

## Table of contents

Introduction	5
Five year summary and financial highlights	7
Report from the President of the Supervisory Board	9
Report from the President of the Management Board	13
Review of the Croatian economy in 2002	19
Organisational chart	23
Business description of the Bank and the Group	25
Corporate governance	45
Statement of responsibilities of the Management Board	47
Auditor's report	49
Financial statements for the Bank and the Group	51
Accounting policies	55
Notes to the Bank and the Group financial statements	61
Supplementary financial statements in EUR (unaudited)	102



## Introduction



4  
5

The Management Board of Privredna banka Zagreb d.d. has 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 2002 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". The European Bank for Reconstruction and Development is referred to as "EBRD".

In this report, the abbreviations "HRK thousands", "HRK million", "USD thousand", "USD million" and "EUR thousand" or "EUR million" represents thousands and millions of Croatian kunas, US dollars and Euros respectively.

### Exchange rates

The following mid exchange rates set by the CNB ruling on 31 December 2002 have been used to translate balances in foreign currency on that date:

CHF 1 = HRK 5.120256

USD 1 = HRK 7.145744

EUR 1 = HRK 7.442292



<b>Group</b>	2002	2001	2000	1999	1998
<b>Profit and loss account and balance sheet</b>					
Total gross revenue	3,443	2,800	2,277	1,997	1,558
Net interest income	1,419	1,096	915	556	489
Net operating income	2,386	1,940	1,575	1,373	1,002
Net profit for the year	641	581	406	198	90
Total assets	35,024	31,473	22,309	17,188	17,900
Loans and advances to customers	19,221	13,167	9,878	6,446	7,930
Due to customers	25,905	23,757	15,194	9,839	8,788
Shareholders' funds	3,280	2,891	2,440	2,033	1,807
<b>Other data</b>					
Return on average equity	24.76%	24.77%	17.74%	9.74%	4.98%
Return on average assets	1.90%	2.16%	2.00%	1.15%	0.50%
Assets per employee	9.5	8.5	6.2	4.4	4.6
Cost income ratio	58.59%	56.96%	58.52%	62.41%	66.27%

## Five year summary and financial highlights

In HRK million



6

7

<b>Bank</b>	2002	2001	2000	1999	1998
<b>Profit and loss account and balance sheet</b>					
Total gross revenue	2,606	2,230	1,909	1,680	1,347
Net interest income	1,012	754	687	499	402
Net operating income	1,684	1,480	1,275	1,112	860
Net profit for the year	530	517	379	221	119
Total assets	30,633	27,600	20,574	15,736	16,541
Loans and advances to customers	16,806	11,245	9,164	6,135	7,524
Due to customers	22,606	20,708	14,261	8,871	7,815
Shareholders' funds	3,026	2,754	2,391	2,025	1,803
<b>Other data</b>					
Return on average equity	21.52%	24.33%	17.53%	10.91%	6.60%
Return on average assets	1.80%	1.90%	1.82%	1.40%	0.72%
Assets per employee	10.8	9.6	6.9	4.8	4.8
Cost income ratio	53.86%	53.38%	52.67%	57.82%	62.33%





## Report from the President of the Supervisory Board



8  
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On behalf of the Supervisory Board of Privredna banka Zagreb, it is my pleasure to present the excellent results of Privredna banka Zagreb Group for the year 2002. The three-year partnership provided us new opportunities for development and granted PBZ greater accessibility to the markets of the European Union.



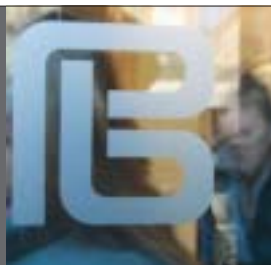
In 2002, our second-largest shareholder, the State Agency for Deposit Insurance and Bank Rehabilitation (DAB), decided to sell its 25 percent interest in the share capital of the Bank to Gruppo Intesa (through IntesaBci Holding International) and to the European Bank for Reconstruction and Development (EBRD). The deal was successfully carried out in November 2002 whereby Gruppo Intesa acquired additional 10 percent of the Bank's shares whilst the remaining portion of 15 percent was obtained by EBRD.

In connection with this share purchase agreement the two main shareholders were obliged by the law to announce a public tender offer for the remaining 8 percent of PBZ shares. Following the completion of this transaction the participation of Gruppo Intesa stands at 76.3 percent whilst EBRD holds 20.8 percent of the PBZ's share capital. We are thankful to all former shareholders for their support and we welcome new and all other present shareholders who decided to participate in prosperous operations of one of the leading banks in Croatia.

Along with the changes in the ownership structure of the Bank certain modifications in the composition of both the Supervisory and the Management Board have taken place. I am confident that the current members of both bodies will continue with successful path of their predecessors.

Gruppo Intesa's acquisitions in Croatia, Hungary and Slovakia proved to be excellent choices with enormous potentials and the financial performance of the three subsidiaries assured us that the objectives we put on ourselves were right. Our priority is to enhance inter-bank synergies on these markets. In that view, we expect that the corporate governance project, started in 2002 with the emphasis on sound corporate supervision and the development of an advanced information system on a regional level, will assist in uniforming our market approach and improving quality of services. Privredna banka Zagreb plays an important role in this project.

The strategic plan of PBZ has set guidelines for the continued development of the Bank as a modern financial institution, providing a wide range of universal banking products and services. The benefits of the strategic partnership with Gruppo Intesa are clearly visible in the continuously improving financial results of the Bank as well as of the Group.



The strengthening of the Bank's market position over the past year was also closely related to the favourable macro-economic situation in Croatia. GDP growth in 2002 is expected to be around 5 percent, which is stronger than the one recorded in the year 2001. Moderate inflation reflected in a 2.2 percent growth of retail prices at the end of 2002, coupled with relatively stable exchange rate will further intensify the stability of the macroeconomic environment. Supported by both the rising competition in the banking industry and the abundant liquidity, the interest rates declined steadily to the level comparable to other advanced transition economies. Pension reform and business operations of the pension funds contributed to the development of the institutional investors and bond market in general. The economic performance of Croatia in the long run will be marked by the intention to qualify for the membership of the European Union. In this respect it is quite certain that the macroeconomic stability and economic reforms will be highly placed at the list of the government's priorities. The stable macroeconomic environment makes us optimistic in our expectations for the coming period.

Improvements in Croatia's economic performance have created new challenges and opportunities for Privredna banka Zagreb Group. The present economic activity and the reduction in domestic market risks gave boost to the growth in the Group's portfolio. With the active and flexible approach to satisfy the needs of its clients, the PBZ Group has once again succeeded in achieving results above expectations.

Consolidated financial indicators demonstrate substantial strength, particularly in profitability. Return on the average equity of the Group in 2002 reached 24.8 percent, which is a remarkable achievement.

We are continuing with the rise of the balance sheet of the Group which is result of the reasonable and well-balanced growth of the credit portfolio. As at 31 December 2002 total assets amounted to HRK 35 billion which is an increase of 11.3 percent in comparison to 2001. Corporate versus retail credit portfolio is almost at parity, which outlines the characteristics of a modern universal bank.



10

11



Strong management leadership, high level of work efforts as well as sound portfolio growth are the key factors for the continuation of the Group's stable business activity. With the present attitude of the exceptionally professional team of employees and management, we are convinced in the future success of the PBZ Group.

Finally, on behalf of the Supervisory Board, I would like to thank the staff and the management of Privredna banka Zagreb Group for their devoted work. I take this opportunity to express my greatest appreciation to the work of former Management Board members for the efforts they made in the interest of Privredna banka Zagreb. I also wish to thank my fellow colleagues from the Supervisory Board for their contribution and support.

Respectfully,

A handwritten signature in black ink, appearing to be 'György Surányi', written in a cursive style.

Dr. György Surányi  
President of the Supervisory Board

17 February 2003



## Report from the President of the Management Board



12

13

It is a great honour and pleasure for me to present to you, on behalf of the Management Board of Privredna banka Zagreb, the financial results of the Privredna banka Zagreb Group for the year 2002.



Last year was very important and successful for the Bank. In cooperation with our strategic partner, the strongest Italian banking group - Gruppo Intesa Spa - the Privredna banka Zagreb Group strengthened its position in the Croatian banking market.

At the end of 2002 the second part of the privatisation of the Bank was completed through the sale of the remaining portion of PBZ shares held by the State Agency for Deposit Insurance and Bank Rehabilitation to the leading shareholder Banca Intesa and to the European Bank for Reconstruction and Development (EBRD). As a result of this transaction, Banca Intesa and the EBRD together hold more than 97 percent of the share capital of the bank. At the same time Privredna banka Zagreb d.d. became the winner of the highest awards granted by international financial magazines The Banker and Euromoney as the best bank of the year.

In 2002 we celebrated the 40th anniversary of the Bank's operation and achieved extraordinary business success, which is best illustrated by the final financial results that are presented in this Report.

### Financial results

The Privredna banka Zagreb Group in 2002 earned a net profit of HRK 641 million, which represents an increase of 10.3 percent. Such results were achieved in the environment marked with strong competition and constant pressure on interest rates. Other performance indicators also show continuous upward trends, providing proof of improvements in profitability and productivity. The return on average equity at the level of the Group was 24.8 percent. The consolidated return on average assets reached the highest level recorded in the history of the Privredna banka Zagreb Group, standing at 1.9 percent.

The earnings per share were increased by 10 percent, amounting to HRK 38.7 per share.

The balance sheet of the PBZ Group grew by 11.3 percent, so that, at the consolidated level, it exceeded the amount of HRK 35 billion. The most significant contribution to such growth of the balance sheet resulted from the expansion of the loan portfolio in the areas of both corporate and retail banking, as well as from investments in securities. The growth of the loan portfolio was accompanied with a conservative loan approval policy and improved measures and procedures for risk monitoring, which, in addition to higher volumes of loans, led to a better quality and structure of the portfolio, which now shows greater diversification.

The asset growth in the Group was financed out of a strong deposit base, whose increases in 2001 and 2002 were largely due to retail deposits. Total deposits in 2002 rose by 15.1 percent. Looking at the total structure of the balance sheet, customer deposits account for 71.1 percent. With a base of 1.3 million clients, both corporate and private clients, the PBZ Group today represents a modern and well-organised bank whose market share, measured by the size of the balance sheet, stands at 21 percent.



Within the Group, the most prominent results were those of Privredna banka Zagreb d.d., which made a net profit of HRK 530 million, representing an increase of 13 million compared to the result for 2001. However, when the profit before tax of HRK 669 million is compared to the 2001 figure of HRK 556 million, a more realistic picture of the increase in the Bank's profitability can be gained. Such a result was achieved, among other things, due to a better performance of non-interest income, which constitutes one of the strategic objectives of Privredna banka Zagreb d.d. In the area of risk management, the Bank has been developing a centralised model for identification, measurement, control and management of all basic types of banking risks - ALM, market risks, operational risk and credit risk. Activities in this area are aimed at intensive preparations for the introduction of the Basel II, as well as the development of new internal concepts related to economic capital which will bring about changes in the performance measurement (RAPM) and will enable more efficient support to other aspects of the process of making business decisions. As a precondition for the implementation of these concepts in the area of market risks, a significant technological improvement was made by the introduction of RiskWatch, the software support for measuring exposures to market risks according to the VAR principle, which enabled the Bank to comply with uniform standards of market risk measurement at the level of Gruppo Intesa.

The operational risk function was significantly improved during 2002 due to the establishment of an integrated infrastructure for identification, measurement and collection of data on operational losses at the level of the PBZ Group. Also, an organisational model of this function has been set up which enables reliable on-line collection of data and monitoring of operational risk inherent in all business processes, as well as taking of corrective measures.

### Quality of products and services

On top of improved financial performance, considerable progress has been made in terms of the increased quality of operations and services offered.

Privredna banka Zagreb d.d. is the market leader in Croatia in the area of card operations and electronic distribution channels. Due to a wide range of charge, debit, credit, and affinity cards we preserved the position of a



14

15



leading card institution in Croatia, with 1.3 million cards issued. We were also the first to offer a prepaid card. The ATM and EFT POS network is being continuously expanded so that, at the end of 2002, there were 270 ATMs and 7,600 EFT POS terminals in operation.

The Bank retained a prominent role also in capital markets and in corporate banking. Being actively engaged in the launching of new products and relying on a well formulated strategy, PBZ has become an important institution in terms of the public sector financing, and a leader in the area of loan syndications and handling of securities issues. The Bank thus acted as the lead arranger in syndicated loan transactions that were arranged for several important institutions, such as the Ministry of Finance, Croatian Bank for Reconstruction and Development, Croatian Roads, Croatian Institute for Health Insurance.

With respect to the corporate bond issues, PBZ has the role of a market maker and handles more than 50 percent of all transactions that involve issues of government and corporate securities, as well as commercial papers. The Bank has an important role also in the primary and secondary market of T-bills. Based on our previous experience and the position in the market, we are offering a number of new financial instruments, such as financial and credit derivatives.

In accordance with the Strategic Plan of the Bank and its orientation toward the development of business relations with small and medium-size enterprises, during 2002 the Bank increased its lending activity aimed at promotion and development small and medium-size enterprises. Thus, the total loans to these borrowers increased by 72 percent compared to 2001, the number of active clients went up by 44 percent, and deposits of such clients grew by 85 percent.

In addition to a continued increase in foreign direct investment in Croatia, in 2002 the volume of merchandise trade with neighbouring countries also rose. In this context, our Italian Desk was very active in facilitating our business cooperation with many companies from Italy, and also in providing adequate support to our clients who do business in both the Croatian and Italian markets.

### **Privredna banka Zagreb Group**

Apart from strengthening the position of the Bank, we made substantial progress in improving the operations of the entire Privredna banka Zagreb Group. The achievement of the planned results by other members of the Group considerably increased the profitability of the Group. Their contribution to the total consolidated result increased from 11 percent in 2001 to 17 percent in 2002.



Riadrja banka, Privredna banka Laguna banka, and Međimurska banka proved to be profitable members of the Group and they recorded impressive business growth, increasing their respective shares in the regional markets in which they operate.

PBZ American Express is the leading card company in the country. With 326,000 issued cards, PBZ American Express generates total annual turnover of HRK 6.3 billion.

PBZ Leasing is one of the key companies in the country in the field of leasing and granting auto loans.

PBZ Invest is a company for investment fund management, whose offer now includes two new funds: PBZ Euro Novčani fond, and PBZ Kunski Novčani fond. PBZ money market funds last year took the three top places according to the recorded yields. At the Financial Forum held in Zagreb last year, PBZ Global fond received an award as the best mixed investment fund in 2001.

PBZ Croatia osiguranje, a company for compulsory pension fund management, is a successful business project carried out in cooperation with our partner, Croatia osiguranje d.d.. Activities related to the pension system reform in Croatia were undertaken during 2002. At the moment the fund has more than 155 thousand members, meaning that all preconditions for stable and profitable operation of the company over a longer-term have been met. It is very important to note that PBZ Croatia osiguranje in the first year of its operation generated highest yields among all pension funds.

We also continued with the process of focusing on core banking and financial activities in our operation. In this connection, the process of downsizing the PBZ Group engagement in non-banking activities was accelerated. Last year the process of liquidation of the following companies was successfully completed: Škuda d.d., Zagreb; Invest-holding d.o.o., Zagreb; Liburnavest d.o.o., Rijeka; Meba d.o.o., Čakovec; PBZ Trading spol. s.r.o. Slovakia. Also the merger of Riadrja banka into Privredna banka Zagreb is under way and it should be completed by the end of 2003.



In the current conditions in the Croatian banking market which is characterised by enhanced competition, the role of an optimum organisation is very important, since it should enable us to readily meet the demands coming from the market. We therefore continue investing in modernisation of our technologies and in the development of the information systems, in the context of which last year we successfully completed the first phase of the New Information System for the Corporate Banking Group; we also completed the first module of SIRE, and prepared the IT Master Plan until 2004 in cooperation with Banca Intesa.



16

17

Further, we keep investing in new distribution channels, continue developing human resources, which includes education and training in order to improve our knowledge and capabilities which will be a guarantee of efficient and sound operation of the Bank and the Group.

### **Dividend**

In view of the achieved results as well as high capital adequacy, the Management Board of Privredna banka Zagreb will propose, at the Annual General Meeting, payment of a dividend to the Bank shareholders of HRK 12.8 per share. The remaining portion of the profit shall be allocated to reserves and retained earnings for the purpose of increasing our capital, which should ensure continued stable growth of the Bank .

Finally, I would like to take this opportunity and express my gratitude to my colleagues, former members of the Management Board, the current Management Board, and all employees of the Privredna banka Zagreb Group for their excellent performance and hard work in 2002. Also, I would like to thank our distinguished clients and business partners for their professionalism in mutual contacts and trust they have placed in us. I would particularly like to express most sincere gratitude to all the former and current members of the Supervisory Board of the Bank for their most valuable cooperation and support.

