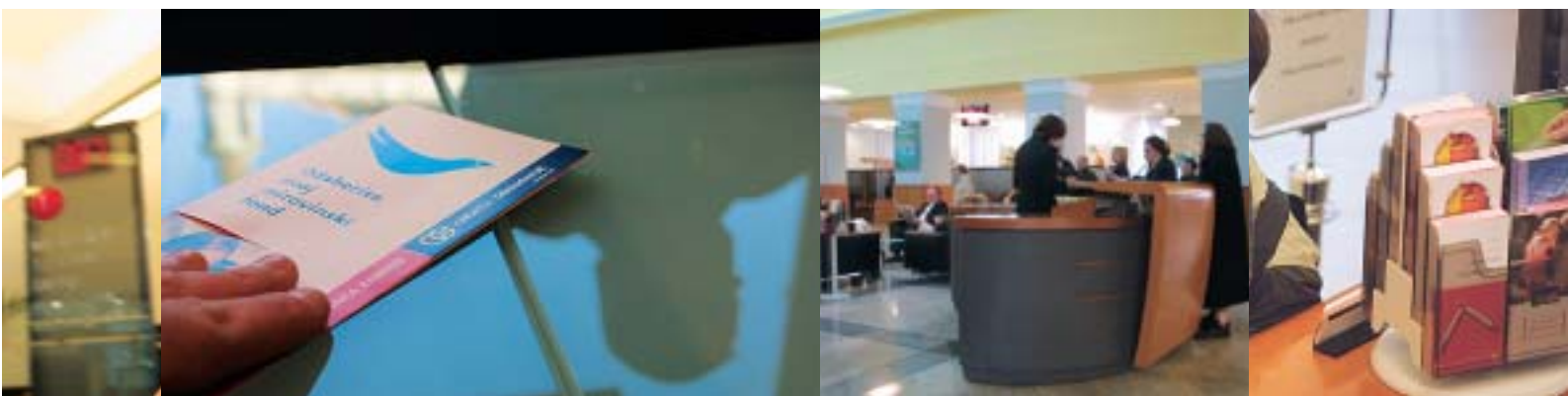
The Group

The Group consists of Privredna banka Zagreb and 15 subsidiaries. The composition of the Group and a brief description of each subsidiary is set out below.



38

39





Riadria banka

Riadria banka was founded on 22 January 1992 and has its headquarters in Rijeka. Privredna banka Zagreb holds 85 percent of the ownership.

Riadria banka is a multi-regional bank which operates with the emphasis on retail banking. Its total assets amounted to HRK 1.6 billion as at 31 December 2001 making it one of the largest regional banks in Croatia. It has a well developed distribution network covering three counties; Primorsko-goranska, Istarska and Licko-Senjska. Owing to its well positioned distribution chain, product range, expert staff and tradition, Riadria banka is one of the leaders in this region with over 600 thousand inhabitants. The bank's distribution chain consists of 21 branches and 13 ATMs located in almost all tourist and economic centres of the region. Its product range is geared towards the retail customers in the general public.

The bank offers Maestro Cirrus Cards and, in association with PBZ American Express, its own brand debit card. The bank's Credit Range is adjusted and differentiated according to client segmentation. In 2001 total retail loans increased by 35 percent compared to 2000.

The bank pays special attention to savings using a wide range of savings products. In addition to the traditional savings products, Riadria includes a premium savings and annuity savings account. In 2001 the bank's term deposits grew by 58 percent compared to 2001.

Riadria banka was the first in the region to introduce products such as the Tax Free and Western Union money transfer.

In the corporate segment, the bank is oriented towards the development of small and medium-sized enterprises. The bank holds over three thousand accounts for sole traders and approximately 3.6 thousand corporate accounts.

Medimurska banka

Medimurska banka was established in 1954 under the name of Zadrúžna banka i štedionica Čakovec. Since then, the bank has experienced many changes both name wise and in respect of organisational structure. It began operations under its current name in 1978 and became a joint stock company at the end of 1989. During 1996 Medimurska banka was among the first in Croatia to obtain the certifi-



cate for quality management standards in line with the ISO 9002 quality system. Currently the Bank has 15 branches located in the region of Međimurje. It uses its network to provide services to more than 5 thousand companies and over 150 thousand individual clients.

While monitoring the global trends in banking, the bank has continuously worked on expanding and updating its products and services. The bank is recognised as a pioneer in electronic banking in the country. At the beginning of 1998 the bank introduced an interactive telephone banking service. Only a year later they were the first in the country to launch an internet banking system. Privredna banka Zagreb acquired a majority stake of Međimurska banka at the end of 2000.

Privredna banka Laguna banka

Privredna banka Laguna banka was founded on 31 May 1996 on the premises of a former PBZ branch. At the beginning of 1998 PBZ acquired 100 percent ownership of the bank which was afterwards renamed to Privredna Banka Laguna banka. As a small bank supported by PBZ, it was able to become a regional player with its headquarters in Poreč and a network of 10 offices covering the entire region. The opening of a new office in the centre of Pula, the region's business hub, is part of the bank's goal of gaining a strategic position for increasing business in the south of this area.

The bank has developed a broad range of products that it offers to the market through cross-selling techniques. In addition to loans, it offers products in domestic and foreign currency savings, card products with the Maestro Cirrus debit card and American Express debit card (together with PBZ American Express). The bank has placed its focus on retail operations as the main area of interest resulting in services provided to more than 25 thousand clients and more than 37 thousand accounts opened.

Privredna banka Laguna banka has also invested considerable efforts in service to corporate clients, sole traders and small and medium-sized companies. The aim of the Bank is to strengthen its position in the region and to meet the expectations of present and future clients.



PBZ American Express

American Express is an internationally recognised trademark always associated with exceptional quality. The trademark has been present here on the Croatian market since 1965.

PBZ American Express has been operating as a subsidiary of Privredna banka Zagreb for the last three years. It has grown into the largest credit card organization in the country being accepted at approximately 27 thousand locations country-wide and having issued in excess of 283 thousand cards.

The American Express portfolio has always included the standard personal American Express green card intended for daily consumer purchases. The card may be issued with or without a current account held at PBZ or at a number of other local banks. During 1994 the Gold Card was introduced for more prestigious clients.

PBZ American Express also offers two types of Business cards: the Green card intended for use by corporate employees wishing to simplify the invoicing of travel and other expenses; the Gold business card is intended for professionals in management who want to enjoy superior service while travelling.

The Affinity card easily recognisable by its design, was introduced last year for groups of people sharing common interests. There were issues of these cards for members of the Rotary Club, the Chamber of Dentists, the Association of Nurses and for tennis enthusiasts.

PBZ American Express has made available to their clients the access to funds through cash loans in PBZ branch offices and taking consumer loans at 2.8 thousand service establishments in Croatia.

PBZ American Express continued to make efforts to improve its services and to increase product range with revolving credit cards along with providing greater number of service establishments to maintain its leadership role in the Croatian card market. PBZ American Express has received numerous domestic and international awards for the quality of its services.



PBZ Invest

PBZ Invest is a subsidiary of Privredna banka Zagreb specialising in the establishment and management of investment funds. The company was established in 1998 and is fully owned by Privredna banka Zagreb. PBZ Invest is an active member of the Financial Brokerage Association within the Croatian Employers Association, as well as a member of the Group of investment fund management companies within the Croatian Chamber of Economy.

Investment funds are state-of-the-art financial instruments managed by specialised managers that enable investors to earn a competitive return on the money invested. PBZ Invest is confident that there is a good future for investment funds in the Croatian financial market. We intend to offer our clients a wide range of investment funds, thus meeting the needs of investors with varied preferences and investment goals, ranging from conservative clients who prefer safety and liquidity of investment to those who are not averse to risk and want to see their investment value grow over a long-term period.

With that in mind, PBZ Invest started its first fund in 1999 - the PBZ Novčani fond, an open-ended investment fund.

PBZ Novčani fond, open-ended investment fund

PBZ Novčani fond is an open-ended investment fund with a strictly conservative investment philosophy, focusing on low risk investments and high liquidity. The goal of the Fund is to offer all its investors a low-risk investment, an uninterrupted and unconditional liquidity option, return on investment that is competitive by market standards and protection from adverse movements in the kuna exchange rate (investment with a currency clause option).

Purchasing stakes in the Fund enables investors to earn higher returns on their investment than would be the case with a usual savings account.



PBZ International Bond fond, open-ended investment fund

The investment fund was developed in association with IntesaBci. The goal of the Fund is to enable both private and institutional investors to earn additional income by investing in the first-class global bonds, issued by foreign governments, local governments and the most stable global corporations, denominated in foreign currencies.

PBZ Global fond, open-ended investment fund

The Fund operations consist of attracting cash assets by public bidding of its unit holdings and investment of assets thus collected in safe and profitable instruments offered in both domestic and foreign financial markets.

Given the strategy and the choice of instruments, the Fund is chosen by investors who want to invest their assets for a period of two to five years.

PBZ Kapital

PBZ Kapital is a broker house wholly owned by Privredna banka Zagreb. It provides services in securities dealings in the Croatian capital markets. It is a member of the Zagreb Stock Exchange and the Varaždin OTC Market.

The activities and authorisations of PBZ Kapital are determined by the Securities Act. PBZ Kapital provides complete brokerage services at the highest standards to Croatian and foreign individuals and corporate entities. In order to fulfil this task as successfully as possible, PBZ Kapital brokers pay great attention to the development of long term business cooperation with clients based on mutual trust.

PBZ Kapital participates in all major types of securities dealings, which is especially important for emerging markets, such as the Croatian capital market. Changes in development of the Croatian market are monitored carefully by PBZ Kapital in order to provide relevant expertise and information to the clients with the aim of meeting their requirements in the best possible manner.



PBZ Nekretnine

PBZ Nekretnine is a wholly owned subsidiary of Privredna banka Zagreb and engages in property transactions services, construction management and real estates valuation. Privredna banka Zagreb established PBZ Nekretnine to provide its clients with complete services relating to property and investment in business projects. PBZ Nekretnine offers apartments, houses, business premises, construction sites and other properties for sale.

The activities of PBZ Nekretnine involve property transactions, property transaction services, property renting, construction, planning, construction supervision, construction evaluation, appraisal of property value, production of feasibility studies for investments and legal supervision of works.

The company has been operating successfully since it was founded at the beginning of 1999.

