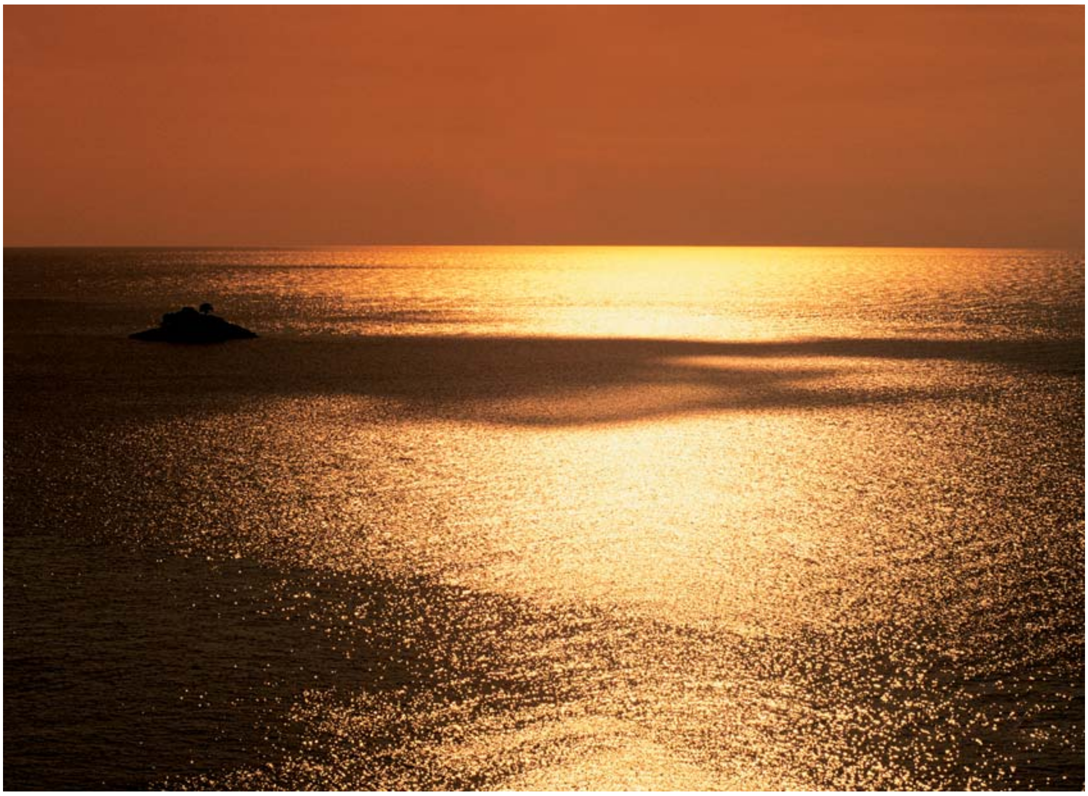
Annual Report 2003

PRIVREDNA BANKA ZAGREB

PBZ, a Bank of Gruppo Banca Intesa



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Annual Report 2003

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THIS IS CERTAINLY ONE OF THE BEST-KNOWN AND MOST HIGHLY PRIZED CHEESES IN THIS COUNTRY. IT IS MADE FROM SHEEP'S MILK FROM THE AUTOCHTHON PAG SHEEP, IN SEASON. ITS SPECIFIC FLAVOUR COMES FROM THE FOOD THE SHEEP EAT, CONSISTING MAINLY OF THE AROMATIC HERBS THAT GROW ON THE ISLAND. PAG CHEESE IS MATURE WHEN IT IS BETWEEN 6 AND 12 MONTHS OLD, AND IT GAINS A CHARACTERISTIC PIQUANT FLAVOUR, A SPECIFIC AROMA AND A GENTLY MARBLED AND GRAINY CONSISTENCY.

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many awards demonstrate that istrian olive oil is one of the best in the world. there are many answers to the question as to the secret of its quality: the mild weather during the harvest (in november), when the olives ripen completely, giving the oil a richer acid content; hand picking, and the short time of processing. moreover in the production of extra virgin olive oil a decisive role is played by the position and variety of olives and the correct time of harvest.

Introduction

The Management Board of Privredna banka Zagreb d.d. has pleasure of presenting its Annual report to the shareholders of the Bank.
This comprises a summary of financial information, management reviews, 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 2003 expressed in English.
This report is also published in Croatian language for presentation to the 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 2003 have been used to translate balances in foreign currency on that date:
CHF 1 = HRK 4.901551
USD 1 = HRK 6.118506
EUR 1 = HRK 7.646909

DINGAČ, PROTECTED IN AS EARLY AS 1961, WAS THE FIRST CROATIAN VARIETY TO BE PROTECTED. IT IS ALSO THE MOST IMPORTANT AND MOST PROTECTED CROATIAN VARIETY, WHICH HAS PROVED ITS QUALITY IN THE WORLD OF CONNOISSEURS. DINGAČ ITSELF IS ONE OF THE TEN BEST WINES IN THE WORLD. THE TYPICAL PLAVAC IS A DARK REDDISH PURPLE IN COLOUR, WHILST THE BOUQUET IS SUBTLE AND PLEASANT. IT IS MARKEDLY SOUTHERN, WITH A MORE OR LESS TART FLAVOUR, WHICH IS CERTAINLY EXCEPTIONALLY FINE.