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

17 February 2003



**GDP growth rates  
1997-2002**

In %

Source: State Bureau of Statistics; p-projection





## Review of the Croatian economy in 2002



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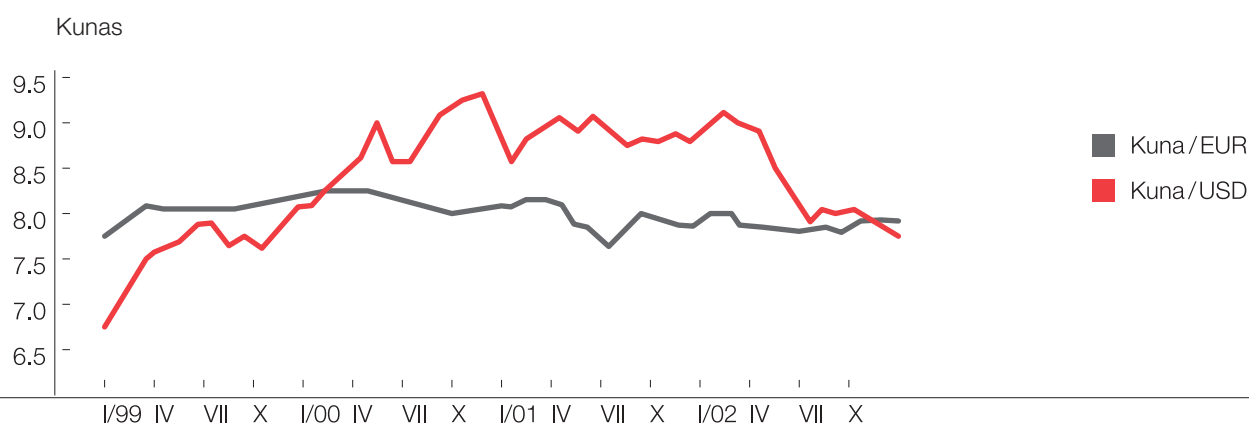
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The year 2002 was the third year of consecutive growth in economic activity. The available data indicate a growth rate in 2002 of around 5 percent which is the highest growth rate since 1997. A major contribution to the growth was given by personal consumption and investments. The growth of investments in 2002 reached double-digit numbers and was boosted by the strong credit activity of the banks as well as by the improved financial position of Croatian corporate sector. The year 2001 was the first year after the Croatian independence in which total profits of the corporate sector were higher than its total losses due to which total corporate sector recorded profit as a net result. Taking into the account the available indicators, the situation improved further in 2002, which positively affected the investments in 2002 and also gave a strong argument for the expectation of further growth in investments during 2003. The government also contributed significantly to the strong investment recovery through the infrastructure projects.

## Exchange rate developments

Source: Croatian National Bank



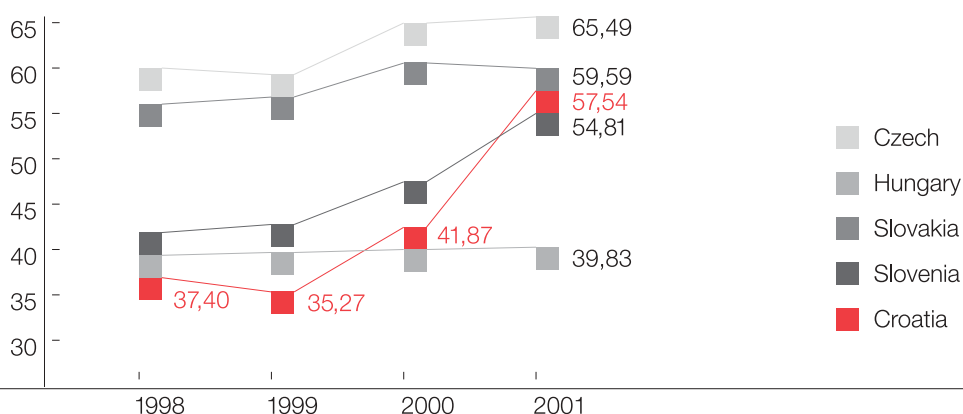
The exchange rate developments in 2002 were less erratic than in 2001 but appreciation pressures were the main worry of the Croatian National Bank most of the time. During 2002 kuna/euro exchange rate appreciated by 0.8 percent in respect to 2001. However, the pace of nominal exchange rate appreciation slowed down as compared to the previous years. The slower appreciation resulted from the more active role the CNB took at the foreign exchange market as well as from the absence of strong irregular developments which added to the appreciation pressures such as the introduction of euro in 2001. It could be expected that the CNB will continue managing the exchange rate in a way that will allow it to contain appreciation pressures and maintain the stability of prices at the same time. The stability of prices is the CNB's supreme goal, but due to the features of transmission mechanism, the exchange rate is the CNB's primary instrument in maintaining price stability. It was agreed in the stand-by arrangement that the CNB could allow higher volatility of the exchange rate in order to prevent one-way bets on exchange rate. As a consequence of euro appreciation the kuna also appreciated in relation to the dollar. In 2002 the kuna appreciated to the dollar 5.7 percent on average.

The stability of exchange rate supported overall price stability. Retail prices in 2002 rose on average by 2.2 while industrial prices were 0.4 percent lower than during 2001.

## Total deposits of the banking system

% GDP

Source: International Financial Statistics

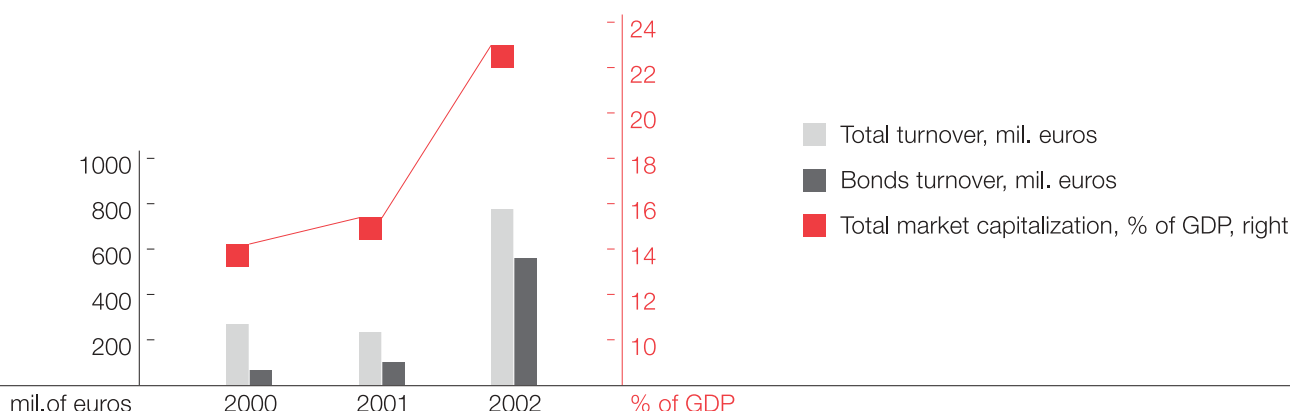


The year 2002 was very important for the financial markets and financial sector in general. Last year could be to a significant extent considered as the beginning of a new phase in the development of the Croatian financial system. Developments in the banking system prior to and during 2002 as well as the introduction of pension funds at the beginning of 2002, created the necessary conditions for more balanced growth in all segments of the financial system during the years to come.

With the deposit inflow prior to the introduction of the euro the Croatian banking system reached the overall size and liquidity comparable to advanced transition economies. During 2001 the total deposits in the banking system increased by 4.2 billion euros of which more than 1.7 billion euros entered the banking system during the last quarter of 2001. In this way a base for strong credit activity in 2002 was created. Loans to the private sector in 2002 grew by 27 percent which is the result of 43 percent growth in loans to households and 23 percent growth in loans to corporates. The credit activity was mainly financed through a draw down in liquid assets created at the end of 2001 when the strong deposit inflow already mentioned took place.

## Capital market developments

Source: Zagreb Stock Exchange



The deposit growth of 9.6 percent in 2002 was much slower than during previous years. Nevertheless, deposit growth in 2002 reflected at least two facts. Firstly, as expected households withdrew certain amount of deposits (approximately 574 million euros) after the euro changeover ended. However, it is important to note that this outflow also included the effect of the scandal that hit one of the large Croatian banks during the first quarter of 2002. Since the outflow that took place during the first half of the year was incomparably lower than the inflows recorded in 2001 it is clearly visible that in spite of problems experienced by one of the large banks, public confidence in domestic banks remained strong. Secondly, the future growth in deposits will be primarily determined by the growth in incomes and economic activity that was indeed the case during the second half of 2002. The irregular inflows that took place during 2000 and 2001 were exhausted.

In order to prevent further growth in credit activity far above deposit growth and reduce the pace of the foreign borrowing of domestic banks, the CNB introduced two kinds of restrictive regulations at the beginning of 2003. A 16 percent cap on the growth in credits to the private sector was introduced by the CNB as well as new rules related to the required ratio between short term foreign assets and overall foreign liabilities.

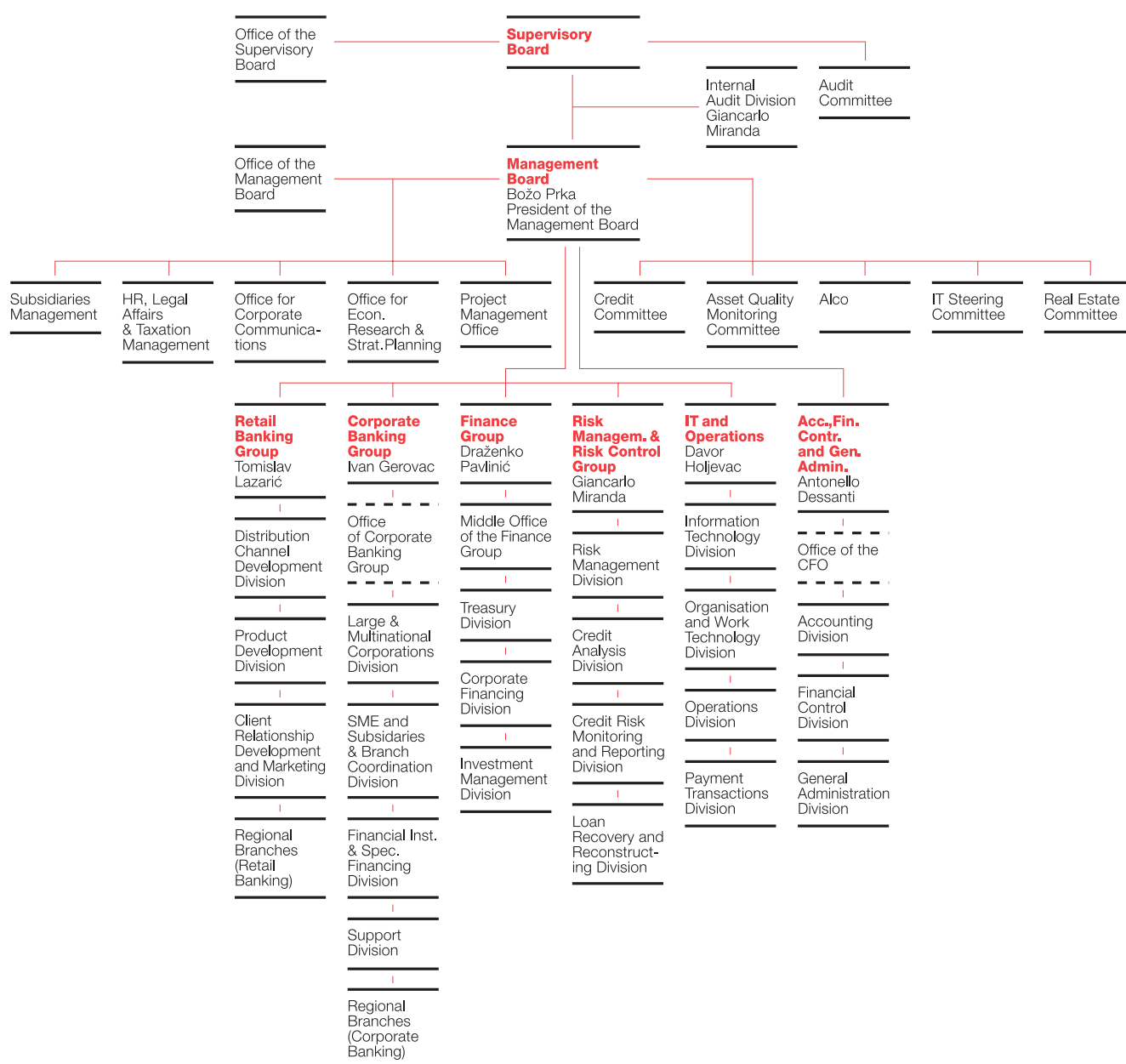
The pension funds started their operations at the beginning of the last year and this gave fuel to the development of the domestic bond market. Other forms of institutional investors, particularly insurance companies and open-ended investment funds, experienced strong growth as well. Due to bond trading the turnover and liquidity of Zagreb Stock Exchange improved significantly. The trading in equity shares remained very low with only three types of shares in the first quotation.

## Organisational chart



22

23







## Business description of the Bank



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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 broad scope of services to its clients in Croatia.



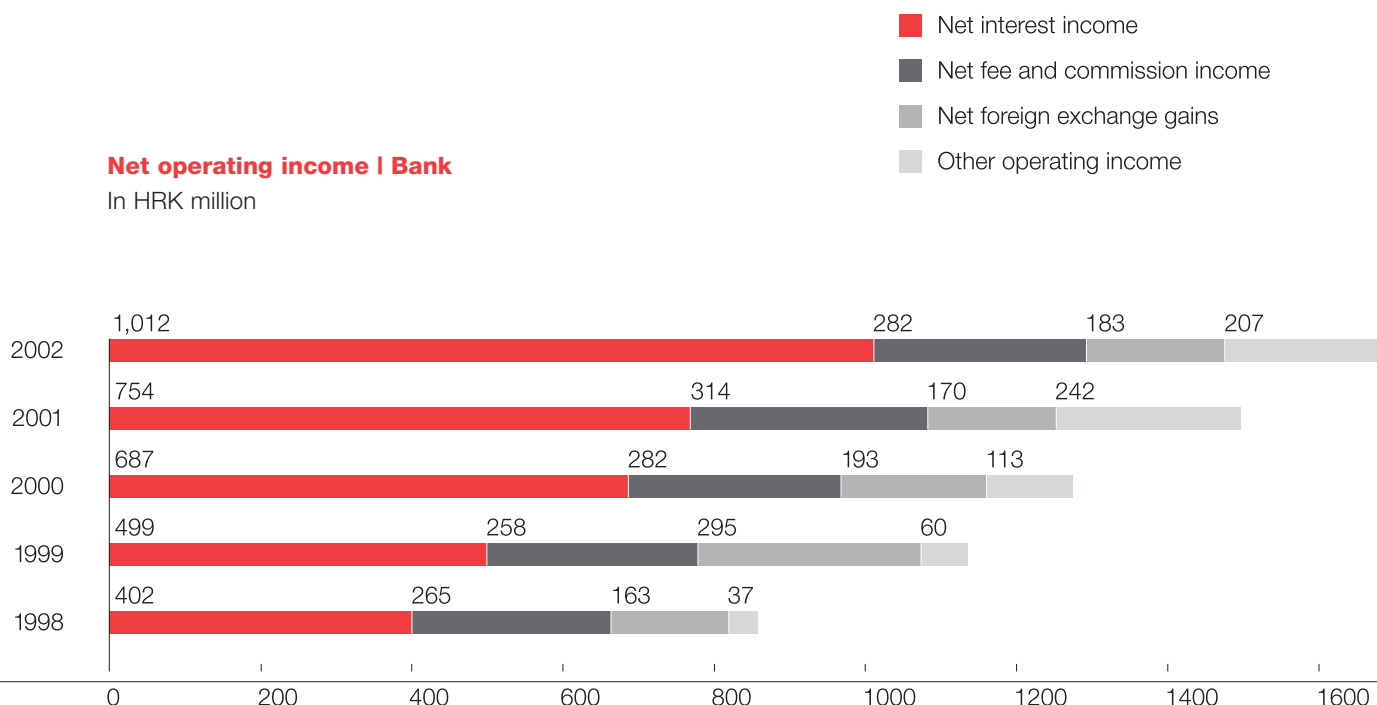
### Organisational Structure and Business Activities

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

The nation-wide network of PBZ branches as well as the numerous PBZ subsidiaries extend over the entire 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 (PBZ Nekretnine). With Croatia Osiguranje, the largest Croatian insurer, PBZ also offers pension fund management through the PBZ Croatia osiguranje, pension fund management company.

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

The year 2002 marked the fortieth anniversary of the Bank's operations in Croatia. In its historic development, Privredna banka Zagreb has demonstrated great vitality. During that period, PBZ successfully overcame many obstacles, it went through significant transformations in terms of quality and achieved respectable operating results. The Bank marked this jubilee consistent with its policy of market oriented principles and operated within composition of Gruppo Intesa. In such circumstances, Privredna banka Zagreb realized outstanding operating results in its history as the leading bank in Croatia in terms of share capital and the second largest bank in terms of total balance sheet.



PBZ is committed to continue with the 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 Privredna banka Zagreb continues to be able to set standards of the top quality for product innovations and services offered both to its domestic and international clients.

Such commitment to quality and advanced banking practices is clearly witnessed through the awards achieved by Privredna banka Zagreb in 2002. For the second consecutive year PBZ received the 2002 Euromoney award for excellence for the best bank in Croatia. In addition, PBZ was a winner of the 2002 Banker's award for the Bank of the year in Croatia. These prominent awards were won based on the market position, innovative products, new projects, professionalism of the staff, the structure of the balance sheet and overall financial position.