PBZ Leasing

PBZ Leasing is wholly owned by Privredna banka Zagreb. It was founded in 1991 under the name of PBZ Stan. At its beginnings, it dealt with property appraisals and restructuring of the public housing fund. During 1995 the company commenced to grant car purchases. In 1996 PBZ Leasing started placing funds of Privredna banka Zagreb and to this date there have been over HRK 1.2 billion placed in car purchase loans.

In the past several years, leasing has become an increasingly important activity for the company. After acquiring ten sailing vessels, it has become the leader in sailboat leases in Croatia.

PBZ Leasing holds 18 percent of the market share in car loans.



PBZ Croatia osiguranje

PBZ Croatia osiguranje is a joint stock company for compulsory pension fund management. The company was incorporated at 26 July 2001 in accordance with the new changes in Croatian pension legislation. It was registered at the Trade court on 28 September 2001 with the initial share capital in the amount of HRK 40 million. The amount of HRK 20 million was equally paid by the founders of the company, Privredna banka Zagreb and Croatia osiguranje.

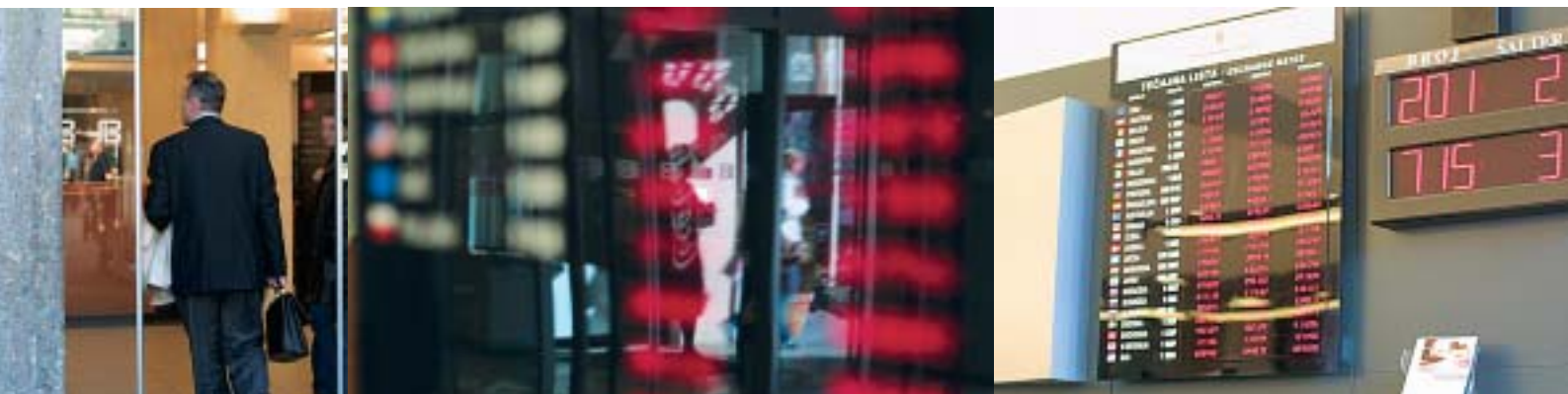
Pursuant to the Law on compulsory and voluntary pension funds, on 5 November 2001 the Agency for Supervisory of Pension Funds and Insurance (Hagena) granted a licence to the company to perform its activities. The principal activities of PBZ Croatia osiguranje include establishing and management of the compulsory pension fund.

Adria Investing

Adria Investing was registered in 1992 with its location in Rijeka. The initial foundation was made following the Law on the method of liquidation of the operations of the main branches of Jugobanka d.d. Beograd that operated in the Republic of Croatia. The company's main shareholders are Riadria banka (51 percent) and Privredna banka Zagreb (47 percent).

On 3 April 2001 the shareholders made a decision concerning the liquidation of the company. Therefore, as at 30 April 2001 the company was registered at the Commercial Court under the name Adria Investing d.d. in liquidation. According to the liquidation plan, the liquidation process will be finished by 31 December 2002.

The company's main activity is the rent of premises. The premises are located in the Istria region.



Invest Holding Karlovac

Invest Holding is a limited liability company incorporated as at 11 November 1990. On 22 November 1990 it was registered in the Court Register in Karlovac with an initial share capital of HRK 30 million. The sole founder of the company was Karlovačka banka d.d. On 12 December 1990 Karlovačka banka sold 56.38 percent of its shares in the company to Privredna banka Zagreb.

The company is registered for the following activities: wholesale, intermediary activities in sales transactions, intermediary activities in financial transactions, renting of its own premises and management of holding companies.

Investholding Zagreb

Investholding in liquidation, Zagreb is a limited liability company registered in the Court Register on 10 May 1991 under the name PBZ Investholding. The initial share capital of the company was HRK 35 million. As at 31 January 2001, Privredna banka Zagreb, as the sole founder of the company, reached a decision on the termination of the company's operations. This was registered in the Court Register on 19 February 2001 when the company formally entered into the liquidation process.

Before entering into liquidation, Investholding was registered for holding companies management, financial mediation and trade.





In accordance with the Companies Act and its Article of Association, the Bank has a Supervisory Board and a Management Board. The two boards are separate and no individual may be a member of both boards.

Supervisory Board

The Supervisory Board consists of five members. The Board meets quarterly and oversees the Management Board.

The current members of the Bank's Supervisory Board, appointed on 2 June 2000, are as follows:

Enrico Meucci (President of the Supervisory Board, IntesaBci - resigned on 26 October 2001)

György Surányi (President of the Supervisory Board, IntesaBci - appointed on 26 October 2001)

Adriano Bisogni (Vicepresident of the Supervisory Board, IntesaBci)

Adriano Arietti (IntesaBci)

Gianfranco Mandelli (IntesaBci)

Marinko Filipović (DAB).

Management Board

The Management Board consists of seven members and the Chief financial officer with each being allocated a specific area of responsibility. The Management Board meets at least twice a month to discuss and determine the operating policies of the Bank.

Management Board members:

Božo Prka, President of the Management Board

Franjo Filipović, responsible for Corporate Banking Group

Ivan Gerovac, responsible for Finance Banking Group

Zvonko Agičić, responsible for Retail Banking Group

Ivan Krolo, responsible for Internal Control Group and Equity Investment Management

Davor Holjevac, responsible for Information Technology and Operations Group

Nediljko Matic, responsible for Human Resources and Legal Affairs Group

Antonello Dessanti, Chief financial officer



Statement of responsibilities of the Management Board



50

51



Pursuant to the Croatian Company Act and Accounting Law (90/92), the Management Board is responsible for ensuring that financial statements are prepared for each financial year giving a true and fair view of the state of affairs and results of the Bank and the Group for that period, in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board. In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business in foreseeable future.

The Management Board must also ensure that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Bank and the Group and must also ensure that the financial statements comply with the Croatian Accounting Law (90/92). The Management Board is also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

Božo Prka, M.S.
Privredna banka Zagreb d.d.
Račkoga 6
10000 Zagreb
Republic of Croatia

5 March 2002



Auditor's report

To the Shareholders of Privredna banka Zagreb d.d.

We have audited the accompanying consolidated and unconsolidated financial statements of Privredna banka Zagreb d.d. (the Bank) and its subsidiaries (together, the Group) as at 31 December 2001 as set out on pages 54 to 93. The financial statements have been prepared on the basis of the accounting standards issued by the International Accounting Standards Board, as required by Croatian Accounting Law, under the accounting policies set out on pages 58 to 61. The financial statements of the Bank and the Group as of 31 December 2000, were audited by other auditors whose report dated 13 February 2001, expressed an unqualified opinion on those statements.

Respective responsibilities of the Board and auditors

As described on page 51, these financial statements are the responsibility of the Bank's and Group's Board. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit of the financial statements of the Bank and the Group in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2001, and of the results of their operations and their cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board and the requirements of the Croatian Accounting Law (NN 90/92).



Arthur Andersen d.o.o., Zagreb
Republic of Croatia

16 May 2001

25 February 2002

Financial Statements for the Bank and the Group

Profit and loss account

In HRK million

	Note	2001	Group 2000	2001	Bank 2000
Interest income	1	1,891	1,549	1,448	1,268
Interest expense	1	(795)	(634)	(694)	(581)
Net interest income		1,096	915	754	687
Fee and commission income	2	444	384	370	335
Fee and commission expense	2	(65)	(68)	(56)	(53)
Net commission income		379	316	314	282
Other operating income	3	465	344	412	306
Operating income		1,940	1,575	1,480	1,275
Provisions	4	(159)	(222)	(134)	(214)
Other operating expenses	5, 6	(943)	(825)	(683)	(618)
Depreciation and amortization of fixed and intangible assets	7	(162)	(107)	(107)	(64)
Profit before income taxes		676	421	556	379
Income arising from investments accounted by net equity method		(40)	-	-	-
Income taxes	8	(55)	(13)	(39)	-
Minority interests	28	-	(2)	-	-
Net profit for the year		581	406	517	379
			in HRK		in HRK
Basic earnings per share	35	35.2	24.6	31.3	22.9

The accompanying accounting policies and notes are an integral part of this Profit and loss account.

Balance sheet

In HRK million

	Note	2001	Group 2000	2001	Bank 2000
Assets					
Cash	9	2,128	360	1,914	316
Balances with Croatian National Bank	10	4,170	3,182	3,456	2,938
Due from banks	11	5,777	3,087	5,384	2,839
Customer loans	12	13,167	9,878	11,245	9,164
Bonds and other fixed-yield securities	13	4,230	4,243	3,786	4,043
Equities, shares and other variable yield securities	14	448	71	447	24
Equity investments	15	56	62	24	33
Equity investments in subsidiaries	16	126	143	391	400
Intangible assets	17	251	233	108	95
Fixed assets	18	844	819	642	586
Other assets	19	62	138	49	47
Accrued income receivable and prepaid expenses	19	210	93	150	89
Deferred tax	19	4	-	4	-
Total assets		31,473	22,309	27,600	20,574
Liabilities					
Due to banks	20	2,901	3,367	2,837	3,024
Due to customers	21	23,757	15,194	20,708	14,261
Other due in securities	22	19	20	19	20
Other liabilities	23	1,194	662	731	332
Deferred income	23	382	279	304	294
Allowances for risks and charges	24	267	276	247	252
Total liabilities		28,520	19,798	24,846	18,183
Minority interests	28	62	71	-	-
Shareholders' equity					
Share capital	26	1,666	1,666	1,666	1,666
Treasury shares		(14)	(13)	(14)	(13)
Reserves and retained earnings	27	658	381	585	359
Net profit for the year		581	406	517	379
		2,891	2,440	2,754	2,391
Total liabilities and shareholders' equity		31,473	22,309	27,600	20,574

The accompanying accounting policies and notes are an integral part of this Balance sheet.

These financial statements were approved by the Management Board on 5 March 2002.

Božo Prka, M.S.
President of the Management Board

Antonello Dessanti
Chief financial officer

Statement of changes in equity

In HRK million

	Share capital	Treasury shares	Reserves and retained profits	Net profit for the year	Total
Group					
Balance at 1 January 2000	1,666	(10)	179	198	2,033
Increase in shareholdings	-	-	4	-	4
Transfer to reserves	-	-	198	(198)	-
Purchase of treasury shares	-	(3)	-	-	(3)
Net profit for the year	-	-	-	406	406
Balance at 31 December 2000	1,666	(13)	381	406	2,440
Transfer to reserves	-	-	253	(253)	-
Purchase of treasury shares	-	(1)	-	-	(1)
Dividends paid	-	-	-	(153)	(153)
Increase in shareholdings	-	-	8	-	8
Consolidation adjustment	-	-	16	-	16
Net profit for the year	-	-	-	581	581
Balance at 31 December 2001	1,666	(14)	658	581	2,891
Bank					
Balance at 1 January 2000	1,666	(10)	148	221	2,025
Transfer to reserves	-	-	221	(221)	-
Purchase of treasury shares	-	(3)	-	-	(3)
Losses brought forward from Krapinsko zagorska banka d.d.	-	-	(10)	-	(10)
Net profit for the year	-	-	-	379	379
Balance at 31 December 2000	1,666	(13)	359	379	2,391
Transfer to reserves	-	-	226	(226)	-
Purchase of treasury shares	-	(1)	-	-	(1)
Dividends paid	-	-	-	(153)	(153)
Net profit for the year	-	-	-	517	517
Balance at 31 December 2001	1,666	(14)	585	517	2,754

The accompanying accounting policies and notes are an integral part of this Statement of changes in equity.

Cash flow statement

In HRK million



56

57

	Note	Group		Bank	
		2001	2000	2001	2000
Cash flow from operating activities					
Operating profit		581	406	517	379
Provisions for bad and doubtful debts		159	222	134	214
Proceeds from sale of property and equipment		(5)	(5)	(2)	(4)
Depreciation and amortization		162	107	107	64
Taxes paid		(55)	(13)	(39)	-
		842	717	717	653
(Increase)/decrease in operating assets					
Balances with Croatian National Bank		(988)	(885)	(519)	(865)
Due from banks		(2,690)	(1,576)	(2,545)	(1,477)
Customer loans		(3,540)	(2,332)	(2,172)	(3,120)
Disposals/(acquisitions) of trading securities		(365)	515	(423)	462
Accrued income and other assets		(45)	(54)	(84)	64
Bonds and other fixed-yield securities		13	(562)	257	296
(Increase)/decrease in operating liabilities					
Due to banks		(172)	668	880	404
Due to customers		8,464	3,992	5,172	3,452
Other liabilities		635	157	279	98
Net cash from operating activities		2,154	640	1,562	(33)
Cash flows from investing activities					
Purchase of property and equipment		(178)	(256)	(163)	(241)
Acquisition of long term investment		(12)	(121)	(10)	(101)
Net cash from investing activities		(190)	(377)	(173)	(342)
Cash flows from financing activities					
Dividend paid		(153)	-	(153)	-
Other borrowed funds		(43)	(67)	362	549
Net cash from financing activities		(196)	(67)	209	549
Net increase/(decrease) in cash		1,768	196	1,598	174
Cash at the beginning of the year		360	164	316	142
Cash at the end of the year	9	2,128	360	1,914	316
Supplementary information					
Interest paid		765	616	664	579
Interest received		1,615	1,319	1,401	1,236
Dividend paid		153	-	153	-
Dividend received		6	-	22	1

The accompanying accounting policies and notes are an integral part of this Cash flow statement.

Accounting policies

A summary of the Group's principal accounting policies is set out below.

Basis of accounting

The Bank and the Group maintain its accounting records in Croatian Kuna and in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia.

Basis of preparation

These consolidated and Bank only financial statements are prepared in accordance with International Financial Reporting Standards.

The consolidated and Bank only financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held for trading.

The financial statements have been presented in a format generally accepted and internationally recognised by banks and in accordance with International Accounting Standard (IAS) 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and International Financial Reporting Standards except as set out in these accounting policies.

Basis of consolidated (Privredna banka Zagreb Group) financial statements

Financial statements are presented for the Bank and the Group. The Group financial statements comprise the consolidated financial statements of the Bank and its subsidiary entities except subsidiaries that are undergoing liquidation (PBZ Export Handel Service GmbH Group Germany, Meba d.o.o. and Škuda d.d.). Such subsidiaries are accounted for at cost decreased by an impairment provision.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments in associates are accounted for by the equity method of accounting. These are undertakings over which the Group generally has between 20 percent and 50 percent of the voting rights, and over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated undertakings includes goodwill (net of accumulated amortisation). Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking. Where necessary, the accounting policies used by the associate have been changed to ensure consistency with the policies adopted by the Group.

Interest and similar income and expense

Interest income and expense are recognised in the profit and loss account on an accrual basis. Interest income ceases to be accrued, and all outstanding amounts are reversed, when more than 60 days overdue, unless the specific circumstances suggest that the collectibility of overdue interest is not in doubt. This policy is not in compliance with IAS 39 Financial Instruments (Revised 2000): Recognition and Measurement. Management has estimated that the effects of this departure are not material to the overall financial position of the Bank and the Group (refer to Loans and provisions for loan impairment). Interest income includes accrued discount on bills of exchange and treasury bills.

Foreign currencies

Income and expenditure arising from transactions in foreign currencies are translated to Croatian Kuna at the official rates of exchange on the transaction date. Assets and liabilities denominated in foreign currencies are translated to Croatian Kuna at the mid market exchange rate on the last day of the accounting period. Gains and losses resulting from foreign currency translation are included in the profit and loss account for the year.

Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements and the counterparty is included in deposits from banks or customers as appropriate. Securities purchased under agreements to resell (reverse repo) are recorded as loan and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements.

Fees and commission income

Fees and commission income are comprised mainly of fees receivable from enterprises for loans and guarantees granted and other services provided by the Bank, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions. Such fees are credited to income when the associated service is performed. According to IAS 18 (Revised 1993) Revenue and IAS 39 (Revised 2000) Financial Instruments: Recognition and Measurement, these fees are an integral part of generating an ongoing involvement with the resultant financial instrument and, together with the related direct costs, and should be deferred and recognized as an adjustment to the effective yield. In the view of the Bank and the Group, the impact of non-compliance with the requirement of IAS 18 and IAS 39 does not have a material impact on its overall financial position.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and current accounts with other banks, and placements with other banks.

Trading portfolio

Financial instruments included in the trading portfolio are held-for-trading financial instruments, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. These instruments are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on quoted bid prices decreased for a certain discount due to the inactive market for such instruments in Croatia. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding these instruments is reported as interest income. Dividends received are included in dividend income. All purchases and sales of held-for-trading instruments are accounted for at trade date, which is the date that the Group commits to purchase or sell the asset.

Investment securities

Financial instruments included in the investment portfolio are hold-to-maturity financial instruments, where management has both the intent and the ability to hold to maturity. All hold-to-maturity financial instruments are carried at cost or amortised cost, less any provision for impairment. Interest earned from hold-to-maturity financial instruments is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared. All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the Group commits to purchase or sell the asset.

Loans and the provisions for loan impairment

Loans originated by the Bank are accounted for at cost less provision for impairment. A specific credit risk provision for loan impairment is established to provide for the management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. A general provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio at balance sheet date but which have not been specifically identified as such. This provision is based on an analysis of internal credit gradings allocated to borrowers, refined to reflect the economic climate in the markets in which the Bank operates.

As discussed above, this policy is not in compliance with IAS 39 in respect of impairment provisions. IAS 39 requires impairment provisions to be measured based on an assessment of the recoverable amount of individually significant assets or portfolios of assets with similar risks, determined as the expected future cash flows from the instrument, including the fair value of collateral if foreclosure is probable, discounted to the balance sheet date using the original effective interest rate implicit in the loan. In the view of the Bank and the Group, the impact of non-compliance with the requirements of IAS 39 does not have a material impact on its overall financial position. When a loan is deemed uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the profit and loss account if previously written off.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the profit and loss account.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to profit and loss account in the period in which the costs are incurred.

Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction, property and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Property and equipment is depreciated on a straight-line basis using useful lives. The following annual rates are used:

Buildings | 3.0 to 10.0 %

Furniture | 6.7 to 20.0 %

Computers | 20.0 %

Motor vehicles | 25.0 %

Equipment and other assets | 6.7 to 20.0 %

Land is not depreciated. Assets in the course of transfer are not depreciated until they are brought into use. Maintenance and repairs are charged to the profit and loss account when incurred and improvements are capitalised.

Intangible assets and goodwill

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized on a straight line basis over the best estimate of their useful lives. The amortization period and the amortization method are reviewed at each reporting period.

According to IAS 22 Business Combinations, any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the acquisition is presented as goodwill and recognized as an asset. Any excess, as at the date of the exchange transaction, of the acquirer's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition is recognised as negative goodwill.

Goodwill accounted for in the accompanying financial statements is amortised over a period of 7.5 years at annual rate of 13.33 percent in the books of PBZ American Express (in 2000 estimated useful life of goodwill was 7.5 years) and in Privredna banka Zagreb of 10 years at annual rate of 10 percent.

Intangible assets are amortised over a period of 5 years.

Taxation

Corporation tax payable is provided on taxable profits at the current rate taking the deferred taxation into the consideration.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each balance sheet date, the Bank re-assesses unrecognised deferred tax assets and the appropriateness of carrying amount of the tax assets.

The Bank is subject to a tax rate of 20 percent in accordance with Section 2 of the Profit Tax Act. The Bank and certain Group members currently have carry forward tax losses from prior years. These losses can be carried forward for a total of five years (refer to note 8).

Provisions for contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Comparatives and reclassification

Certain items of the financial statements have been reclassified to enable comparison with the disclosed information for the current year.

Managed funds

The Bank manages a significant amount of assets on behalf of third parties. A fee is charged for this service. These assets are not recorded in the Bank's balance sheet. Details are set out in note 29.

Impairment of assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in the circumstances indicate that the carrying amount of an assets may not be recoverable. Whenever the carrying amount of an assets exceeds its recoverable amount, an impairment loss is recognised in income for items of property, plant and equipment and intangibles carried at cost and treated as a revaluation decrease for assets that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same assets. The recoverable amount is the higher of an asset's net selling price and its value in use.

Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term loans and leasing, deposits and investments. The accounting principles for these items are disclosed in the respective accounting policies.

Pension costs and other post retirement benefits

Pension costs

According to local legislation, the Group is obliged to pay contributions to the State Social Security Fund. This obligation relates to full-time employees and provides for paying contributions on behalf of the employer in the amount of certain percentages determined on the basis of the gross salary as follows:

Contributions for State Pension Fund | 8.75%

Contributions for State Health Insurance Fund | 7.00%

Contributions for Unemployment Fund | 0.85%

The Group is also obliged to withhold contributions from the gross pay on behalf of the employee for the same funds. The contributions on behalf of employees and on behalf of the employer are charged to expenses in the period to which they relate (see note 6).

Retirement allowances

Under the internal salary regulation, the Group and the Bank are obliged to pay a retirement allowance of HRK 8 thousand to individuals who are retiring with the Bank or the Group.

IAS 19 (Revised 2000) Employee benefits requires post-retirement benefits and other long-term benefits to be recorded on an accrual basis. The Group and the Bank assessed their liabilities for post retirement benefits in accordance with IAS and recorded an accrual in the accompanying financial statements.

The obligation and costs of pension benefits are determined using a projected unit credit method, which considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Certain actuarial assumptions were made by the Management in this assessment.

Notes to the Bank and the Group Financial Statements

1 Interest income and expense

In HRK million

	2001	Group 2000	2001	Bank 2000
Interest income				
Companies	486	349	452	357
Banks	193	229	166	206
Citizens	860	576	510	324
Public sector and other	106	90	105	79
On bonds and securities	246	305	215	302
	1,891	1,549	1,448	1,268
Interest expense				
Companies	141	94	130	89
Banks	116	145	133	135
Citizens	472	354	371	318
Public sector and other	66	41	60	39
	795	634	694	581

2 Fee and commission income and expense

In HRK million

	2001	Group 2000	2001	Bank 2000
Fee and commission income				
Commission on customer loans	137	134	106	114
Commission on guarantees given	79	46	77	46
Commission on customer services	97	96	93	95
Commission on credit cards services	29	23	26	22
Other commissions	102	85	68	58
	444	384	370	335
Fee and commission expense				
Payment transaction charges	24	21	18	17
Bank charges	33	13	23	13
Commission to post offices for citizens' current accounts	6	10	5	10
Other	2	24	10	13
	65	68	56	53

3 Other operating income

In HRK million

		Group		Bank	
		2001	2000	2001	2000
Dividends received		6	-	22	1
Gains from disposal of fixed assets		5	5	2	4
Profit from buying and selling trading securities		180	67	179	67
Foreign exchange		198	211	170	193
Write downs/ups on trading securities		17	22	15	22
Other changes		59	39	24	19
		465	344	412	306

4 Provisions

In HRK million

	Note	Group		Bank	
		2001	2000	2001	2000
Provisions for loans	11,12	95	233	56	223
Provisions for guarantees and commitments	24	4	(44)	8	(48)
Provisions for general credit risk	12	45	(51)	42	(45)
Provisions for financial investments	15, 16	7	1	27	16
Provisions for legal claims	24	8	92	1	92
Provisions for other expenses	24	-	(9)	-	(24)
		159	222	134	214

5 Other operating expenses

In HRK million

	Note	Group		Bank	
		2001	2000	2001	2000
Personnel expenses	6	459	419	353	336
Materials and services		287	245	206	194
Indirect and other taxes		9	41	7	10
Other operating expense		188	120	117	78
		943	825	683	618

Notes to Financial Statements

6 Personnel expenses

In HRK million

		Group		Bank
	2001	2000	2001	2000
Net salaries	236	197	165	158
Pension insurance costs	60	61	49	50
Health insurance costs	48	50	40	41
Taxes and surtaxes due to local authorities	45	51	41	38
Expenses related to social program	13	24	8	24
Other personnel expenses	57	36	50	25
	459	419	353	336

Included in salaries and other related costs of employees is the Bank's bonus in gross amount of HRK 22.7 million (2000: HRK 13 million). In addition, the same item includes the remuneration of the Bank's Management Board in gross amount of HRK 6.9 million (2000: HRK 6.2 million).

During the year the average number of employees within the Group was 3,692 (2000: 3,855) of which the Bank accounted for 2,902 employees (2000: 3,035).

7 Depreciation and amortization of fixed and intangible assets

In HRK million

		Group		Bank
	2001	2000	2001	2000
Depreciation of fixed assets	106	69	85	53
Depreciation of intangible assets	56	38	22	11
	162	107	107	64

8 Taxation

On 20 December 2000 a new Law on tax profit was introduced (National Gazzete 127/00) which became effective for periods after 1 January 2001. The profit tax is payable at the rate of 20 percent (2000: 35 percent), on adjusted operating income. The new Law does not recognise a protective interest rate on equity or tax losses carried forward as it was the case in the past. Generally, tax declarations remain open and subject to inspection for at least a three-year period. The management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant authorities could take differing positions with regard to interpretative issues and the effect could be significant.

The reconciliation between accounting profit and taxable profit is as follows:

Taxation | continued

In HRK million

		Group		Bank
	2001	2000	2001	2000
Accounting profit	676	421	556	379
Statutory tax rate	20%	35%	20%	35%
Expected nominal tax	135	147	111	133
Tax effects of:				
Non deductible expenses	13	4	9	3
Charge for capital maintenance	-	(102)	-	(90)
Non taxable income	(5)	(26)	(4)	(26)
Other	-	(4)	-	(4)
Tax losses brought forward	(88)	(6)	(73)	(16)
Tax expense	55	13	43	-
Effective tax rate	8.1%	3.1%	7.7%	-

Deferred tax

In HRK million

		Group		Bank
	2001	2000	2001	2000
Deferred tax asset recognised at 1 January	-	-	-	-
Tax (profits)/losses in the year recognised as deferred tax assets	(4)	-	(4)	-
Deferred tax (debit)/credit in the profit and loss account	(4)	-	(4)	-
Deferred tax asset recognised at 31 December	(4)	-	(4)	-

In accordance with the effective Law on tax profit, several subsidiaries within the Group may use tax losses to reduce taxable profits for a period of 5 years. The benefit of the tax losses has not been recognised in these financial statements due to uncertainty of their recoverability. The expiry dates for unused tax losses are as follows (in HRK million):

		Group		Bank
	2001	2000	2001	2000
31 December 2001	-	276	-	271
31 December 2002	-	217	-	205
31 December 2003	-	29	-	14
31 December 2004	7	70	-	9
31 December 2005	26	29	-	-
	33	621	-	499

Notes to Financial Statements

9 Cash

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	Group		Bank	
	2001	2000	2001	2000
Cash in hand	2,120	355	1,907	311
Other cash items	8	5	7	5
	2,128	360	1,914	316

Increase in cash in hand is a result of large inflow of cash during December, due to the euro conversion, and was of temporary nature.

10 Balances with Croatian National Bank

In HRK million

	Group		Bank	
	2001	2000	2001	2000
Giro accounts	365	4	318	-
Obligatory reserve	2,125	1,894	1,716	1,766
Treasury bills	1,650	1,284	1,392	1,172
Other deposits	30	-	30	-
	4,170	3,182	3,456	2,938

Obligatory reserve represents the amount required to be deposited with the Croatian National Bank. Obligatory reserve as of the end of each month is calculated on certain balances of attracted funds for the previous month. The obligatory reserve is calculated as 19 percent of HRK denominated (2000: 23.5 percent) and 19 percent of foreign currency denominated balances (2000: 23.5 percent). From that amount the banks should maintain at least 40 percent with the Croatian National Bank.

The balances maintained with the Croatian National Bank bear interest of 2 percent for HRK amounts (2000: 4.5 percent), 1.82 percent for USD and 3.29 percent for EUR amounts (2000: 4.9 percent on all foreign currencies). 25 percent of the foreign currency obligatory reserve should be maintained in HRK.

As of the year end, the Bank and the Group maintained 60 percent of its HRK obligatory reserve and 40 percent of its foreign currency obligatory reserve (in USD) with the Croatian National Bank. The remaining 40 percent of HRK obligatory reserve and 60 percent of foreign currency obligatory reserve were maintained as balance on nostro accounts or deposits with other banks.

11 Due from banks

In HRK million

	Group		Bank	
	2001	2000	2001	2000
Current accounts and demand deposits	141	107	152	64
Term deposits	5,177	2,559	4,773	2,365
Loans to banks	471	431	467	416
	5,789	3,097	5,392	2,845
Provisions	(12)	(10)	(8)	(6)
	5,777	3,087	5,384	2,839

11 Due from banks | continued

Term deposits are normally short-term deposits (up to one month) with local and foreign banks bearing an interest rate of 1.7 percent to 4.5 percent. Included in term deposits with banks at 31 December 2001 were deposits of HRK 166 million with foreign banks that were blocked as a collateral for the purchase of euro. The purchase was effected in 2002.

In 2000 there were HRK 23 million foreign currency denominated placements with other banks which were pledged as security for letters of credit and guarantees provided to customers by other banks. In 2001 there were no such placements.

Included in the Bank placements with other banks are HRK 49.8 million (2000: HRK 55 million) related to refinanced borrowings due to the Republic of Croatia and HRK 237 million (2000: HRK 247 million) of refinanced borrowings due to the Government agencies. For more details refer to note 20.