### Retail Banking Group

In the retail banking segment, PBZ holds a comparative advantage over its competitors due to the fact that it boasts the most extensive branch network in Croatia consisting of 167 organisational units in 16 regions which cover the entire territory of the country. PBZ's three subsidiary banks, Privredna banka Laguna banka, Riadria banka (that cover the tourism-oriented north-western region of the country) and Međimurska banka (covering northern region) provide an effective presence in these regions.

In 2000, keeping in line with PBZ's new business philosophy of focusing on client needs and demands, the Bank introduced personal bankers (CRM) and the 0-24 hour self-service banking zones to the branch networks, while increasing the quality of services through continued staff training and undertaking quality control measures such as the "Mystery Shopper" project. These activities have continued through 2002 with the emphasis being placed on the standardisation of business processes. In addition to restructuring and repositioning the traditional distribution channel of the business network, PBZ also continues to develop and improve the distribution channel of

### Net operating income I Group

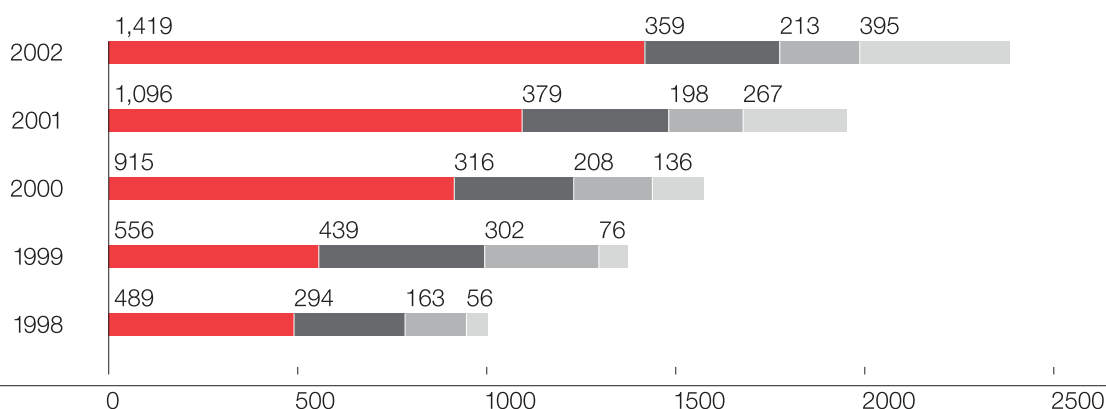
In HRK million

- Net interest income
- Net fee and commission income
- Net foreign exchange gains
- Other operating income



26

27



direct banking. It has extended the network of ATMs which accept Europay International, MasterCard, Visa and American Express cards (a total of 270 ATMs have been installed). The number of EFT POSs (points of sale) has increased from 3,500 at the end of 2000 to the present 7,600.

PBZ has 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. PBZ has introduced internet banking through its PBZ365NET and PBZ365WAP services. These achievements have firmly established PBZ as the market leader in electronic banking as well as the technological leader in the financial market of the country.

The Bank has also modified and supplemented its wide range of retail products and services. It has introduced new consumer and cash loans for PBZ American Express card holders on the basis of credit scoring which produced successful results on the market.

Consumer car loans (through PBZ Leasing) were redesigned and, as such, raised the Bank to the leading position in the marketplace. In the card products segment, PBZ as an issuer and acceptor of Europay cards, replaced all cheque cards of retail current accounts with the internationally accepted Cirrus Maestro debit card. This was a successful move, 780,000 Europay cards were issued, which resulted in the increase of the number of the Bank's current account to 380,000. PBZ has issued over 135,000 Visa Electron debit cards linked to the user's foreign currency account and thus enabled clients to access their funds 24 hours a day, 365 days a year all over the world. PBZ is the only domestic bank to have launched revolving credit accounts within the MasterCards and American Express payment systems.

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 the distribution channels of all pursuant marketing activities which will have an effect on them.

### **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 in 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 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**

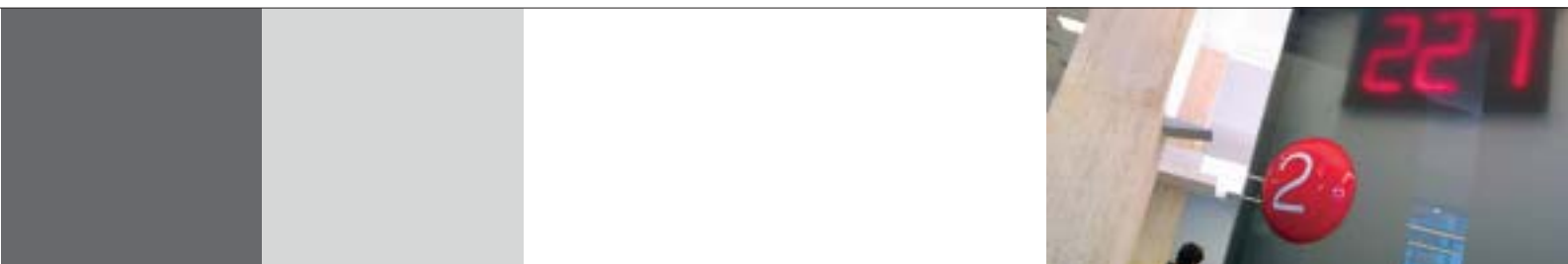
The activities of this Division include the selection and coordination of appropriate marketing campaigns for retail products of the Bank and services. It prepares proposals for marketing budget and oversees it throughout the year. It is responsible for disclosing business information to the public. 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. PBZ belongs to the group of few banking institutions with double-digit growth in loans to the corporate sector in 2002. Loans to corporate clients increased by 24.5 percent which was equivalent to over HRK 2 billion.



28  
29



It is important to note that the number of corporate clients also increased by 9.5 percent. Furthermore, impressive results were achieved in corporate deposits, where the Bank increased its market share from 19.1 percent at the end of 2001 to 22.6 percent at the end of 2002.

We have strengthened our business relationships with a large number of Croatian companies in all segments of banking operations. The client structure has been expanded with the dominance of large foreign chains of large department stores with various types of business cooperation through cross-selling of all products of the Bank. It is hard to find a major company in Croatia today that does not bank with Privredna banka Zagreb. The Bank has been very active in lending to the SME sector, thus stimulating its growth. However, should also point out that the Corporate Banking Group has also been involved in the financing programmes of the Ministry of Crafts and SMEs, local government and self-government units.

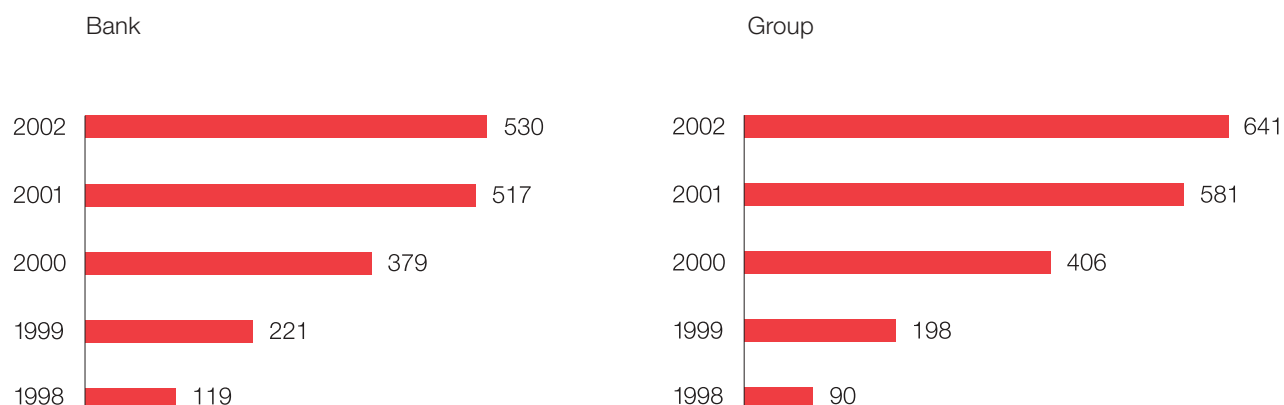
With our majority owner Gruppo Intesa, we have established cooperation with numerous companies from Italy. In order to further improve this kind of relationship, we have established the Italian Desk, which acts as a liaison for clients doing business in Croatia and Italy, thus supporting their presence 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 countries of former Yugoslavia. The Bank has been active on the syndicated loans market, both as a participant and arranger, as well as in financing projects supporting Croatian exports.

Due to its wide network of correspondent banks, PBZ offers 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 as well as the introduction of a new IT system in the Corporate Banking Group, which will enable the bank to increase its competitiveness, speed and quality of services, and to offer new products to its clients based on advanced information technology. The first phase of the New Information System was successfully implemented at the beginning of June 2002. We have introduced internet banking for our corporate clients, known as PBZCOM@NET. Our clients have expressed interest in PBZCOM@NET, which will enable them to use internet as a new channel of communication with the Bank. Currently, this service is available only for domestic payments and it will soon be available for international payments as well.

### Net profit for the year

In million HRK



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 with clients, as well as for following up on clients' requests 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. A new service introduced to enhance relations with clients is the Information Centre (Information Centre and Complaint Office) where clients can obtain information on all products and services of the Bank.

The Corporate Banking Group consists of the following divisions: Large and multinational corporations division, Small and medium enterprises, subsidiaries and branch coordination division, Financial institutions and special financing division and Support division.

#### Large and multinational corporations division

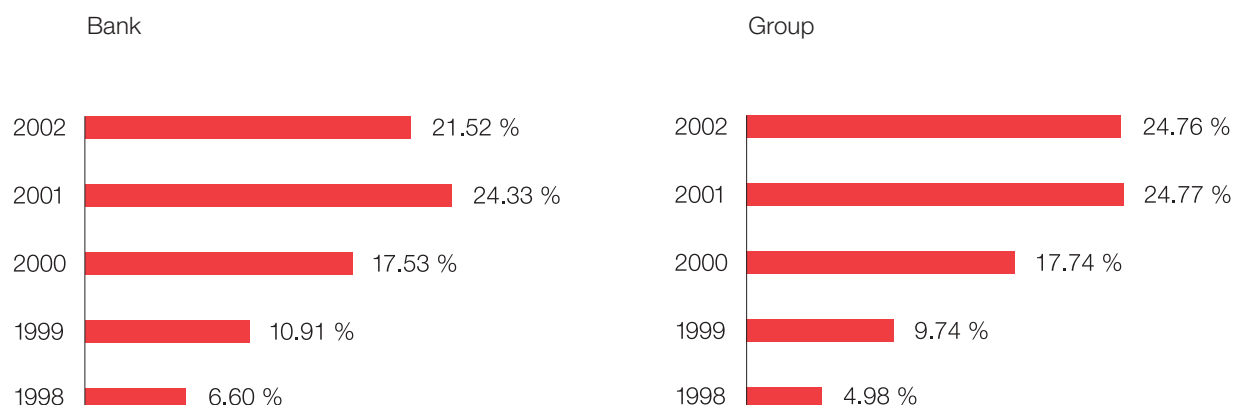
The responsibilities of this division encompass large companies, state institutions and local government units, multinational corporations (with the exception of Italian-owned multinationals) as well as mandatory and commission operations for domestic corporate clients and foreign legal entities. This Division is also responsible for establishing and developing cooperation with foreign corporate entities (non-residents).

## Return on average equity



30

31



### Small and medium enterprises, subsidiaries and branch coordination division

This division is responsible for operations with small and medium enterprises, as well as for co-ordinating of the Bank's branches and subsidiaries. It also engages in co-ordination with Italian multinational companies and the subsidiaries of Italian companies.

The Italian Desk is part of this division and it provides support to the development of business relationships between Croatian and Italian clients by offering them complete banking services.

### Financial institutions and special financing division

This division is responsible for establishing, monitoring and promoting the complete scope of business relations with domestic and international banks and financial institutions.

Special financing includes trade and project financing, credit and special arrangements with financial institutions, both domestically and internationally, open lines of credit guaranteed by the state export agency, commodity loans for export and import financing, buyers' loans to promote Croatian exports, arranging and participating in syndicated loans on behalf of the Bank and its clients, and forfeiting and factoring.

### Support division

This division offers full business support to all organisational units of the Corporate Banking Group. In order to improve communication and relations with clients, the Support division has established an Information Centre 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. Consequently, PBZ, with its active role in the foreign exchange market, money market and primary and secondary capital market, has earned the title of market leader.



### **Treasury division**

The Treasury division has become an important and active player in the Croatian market as it is clearly reflected by its performance to date. Treasury operations comprise transactions on both 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. The 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 are covered by the Corporate Desk, which focuses on operations with clients and helps them in meeting their daily requirements. Due to the changes in foreign currency regulations, the Bank has recorded a marked increase in operations with legal entities in the area of forward foreign currency transactions.

### **Corporate finance division**

The 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, the 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 additional value for the client through corporate and other activities that enable the client to gain a competitive edge.

This division provides a wide range of investing, advisory and financing services to corporations, financial institutions and government entities. PBZ's financial capability and professional experience have fostered its position as a market leader in domestic corporate finance transactions.



The main business activities of the Division include arranging fixed income securities, structuring of debt and equity issues and underwriting, providing debt and equity syndication and advisory services to corporations, government entities as well as institutions. Based on its extensive contacts with domestic and international companies and profound knowledge of the market, the Division's team provides their customers with easy access to capital markets and offers the service of debt and equity financing along with advisory support in every segment of transactions. During 2002, Privredna banka Zagreb arranged a HRK 150 million commercial paper program for Podravka, the



32

33



Croatian major food producing company. In January 2002, PBZ acted as the sole arranger and issue agent tapped the domestic capital markets with the first public domestic corporate bond issue totalling 17 million for Beliše, Croatia's largest producer of packaging paper and corrugated board boxes.

Already at the beginning of February 2002, PBZ, as sole arranger and issue agent, placed the second domestic corporate bond issue for Plava laguna, thus establishing itself once again as the leader and the major innovator on the Croatian capital markets.

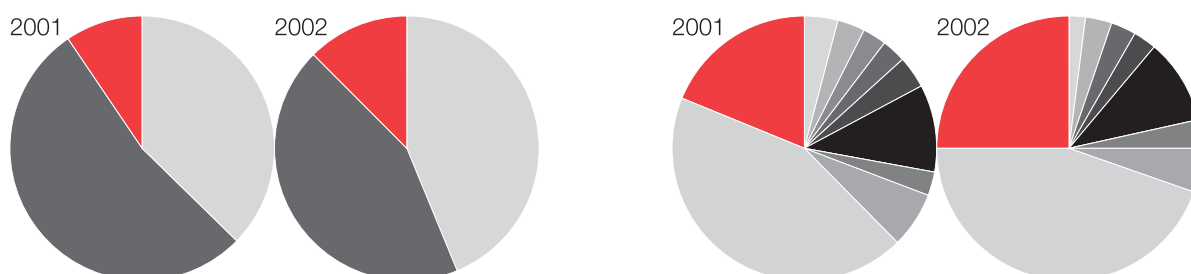
### **Investment banking division**

The Investment management division of Privredna Banka Zagreb delivers solutions for demanding institutional and private clients through brokerage, asset management, private banking and custody services. Recognised as a Croatian leader in investment banking, the Bank offers an in-depth understanding of technology and the market, business operations experience and the ability to access capital markets creatively and effectively. Since great emphasis has been placed on structuring a high quality customer driven service, our clients are guaranteed very reliable and personalised assistance. Through its private banking function this Division develops innovative, tailor-made solutions for its private clients' assets with the main goal of achieving the best possible results.

The Investment banking division also provides international investment banking services on local regional markets. Its key services include mergers and acquisitions, disposal advisory services and project management. Clients are supported in every aspect of a specific project starting from organisation and supervision to the arrangement of finance for completion.

Operating in an era of unprecedented changes, institutional investors face the critical challenge of finding the right partner to deliver efficient custody services. With a young and skilled workforce and the necessary technology, Privredna banka Zagreb is the only partner a client needs at present. We consistently bring new and innovative products onto the market, thus giving our clients the flexibility and resources to accomplish all of their business goals. As a top rated local custodian we offer numerous standards and value added custody services.