The related currency analysis is provided in note 33.

a | Geographical analysis

In HRK million

	Group		Bank	
	2001	2000	2001	2000
Republic of Croatia	114	486	183	433
Germany	1,682	628	1,618	570
Austria	817	281	745	274
Belgium	493	167	493	167
France	383	287	383	287
Switzerland	191	6	191	6
United States of America	116	167	102	167
Italy	290	220	243	112
Great Britain	1,005	585	985	585
Other countries	698	270	449	244
	5,789	3,097	5,392	2,845
Provisions	(12)	(10)	(8)	(6)
	5,777	3,087	5,384	2,839

b | Provisions for losses

In HRK million

	Group		Bank	
	2001	2000	2001	2000
Balance at 1 January	10	10	6	6
Provisions	2	-	2	-
Balance at 31 December	12	10	8	6

Notes to Financial Statements

12 Customer loans

In HRK million

		Group		Bank
	2001	2000	2001	2000
a Analysis by type of customer				
Companies	7,566	6,187	7,053	6,194
Citizens	6,584	4,490	4,929	3,653
Public sector and other	1,236	1,331	1,227	1,330
	15,386	12,008	13,209	11,177
Specific provisions	(2,039)	(2,005)	(1,806)	(1,897)
General provisions	(180)	(125)	(158)	(116)
	13,167	9,878	11,245	9,164
b Analysis by sector				
Agriculture, forestry and fishing	586	481	544	471
Food and drinks productions	477	343	456	343
Oil refining	397	357	338	357
Energy products – trade	454	472	445	472
Construction	590	351	537	344
Wholesale and retail trade	1,760	1,113	1,574	1,078
Hotels, restaurants	492	479	402	479
Transport and communication	1,083	1,050	1,039	1,020
Citizens	6,584	4,490	4,929	3,653
Other	2,963	2,872	2,945	2,960
	15,386	12,008	13,209	11,177
Specific provisions	(2,039)	(2,005)	(1,806)	(1,897)
General Provisions	(180)	(125)	(158)	(116)
	13,167	9,878	11,245	9,164

Within loans and advances to customers were advances related to Treasury bills of the Ministry of Finance purchased under agreements to resell (reverse repo) to other customers whose value at 31 December 2001 stood at HRK 20 million (2000: HRK 6 million).

12 Customer loans | continued

In HRK million

	2001		2000	
c Provision for losses	Specific	General	Specific	General
Group				
Balance at 1 January	2,005	125	1,944	178
Consolidation adjustment	88	10	-	-
Amounts collected	(181)	-	(366)	-
Amounts written off	(122)	-	(181)	(2)
Foreign exchange (gain)/loss	(25)	-	9	-
Provisions	274	45	599	(51)
Balance at 31 December	2,039	180	2,005	125
	2,219		2,130	
Bank				
Balance at 1 January	1,897	116	1,832	161
Amounts collected	(137)	-	(357)	-
Amounts written off	(122)	-	(180)	-
Other changes	(23)	-	22	-
Provisions	191	42	580	(45)
Balance at 31 December	1,806	158	1,897	116
	1,964		2,013	

The Bank manages its exposure to credit risk by the application of a variety of control measures: regular assessment using agreed credit criteria; diversification of sector risk to avoid undue concentration in type of business or geographic terms. Where necessary, the Bank obtains acceptable collateral to reduce the level of credit risk.

d | Loans and contingencies under guarantee

The state budget includes support for certain key industries in the Republic of Croatia. The recovery of such loans is provided from the state budget. In addition, the Republic of Croatia issues warranties for certain loans and contingent liabilities.

The support and guarantee of the Republic of Croatia was taken into consideration when determining the level of provisions required against loans to certain legal entities.

Total Group loans and contingencies guaranteed by the Republic of Croatia or repayable from the state budget amount to HRK 906 million (2000: HRK 1,729 million).

Total Bank loans and contingencies guaranteed by the Republic of Croatia or repayable from the state budget amount to HRK 873 million (2000: HRK 1,238 million).

At 31 December 2001 the principal amount of non-performing loans and advances for the Group which either do not accrue interest or where interest is suspended was HRK 2,072 million and for the Bank HRK 1,787 million (2000: HRK 1,922 million and HRK 1,845 million).

e | Refinanced loans

Included in loans and advances to customers are HRK 350 million (2000: HRK 386 million) related to refinanced borrowings due to the Republic of Croatia and HRK 613 million (2000: HRK 651 million) of refinanced borrowings due to Government Agencies. For more detail on refinanced loans refer to note 20.

Notes to Financial Statements

13 Bonds and other fixed-yield securities

In HRK million

		Group		Bank
	2001	2000	2001	2000
a Trading securities				
Treasury bills	697	157	626	102
Government bonds	594	968	478	958
Other bonds	75	8	52	8
Commercial paper	72	-	73	-
	1,438	1,133	1,229	1,068
b Investment securities				
Treasury bills	90	-	-	-
Government bonds	2,702	3,110	2,557	2,975
Commercial paper	2	2	2	2
	2,794	3,112	2,559	2,977
	4,232	4,245	3,788	4,045
Provisions	(2)	(2)	(2)	(2)
	4,230	4,243	3,786	4,043

Within bonds and other fixed-yield securities there are funds that mainly relate to citizens' foreign currency deposits with the former National Bank of Yugoslavia. Following the disintegration of the former Yugoslavia, the Republic of Croatia accepted liability for all deposits made before 27 April 1991 as part of its public debt. During 1992 the Bank took over frozen foreign currency deposits from citizens which had been deposited with banks outside Croatia. The Republic of Croatia also accepted liability for these amounts.

As part of the Bank's rehabilitation the Croatian government recognised additional amounts of HRK 637 million in respect of citizens' frozen deposits. These amounts that were originally stated in DEM, now converted to EUR, are repayable in 20 semi-annual instalments, and this commenced on 1 July 1995.

14 Equities, shares and other variable yield securities

In HRK million

		Group		Bank
	2001	2000	2001	2000
a Movements				
Balance at 1 January	71	71	24	24
Purchases	365	-	411	-
Value adjustments	10	-	10	-
Foreign exchange gain	2	-	2	-
Balance at 31 December	448	71	447	24

Equities, shares and other variable yield securities are considered as held for trading.

15 Equity investments

In HRK million

	Group		Bank	
	2001	2000	2001	2000
a Movements				
Balance at 1 January	62	34	33	32
Consolidation adjustment	13	7	-	-
Disposals	(11)	(6)	(8)	(6)
Value adjustments	(7)	(1)	-	-
Foreign exchange loss	(1)	-	(1)	-
Transfer to DAB	-	(2)	-	(2)
Other	-	30	-	9
Balance at 31 December	56	62	24	33

Equity investments are considered as held for trading.

Associated companies	Nature of business	holding %	
		2001	2000
LHB International Handelsbank AG	banking	6	6
Aqua Vivae d.d.	tourism	2	20
MBU d.o.o.	finance	1	1
Europay Hrvatska d.o.o.	card services	14	14
Središnja depozitarna agencija d.d.	finance	1	1
Tržište novca i kratkoročnih vrijednosnica d.d.	finance	3	3
Slobodna Dalmacija d.d. štedno-kreditna služba	finance	6	6
Alstom Power d.o.o.	manufacturing	20	20
Belišće d.d.	manufacturing	15	15
Zagrebačka burza d.d.	finance	2	2
Varaždinsko tržište vrijednosnica d.d.	finance	3	3
Tehnološko inovacijski centar d.o.o.	manufacturing	11	11
Poduzetnički riječki inkubator d.o.o.	manufacturing	6	6
Adriadiesel d.d.	manufacturing	4	4
Karlovačka banka d.d.	banking	2	2
Istarska autocesta d.d.	transport	1	1
Elan d.d.	manufacturing	1	1
Hrvatska stambena štedionica d.d.	building society	3	3
Veterinarska stanica d.o.o. Čakovec	food processing	2	2
Televizija Čakovec d.o.o.	TV media	10	10
Međimurske novine d.o.o.	newspaper	7	7
Agromedimurje d.d.	agriculture	6	6

Notes to Financial Statements

16 Equity investments in subsidiaries

In HRK million

	Group		Bank	
	2001	2000	2001	2000
Consolidated subsidiaries	-	-	322	257
Consolidated subsidiaries - net equity	116	-	60	-
Non-consolidated subsidiaries	10	143	9	143
	126	143	391	400
a Movements				
Balance at 1 January	143	22	400	291
Consolidation adjustment	(49)	(7)	-	-
Consolidated subsidiaries - net equity	12	-	-	-
Integration of Krapinsko zagorska banka d.d.	-	-	-	(54)
Acquired	20	128	18	179
Provision	-	-	(27)	(16)
Balance at 31 December	126	143	391	400

The principal investments in subsidiaries are as follows:

Consolidated Subsidiaries	Nature of business	holding %	
		2001	2000
Riadria banka d.d.	banking	85	80
Privredna banka Laguna banka d.d.	banking	100	100
Medimurska banka d.d.	banking	89	88
PBZ American Express d.o.o.	card services	100	100
Atlas American Express d.o.o. Slovenia	card services	100	100
PBZ American Express d.o.o. Macedonia	card services	95	95
PBZ Leasing d.o.o.	leasing	100	100
PBZ Kapital d.o.o.	finance	100	100
PBZ Invest d.o.o.	finance	100	100
PBZ Nekretnine d.o.o.	real estate	100	100
PBZ Croatia osiguranje d.d.	finance	50	-
Invest Holding Karlovac d.o.o.	finance	56	56
Investholding Zagreb d.o.o. (in liquidation)	finance	100	100
Adria Investing d.d. (in liquidation)	real estate	96	96
Liburnavest d.o.o. (in liquidation)	finance	100	100

16 Equity investments in subsidiaries | continued

In HRK million

Nonconsolidated Subsidiaries	Nature of business	2001	holding % 2000
PBZ Export Handel Service GmbH (in liquidation)	finance	100	100
Škuda d.d. (in liquidation)	real estate	83	83
Meba d.o.o. (in liquidation)	finance	100	100

Notes to Financial Statements

17 Intangible assets

In HRK million

	Goodwill/ Negative goodwill	Software	Other intangible assets	Total
Group				
Cost or valuation				
Balance at 1 January 2001	181	83	51	315
Consolidation adjustment	-	3	7	10
Additions	31	28	12	71
Disposals and eliminations	-	-	(4)	(4)
Balance at 31 December 2001	212	114	66	392
Amortization				
Balance at 1 January 2001	34	17	31	82
Consolidation adjustment	-	2	3	5
Charge for the year	32	17	7	56
Disposals and eliminations	-	-	(2)	(2)
Balance at 31 December 2001	66	36	39	141
Net book value				
Balance at 31 December 2001	146	78	27	251
Balance at 31 December 2000	147	66	20	233
Bank				
Cost or valuation				
Balance at 1 January 2001	23	67	43	133
Additions	-	24	13	37
Disposals and elimination	-	-	(3)	(3)
Balance at 31 December 2001	23	91	53	167
Amortization				
Balance at 1 January 2001	-	10	28	38
Charge for the year	2	15	5	22
Disposals and elimination	-	-	(1)	(1)
Balance at 31 December 2001	2	25	32	59
Net book value				
Balance at 31 December 2001	21	66	21	108
Balance at 31 December 2000	23	57	15	95

18 Fixed assets

In HRK million

	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Total
Group					
Cost or valuation					
Balance at 1 January 2001	763	105	31	302	1,201
Consolidation adjustment	(37)	4	1	18	(14)
Additions	45	30	9	95	179
Disposals and eliminations	(9)	(7)	(11)	(19)	(46)
Balance at 31 December 2001	762	132	30	396	1,320
Depreciation					
Balance at 1 January 2001	160	61	14	147	382
Consolidation adjustment	(4)	6	1	18	21
Charge of the year	38	9	5	54	106
Disposals and eliminations	(2)	(6)	(7)	(18)	(33)
Balance at 31 December 2001	192	70	13	201	476
Net book value					
Balance at 31 December 2001	570	62	17	195	844
Balance at 31 December 2000	603	44	17	155	819
Bank					
Cost or valuation					
Balance at 1 January 2001	523	95	23	259	900
Additions	43	28	4	77	152
Disposals and elimination	(9)	(10)	(6)	(16)	(41)
Balance at 31 December 2001	557	113	21	320	1,011
Depreciation					
Balance at 1 January 2001	120	57	13	124	314
Charge of the year	31	7	4	43	85
Disposals and elimination	(2)	(7)	(6)	(15)	(30)
Balance at 31 December 2001	149	57	11	152	369
Net book value					
Balance at 31 December 2001	408	56	10	168	642
Balance at 31 December 2000	403	38	10	135	586

Notes to Financial Statements

19 Accrued income receivable and other assets

In HRK million

		Group		Bank
	2001	2000	2001	2000
Accrued income receivable	197	91	147	87
Prepaid expenses	13	2	3	2
Fees	18	17	17	18
Customers	31	1	2	2
Other	13	120	30	27
Deferred tax assets	4	-	4	-
	276	231	203	136

The amount of accrued interest as at 31 December 2001 includes HRK 50 million of interest receivable on rehabilitation and recapitalisation bonds of the Republic of Croatia (2000: HRK 55 million).

20 Due to banks

In HRK million

		Group		Bank
	2001	2000	2001	2000
Demand deposits	63	62	98	88
Term deposits	40	213	80	213
Other borrowed funds	2,798	3,092	2,659	2,723
	2,901	3,367	2,837	3,024
a Refinanced debt				
Amounts due to the Republic of Croatia	906	1,013	906	1,013
Amounts due to the government agencies	1,051	1,135	1,051	1,135
	1,957	2,148	1,957	2,148

From the total amount of Refinanced debt HRK 768 million is classified under other borrowed funds within Due to banks (2000: HRK 828 million) for the Group and the Bank. The remainder is classified under other borrowed funds within Customer deposits in note 21.

b | Refinanced debt - Amounts due to the Republic of Croatia - London Club

These relate to foreign currency borrowings from commercial banks falling due under the New Financing Agreement signed on 20 September 1988. Repayments of principal under this agreement were due to commence in February 1994 with the first of 26 semi-annual instalments. However, negotiations continued regarding assumption of liabilities of the former Yugoslavia, and interest payments since 25 May 1992 and capital payments were delayed. During 1996 HRK 4,030 million liabilities to commercial banks under the New Financing Agreement were transferred from the Bank to the Rehabilitation Agency as part of the Bank's rehabilitation.

On 31 July 1996 the Government of the Republic of Croatia assumed responsibility for 29.5 percent of all rescheduled liabilities of the former Yugoslavia to commercial banks under the New Financing Agreement (London Club), representing the Republic of Croatia's share of the debt of the former Yugoslavia. This liability was settled by the issue of bonds of the Republic of Croatia,

20 Due to banks | continued

and the first payment of principal and interest was made on 31 January 1997. Consequently, the Bank's liabilities to commercial banks under the New Financing Agreement are replaced by amounts due to the Republic of Croatia.

The liabilities assumed by the Republic of Croatia have been further rescheduled, for a period of 10 to 14 years, are denominated in USD and carry an interest at LIBOR + 13/16 percent. The amounts due to the Republic of Croatia by the Bank have been similarly rescheduled and redenominated, resulting in an overall increase in the gross liability of approximately HRK 625 million. The Bank expects to recover the majority of this amount from the Croatian companies who were the original borrowers of the funds.

c | Refinanced debt - Amounts due to Government agencies - Paris Club

Repayments of foreign currency borrowings previously due between 1984 and 1988 were rescheduled and refinanced by the agreement concluded with the Paris Club. Under this agreement repayments of principal were to be made in 24 semi-annual instalments commencing January 1998.

During 1996 further discussions have been held with each of the contracting parties and substantially all of the Bank's liabilities have been rescheduled under a series of Consolidation Agreements, resulting in an overall increase in the gross liability of approximately HRK 230 million. The Bank expects to recover this amount from the Croatian companies who were the original borrowers of the funds by rescheduling the loans similar to the above-described arrangements. Refinanced borrowings are for terms of 5 to 12 years, with semi-annual repayments commencing 31 July 1996. The interest on borrowings is determined at rates specific to each lending country.

d | Payables under repurchase agreements

Payables under repurchase agreements of the Bank under other borrowed funds within Due to banks include no amounts in relation to HRK and foreign currency Treasury bills pledged under repurchase agreements (2000: HRK 122 million).

21 Due to customers

In HRK million

		Group		Bank
	2001	2000	2001	2000
Demand deposits	8,851	5,764	7,581	5,286
Term deposits	13,487	8,110	11,734	7,435
Other borrowed funds	1,419	1,320	1,393	1,540
	23,757	15,194	20,708	14,261

Citizens' savings accounts and deposits include frozen foreign currency savings of HRK 241 million (2000: HRK 503 million). Frozen foreign currency savings for the Group amounts to HRK 275 million (2000: HRK 537 million) - refer to note 13. The Republic of Croatia has issued guarantees for the repayment or exchange of these deposits for the government bonds.

22 Other due in securities

In April 1999 the Bank issued long-term bonds with the repayment schedule linked to EUR. These bonds were issued with maturity of 7 years and carry an interest of 7.5 percent. The amount at 31 December 2001 stood at HRK 19 million (2000: HRK 20 million).

Notes to Financial Statements

23 Other liabilities and deferred income

In HRK million

		Group		Bank
	2001	2000	2001	2000
Taxes	52	16	45	2
Deferred income	382	279	304	294
Salaries and other staff costs	60	31	52	27
Items in course of collection and other liabilities	624	313	610	279
Creditors	458	302	24	24
	1,576	941	1,035	626

24 Allowances for risks and charges

In HRK million

		Group		Bank
	2001	2000	2001	2000
a Analysis				
Provisions for contingent liabilities and commitments	151	143	139	134
Provisions for legal claims	115	118	108	118
Provisions for other expenses	1	15	-	-
	267	276	247	252
b Movements				
Balance at 1 January	276	291	252	283
Provisions for guarantees and commitments (note 4)	4	(44)	8	(48)
Foreign exchange loss	(3)	-	(3)	-
Provisions for legal claims (note 4)	8	92	1	92
Increase/(release) in provisions	(18)	-	(11)	-
Provisions for other expenses	-	(9)	-	(24)
Write off	-	(54)	-	(51)
Balance at 31 December	267	276	247	252

25 Contingent liabilities and commitments

Legal claims

As at 31 December 2001 there was a certain number of litigations outstanding against the Bank. In the opinion of legal experts, there is a possibility that the Bank will lose certain cases. For this reason the level of provisions for potential loss in litigation made by the Bank as at 31 December 2001 was HRK 108 million (refer to note 24).

Credit related contingencies and commitments

The primary purpose of these instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The Group assessed that a provision of HRK 151 million is necessary to cover risks due to default of the respective counterparties (refer to note 24).

The aggregate amounts of outstanding guarantees, letters of credit and other commitments at the end of the period were:

	Group		Bank	
	2001	2000	2001	2000
HRK guarantees	224	332	209	296
Foreign currency letters of credit	414	233	398	230
Foreign currency guarantees	1,748	1,467	1,033	1,467
Performance guarantees	1,508	735	1,496	735
Acceptance orders	2,394	1,243	2,146	1,212
	6,288	4,010	5,282	3,940

26 Share capital

The total number of authorised registered shares as at 31 December 2001 was 16,660 thousand (2000: 16,660 thousand) with nominal value of HRK 100 per share (2000: HRK 100 per share).

On 17 December 1999, The State Agency for Deposit Insurance and Bank Rehabilitation and Comit Holding International (now IntesaBci Holding International) through Banca Commerciale Italiana (now IntesaBci) signed Share Purchase Agreement in Relation to Privredna banka Zagreb. By this contract, which came into effect on 28 January 2000, Banca Commerciale Italiana acquired 11,046,005 ordinary shares amounting to 66.3 percent of the total share capital of the Bank. According to this agreement The State Agency for Deposit Insurance and Bank Rehabilitation has kept 4,165,002 ordinary shares which accounts for 25 percent (plus two shares) of the total share capital of the Bank (until 28 January 2000 The State Agency for Deposit Insurance and Bank Rehabilitation held 15,211,007 ordinary shares which accounted for 91.3 percent of total share capital of the Bank).

No other single shareholder holds more than 5 percent of the total share capital of the Bank.

Notes to Financial Statements

27 Reserves and retained earnings

In accordance with the local legislation, 5 percent of the net profit of the Bank is required to be transferred to non-distributable legal reserves to equal 5 percent of the share capital of the Bank.

On 6 April 2001, the General Shareholders Meeting took a decision for the distribution of a dividend of HRK 153 million related to 2000 results.

28 Minority interests

In HRK million

	2001	2000
Balance at 1 January	71	92
Minority interests in profit/(loss)	-	(2)
Consolidation adjustment	(9)	(19)
Balance at 31 December	62	71

29 Managed funds for and on behalf of third parties

In HRK million

	Group		Bank	
	2001	2000	2001	2000
Liabilities				
Local authorities and similar organisations	696	203	683	200
Companies	57	9	56	9
Banks and other institutions	68	317	54	308
	821	529	793	517
Less: assets	769	477	741	465
	52	52	52	52

The Bank manages funds for and on behalf of third parties, which are mainly in the form of loans to various organisations for capital investment. These assets are accounted for separately from those of the Bank. Income and expenses arising from these funds are credited and charged to corresponding sources and no liability falls on the Bank in connection with these transactions. The Bank is compensated for its services by fees chargeable to the funds. Net liabilities arise on timing differences in reception and placement of the funds.