## Loans and advances to customers | Bank



### Analysis by type of customer

In HRK million

	2001	%	2002	%
Citizens	4,929	37	8,312	44
Companies	7,053	54	8,166	44
Public sector and other	1,227	9	2,142	12

### Analysis by sector

In HRK million

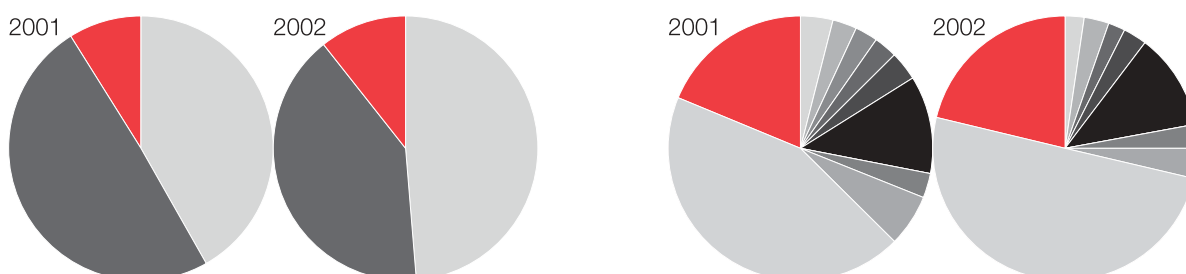
	2001	%	2002	%
Agriculture, forestry and fishing	544	4	391	2
Food and drinks productions	456	3	569	3
Oil refining	338	3	44	0
Energy products - trade	445	3	467	3
Construction	537	4	594	3
Wholesale and retail trade	1,574	11	2,116	11
Hotels, restaurants	402	3	560	3
Transport and communication	1,039	7	885	5
Citizens	4,929	43	8,312	45
Other	2,945	19	4,662	25

## Loans and advances to customers | Group



34

35



### Analysis by type of customer

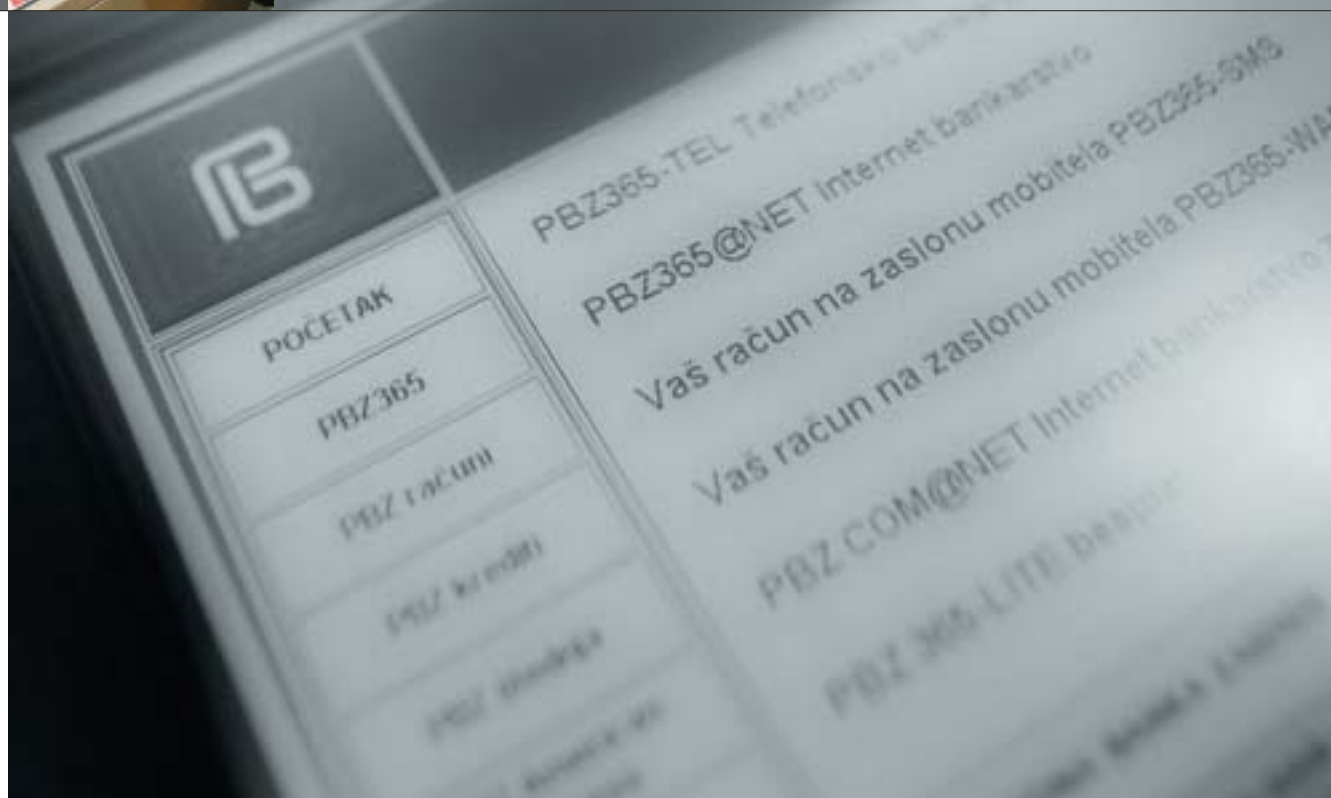
In HRK million

	2001	%	2002	%
Citizens	6,584	43	10,503	49
Companies	7,566	49	8,652	41
Public sector and other	1,236	8	2,157	10

### Analysis by sector

In HRK million

	2001	%	2002	%
Agriculture, forestry and fishing	586	4	428	2
Food and drinks productions	477	3	595	3
Oil refining	397	3	44	0
Energy products - trade	454	3	490	2
Construction	590	4	653	3
Wholesale and retail trade	1,760	11	2,378	11
Hotels, restaurants	492	3	651	3
Transport and communication	1,083	7	938	4
Citizens	6,584	43	10,503	50
Other	2,963	19	4,632	22

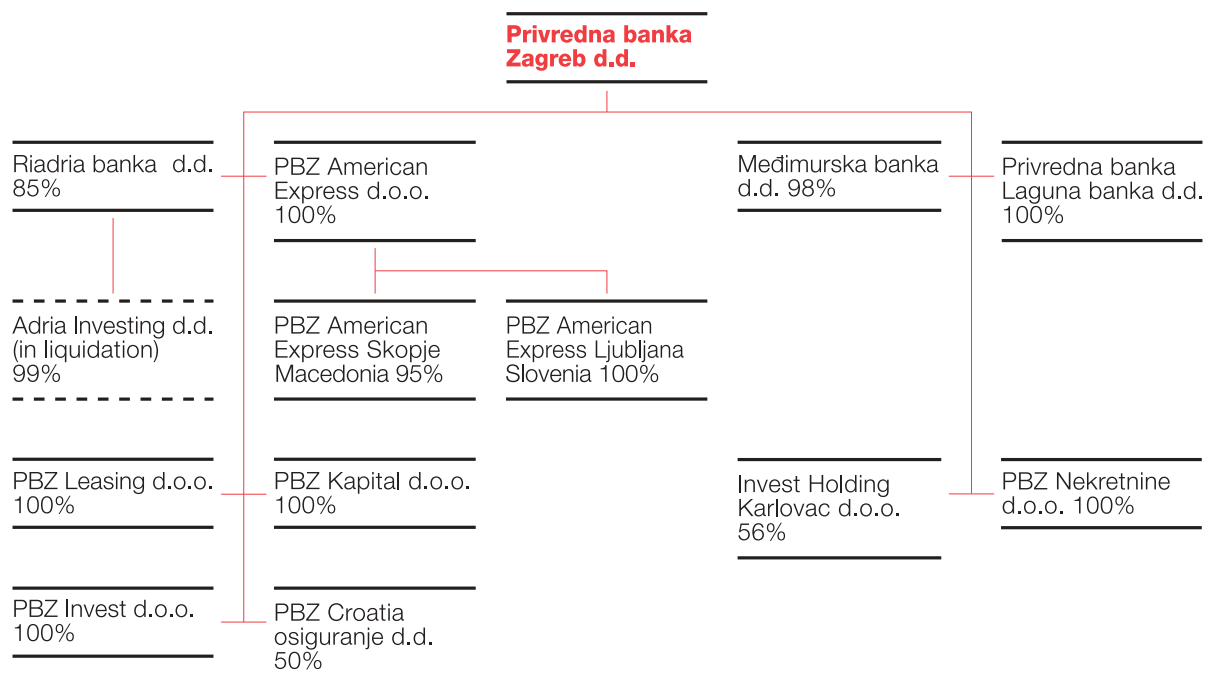


## The Group



36

The Group consists of Privredna banka Zagreb and 13 subsidiaries. The composition of the Group and brief description of each subsidiary is set out below.



### **Riadria banka**

Riadria banka was founded on 22 January 1992 and is headquartered in Rijeka. Privredna banka Zagreb holds 85 percent of the effective ownership.

Riadria banka is a multi-regional bank which operates with the emphasis on retail banking. Its total assets amounted to over HRK 1.9 billion as at 31 December 2002 making it one of the largest regional banks in Croatia. It has a well-developed distribution network covering three north-western Croatian counties; Primorsko-goran-



ska, Istarska and Ličko-senjska. Owing to its well positioned distribution chain, product range, expert staff and tradition, Riadria banka is one of the leaders in terms of market share in this region with over 600 thousand inhabitants. The bank's distribution chain consists of 23 branches and 18 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 2002 total loans increased by 42 percent as compared to 2001.

The bank pays special attention to customers' savings using a wide range of savings products. In addition to the traditional savings products, Riadria also offers premium savings and annuity savings accounts. In 2002 the bank's total deposits grew by 14 percent compared to 2001.

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

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 Zadružna banka i Štedionica Čakovec. Since then, the bank has experienced many changes both in name and 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 banks in Croatia to obtain the certificate for quality management standards in line with the ISO 9002 quality system.



38

39



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 1999 the bank introduced an interactive telephone banking service. Only a year later Medimurska banka was the first in the country to launch an internet banking system. Privredna banka Zagreb acquired a majority stake of Medimurska banka at the end of 2000 making it a member of the PBZ Group and Gruppo Intesa.

### Privredna banka Laguna banka

Laguna banka was founded on 31 May 1996 in 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 branches covering the entire region. The recent opening of a new branch in the centre of Pula, the region's business hub, was part of the bank's goal of gaining a strategic position for increasing business in the south of this region.

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 37 thousand clients and more than 40 thousand accounts opened.

Privredna Banka Laguna banka has also invested considerable effort 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 and exceed the expectations of its 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 in the Croatian market since 1965.

PBZ American Express has been operating as a subsidiary of Privredna banka Zagreb for the last four years. It has grown into the largest credit card organization in the country being accepted at approximately 30 thousand locations countrywide and having issued in excess of 326 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 and was introduced in 2000 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.

American Express cardholders enjoy the benefits of the Membership Rewards Program which rewards usage and timely repayment with attractive gift offers at over 160 points of sale locations country-wide.

PBZ American Express has made available to their clients the option of making purchases at cash prices through over 3 thousand point of sale locations while utilising a consumer loan with the option of repaying in 3 to 24 instalments. At PBZ American Express continued effort has gone into improving services and increasing product range along with providing greater number of point of sale locations 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. The company intends to offer its clients a wide range of investment funds, thus meeting the needs of investors with various 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 commenced with its first fund in 1999 - the PBZ Novčani fond, an open-ended investment fund. In 2002, two new funds were established, PBZ Euro novčani fond and PBZ Kunski novčani fond.

### **PBZ Novčani fond | PBZ Money Market Fund, open-ended investment fund**

PBZ Money Market Fund 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 Fund, open-ended investment fund**

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

### **PBZ Global Fund, open-ended investment fund**

The Fund's operations consist of attracting cash assets by public bidding of its shares and investment of assets thus collected in safe and profitable instruments offered on 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 Euro novčani fond and PBZ Kunski novčani fond | PBZ Money Market Euro and PBZ Money Market Kuna Fund, open-ended investment funds**

These funds are newly established open-ended investment funds designed for domestic investors who wish their investments to be pegged to the Euro or Kuna.



**PBZ Kapital**

PBZ Kapital is a broker house wholly owned by Privredna banka Zagreb. It provides services in securities trading on 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 co-operation with clients based on mutual trust.

PBZ Kapital participates in all major types of securities trading, which is especially important for emerging markets, such as the Croatian capital market. Changes in development of the domestic 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 which engages in property transactions services, construction management and real estate valuation. Privredna banka Zagreb established PBZ Nekretnine with the goal of providing 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, preparation of feasibility studies for investments, as well as 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. In the beginning, it dealt with property appraisals and restructuring of the public housing fund. During 1995, the company commenced to grant car purchase loans by placing funds of Privredna banka Zagreb. In 2002, PBZ



Leasing granted over 7.3 thousand loans, which totalled HRK 456.1 million 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. Presently, PBZ Leasing holds 19 per cent 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 on 26 July 2001 in accordance with the new changes in Croatian pension legislation and it is a joint project of both Privredna banka Zagreb d.d. and Croatia osiguranje d.d. with ownership in the company of 50 percent belonging to each shareholder. The registration with the Commercial court was made on 28 September 2001 with initial share capital of HRK 40 million.

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. After the process of the initial stages of gathering members, PBZ Croatia osiguranje fund became one of the three largest compulsory funds in the country.

At this point, the fund has over 155 thousand members which represents a sound base for the long-term stable and profitable operation of the company. It is important to emphasise that PBZ Croatia osiguranje recorded the highest yield among all pension funds in 2002 and in that respect emerged as the most successful and the best managed fund on the market.

### **Invest Holding Karlovac**

Invest Holding is a limited liability company incorporated on 11 November 1990. On 22 November 1990 it was registered in the Court Register in Karlovac with 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.



## Corporate governance



44

45

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 28 November 2002, are as follows:

- György Surányi (President of the Supervisory Board, Banca Intesa)
- Adriano Bisogni (Vicepresident of the Supervisory Board, Banca Intesa)
- Adriano Arietti (Banca Intesa)
- Gianfranco Mandelli (Banca Intesa)
- Ilaria Benucci (EBRD)
- Marinko Filipović (DAB - resigned 25 November 2002).

### Management Board

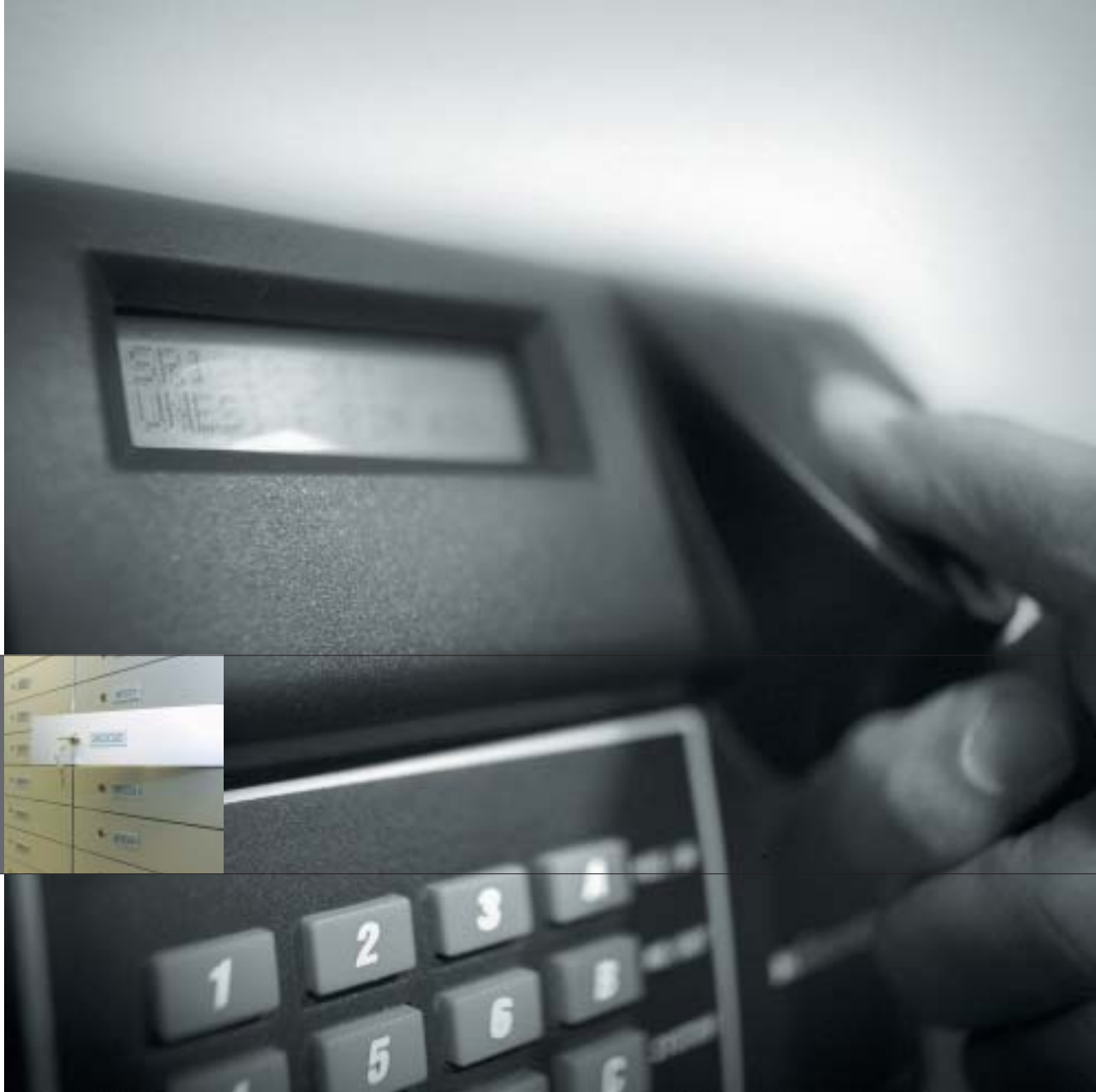
The Management Board consists of six members and the Chief financial officer with each being allocated a specific area of responsibility. The Management Board meets at least twice a month to discuss and determine the operating policies of the Bank.

Following the five year term the mandate of the former Management Board expired on 5 February 2003. Accordingly, the new Management Board was appointed on the three year term effective from 6 February 2003.

### Management Board members

- Božo Prka, President of the Management Board (appointed 6 February 2003)
- Giancarlo Miranda, Vice-president of the Management Board, responsible for Risk Management and the Control Group (appointed 6 February 2003)
- Franjo Filipović, responsible for the Corporate Banking Group (mandate expired on 5 February 2003)
- Ivan Gerovac, responsible for the Corporate Banking Group (appointed 6 February 2003)
- Draženko Pavlinić, responsible for the Finance Banking Group (appointed 6 February 2003)
- Zvonko Agičić, responsible for the Retail Banking Group, (mandate expired on 5 February 2003)
- Tomislav Lazarić, responsible for the Retail Banking Group, (appointed 6 February 2003)
- Ivan Krolo, responsible for the Internal Control Group and Equity Investment Management, (mandate expired on 5 February 2003)
- Davor Holjevac, responsible for the Information Technology and Operations Group (appointed 6 February 2003)
- Nediljko Matić, responsible for the Human Resources and Legal Affairs Group, (mandate expired on 5 February 2003)

Antonello Dessanti, Chief financial officer



## Statement of responsibilities of the Management Board



46

47

Pursuant to the Croatian Accounting Law (Official Gazette 90/92), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the financial position and results of the Bank and the Group for that period.



The Management Board has a reasonable expectation that the Bank and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

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 and prudent;
- 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.

The Management Board is responsible for keeping proper accounting records, 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

17 February 2003





## Auditor's Report

### **To the Board of Directors and 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 2002, as set out on pages 50 to 100. The financial statements have been prepared in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, as required by the Croatian Accounting Law. The financial statements of the Bank and the Group as of 31 December 2001, were audited by other auditors whose report dated 25 February 2002 expressed an unqualified opinion on those statements.

### **Respective responsibilities of the Board and auditors**

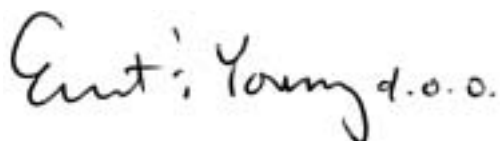
As described on page 47, these financial statements are the responsibility of the Bank's and Group's Board. Our responsibility is to express an independent opinion on these financial statements based on our audit.

### **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 to obtain reasonable assurance about whether 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 the 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 present fairly, in all material aspects, the financial position of the Bank and the Group as at 31 December 2002 and of the results of their operations, their cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards, as required by the Croatian Accounting Law.

A handwritten signature in black ink that reads 'Ernst & Young d.o.o.' in a cursive, flowing script.

Ernst & Young d.o.o., Zagreb  
Republic of Croatia

Zagreb, 30 September 2002  
Zagreb, 17 February 2003

## Financial Statements for the Bank and the Group

### Profit and loss account

In HRK million

	Note	2002	Group 2001	2002	Bank 2001
Interest income	2	2,284	1,891	1,771	1,448
Interest expense	2	(865)	(795)	(759)	(694)
<b>Net interest income</b>		<b>1,419</b>	<b>1,096</b>	<b>1,012</b>	<b>754</b>
Fee and commission income	3	551	444	445	370
Fee and commission expense	3	(192)	(65)	(163)	(56)
<b>Net fee and commission income</b>		<b>359</b>	<b>379</b>	<b>282</b>	<b>314</b>
Other operating income	4	608	465	390	412
<b>Operating income</b>		<b>2,386</b>	<b>1,940</b>	<b>1,684</b>	<b>1,480</b>
Provisions	5	(174)	(159)	(108)	(134)
Other operating expenses	6, 7	(1,181)	(943)	(758)	(683)
Depreciation and amortization of fixed and intangible assets	8	(217)	(162)	(149)	(107)
<b>Profit before income taxes</b>		<b>814</b>	<b>676</b>	<b>669</b>	<b>556</b>
Income arising from investments accounted by net equity method		-	(40)	-	-
Income taxes	9	(167)	(55)	(139)	(39)
Minority interests	31	(6)	-	-	-
<b>Net profit for the year</b>		<b>641</b>	<b>581</b>	<b>530</b>	<b>517</b>
			<b>in HRK</b>		<b>in HRK</b>
Basic earnings per share	38	38.7	35.2	32.0	31.3

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

## Balance sheet

In HRK million

	Note	2002	Group 2001	2002	Bank 2001
<b>Assets</b>					
Cash	10	502	2,128	412	1,914
Balances with Croatian National Bank	11	4,270	4,170	3,526	3,456
Due from banks	12	3,664	5,777	3,304	5,384
Loans and advances to customers	13	19,221	13,167	16,806	11,245
Assets held for trading	14	3,286	1,886	2,849	1,676
Held to maturity investments	15	2,357	2,702	2,231	2,557
Assets available for sale	16	27	146	-	24
Equity investments in subsidiaries	17	127	126	406	391
Intangible assets	18	242	251	118	108
Fixed assets	19	839	844	567	642
Other assets	20	227	62	204	49
Accrued income receivable and prepaid expenses	21	237	210	189	150
Deferred tax assets	22	25	4	21	4
<b>Total assets</b>		<b>35,024</b>	<b>31,473</b>	<b>30,633</b>	<b>27,600</b>
<b>Liabilities</b>					
Due to banks	23	3,690	2,901	3,666	2,837
Due to customers	24	25,905	23,757	22,606	20,708
Other due in securities	25	20	19	20	19
Other liabilities	26	1,198	1,194	610	731
Deferred income	26	618	382	479	304
Allowances for risks and charges	27	263	267	226	247
<b>Total liabilities</b>		<b>31,694</b>	<b>28,520</b>	<b>27,607</b>	<b>24,846</b>
Minority interests	31	50	62	-	-
<b>Shareholders' equity</b>					
Share capital	29	1,666	1,666	1,666	1,666
Treasury shares		(12)	(14)	(12)	(14)
Reserves and retained earnings	30	985	658	842	585
Net profit for the year		641	581	530	517
		3,280	2,891	3,026	2,754
<b>Total liabilities and shareholders' equity</b>		<b>35,024</b>	<b>31,473</b>	<b>30,633</b>	<b>27,600</b>

The accompanying accounting policies and notes are an integral part of this Balance sheet. These financial statements were signed on behalf of the Management Board on 17 February 2003.



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



Antonello Dessanti  
Chief financial officer

## Cash flow statement

In HRK million

	<b>Group</b>		<b>Bank</b>	
	2002	2001	2002	2001
<b>Cash flow from operating activities</b>				
Operating profit	641	581	530	517
Provisions for bad and doubtful debts	174	159	108	134
Proceeds from sale of property and equipment	(6)	(5)	(5)	(2)
Depreciation and amortization	217	162	149	107
Taxes paid	(167)	(55)	(139)	(39)
	<b>859</b>	<b>842</b>	<b>643</b>	<b>717</b>
<b>(Increase)/decrease in operating assets</b>				
Balances with Croatian National Bank	(100)	(988)	(70)	(519)
Due from banks	2,113	(2,690)	2,080	(2,545)
Loans and advances to customers	(6,116)	(3,540)	(5,560)	(2,172)
Disposals/(acquisitions) of assets held for trading and assets available for sale	(1,370)	(365)	(1,173)	(423)
Accrued income and other assets	(192)	(45)	(194)	(84)
<b>(Increase)/decrease in operating liabilities</b>				
Due to banks	1,163	(172)	1,103	880
Due to customers	2,563	8,464	2,317	5,172
Other liabilities	236	635	55	279
<b>Net cash from operating activities</b>	<b>(844)</b>	<b>2,141</b>	<b>(799)</b>	<b>1,305</b>
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	(189)	(178)	(79)	(163)
Acquisition of long term investment	30	(12)	9	(10)
Acquisition of assets held to maturity	434	13	328	257
<b>Net cash from investing activities</b>	<b>275</b>	<b>(177)</b>	<b>258</b>	<b>84</b>
<b>Cash flows from financing activities</b>				
Dividend paid	(268)	(153)	(268)	(153)
Other borrowed funds	(789)	(43)	(693)	362
<b>Net cash from financing activities</b>	<b>(1,057)</b>	<b>(196)</b>	<b>(961)</b>	<b>209</b>
<b>Net increase/(decrease) in cash</b>	<b>(1,626)</b>	<b>1,768</b>	<b>(1,502)</b>	<b>1,598</b>
Cash at the beginning of the year	2,128	360	1,914	316
Cash at the end of the year	502	2,128	412	1,914
<b>Supplementary information</b>				
Interest paid	845	765	752	664
Interest received	1,739	1,615	1,523	1,401
Dividend paid	268	153	268	153
Dividend received	2	6	23	22

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

## Statement of changes in equity

In HRK million

	Share capital	Treasury shares	Reserves and retained profits	Net profit for the year	Total
<b>Group</b>					
<b>Balance at 1 January 2001</b>	<b>1,666</b>	<b>(13)</b>	<b>381</b>	<b>406</b>	<b>2,440</b>
Transfer to reserves	-	-	253	(253)	-
(Purchase)/sale 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
<b>Balance at 31 December 2001</b>	<b>1,666</b>	<b>(14)</b>	<b>658</b>	<b>581</b>	<b>2,891</b>
Transfer to reserves	-	-	581	(581)	-
(Purchase)/sale of treasury shares	-	2	-	-	2
Dividends paid	-	-	(268)	-	(268)
Increase in shareholdings	-	-	6	-	6
Capital gain on sale of treasury shares	-	-	8	-	8
Net profit for the year	-	-	-	641	641
<b>Balance at 31 December 2002</b>	<b>1,666</b>	<b>(12)</b>	<b>985</b>	<b>641</b>	<b>3,280</b>
<b>Bank</b>					
<b>Balance at 1 January 2001</b>	<b>1,666</b>	<b>(13)</b>	<b>359</b>	<b>379</b>	<b>2,391</b>
Transfer to reserves	-	-	226	(226)	-
(Purchase)/sale of treasury shares	-	(1)	-	-	(1)
Dividends paid	-	-	-	(153)	(153)
Net profit for the year	-	-	-	517	517
<b>Balance at 31 December 2001</b>	<b>1,666</b>	<b>(14)</b>	<b>585</b>	<b>517</b>	<b>2,754</b>
Transfer to reserves	-	-	517	(517)	-
(Purchase)/sale of treasury shares	-	2	-	-	2
Dividends paid	-	-	(268)	-	(268)
Capital gain on sale of treasury shares	-	-	8	-	8
Net profit for the year	-	-	-	530	530
<b>Balance at 31 December 2002</b>	<b>1,666</b>	<b>(12)</b>	<b>842</b>	<b>530</b>	<b>3,026</b>

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

# Accounting policies

## 1 | 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 financial enterprises in Croatia.

### Basis of preparation

These consolidated and Bank only financial statements are prepared in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board. The consolidated and Bank only financial statements are prepared under the historical cost convention as modified by the revaluation of assets available for sale and 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.

International Accounting Standard 39 Financial Instruments: Recognition and Measurement (Revised 2000)(IAS 39) establishes principles for recognising, measuring and disclosing information about financial assets and financial liabilities and is effective for annual financial statements covering periods beginning on or after 1 January 2001. The Bank and the Group has made an assessment of the effect of non-compliance with IAS 39 to the accompanying financial statements and determined that the adoption of IAS 39 would not have a material impact on the overall financial position of the Bank and the Group as of 31 December 2001. However, due to complexity and to various uncertain implementation issues, the Bank and the Group decided to recognize the effects of the adoption of IAS 39 only after 1 January 2002.

In 2002 the Bank and the Group adopted IAS 39. The financial effects of adopting IAS 39 are reported in the Profit and loss account. Given the immaterial impact of non-compliance with IAS 39 as of 31 December 2001, comparative financial information in these financial statements has not been restated.

### 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 PBZ Export Handel Service GmbH Group Germany that is currently undergoing liquidation. This subsidiary is 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 inter-company 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 in the consolidated financial statements and at cost in the Bank's financial statements. 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 for all interest bearing instruments on an accrual basis. Interest income and loan commitment fees, which are considered an integral part of the effective yield of a loan, are recognised using the effective yield method. The recognition of interest income is suspended when loans become impaired, such as when they are overdue by more than 90 days. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value. Other fees receivable are recognised when earned. Dividend income is recognised when collected.

#### **Foreign currencies**

Income and expenditure arising from transactions in foreign currencies are converted to Croatian Kuna at the official rates of exchange on the transaction date. Assets and liabilities denominated in foreign currencies are converted to Croatian Kuna at the mid market exchange rate on the last day of the accounting period. Gains and losses resulting from foreign currency conversion 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 loans 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 the repo agreements.

## Accounting policies

### 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 and the Group, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions.

Fees and commissions are generally recognised on an accrual basis. Loan origination fees for loans which are probable of being drawn down, are generally deferred (together with estimated related costs) and recognised as an adjustment to the effective yield on the loan.

### Assets held for trading

Financial instruments included in this 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 the 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.

### Assets available for sale

Financial instruments included in assets available for sale relate to equity securities. These instruments are initially recognised at cost and subsequently stated at fair value or amortised cost that approximates fair value.

### Held to maturity investments

Financial instruments included in this 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. 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.



### Originated loans and provisions for loan impairment

Loans originated by the Group by providing funds directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Group and are carried at amortised cost adjusted for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognised when cash is advanced to borrowers.

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

The loan loss provision also covers losses where there is objective evidence that probable losses are specifically identified in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

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.

### Leases

The Group presents financial leased assets as a receivable equal to the net investment in the lease, i.e. present value of lease payments. Initial direct costs are recognised immediately as expenses.

Assets being subject to operating leases are presented in the balance sheet according to the nature of the asset. Lease income from operating leases is recognised in income on a straight line basis over the lease term. Initial direct cost incurred specifically to earn revenues from an operating lease are recognised as an expense in the profit and loss account in the period in which they are incurred.

### Property and equipment

Property and equipment is stated at cost less accumulated depreciation less any provision for impairment. 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 the 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 and reclassified to the proper property and equipment.

## Accounting policies

Property and equipment is depreciated on a straight-line basis using useful lives. The useful lives are as follows:

	2002	2001
Buildings	10 to 40	10 to 33.3
Furniture	5	5 to 15
Computers	4	5
Motor vehicles	4	4
Equipment and other assets	4 to 10	4 to 15

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 period of 7.5 years at annual rate of 13.33 percent in the books of PBZ American Express and in Privredna banka Zagreb of 10 years at annual rate of 10 percent.

Intangible assets are amortised over a period of 5 years.

### Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the profit and loss account.

## Taxation

Corporation tax payable is provided on taxable profits for the year at the current rate. 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. On each balance sheet date, the Bank re-assesses unrecognised deferred tax assets and the appropriateness of carrying the 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. A few 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 9).

## 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.

## Comparatives and reclassification

Prior year financial statements have been reclassified in order to comply with current year classification. Net profit and total assets were not impacted by these changes.

## 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 32.

## Impairment of assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows including anticipated recoveries from guarantees and collateral, discounted at original effective interest rates, recognised in the profit and loss account. In addition, a provision is made to cover impairment which, although not specifically identified, are deemed to be present in the Bank's portfolio of financial assets, based on historical experience. 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.

## Accounting policies

### 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.

### Personnel expenses

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

### Pension costs

According to local legislation, the Group is obliged to pay contributions to the State Pension and Health Fund. This obligation relates to full-time employees and provides for paying contributions 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 expense in the period to which they relate (refer to note 7).

### Retirement allowances

Under the Labour Code, the Group and the Bank are obliged to pay a retirement allowance of HRK 8 thousand to individuals that are retiring.

IAS 19 (Revised 2002) 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

### 2 | Interest income and expense

In HRK million

		Group		Bank
	2002	2001	2002	2001
<b>Interest income</b>				
Citizens	1,168	860	740	510
Companies	584	486	541	452
Bonds and securities	262	246	238	215
Banks	189	193	173	166
Public sector and others	81	106	79	105
	<b>2,284</b>	<b>1,891</b>	<b>1,771</b>	<b>1,448</b>
<b>Interest expense</b>				
Citizens	545	472	457	371
Companies	140	141	122	130
Banks	126	116	131	133
Public sector and others	54	66	49	60
	<b>865</b>	<b>795</b>	<b>759</b>	<b>694</b>

### 3 | Fee and commission income and expense

In HRK million

		Group		Bank
	2002	2001	2002	2001
<b>Fee and commission income</b>				
Fees and commission on customer loans	179	137	152	106
Fees and commission on credit card services	109	64	95	61
Payment transaction fees and commission	76	-	76	-
Fees and commission on customer services	53	62	43	58
Fees and commission on guarantees given	39	79	38	77
Other fee and commission income	95	102	41	68
	<b>551</b>	<b>444</b>	<b>445</b>	<b>370</b>
<b>Fee and commission expense</b>				
Payment transaction charges	129	24	113	18
Bank charges	28	33	24	23
Commission to post offices for citizens' current accounts	4	6	3	5
Other fee and commission expense	31	2	23	10
	<b>192</b>	<b>65</b>	<b>163</b>	<b>56</b>

## Notes to the Financial Statements

### 4 | Other operating income

In HRK million

	<b>Group</b>		<b>Bank</b>	
	2002	2001	2002	2001
Foreign exchange	213	198	183	170
Profit from buying and selling securities held for trading and assets available for sale	148	180	137	179
Financial leasing	122	-	-	-
Write ups/(downs) on securities held for trading and assets available for sale	34	17	28	15
Gains from disposal of fixed assets	6	5	5	2
Dividends received	2	6	23	22
Other income	83	59	14	24
	<b>608</b>	<b>465</b>	<b>390</b>	<b>412</b>

Included within other operating income there is HRK 196 million related to foreign exchange trading for the Group (2001: HRK 284 million) whilst foreign exchange revaluation amounted to HRK 23 million (2001: HRK 147 million). Foreign exchange trading for the Bank stood at HRK 178 million (2001: HRK 263 million) and foreign exchange revaluation totalled HRK 4 million (2001: HRK 109 million).