30 Related party transactions

The Bank grants loans to companies to which it is related. These include companies controlled or influenced by the Bank by virtue of its shareholdings and also companies that can influence the Bank by virtue of their shareholdings in the Bank. Such loans are made in the ordinary course of business at terms and conditions available to third parties. In addition, the Bank has large exposure to its shareholders of over 5 percent shareholdings (predominately to DAB in relation to the equity investments sold as part of privatisation process in 1999 and bonds received for rehabilitation process in 1997). As at 31 December 2001 the total gross exposure to related parties, including the Supervisory and the Management Board members, amounted to HRK 2,207 million (2000: HRK 2,989 million).

31 Fair values of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms length basis. As verifiable market prices are not available for a significant proportion of the Bank's financial assets and liabilities, fair values (for these items) have been based on management assumptions according to the profile of the asset and liability base. Except for citizens' frozen deposits and the related amounts due from the Republic of Croatia, fair values are not significantly different from book values for all asset and liability categories. The following assumptions have been made.

- The fair value of securities is based on market prices with the exception of unquoted equity investments the fair value of which is based on the latest available financial statements of the issuer. The estimated fair value of unquoted fixed rate bonds issued by the Government of Croatia is not materially different from their carrying value;
- Other loans and advances are mainly held to maturity. Fair value approximates to the book value of loans adjusted for provisions for losses estimated by the Management Board. The fair value of fixed rate loans has been taken as book value because the prevailing market rates are not materially different from the actual loan rates;
- It is not practicable to determine the fair value of citizens' frozen savings and the related amounts receivable from the Republic of Croatia as the future cash flows are not sufficiently determinable. However, in the opinion of the Bank's management there is no significant difference between the book value and the fair value of the net position. Information about the main characteristics of these balances is given in note 13.

32 Interest rate risk

Interest rate risk is the sensitivity of the Bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in a given period generate interest rate risk. The Bank can reduce this risk by matching the repricing of assets and liabilities.

The Bank seeks to achieve a balance between reducing risk to earnings from adverse movements in interest rates and enhancing net interest income through correct anticipation of the direction and extent of interest rate changes.

The table below provides the Bank's interest rate sensitivity position at 31 December 2001 and 2000 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of others.

Notes to Financial Statements

32 Interest rate risk | continued

In HRK million

Group	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2001						
Assets						
Cash	2,128	-	-	-	-	2,128
Balances with Croatian National Bank	3,960	120	-	-	90	4,170
Due from banks	5,734	3	30	-	10	5,777
Customer loans	9,564	259	1,267	2,077	-	13,167
Bonds and other fixed-yield securities	962	705	259	2,304	-	4,230
Equities, shares and other variable yield securities	-	-	-	-	448	448
Equity investments	-	-	-	-	56	56
Equity investments in subsidiaries	-	-	-	-	126	126
Intangible assets	-	-	-	-	251	251
Fixed assets	-	-	-	-	844	844
Other assets	2	6	-	-	54	62
Accrued income receivable and prepaid expenses	1	-	-	-	209	210
Deferred tax	-	-	-	-	4	4
	22,351	1,093	1,556	4,381	2,092	31,473
Liabilities						
Due to banks	2,112	40	128	608	13	2,901
Due to customers	18,717	1,056	1,634	2,320	30	23,757
Other due in securities	-	-	-	19	-	19
Other liabilities	427	5	-	-	762	1,194
Deferred income	1	-	-	-	381	382
Allowances for risks and charges	-	-	-	-	267	267
	21,257	1,101	1,762	2,947	1,453	28,520
Interest sensitivity gap	1,094	(8)	(206)	1,434	639	2,953

32 Interest rate risk | continued

In HRK million

Bank	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2001						
Assets						
Cash	1,914	-	-	-	-	1,914
Balances with Croatian National Bank	3,456	-	-	-	-	3,456
Due from banks	5,384	-	-	-	-	5,384
Customer loans	8,064	208	1,165	1,808	-	11,245
Bonds and other fixed-yield securities	807	664	220	2,095	-	3,786
Equities, shares and other variable yield securities	-	-	-	-	447	447
Equity investments	-	-	-	-	24	24
Equity investments in subsidiaries	-	-	-	-	391	391
Intangible assets	-	-	-	-	108	108
Fixed assets	-	-	-	-	642	642
Other assets	-	-	-	-	49	49
Accrued income receivable and prepaid expenses	-	-	-	-	150	150
Deferred tax	-	-	-	-	4	4
	19,625	872	1,385	3,903	1,815	27,600
Liabilities						
Due to banks	2,345	13	81	398	-	2,837
Due to customers	16,568	810	1,363	1,967	-	20,708
Other due in securities	-	-	-	19	-	19
Other liabilities	-	-	-	-	731	731
Deferred income	-	-	-	-	304	304
Allowances for risks and charges	-	-	-	-	247	247
	18,913	823	1,444	2,384	1,282	24,846
Interest sensitivity gap	712	49	(59)	1,519	533	2,754

Notes to Financial Statements

32 Interest rate risk | continued

In HRK million

Group	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2000						
Assets						
Cash	360	-	-	-	-	360
Balances with Croatian National Bank	3,182	-	-	-	-	3,182
Due from banks	3,080	7	-	-	-	3,087
Customer loans	6,300	318	1,722	1,538	-	9,878
Bonds and other fixed-yield securities	1,137	180	906	2,020	-	4,243
Equities, shares and other variable yield securities	-	-	-	-	71	71
Equity investments	-	-	-	-	62	62
Equity investments in subsidiaries	-	-	-	-	143	143
Intangible assets	-	-	-	-	233	233
Fixed assets	-	-	-	-	819	819
Other assets	-	-	-	-	138	138
Accrued income receivable and prepaid expenses	-	-	-	-	93	93
	14,059	505	2,628	3,558	1,559	22,309
Liabilities						
Due to banks	738	185	1,008	1,436	-	3,367
Due to customers	11,966	332	855	2,041	-	15,194
Other due in securities	-	-	-	20	-	20
Other liabilities	-	-	-	-	662	662
Deferred income	-	-	-	-	279	279
Allowances for risks and charges	-	-	-	-	276	276
	12,704	517	1,863	3,497	1,217	19,798
Interest sensitivity gap	1,355	(12)	765	61	342	2,511

32 Interest rate risk | continued

In HRK million

Bank	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2000						
Assets						
Cash	316	-	-	-	-	316
Balances with Croatian National Bank	2,938	-	-	-	-	2,938
Due from banks	2,839	-	-	-	-	2,839
Customer loans	5,994	299	1,639	1,232	-	9,164
Bonds and other fixed-yield securities	1,077	180	904	1,882	-	4,043
Equities, shares and other variable yield securities	-	-	-	-	24	24
Equity investments	-	-	-	-	33	33
Equity investments in subsidiaries	-	-	-	-	400	400
Intangible assets	-	-	-	-	95	95
Fixed assets	-	-	-	-	586	586
Other assets	-	-	-	-	47	47
Accrued income receivable and prepaid expenses	-	-	-	-	89	89
	13,164	479	2,543	3,114	1,274	20,574
Liabilities						
Due to banks	394	185	1,008	1,437	-	3,024
Due to customers	11,296	271	726	1,968	-	14,261
Other due in securities	-	-	-	20	-	20
Other liabilities	-	-	-	-	332	332
Deferred income	-	-	-	-	294	294
Allowances for risks and charges	-	-	-	-	252	252
	11,690	456	1,734	3,425	878	18,183
Interest sensitivity gap	1,474	23	809	(311)	396	2,391

Notes to Financial Statements

33 Currency risk

In HRK million

Group As at 31 December 2001	Euro-IN	CHF	USD	Other currencies	HRK	Total
Assets						
Cash	1,912	11	24	13	168	2,128
Balances with Croatian National Bank	1,152	-	932	-	2,086	4,170
Due from banks	3,116	483	1,802	272	104	5,777
Customer loans	9,827	19	1,130	34	2,157	13,167
Bonds and other fixed-yield securities	3,092	-	309	-	829	4,230
Equities, shares and other variable yield securities	4	-	77	-	367	448
Equity investments	23	-	-	-	33	56
Equity investments in subsidiaries	1	-	-	-	125	126
Intangible assets	-	-	-	-	251	251
Fixed assets	-	-	-	-	844	844
Other assets	53	-	6	1	2	62
Accrued income receivable and prepaid expenses	79	-	11	-	120	210
Deferred tax	-	-	-	-	4	4
	19,259	513	4,291	320	7,090	31,473
Liabilities						
Due to banks	2,064	27	532	8	270	2,901
Due to customers	15,034	477	3,530	237	4,479	23,757
Other due in securities	19	-	-	-	-	19
Other liabilities	258	3	13	3	917	1,194
Deferred income	27	1	14	-	340	382
Allowances for risks and charges	63	7	45	48	104	267
	17,465	515	4,134	296	6,110	28,520
Net Assets/Liabilities	1,794	(2)	157	24	980	2,953

33 Currency risk | continued

In HRK million

Bank As at 31 December 2001	Euro-IN	CHF	USD	Other currencies	HRK	Total
Assets						
Cash	1,737	9	20	10	138	1,914
Balances with Croatian National Bank	781	-	847	-	1,828	3,456
Due from banks	3,032	417	1,620	245	70	5,384
Customer loans	9,122	11	914	34	1,164	11,245
Bonds and other fixed-yield securities	2,851	-	309	-	626	3,786
Equities, shares and other variable yield securities	-	-	77	-	370	447
Equity investments	23	-	-	-	1	24
Equity investments in subsidiaries	1	-	-	-	390	391
Intangible assets	-	-	-	-	108	108
Fixed assets	-	-	-	-	642	642
Other assets	13	-	5	-	31	49
Accrued income receivable and prepaid expenses	75	-	11	-	64	150
Deferred tax	-	-	-	-	4	4
	17,635	437	3,803	289	5,436	27,600
Liabilities						
Due to banks	1,992	27	531	7	280	2,837
Due to customers	13,001	401	3,220	214	3,872	20,708
Other due in securities	19	-	-	-	-	19
Other liabilities	247	3	13	3	465	731
Deferred income	17	-	11	-	276	304
Allowances for risks and charges	63	7	45	48	84	247
	15,339	438	3,820	272	4,977	24,846
Net Assets/Liabilities	2,296	(1)	(17)	17	459	2,754