### 5 | Provisions

In HRK million

In HRK million	Note	Group		Bank	
		2002	2001	2002	2001
Provisions for general credit risks	13	123	45	111	42
Provisions for loans and advances to customers	12, 13	37	95	4	56
Provisions for legal claims	27	30	8	19	1
Provisions for guarantees and commitments	27	(17)	4	(26)	8
Provisions for financial investments	16	1	7	-	27
		174	159	108	134

## 6 | Other operating expenses

In HRK million

	Note	2002	2001	2002	2001
Personnel expenses	7	505	459	383	353
Materials and services		355	287	220	206
Financial leasing		122	-	-	-
Indirect and other taxes		9	9	7	7
Other operating expenses		190	188	148	117
		<b>1,181</b>	<b>943</b>	<b>758</b>	<b>683</b>

## 7 | Personnel expenses

In HRK million

		2002	2001	2002	2001
Net salaries	237	236	176	165	
Pension insurance costs	72	60	53	49	
Health insurance costs	59	48	44	40	
Taxes and surtaxes due to local authorities	58	45	41	41	
Expenses related to social program	16	13	15	8	
Other personal expenses	63	57	54	50	
	<b>505</b>	<b>459</b>	<b>383</b>	<b>353</b>	

Included in salaries and other related costs of employees is the Bank's bonus in gross amount of HRK 21.4 million (2001: HRK 22.6 million). In addition, the same item includes the remuneration of the Bank's Management Board in gross amount of HRK 6.1 million (2001: HRK 6.9 million).

During the year the average number of employees within the Group was 3,678 (2001: 3,692) of which the Bank accounted for 2,821 employees (2001: 2,902).



62

63

## Notes to the Financial Statements

### 8 | Depreciation and amortization of fixed and intangible assets

In HRK million

		<b>Group</b>		<b>Bank</b>
	2002	2001	2002	2001
Depreciation of fixed assets	146	106	114	85
Depreciation of intangible assets	71	56	35	22
	<b>217</b>	<b>162</b>	<b>149</b>	<b>107</b>

Included within depreciation and amortization of fixed and intangible assets there is an amount related to the impairment of fixed and intangible assets for the Group of HRK 35 million (2001: HRK 32 million) and the Bank of HRK 19 million (2001: HRK 16 million).

### 9 | Taxation

The profit tax is payable at the rate of 20 percent (2001: 20 percent), on adjusted operating income.

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. Taxation expense comprise:

In HRK million

		<b>Group</b>		<b>Bank</b>
	2002	2001	2002	2001
Current income tax expense	(192)	(59)	(160)	(43)
Deferred tax assets relating to temporary differences	25	4	21	4
	<b>(167)</b>	<b>(55)</b>	<b>(139)</b>	<b>(39)</b>



## 9 | Taxation | continued

The reconciliation between accounting profit and taxable profit is set out below:

In HRK million

		Group		Bank
	2002	2001	2002	2001
<b>Accounting profit before taxation</b>	<b>814</b>	<b>676</b>	<b>669</b>	<b>556</b>
Statutory tax rate	20%	20%	20%	20%
<b>Expected nominal tax</b>	<b>163</b>	<b>135</b>	<b>134</b>	<b>111</b>
Tax effects of:				
Non deductible expenses	36	13	33	9
Non taxable income	(13)	(5)	(11)	(4)
Other	9	4	4	-
Tax losses brought forward	(3)	(88)	-	(73)
<b>Tax expense</b>	<b>192</b>	<b>59</b>	<b>160</b>	<b>43</b>
<b>Effective tax rate</b>	<b>23.6%</b>	<b>8.7%</b>	<b>23.9%</b>	<b>7.7%</b>

Movements of deferred tax assets are as follows:

In HRK million

		Group		Bank
	2002	2001	2002	2001
<b>Deferred tax asset recognised at 1 January</b>	<b>(4)</b>	<b>-</b>	<b>(4)</b>	<b>-</b>
Tax (profits)/losses in the year recognised as deferred tax assets	(25)	(4)	(21)	(4)
Deferred tax (debit)/credit in the profit and loss account	4	(4)	4	(4)
<b>Deferred tax asset recognised at 31 December</b>	<b>(25)</b>	<b>(4)</b>	<b>(21)</b>	<b>(4)</b>

## Notes to the Financial Statements

### 9 | Taxation | continued

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	
	2002	2001	2002	2001
31 December 2004	3	7	-	-
31 December 2005	6	26	-	-
31 December 2006	4	-	-	-
	<b>13</b>	<b>33</b>	<b>-</b>	<b>-</b>

### 10 | Cash

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

In HRK million

	Group		Bank	
	2002	2001	2002	2001
Cash in hand	501	2,120	411	1,907
Other cash items	1	8	1	7
	<b>502</b>	<b>2,128</b>	<b>412</b>	<b>1,914</b>

## 11 | Balances with Croatian National Bank

In HRK million

		Group		Bank
	2002	2001	2002	2001
Obligatory reserve	2,710	2,125	2,236	1,716
Treasury bills	916	1,650	694	1,392
Giro accounts	552	365	506	318
Other deposits	92	30	90	30
	<b>4,270</b>	<b>4,170</b>	<b>3,526</b>	<b>3,456</b>

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 (2001: 19 percent) and 19 percent of foreign currency denominated balances (2001: 19 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 1.75 percent for HRK amounts (2001: 2 percent), 1.3 percent for USD and 2.82 percent for EUR amounts (2001: 1.82 percent for USD and 3.29 percent for EUR amounts). 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.

## 12 | Due from banks

In HRK million

		Group		Bank
	2002	2001	2002	2001
Term deposits	2,911	5,177	2,631	4,773
Loans to banks	600	471	595	467
Current accounts and demand deposits	168	141	88	152
	<b>3,679</b>	<b>5,789</b>	<b>3,314</b>	<b>5,392</b>
Provisions	(15)	(12)	(10)	(8)
	<b>3,664</b>	<b>5,777</b>	<b>3,304</b>	<b>5,384</b>

Term deposits are normally short-term deposits (up to one month) with local and foreign banks bearing an average interest rate of 2.8 percent to 3.4 percent (2001: 1.7 and 4.5 percent respectively). 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.

## Notes to the Financial Statements

### 12 | Due from banks | continued

Included in the Bank placements with other banks are HRK 36.8 million (2001: HRK 49.8 million) related to refinanced borrowings due to the Republic of Croatia and HRK 188.2 million (2001: HRK 237 million) of refinanced borrowings due to the Government agencies. For more details refer to note 23.

The related currency analysis is provided in note 36.

### a | Geographical analysis

In HRK million

		Group		Bank
	2002	2001	2002	2001
Republic of Croatia	988	114	750	183
Germany	785	1,682	708	1,618
Belgium	317	493	237	493
United States of America	283	116	276	102
Austria	268	817	203	745
France	224	383	224	383
Great Britain	96	1,005	76	985
Italy	62	290	18	243
Switzerland	15	191	7	191
Other countries	641	698	815	449
	<b>3,679</b>	<b>5,789</b>	<b>3,314</b>	<b>5,392</b>
Provisions	(15)	(12)	(10)	(8)
	<b>3,664</b>	<b>5,777</b>	<b>3,304</b>	<b>5,384</b>

### b | Provisions for losses

In HRK million

		Group		Bank
	2002	2001	2002	2001
<b>Balance at 1 January</b>	<b>12</b>	<b>10</b>	<b>8</b>	<b>6</b>
Provisions	11	2	10	2
Other changes	(8)	-	(8)	-
<b>Balance at 31 December</b>	<b>15</b>	<b>12</b>	<b>10</b>	<b>8</b>

### 13 | Loans and advances to customers

In HRK million

	<b>Group</b>		<b>Bank</b>	
	2002	2001	2002	2001
<b>a   Analysis by type of customer</b>				
Citizens	10,503	6,584	8,312	4,929
Companies	8,652	7,566	8,166	7,053
Public sector and other	2,157	1,236	2,142	1,227
	<b>21,312</b>	<b>15,386</b>	<b>18,620</b>	<b>13,209</b>
Specific provisions	(1,729)	(2,039)	(1,545)	(1,806)
General provisions	(362)	(180)	(269)	(158)
	<b>19,221</b>	<b>13,167</b>	<b>16,806</b>	<b>11,245</b>
<b>b   Analysis by sector</b>				
Citizens	10,503	6,584	8,312	4,929
Wholesale and retail trade	2,378	1,760	2,116	1,574
Transport and communication	938	1,083	885	1,039
Construction	653	590	594	537
Hotels, restaurants	651	492	560	402
Food and drinks productions	595	477	569	456
Energy products - trade	490	454	467	445
Agriculture, forestry and fishing	428	586	391	544
Oil refining	44	397	44	338
Other	4,632	2,963	4,682	2,945
	<b>21,312</b>	<b>15,386</b>	<b>18,620</b>	<b>13,209</b>
Specific provisions	(1,729)	(2,039)	(1,545)	(1,806)
General provisions	(362)	(180)	(269)	(158)
	<b>19,221</b>	<b>13,167</b>	<b>16,806</b>	<b>11,245</b>

Within Loans and advances to customers were advances related to Treasury bills of the Ministry of Finance as well as DAB bonds purchased under agreements to resell (reverse repo) to other customers whose value at 31 December 2002 stood at HRK 384 million (2001: HRK 20 million).

## Notes to the Financial Statements

### 13 | Loans and advances to customers | continued

In HRK million

	<b>2002</b>		<b>2001</b>	
<b>c   Provisions for losses</b>	Specific	General	Specific	General
<b>Group</b>				
<b>Balance at 1 January</b>	<b>2,039</b>	<b>180</b>	<b>2,005</b>	<b>125</b>
Consolidation adjustment	(124)	59	88	10
Amounts collected	(310)	-	(181)	-
Amounts written off	(212)	-	(122)	-
Foreign exchange (gain)/loss	-	-	(25)	-
Provisions	336	123	274	45
<b>Balance at 31 December</b>	<b>1,729</b>	<b>362</b>	<b>2,039</b>	<b>180</b>
	<b>2,091</b>		<b>2,219</b>	
<b>Bank</b>				
<b>Balance at 1 January</b>	<b>1,806</b>	<b>158</b>	<b>1,897</b>	<b>116</b>
Amounts collected	(218)	-	(137)	-
Amounts written off	(188)	-	(122)	-
Other changes	(67)	-	(23)	-
Provisions	212	111	191	42
<b>Balance at 31 December</b>	<b>1,545</b>	<b>269</b>	<b>1,806</b>	<b>158</b>
	<b>1,814</b>		<b>1,964</b>	

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.

### 13 | Loans and advances to customers | continued

#### 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 2,714 million (2001: HRK 2,753 million).

Total Bank loans and contingencies guaranteed by the Republic of Croatia or repayable from the state budget amount to HRK 2,664 million (2001: HRK 2,720 million).

On 31 December 2002 the principal amount of loans and receivables with nil estimated recoverable amount for the Group was HRK 622 million and for the Bank HRK 532 million (2001: HRK 571 million and HRK 515 million).

#### e | Refinanced loans

Included in loans and receivables are HRK 254 million (2001: HRK 350 million) related to refinanced borrowings due to the Republic of Croatia and HRK 516 million (2001: HRK 613 million) of refinanced borrowings due to the Government Agencies.

For more detail on refinanced loans refer to note 23.

### 14 | Assets held for trading

In HRK million

		Group		Bank	
	2002	2001	2002	2001	
Treasury bills	1,632	697	1,364	626	
Government bonds	889	594	793	478	
Equities and shares	381	448	371	447	
Commercial papers	77	72	45	73	
Other bonds	307	75	276	52	
	<b>3,286</b>	<b>1,886</b>	<b>2,849</b>	<b>1,676</b>	

## Notes to the Financial Statements

### 15 | Held to maturity investments

In HRK million

		Group		Bank
	2002	2001	2002	2001
Recapitalisation bonds	1,134	1,208	1,134	1,208
Republic of Croatia bonds	616	851	514	730
Rehabilitation bonds	583	619	583	619
Reconstruction bonds	24	24	-	-
	<b>2,357</b>	<b>2,702</b>	<b>2,231</b>	<b>2,557</b>

Investment securities on 31 December 2002 were split into held to maturity investments and assets available for sale (refer to note 16) based on whether management had positive intent and ability to hold certain securities until maturity on that date.

Within held to maturity investments there are funds that mainly relate to citizens' foreign currency deposits with the former National Bank of Yugoslavia (Republic of Croatia bonds). 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.

Recapitalisation bonds and rehabilitation bonds were issued by the State Agency for Bank Rehabilitation and Deposit Insurance (DAB). These bonds are guaranteed by the Republic of Croatia.

Reconstruction bonds were issued by the Croatian Government in lieu of repayments from certain borrowers.



**16 | Assets available for sale**

In HRK million

		<b>Group</b>		<b>Bank</b>
	2002	2001	2002	2001
<b>Balance at 31 January</b>	<b>146</b>	<b>62</b>	<b>24</b>	<b>33</b>
Consolidation adjustment	-	13	-	-
Purchases/(disposals)	(118)	79	(24)	(8)
Value adjustments	(1)	(7)	-	-
Foreign exchange gain/(loss)	-	(1)	-	(1)
<b>Balance at 31 December</b>	<b>27</b>	<b>146</b>	<b>-</b>	<b>24</b>



## Notes to the Financial Statements

### 16 | Assets available for sale | continued

The following table sets out equity investments considered available for sale.

Equity Investments	Country	Nature of Business	Holding %	
			2002	2001
Alstom Power d.o.o.	Croatia	manufacturing	20	20
Belišće d.d.	Croatia	manufacturing	15	15
Europay Hrvatska d.o.o.	Croatia	card services	14	14
Agromedimurje d.d.	Croatia	agriculture	13	6
Tehnološko inovacijski centar d.o.o.	Croatia	manufacturing	11	11
Televizija Čakovec d.o.o.	Croatia	TV media	10	10
Međimurske novine d.o.o.	Croatia	newspaper	7	7
Poduzetnički riječki inkubator d.o.o.	Croatia	manufacturing	6	6
Adriadiesel d.d.	Croatia	manufacturing	4	4
Tržište novca i kratkoročnih vrijednosnica d.d.	Croatia	finance	3	3
Varaždinsko tržište vrijednosnica d.d.	Croatia	finance	3	3
Zagrebačka burza d.d.	Croatia	finance	2	2
Karlovačka banka d.d.	Croatia	banking	2	2
Veterinarska stanica d.o.o. Čakovec	Croatia	food processing	2	2
MBU d.o.o.	Croatia	finance	1	1
Središnja depozitarna agencija d.d.	Croatia	finance	1	1
Istarska autocesta d.d.	Croatia	transport	1	1
Elan d.d.	Slovenia	manufacturing	1	1
LHB International Handelsbank AG	Germany	banking	-	6
Aqua Vivae d.d.	Croatia	tourism	-	2
Slobodna Dalmacija d.d. štedno-kreditna služba	Croatia	finance	-	6
Hrvatska stambena štedionica d.d.	Croatia	building society	-	3

## 17 | Equity investments in subsidiaries

In HRK million

		Group		Bank
	2002	2001	2002	2001
Consolidated subsidiaries	-	-	337	322
Consolidated subsidiaries - net equity	126	116	68	60
Non-consolidated subsidiaries	1	10	1	9
	<b>127</b>	<b>126</b>	<b>406</b>	<b>391</b>
a   Movements				
<b>Balance at 1 January</b>	<b>126</b>	<b>143</b>	<b>391</b>	<b>400</b>
Consolidation adjustment	1	(49)	-	-
Consolidated subsidiaries - net equity	-	12	-	-
Acquired / (disposed)	-	20	15	18
Provisions	-	-	-	(27)
<b>Balance at 31 December</b>	<b>127</b>	<b>126</b>	<b>406</b>	<b>391</b>



## Notes to the Financial Statements

### 17 | Equity investments in subsidiaries | continued

The principal investments in subsidiaries are as follows:

	Country	Nature of Business	2002	2001
<b>Consolidated Subsidiaries</b>			Holding %	
Privredna banka Laguna banka d.d.	Croatia	banking	100	100
Međimurska banka d.d.	Croatia	banking	98	89
Riadska banka d.d.	Croatia	banking	85	85
PBZ American Express d.o.o.	Croatia	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.	Croatia	leasing	100	100
PBZ Kapital d.o.o.	Croatia	finance	100	100
PBZ Invest d.o.o.	Croatia	finance	100	100
PBZ Nekretnine d.o.o.	Croatia	real estate	100	100
Invest Holding Karlovac d.o.o.	Croatia	finance	56	56
Adria Investing d.d. (in liquidation)	Croatia	real estate	99	96
PBZ Croatia osiguranje d.d.	Croatia	finance	50	50

Adria Investing d.d. (in liquidation) and PBZ Croatia osiguranje d.d. are accounted for under equity method.

	Country	Nature of Business	2002	2001
<b>Non-consolidated Subsidiaries</b>			Holding %	
PBZ Export Handel Service GmbH (in liquidation)	Germany	finance	100	100

## 18 | Intangible assets

In HRK million

Group	Goodwill/ Negative goodwill	Software	Other intangible assets	Total
Cost or valuation				
Balance at 1 January 2002	212	114	66	392
Additions	10	32	20	62
<b>Balance at 31 December 2002</b>	<b>222</b>	<b>146</b>	<b>86</b>	<b>454</b>
Amortization				
Balance at 1 January 2002	66	36	39	141
Charge for the year	33	30	8	71
<b>Balance at 31 December 2002</b>	<b>99</b>	<b>66</b>	<b>47</b>	<b>212</b>
Net book value				
<b>Balance at 31 December 2002</b>	<b>123</b>	<b>80</b>	<b>39</b>	<b>242</b>
<b>Balance at 31 December 2001</b>	<b>146</b>	<b>78</b>	<b>27</b>	<b>251</b>
<b>Bank</b>				
Cost or valuation				
Balance at 1 January 2002	23	91	53	167
Additions	-	27	18	45
<b>Balance at 31 December 2002</b>	<b>23</b>	<b>118</b>	<b>71</b>	<b>212</b>
Amortization				
Balance at 1 January 2002	2	25	32	59
Charge for the year	2	25	8	35
<b>Balance at 31 December 2002</b>	<b>4</b>	<b>50</b>	<b>40</b>	<b>94</b>
Net book value				
<b>Balance at 31 December 2002</b>	<b>19</b>	<b>68</b>	<b>31</b>	<b>118</b>
<b>Balance at 31 December 2001</b>	<b>21</b>	<b>66</b>	<b>21</b>	<b>108</b>

## Notes to the Financial Statements

### 19 | Fixed assets

In HRK million

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Total
Cost or valuation					
Balance at 1 January 2002	762	132	30	396	1,320
Additions	39	43	57	49	188
Disposals and eliminations	(48)	(8)	(4)	(19)	(79)
<b>Balance at 31 December 2002</b>	<b>753</b>	<b>167</b>	<b>83</b>	<b>426</b>	<b>1,429</b>
Depreciation					
Balance at 1 January 2002	192	70	13	201	476
Charge of the year	40	22	9	75	146
Disposals and eliminations	(7)	(8)	(1)	(16)	(32)
<b>Balance at 31 December 2002</b>	<b>225</b>	<b>84</b>	<b>21</b>	<b>260</b>	<b>590</b>
Net book value					
<b>Balance at 31 December 2002</b>	<b>528</b>	<b>83</b>	<b>62</b>	<b>166</b>	<b>839</b>
<b>Balance at 31 December 2001</b>	<b>570</b>	<b>62</b>	<b>17</b>	<b>195</b>	<b>844</b>
<b>Bank</b>					
Cost or valuation					
Balance at 1 January 2002	557	113	21	320	1,011
Additions	19	28	-	32	79
Disposals and eliminations	(44)	(6)	(3)	(17)	(70)
<b>Balance at 31 December 2002</b>	<b>532</b>	<b>135</b>	<b>18</b>	<b>335</b>	<b>1,020</b>
Depreciation					
Balance at 1 January 2002	149	57	11	152	369
Charge of the year	31	17	4	62	114
Disposals and eliminations	(7)	(6)	(2)	(15)	(30)
<b>Balance at 31 December 2002</b>	<b>173</b>	<b>68</b>	<b>13</b>	<b>199</b>	<b>453</b>
Net book value					
<b>Balance at 31 December 2002</b>	<b>359</b>	<b>67</b>	<b>5</b>	<b>136</b>	<b>567</b>
<b>Balance at 31 December 2001</b>	<b>408</b>	<b>56</b>	<b>10</b>	<b>168</b>	<b>642</b>

## 20 | Other assets

In HRK million

	Group		Bank	
	2002	2001	2002	2001
Amounts to be debited under processing	69	-	69	-
Amounts due - deriving from foreign currency transactions	65	-	65	-
Due from fiscal authorities	33	-	33	-
Fees	17	18	17	17
Amounts receivable from buyers	12	31	1	2
Other	31	13	19	30
	<b>227</b>	<b>62</b>	<b>204</b>	<b>49</b>

## 21 | Accrued income receivable and prepaid expenses

In HRK million

	Group		Bank	
	2002	2001	2002	2001
Accrued income receivable	184	197	139	147
Prepaid expenses	53	13	50	3
	<b>237</b>	<b>210</b>	<b>189</b>	<b>150</b>

The amount of accrued interest as at 31 December 2002 includes HRK 60 million of interest receivable on rehabilitation and recapitalisation bonds of the Republic of Croatia (2001: HRK 50 million).

## 22 | Deferred tax assets

In HRK million

	Group		Bank	
	2002	2001	2002	2001
<b>Balance as at 1 January</b>	<b>4</b>	<b>-</b>	<b>4</b>	<b>-</b>
Utilisation	(4)	-	(4)	-
Recognition	25	4	21	4
<b>Balance as at 31 December</b>	<b>25</b>	<b>4</b>	<b>21</b>	<b>4</b>

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20 percent (2001: 20 percent). Deferred tax assets are recognised regardless of when the timing difference is likely to reverse.

## Notes to the Financial Statements

### 23 | Due to banks

In HRK million

	<b>Group</b>		<b>Bank</b>	
	2002	2001	2002	2001
Term deposits	1,198	40	1,181	80
Demand deposits	68	63	100	98
Refinanced debt - due to banks	648	768	648	768
Other borrowed funds	1,776	2,030	1,737	1,891
	<b>3,690</b>	<b>2,901</b>	<b>3,666</b>	<b>2,837</b>
<b>a   Refinanced debt</b>				
Amounts due to the Republic of Croatia	663	906	663	906
Amounts due to the government agencies	897	1,051	897	1,051
	<b>1,560</b>	<b>1,957</b>	<b>1,560</b>	<b>1,957</b>

Refer also to note 24.

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

These amounts 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, 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 were further rescheduled, for a period of 10 to 14 years, they are denominated in USD and carry an interest at LIBOR + 13/16 percent. The amounts due to the Republic of Croatia by the Bank were 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.



## 23 | Due to banks | continued

### 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 from January 1999.

During 1996 further discussions were held with each of the contracting parties and substantially all of the Bank's liabilities were 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 from 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 HRK 62 million in relation to the Treasury bills of Ministry of Finance as well as DAB bonds pledged under repurchase agreements (2001: nil).

## 24 | Due to customers

In HRK million

		Group		Bank
	2002	2001	2002	2001
Term deposits	14,924	13,487	12,992	11,734
Demand deposits	9,977	8,851	8,640	7,581
Refinanced debt - due to customers	912	1,189	912	1,189
Other borrowed funds	92	230	62	204
	<b>25,905</b>	<b>23,757</b>	<b>22,606</b>	<b>20,708</b>

Customers' deposits include frozen foreign currency savings from citizens in the amount of HRK 104 million (2001: HRK 241 million). Frozen foreign currency savings for the Group amount to HRK 116 million (2001: HRK 275 million) - refer to note 15. The Republic of Croatia has issued guarantees for the repayment or exchange of these deposits for the government bonds (Republic of Croatia bonds - refer to note 15).

## Notes to the Financial Statements

### 25 | 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 2002 stood at HRK 20 million (2001: HRK 19 million).

### 26 | Other liabilities and deferred income

In HRK million

		Group		Bank
	2002	2001	2002	2001
Amounts payable to creditors	488	458	8	24
Items in course of collection and other liabilities	435	624	377	610
Taxes	199	52	162	45
Salaries and other staff costs	76	60	63	52
	<b>1,198</b>	<b>1,194</b>	<b>610</b>	<b>731</b>
Deferred income	<b>618</b>	<b>382</b>	<b>479</b>	<b>304</b>
	<b>1,816</b>	<b>1,576</b>	<b>1,089</b>	<b>1,035</b>

### 27 | Allowances for risks and charges

In HRK million

		Group		Bank
	2002	2001	2002	2001
<b>a   Analysis</b>				
Provisions for contingent liabilities and commitments	130	151	111	139
Provisions for legal claims	131	115	115	108
Provisions for other risks and charges	2	1	-	-
	<b>263</b>	<b>267</b>	<b>226</b>	<b>247</b>
<b>b   Movements</b>				
<b>Balance at 1 January</b>	<b>267</b>	<b>276</b>	<b>247</b>	<b>252</b>
Provisions for legal claims (note 5)	30	8	19	1
Provisions for guarantees and commitments (note 5)	(17)	4	(26)	8
Utilisation/(release) of provisions	(12)	(18)	(12)	(11)
Foreign exchange loss	(5)	(3)	(2)	(3)
<b>Balance at 31 December</b>	<b>263</b>	<b>267</b>	<b>226</b>	<b>247</b>

## 28 | Contingent liabilities and commitments

### Legal claims

As at 31 December 2002 there was a certain number of litigations outstanding against the Bank. In the opinion of legal experts, there is a possibility that the Bank may lose certain cases. For this reason the level of provisions for potential loss in litigation made by the Bank as at 31 December 2002 was HRK 115 million (refer to note 27).

### 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 130 million is necessary to cover risks due to default of the respective counterparties (refer to note 27).

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

In HRK million

	<b>Group</b>		<b>Bank</b>	
	2002	2001	2002	2001
Undrawn lending commitments	4,245	2,394	2,745	2,146
Performance guarantees	1,332	1,508	1,315	1,496
Foreign currency guarantees	409	1,748	377	1,033
Foreign currency letters of credit	299	414	283	398
HRK guarantees	227	224	209	209
	<b>6,512</b>	<b>6,288</b>	<b>4,929</b>	<b>5,282</b>

## Notes to the Financial Statements

### 28 | Contingent liabilities and commitments | continued

At 31 December 2002 the Group and the Bank had long-term commitments in respect of rents for business premises and equipment lease agreements expiring between 2003 and 2007. The Management Board is confident that the future net revenues and funding will be sufficient to cover these commitments. The future minimum commitments for each of the next five years along with comparative numbers for 2002 are presented below:

	2002	2003	2004	2005	2006	2007	Total
<b>Group</b>							
Premises	20	21	20	17	17	15	90
<b>Bank</b>							
Premises	18	20	18	16	15	14	83
Equipment	-	3	3	3	2	1	12
	<b>18</b>	<b>23</b>	<b>21</b>	<b>19</b>	<b>17</b>	<b>15</b>	<b>95</b>

### 29 | Share capital

The total number of authorised registered shares as at 31 December 2002 was 16,660 thousand (2001: 16,660 thousand) with a nominal value of HRK 100 per share (2001: HRK 100 per share).

On 17 December 2000, The State Agency for Deposit Insurance and Bank Rehabilitation and Comit Holding International (now IntesaBci Holding International) through Banca Commerciale Italiana (now Banca Intesa) signed the Share Purchase Agreement in Relation to Privredna banka Zagreb. By this contract, which came into effect on 28 January 2001, Banca Commerciale Italiana acquired 11,046,005 ordinary shares amounting to 66.3 per cent of the total share capital of the Bank. According to this agreement the State Agency for Deposit Insurance and Bank Rehabilitation kept 4,165,002 ordinary shares which accounted for 25 percent (plus two shares) of the total share capital of the Bank (prior to 28 January 2001 the State Agency for Deposit Insurance and Bank Rehabilitation was the majority shareholder that held 15,211,007 ordinary shares which accounted for 91.3 per cent of total share capital of the Bank).

## 29 | Share capital | continued

Furthermore, on 22 November 2002, the State Agency for Deposit Insurance and Bank Rehabilitation, IntesaBci Holding International and European Bank for Reconstruction and Development signed three-party Share Purchase Agreement Relating to Privredna banka Zagreb whereby EBRD acquired 15 percent of the nominal capital whilst IntesaBci Holding International gained remaining 10 percent from the State Agency for Deposit Insurance and Bank Rehabilitation. The ownership structure as at 31 December 2002 was as follows.

	Number of shares	Registered shares
		Percentage of ownership
IntesaBci Holding International	12,712,007	76.3%
European Bank for Reconstruction and Development	2,499,000	15.0%
Minority shareholders	1,324,844	8.0%
Treasury shares	124,149	0.7%
	<b>16,660,000</b>	<b>100%</b>

Following finalisation of the public tender, as required in such circumstances by the Croatian law on the take-over of enterprises, IntesaBci Holding International and EBRD concluded a contract on 22 January 2003 for the purchase of 965,746 shares by EBRD from IntesaBci Holding International. The shareholders' structure of the Bank upon completion of this contract is presented below.

	Number of shares	Registered shares
		Percentage of ownership
IntesaBci Holding International	12,712,007	76.3%
European Bank for Reconstruction and Development	3,464,746	20.8%
Minority shareholders	359,098	2.2%
Treasury shares	124,149	0.7%
	<b>16,660,000</b>	<b>100%</b>

## Notes to the Financial Statements

### 30 | 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 15 April 2002, the shareholders of Privredna banka Zagreb at their General Shareholders Meeting took a decision for the distribution of a dividend of HRK 207 million related to 2001 results. On the same meeting, the shareholders approved the allocation of 66,699 treasury shares of the Bank to the employees of PBZ as a share based bonus payment. Moreover, on 22 November 2002 at the Extraordinary Shareholders Meeting the shareholders decided to distribute a one-time dividend from the retained earnings in the total amount of HRK 62 million.

### 31 | Minority interests

In HRK million

	2002	2001
Balance on 1 January	62	71
Minority interests in profit/(loss)	(6)	-
Consolidation adjustment	(6)	(9)
Balance on 31 December	<b>50</b>	<b>62</b>

### 32 | Managed funds for and on behalf of third parties

In HRK million

	Group		Bank	
	2002	2001	2002	2001
<b>Liabilities</b>				
Local authorities and similar organisations	682	696	672	683
Companies	53	57	52	56
Banks and other institutions	86	68	73	54
	<b>821</b>	<b>821</b>	<b>797</b>	<b>793</b>
<b>Less: Assets</b>	749	769	726	741
	<b>72</b>	<b>52</b>	<b>71</b>	<b>52</b>

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.

### 33 | 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 2000 and bonds received for the rehabilitation process in 1997). As at 31 December 2002 the total gross exposure to related parties, including the Supervisory and the Management Board members, amounted to HRK 849 million (2001: HRK 2,207 million).

### 34 | 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;
- Loans and advances to customers are net of specific and other provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received.
- 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 15.

### 35 | 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 on 31 December 2002 and 2001 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of others.