Notes to Financial Statements

33 Currency risk | continued

In HRK million

Group As at 31 December 2000	Euro-IN	CHF	USD	Other currencies	HRK	Total
Assets						
Cash	142	13	49	16	140	360
Balances with Croatian National Bank	1,347	-	730	-	1,105	3,182
Due from banks	1,162	123	1,521	196	85	3,087
Customer loans	6,848	58	1,131	38	1,803	9,878
Bonds and other fixed-yield securities	3,527	-	473	-	243	4,243
Equities, shares and other variable yield securities	-	-	8	-	63	71
Equity investments	31	-	-	-	31	62
Equity investments in subsidiaries	7	-	-	-	136	143
Intangible assets	-	-	-	-	233	233
Fixed assets	-	-	-	-	819	819
Other assets	12	-	-	-	126	138
Accrued income receivable and prepaid expenses	67	-	19	-	7	93
	13,143	194	3,931	250	4,791	22,309
Liabilities						
Due to banks	2,125	15	603	8	616	3,367
Due to customers	8,520	274	3,124	237	3,039	15,194
Other due in securities	20	-	-	-	-	20
Other liabilities	159	6	13	1	483	662
Deferred income	35	-	23	-	221	279
Allowances for risks and charges	-	-	-	-	276	276
	10,859	295	3,763	246	4,635	19,798
Net Assets/Liabilities	2,284	(101)	168	4	156	2,511

33 Currency risk | continued

In HRK million

Bank As at 31 December 2000	Euro-IN	CHF	USD	Other currencies	HRK	Total
Assets						
Cash	148	10	24	8	126	316
Balances with Croatian National Bank	1,212	-	565	-	1,161	2,938
Due from banks	1,123	123	1,365	186	42	2,839
Customer loans	6,848	58	1,127	38	1,093	9,164
Bonds and other fixed-yield securities	3,517	-	473	-	53	4,043
Equities, shares and other variable yield securities	-	-	8	-	16	24
Equity investments	24	-	-	-	9	33
Equity investments in subsidiaries	7	-	-	-	393	400
Intangible assets	-	-	-	-	95	95
Fixed assets	-	-	-	-	586	586
Other assets	12	-	-	-	35	47
Accrued income receivable and prepaid expenses	67	-	19	-	3	89
	12,958	191	3,581	232	3,612	20,574
Liabilities						
Due to banks	2,117	15	602	7	283	3,024
Due to customers	8,018	257	2,929	224	2,833	14,261
Other due in securities	20	-	-	-	-	20
Other liabilities	158	6	13	1	154	332
Deferred income	34	-	23	-	237	294
Allowances for risks and charges	-	-	-	-	252	252
	10,347	278	3,567	232	3,759	18,183
Net Assets/Liabilities	2,611	(87)	14	-	(147)	2,391

Notes to Financial Statements

34 Liquidity risk

In HRK million

Group	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
As at 31 December 2001						
Assets						
Cash	2,128	-	-	-	-	2,128
Balances with Croatian National Bank	3,901	269	-	-	-	4,170
Due from banks	4,819	526	62	248	122	5,777
Customer loans	2,673	541	1,714	4,931	3,308	13,167
Bonds and other fixed-yield securities	296	859	259	1,661	1,155	4,230
Equities, shares and other variable yield securities	448	-	-	-	-	448
Equity investments	-	-	-	-	56	56
Equity investments in subsidiaries	-	-	-	-	126	126
Intangible assets	-	-	-	11	240	251
Fixed assets	-	-	-	-	844	844
Other assets	49	9	4	-	-	62
Accrued income receivable and prepaid expenses	166	-	-	44	-	210
Deferred tax	4	-	-	-	-	4
	14,484	2,204	2,039	6,895	5,851	31,473
Liabilities						
Due to banks	600	69	263	1,305	664	2,901
Due to customers	9,349	5,142	4,761	3,347	1,158	23,757
Other due in securities	-	-	-	19	-	19
Other liabilities	1,088	6	1	-	99	1,194
Deferred income	321	1	35	11	14	382
Allowances for risks and charges	-	-	12	-	255	267
	11,358	5,218	5,072	4,682	2,190	28,520
Net liquidity gap	3,126	(3,014)	(3,033)	2,213	3,661	2,953

34 Liquidity risk | continued

In HRK million

Bank	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
As at 31 December 2001						
Assets						
Cash	1,914	-	-	-	-	1,914
Balances with Croatian National Bank	3,456	-	-	-	-	3,456
Due from banks	4,765	226	23	248	122	5,384
Customer loans	1,976	365	1,371	4,553	2,980	11,245
Bonds and other fixed-yield securities	191	819	220	1,437	1,119	3,786
Equities, shares and other variable yield securities	447	-	-	-	-	447
Equity investments	-	-	-	-	24	24
Equity investments in subsidiaries	-	-	-	-	391	391
Intangible assets	-	-	-	-	108	108
Fixed assets	-	-	-	-	642	642
Other assets	49	-	-	-	-	49
Accrued income receivable and prepaid expenses	150	-	-	-	-	150
Deferred tax	4	-	-	-	-	4
	12,952	1,410	1,614	6,238	5,386	27,600
Liabilities						
Due to banks	569	37	212	1,381	638	2,837
Due to customers	7,847	4,636	4,216	2,924	1,085	20,708
Other due in securities	-	-	-	19	-	19
Other liabilities	632	-	-	-	99	731
Deferred income	304	-	-	-	-	304
Allowances for risks and charges	-	-	-	-	247	247
	9,352	4,673	4,428	4,324	2,069	24,846
Net liquidity gap	3,600	(3,263)	(2,814)	1,914	3,317	2,754

Notes to Financial Statements

34 Liquidity risk | continued

In HRK million

Group	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
As at 31 December 2000						
Assets						
Cash	360	-	-	-	-	360
Balances with Croatian National Bank	3,091	79	12	-	-	3,182
Due from banks	2,356	21	665	45	-	3,087
Customer loans	2,030	548	2,031	3,465	1,804	9,878
Bonds and other fixed-yield securities	774	223	943	982	1,321	4,243
Equities, shares and other variable yield securities	71	-	-	-	-	71
Equity investments	-	-	-	-	62	62
Equity investments in subsidiaries	-	-	-	-	143	143
Intangible assets	-	-	-	-	233	233
Fixed assets	-	-	-	-	819	819
Other assets	-	-	-	-	138	138
Accrued income receivable and prepaid expenses	-	-	-	-	93	93
	8,682	871	3,651	4,492	4,613	22,309
Liabilities						
Due to banks	857	174	432	1,492	412	3,367
Due to customers	7,699	1,836	2,529	2,237	893	15,194
Other due in securities	-	-	-	-	20	20
Other liabilities	662	-	-	-	-	662
Deferred income	279	-	-	-	-	279
Allowances for risks and charges	-	-	-	-	276	276
	9,497	2,010	2,961	3,729	1,601	19,798
Net liquidity gap	(815)	(1,139)	690	763	3,012	2,511

34 Liquidity risk | continued

In HRK million

Bank	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
As at 31 December 2000						
Assets						
Cash	316	-	-	-	-	316
Balances with Croatian National Bank	2,938	-	-	-	-	2,938
Due from banks	2,478	1	344	16	-	2,839
Customer loans	1,663	516	1,906	3,427	1,652	9,164
Bonds and other fixed-yield securities	658	222	893	961	1,309	4,043
Equities, shares and other variable yield securities	24	-	-	-	-	24
Equity investments	-	-	-	-	33	33
Equity investments in subsidiaries	-	-	-	-	400	400
Intangible assets	-	-	-	-	95	95
Fixed assets	-	-	-	-	586	586
Other assets	47	-	-	-	-	47
Accrued income receivable and prepaid expenses	89	-	-	-	-	89
	8,213	739	3,143	4,404	4,075	20,574
Liabilities						
Due to banks	567	169	420	1,466	402	3,024
Due to customers	6,956	1,779	2,310	2,339	877	14,261
Other due in securities	-	-	-	-	20	20
Other liabilities	332	-	-	-	-	332
Deferred income	294	-	-	-	-	294
Allowances for risks and charges	-	-	-	-	252	252
	8,149	1,948	2,730	3,805	1,551	18,183
Net liquidity gap	64	(1,209)	413	599	2,524	2,391

35 Earnings per share

For the purposes of calculating earnings per share, earnings represent net profit after tax. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic earnings per share was 16,518,362 (2000: 16,526,225).

Supplementary financial statements in EUR | unaudited

Profit and loss account

In EUR million

		Group		Bank	
	2001	2000	2001	2000	
Interest income	257	203	196	166	
Interest expense	(108)	(83)	(94)	(76)	
Net interest income	149	120	102	90	
Fee and commission income	60	51	51	44	
Fee and commission expense	(9)	(9)	(8)	(7)	
Net commission income	51	42	43	37	
Other operating income	63	45	56	41	
Operating income	263	207	201	168	
Provisions	(21)	(29)	(18)	(29)	
Other operating expenses	(128)	(109)	(93)	(81)	
Depreciation and amortization of fixed and intangible assets	(22)	(14)	(15)	(8)	
Profit before income taxes	92	55	75	50	
Income arising from investments accounted by net equity method	(6)	-	-	-	
Income taxes	(7)	(2)	(5)	-	
Minority interests	-	-	-	-	
Net profit for the year	79	53	70	50	

Balance sheet

In EUR million

		Group		Bank	
		2001	2000	2001	2000
Cash	288	48	259	41	
Balances with Croatian National Bank	565	419	468	387	
Due from banks	784	406	731	374	
Customer loans	1,787	1,300	1,526	1,206	
Bonds and other fixed-yield securities	574	558	514	532	
Equities, shares and other variable yield securities	61	9	61	3	
Equity investments	8	8	3	4	
Equity investments in subsidiaries	17	19	53	53	
Intangible assets	34	31	15	13	
Fixed assets	115	108	87	77	
Other assets	8	18	7	6	
Accrued income receivable and prepaid expenses	28	12	20	12	
Deferred tax	1	-	1	-	
Total assets	4,270	2,936	3,745	2,708	
Liabilities					
Due to banks	394	443	384	397	
Due to customers	3,223	2,000	2,810	1,877	
Other due in securities	3	3	3	3	
Other liabilities	162	87	99	44	
Deferred income	52	37	41	39	
Allowances for risks and charges	36	36	34	33	
Total liabilities	3,870	2,606	3,371	2,393	
Minority interests	8	9	-	-	
Shareholders' equity					
Share capital	226	220	227	220	
Treasury shares	(2)	(2)	(2)	(2)	
Reserves and retained earnings	89	50	79	47	
Net profit for the year	79	53	70	50	
	392	321	374	315	
Total liabilities and shareholders' equity	4,270	2,936	3,745	2,708	

Publisher
Privredna banka Zagreb d.d.

Production
BBDO Zagreb

Photography
Wade Goddard

Prepress
Kaligraf, Zagreb

Printing
AKD, Zagreb
2002

Edition
800