## Notes to the Financial Statements

### 35 | 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
<b>As at 31 December 2002</b>						
<b>Assets</b>						
Cash	-	-	-	-	502	502
Balances with Croatian National Bank	3,348	-	-	694	228	4,270
Due from banks	3,559	66	1	-	38	3,664
Loans and advances to customers	17,182	166	596	1,277	-	19,221
Assets held for trading	285	-	3,001	-	-	3,286
Held to maturity investments	-	-	-	2,357	-	2,357
Assets available for sale	-	-	-	-	27	27
Equity investments in subsidiaries	-	-	-	-	127	127
Intangible assets	-	-	-	-	242	242
Fixed assets	-	-	-	-	839	839
Other assets	2	-	-	-	225	227
Accrued income receivable and prepaid expenses	1	-	-	-	236	237
Deferred tax assets	-	-	-	-	25	25
	<b>24,377</b>	<b>232</b>	<b>3,598</b>	<b>4,328</b>	<b>2,489</b>	<b>35,024</b>
<b>Liabilities</b>						
Due to banks	3,165	8	116	388	13	3,690
Due to customers	23,338	574	1,406	587	-	25,905
Other due in securities	-	-	-	20	-	20
Other liabilities	-	-	-	-	1,198	1,198
Deferred income	-	-	-	-	618	618
Allowances for risks and charges	-	-	-	-	263	263
	<b>26,503</b>	<b>582</b>	<b>1,522</b>	<b>995</b>	<b>2,092</b>	<b>31,694</b>
<b>Interest sensitivity gap</b>	<b>(2,126)</b>	<b>(350)</b>	<b>2,076</b>	<b>3,333</b>	<b>397</b>	<b>3,330</b>



### 35 | Interest rate risk | continued

In HRK million

<b>Bank</b>	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 months to 1 year</b>	<b>Over 1 year</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>As at 31 December 2002</b>						
<b>Assets</b>						
Cash	-	-	-	-	412	412
Balances with Croatian National Bank	2,832	-	-	694	-	3,526
Due from banks	3,249	55	-	-	-	3,304
Loans and advances to customers	16,121	6	301	378	-	16,806
Assets held for trading	-	-	2,849	-	-	2,849
Held to maturity investments	-	-	-	2,231	-	2,231
Assets available for sale	-	-	-	-	-	-
Equity investments in subsidiaries	-	-	-	-	406	406
Intangible assets	-	-	-	-	118	118
Fixed assets	-	-	-	-	567	567
Other assets	-	-	-	-	204	204
Accrued income receivable and prepaid expenses	-	-	-	-	189	189
Deferred tax assets	-	-	-	-	21	21
	<b>22,202</b>	<b>61</b>	<b>3,150</b>	<b>3,303</b>	<b>1,917</b>	<b>30,633</b>
<b>Liabilities</b>						
Due to banks	3,412	2	20	232	-	3,666
Due to customers	21,415	115	873	203	-	22,606
Other due in securities	-	-	-	20	-	20
Other liabilities	-	-	-	-	610	610
Deferred income	-	-	-	-	479	479
Allowances for risks and charges	-	-	-	-	226	226
	<b>24,827</b>	<b>117</b>	<b>893</b>	<b>455</b>	<b>1,315</b>	<b>27,607</b>
<b>Interest sensitivity gap</b>	<b>(2,625)</b>	<b>(56)</b>	<b>2,257</b>	<b>2,848</b>	<b>602</b>	<b>3,026</b>

## Notes to the Financial Statements

### 35 | 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
<b>As at 31 December 2001</b>						
<b>Assets</b>						
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
Loans and advances to customers	9,564	259	1,267	2,077	-	13,167
Assets held for trading	-	-	1,886	-	-	1,886
Held to maturity investments	-	-	-	2,702	-	2,702
Assets available for sale	-	-	-	-	146	146
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 assets	-	-	-	-	4	4
	<b>22,351</b>	<b>1,093</b>	<b>1,556</b>	<b>4,381</b>	<b>2,092</b>	<b>31,473</b>
<b>Liabilities</b>						
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
	<b>21,257</b>	<b>1,101</b>	<b>1,762</b>	<b>2,947</b>	<b>1,453</b>	<b>28,520</b>
<b>Interest sensitivity gap</b>	<b>132</b>	<b>(713)</b>	<b>1,421</b>	<b>1,922</b>	<b>191</b>	<b>2,953</b>

### 35 | Interest rate risk | continued

In HRK million

<b>Bank</b>	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 months to 1 year</b>	<b>Over 1 year</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>As at 31 December 2001</b>						
<b>Assets</b>						
Cash	1,914	-	-	-	-	1,914
Balances with Croatian National Bank	3,456	-	-	-	-	3,456
Due from banks	5,384	-	-	-	-	5,384
Loans and advances to customers	8,064	208	1,165	1,808	-	11,245
Assets held for trading	-	-	1,676	-	-	1,676
Held to maturity investments	-	-	-	2,557	-	2,557
Assets available for sale	-	-	-	-	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 assets	-	-	-	-	4	4
	<b>18,818</b>	<b>208</b>	<b>2,841</b>	<b>4,365</b>	<b>1,368</b>	<b>27,600</b>
<b>Liabilities</b>						
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
	<b>18,913</b>	<b>823</b>	<b>1,444</b>	<b>2,384</b>	<b>1,282</b>	<b>24,846</b>
<b>Interest sensitivity gap</b>	<b>(95)</b>	<b>(615)</b>	<b>1,397</b>	<b>1,981</b>	<b>86</b>	<b>2,754</b>

## Notes to the Financial Statements

### 36 | Currency risk

In HRK million

The Group manages its exposure to currency risk through a variety of measures including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies.

Group	EUR	CHF	USD	Other curren- cies	HRK	Total
<b>As at 31 December 2002</b>						
<b>Assets</b>						
Cash	158	16	24	11	293	502
Balances with Croatian National Bank	383	-	1,134	-	2,753	4,270
Due from banks	1,404	513	1,318	244	185	3,664
Loans and advances to customers	13,521	9	1,012	32	4,647	19,221
Assets held for trading	715	-	429	56	2,086	3,286
Held to maturity investments	2,274	-	-	-	83	2,357
Assets available for sale	-	-	-	-	27	27
Equity investments in subsidiaries	1	-	-	-	126	127
Intangible assets	-	-	-	-	242	242
Fixed assets	-	-	-	-	839	839
Other assets	61	11	8	3	144	227
Accrued income receivable and prepaid expenses	125	-	39	3	70	237
Deferred tax assets	-	-	-	-	25	25
	<b>18,642</b>	<b>549</b>	<b>3,964</b>	<b>349</b>	<b>11,520</b>	<b>35,024</b>
<b>Liabilities</b>						
Due to banks	1,826	31	438	11	1,384	3,690
Due to customers	15,362	514	3,346	260	6,423	25,905
Other due in securities	20	-	-	-	-	20
Other liabilities	107	2	41	48	1,000	1,198
Deferred income	73	1	21	1	522	618
Allowances for risks and charges	21	-	10	-	232	263
	<b>17,409</b>	<b>548</b>	<b>3,856</b>	<b>320</b>	<b>9,561</b>	<b>31,694</b>
<b>Net Assets/Liabilities</b>	<b>1,233</b>	<b>1</b>	<b>108</b>	<b>29</b>	<b>1,959</b>	<b>3,330</b>

### 36 | Currency risk | continued

In HRK million

The Bank manages its exposure to currency risk through a variety of measures including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies.

Bank	EUR	CHF	USD	Other curren- cies	HRK	Total
<b>As at 31 December 2002</b>						
<b>Assets</b>						
Cash	131	12	20	8	241	412
Balances with Croatian National Bank	17	-	1,020	-	2,489	3,526
Due from banks	1,416	434	1,138	217	99	3,304
Loans and advances to customers	12,270	7	976	31	3,522	16,806
Assets held for trading	660	-	428	56	1,705	2,849
Held to maturity investments	2,231	-	-	-	-	2,231
Assets available for sale	-	-	-	-	-	-
Equity investments in subsidiaries	1	-	-	-	405	406
Intangible assets	-	-	-	-	118	118
Fixed assets	-	-	-	-	567	567
Other assets	59	11	8	3	123	204
Accrued income receivable and prepaid expenses	132	-	38	3	16	189
Deferred tax assets	-	-	-	-	21	21
	<b>16,917</b>	<b>464</b>	<b>3,628</b>	<b>318</b>	<b>9,306</b>	<b>30,633</b>
<b>Liabilities</b>						
Due to banks	2,176	30	437	11	1,012	3,666
Due to customers	13,303	431	3,019	238	5,615	22,606
Other due in securities	20	-	-	-	-	20
Other liabilities	84	2	38	47	439	610
Deferred income	60	-	17	1	401	479
Allowances for risks and charges	21	-	10	-	195	226
	<b>15,664</b>	<b>463</b>	<b>3,521</b>	<b>297</b>	<b>7,662</b>	<b>27,607</b>
<b>Net Assets/Liabilities</b>	<b>1,253</b>	<b>1</b>	<b>107</b>	<b>21</b>	<b>1,644</b>	<b>3,026</b>

## Notes to the Financial Statements

### 36 | Currency risk | continued

In HRK million

Group	EUR	CHF	USD	Other curren- cies	HRK	Total
<b>As at 31 December 2001</b>						
<b>Assets</b>						
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
Loans and advances to customers	9,827	19	1,130	34	2,157	13,167
Assets held for trading	415	-	245	38	1,188	1,886
Held to maturity investments	2,603	-	-	-	99	2,702
Assets available for sale	113	-	-	-	33	146
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 assets	-	-	-	-	4	4
	<b>19,271</b>	<b>513</b>	<b>4,150</b>	<b>358</b>	<b>7,181</b>	<b>31,473</b>
<b>Liabilities</b>						
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
	<b>17,465</b>	<b>515</b>	<b>4,134</b>	<b>296</b>	<b>6,110</b>	<b>28,520</b>
<b>Net Assets/Liabilities</b>	<b>1,806</b>	<b>(2)</b>	<b>16</b>	<b>62</b>	<b>1,071</b>	<b>2,953</b>

### 36 | Currency risk | continued

In HRK million



94

95

Bank	EUR	CHF	USD	Other curren- cies	HRK	Total
<b>As at 31 December 2001</b>						
<b>Assets</b>						
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
Loans and advances to customers	9,122	11	914	34	1,164	11,245
Assets held for trading	385	-	251	34	1,006	1,676
Held to maturity investments	2,557	-	-	-	-	2,557
Assets available for sale	-	-	-	-	24	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 assets	-	-	-	-	4	4
	<b>17,703</b>	<b>437</b>	<b>3,668</b>	<b>323</b>	<b>5,469</b>	<b>27,600</b>
<b>Liabilities</b>						
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
	<b>15,339</b>	<b>438</b>	<b>3,820</b>	<b>272</b>	<b>4,977</b>	<b>24,846</b>
<b>Net Assets/Liabilities</b>	<b>2,364</b>	<b>(1)</b>	<b>(152)</b>	<b>51</b>	<b>492</b>	<b>2,754</b>

## Notes to the Financial Statements

### 37 | 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
<b>As at 31 December 2002</b>						
<b>Assets</b>						
Cash	502	-	-	-	-	502
Balances with Croatian National Bank	3,154	422	-	-	694	4,270
Due from banks	3,122	108	132	221	81	3,664
Loans and advances to customers	5,812	6,113	1,818	4,188	1,290	19,221
Assets held for trading	283	1	2,867	56	79	3,286
Held to maturity investments	-	-	-	-	2,357	2,357
Assets available for sale	-	-	-	27	-	27
Equity investments in subsidiaries	-	43	-	-	84	127
Intangible assets	-	-	-	10	232	242
Fixed assets	-	-	-	50	789	839
Other assets	227	-	-	-	-	227
Accrued income receivable and prepaid expenses	193	-	44	-	-	237
Deferred tax assets	22	-	-	3	-	25
	<b>13,315</b>	<b>6,687</b>	<b>4,861</b>	<b>4,555</b>	<b>5,606</b>	<b>35,024</b>
<b>Liabilities</b>						
Due to banks	1,562	48	116	1,437	527	3,690
Due to customers	10,545	1,718	6,574	6,730	338	25,905
Other due in securities	20	-	-	-	-	20
Other liabilities	1,196	2	-	-	-	1,198
Deferred income	504	8	52	52	2	618
Allowances for risks and charges	202	-	35	-	26	263
	<b>14,029</b>	<b>1,776</b>	<b>6,777</b>	<b>8,219</b>	<b>893</b>	<b>31,694</b>
<b>Net liquidity gap</b>	<b>(714)</b>	<b>4,911</b>	<b>(1,916)</b>	<b>(3,664)</b>	<b>4,713</b>	<b>3,330</b>



### 37 | Liquidity risk | continued

In HRK million

<b>Bank</b>	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>As at 31 December 2002</b>						
<b>Assets</b>						
Cash	412	-	-	-	-	412
Balances with Croatian National Bank	2,832	-	-	-	694	3,526
Due from banks	2,903	55	42	223	81	3,304
Loans and advances to customers	5,017	6,347	1,528	2,810	1,104	16,806
Assets held for trading	-	-	2,849	-	-	2,849
Held to maturity investments	-	-	-	-	2,231	2,231
Assets available for sale	-	-	-	-	-	-
Equity investments in subsidiaries	-	-	-	-	406	406
Intangible assets	-	-	-	-	118	118
Fixed assets	-	-	-	-	567	567
Other assets	204	-	-	-	-	204
Accrued income receivable and prepaid expenses	189	-	-	-	-	189
Deferred tax assets	21	-	-	-	-	21
	<b>11,578</b>	<b>6,402</b>	<b>4,419</b>	<b>3,033</b>	<b>5,201</b>	<b>30,633</b>
<b>Liabilities</b>						
Due to banks	1,870	5	44	1,267	480	3,666
Due to customers	9,102	1,171	5,985	6,051	297	22,606
Other due in securities	20	-	-	-	-	20
Other liabilities	610	-	-	-	-	610
Deferred income	479	-	-	-	-	479
Allowances for risks and charges	226	-	-	-	-	226
	<b>12,307</b>	<b>1,176</b>	<b>6,029</b>	<b>7,318</b>	<b>777</b>	<b>27,607</b>
<b>Net liquidity gap</b>	<b>(729)</b>	<b>5,226</b>	<b>(1,610)</b>	<b>(4,285)</b>	<b>4,424</b>	<b>3,026</b>

## Notes to the Financial Statements

### 37 | 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
<b>As at 31 December 2001</b>						
<b>Assets</b>						
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
Loans and advances to customers	2,673	541	1,714	4,931	3,308	13,167
Assets held for trading	170	-	1,640	38	38	1,886
Held to maturity investments	-	-	-	-	2,702	2,702
Assets available for sale	-	-	-	-	146	146
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 assets	4	-	-	-	-	4
	<b>13,910</b>	<b>1,345</b>	<b>3,420</b>	<b>5,272</b>	<b>7,526</b>	<b>31,473</b>
<b>Liabilities</b>						
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
	<b>11,358</b>	<b>5,218</b>	<b>5,072</b>	<b>4,682</b>	<b>2,190</b>	<b>28,520</b>
<b>Net liquidity gap</b>	<b>2,552</b>	<b>(3,873)</b>	<b>(1,652)</b>	<b>590</b>	<b>5,336</b>	<b>2,953</b>

### 37 | Liquidity risk | continued

In HRK million

<b>Bank</b>	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>As at 31 December 2001</b>						
<b>Assets</b>						
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
Loans and advances to customers	1,976	365	1,371	4,553	2,980	11,245
Assets held for trading	56	-	1,620	-	-	1,676
Held to maturity investments	-	-	-	-	2,557	2,557
Assets available for sale	-	-	-	-	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 assets	4	-	-	-	-	4
	<b>12,370</b>	<b>591</b>	<b>3,014</b>	<b>4,801</b>	<b>6,824</b>	<b>27,600</b>
<b>Liabilities</b>						
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
	<b>9,352</b>	<b>4,673</b>	<b>4,428</b>	<b>4,324</b>	<b>2,069</b>	<b>24,846</b>
<b>Net liquidity gap</b>	<b>3,018</b>	<b>(4,082)</b>	<b>(1,414)</b>	<b>477</b>	<b>4,755</b>	<b>2,754</b>

## Notes to the Financial Statements

### 38 | 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 16,547,001 (2001: 16,518,362).

## Supplementary financial statements in EUR | unaudited

### Profit and loss account

In EUR million

	<b>Group</b>		<b>Bank</b>	
	2002	2001	2002	2001
Interest income	307	257	238	196
Interest expense	(116)	(108)	(102)	(94)
<b>Net interest income</b>	<b>191</b>	<b>149</b>	<b>136</b>	<b>102</b>
Fee and commission income	74	60	60	51
Fee and commission expense	(26)	(9)	(22)	(8)
<b>Net commission income</b>	<b>48</b>	<b>51</b>	<b>38</b>	<b>43</b>
Other operating income	82	63	52	56
<b>Operating income</b>	<b>321</b>	<b>263</b>	<b>226</b>	<b>201</b>
Provisions	(23)	(21)	(14)	(18)
Other operating expenses	(159)	(128)	(102)	(93)
Depreciation and amortization of fixed and intangible assets	(29)	(22)	(20)	(15)
<b>Profit before income taxes</b>	<b>110</b>	<b>92</b>	<b>90</b>	<b>75</b>
Income arising from investments accounted by net equity method	-	(6)	-	-
Income taxes	(23)	(7)	(19)	(5)
Minority interests	(1)	-	-	-
<b>Net profit for the year</b>	<b>86</b>	<b>79</b>	<b>71</b>	<b>70</b>



100

101



## Supplementary financial statements in EUR | unaudited

### Balance sheet

In EUR million

		Group		Bank	
	2002	2001	2002	2001	
<b>Assets</b>					
Cash	67	288	55	259	
Balances with Croatian National Bank	574	565	474	469	
Due from banks	492	784	444	731	
Loans and advances to customers	2,582	1,787	2,258	1,526	
Assets held for trading	442	256	383	227	
Held to maturity investments	317	367	300	347	
Assets available for sale	4	20	-	3	
Equity investments in subsidiaries	17	17	55	53	
Intangible assets	33	34	16	15	
Fixed assets	113	115	76	87	
Other assets	30	8	27	7	
Accrued income receivable and prepaid expenses	32	28	25	20	
Deferred tax	3	1	3	1	
<b>Total assets</b>	<b>4,706</b>	<b>4,270</b>	<b>4,116</b>	<b>3,745</b>	
<b>Liabilities</b>					
Due to banks	496	394	493	384	
Due to customers	3,481	3,223	3,038	2,811	
Other due in securities	3	3	3	3	
Other liabilities	161	162	82	99	
Deferred income	83	52	64	41	
Allowances for risks and charges	35	36	30	34	
<b>Total liabilities</b>	<b>4,259</b>	<b>3,870</b>	<b>3,710</b>	<b>3,372</b>	
Minority interests	7	8	-	-	
<b>Shareholders' equity</b>					
Share capital	224	226	224	226	
Treasury shares	(2)	(2)	(2)	(2)	
Reserves and retained earnings	132	89	113	79	
Net profit for the year	86	79	71	70	
	<b>440</b>	<b>392</b>	<b>406</b>	<b>373</b>	
<b>Total liabilities and shareholders' equity</b>	<b>4,706</b>	<b>4,270</b>	<b>4,116</b>	<b>3,745</b>	



102

103

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