Five year summary and financial highlights

In HRK million

Group	2003	2002	2001	2000	1999
Income statement and balance sheet					
Total gross revenue	3,564	3,321	2,800	2,277	1,997
Net interest income	1,492	1,419	1,096	915	556
Net operating income	2,424	2,264	1,940	1,575	1,373
Net profit for the year	695	641	581	406	198
Total assets	42,441	34,917	31,473	22,309	17,188
Loans and advances to customers	23,409	19,147	13,167	9,878	6,446
Due to customers	28,308	25,905	23,757	15,194	9,839
Shareholders' funds	3,730	3,280	2,891	2,440	2,033
Other data					
Return on average equity	19.65%	24.76%	24.77%	17.74%	9.74%
Return on average assets	1.77%	1.90%	2.16%	2.00%	1.15%
Assets per employee	11.3	9.5	8.5	6.2	4.4
Cost income ratio	56.93%	58.59%	56.96%	58.52%	62.41%

Bank	2003	2002	2001	2000	1999
Income statement and balance sheet					
Total gross revenue	2,777	2,606	2,230	1,909	1,680
Net interest income	1,268	1,012	754	687	499
Net operating income	1,767	1,684	1,480	1,275	1,112
Net profit for the year	575	530	517	379	221
Total assets	37,505	30,536	27,600	20,574	15,736
Loans and advances to customers	20,399	16,742	11,245	9,164	6,135
Due to customers	24,602	22,606	20,708	14,261	8,871
Shareholders' funds	3,355	3,026	2,754	2,391	2,025
Other data					
Return on average equity	17.85%	21.52%	24.33%	17.53%	10.91%
Return on average assets	1.66%	1.80%	1.90%	1.82%	1.40%
Assets per employee	13.1	10.8	9.6	6.9	4.8
Cost income ratio	53.37%	53.86%	53.38%	52.67%	57.82%

Report from the President of the Supervisory Board

In view of the considerable challenges the Croatian banking industry had to face in 2003, we are even more proud of the excellent financial results of the Privredna banka Zagreb Group, which proved once again that it is one of the most prosperous banking groups in Croatia with enormous potentials. Its robust achievements were the outcome of enhanced inter-group synergy, improved corporate governance and technological innovations.
The four-year partnership with Gruppo Banca Intesa and more than one-year partnership with the European Bank for Reconstruction and Development proved to be very successful for all parties. These partnerships provided new opportunities for development and granted PBZ greater accessibility to the markets of the European Union. The synergy with other Gruppo Banca Intesa acquisitions in the region, in Hungary and in Slovakia, gave scope for regional cooperation and therefore we foresee further rationalisation of business between these banks, where Privredna banka Zagreb will play an important role.
The macroeconomic trends of 2003 involved some contradictory features in Croatia. The growth of the GDP turned in the middle of the year and after an average growth of 5 percent in the first half of the year, it slowed down to 3.9 percent in the third quarter. Inflation remained moderate with a slight decline to 1.5 percent in 2003. The growth of the balance of payments deficit led to a rise in foreign debts, and the weakening of the dollar in 2002 and 2003 additionally boosted the pace of the debt.
At the end of December 2003, the foreign debt surpassed 85 percent of the GDP expected in 2003. The debt level and related balance of payments deficit resulted in a restrictive monetary policy to curtail the growth of external imbalances.
Nevertheless, the current level of the foreign debt is still within the sustainable category and on the other hand, the economic performance of Croatia is marked by a strong desire to qualify for the membership of the European Union. In this respect it is quite certain that macroeconomic stability and economic reforms will be highly placed on the list of the government's priorities, which makes us optimistic in our expectations for the forthcoming period.
In the shadow of restrictions, each bank on the domestic market made strong efforts to achieve solid business growth. Despite the restrictive measures, PBZ has strengthened its retail market position and stabilised its market position primarily by exploiting the opportunities offered by small and medium-sized enterprises. However, adjustment to the measures of the central bank to curb credit activity resulted in much slower growth of corporate loans, not only in PBZ, but also in the entire Croatian banking industry.
With an active and flexible approach to adapt to the economic and monetary environment and to satisfy the needs of its clients, PBZ Group has once again succeeded in achieving praiseworthy results.
Consolidated financial indicators demonstrate substantial strength, particularly in profitability. Return on the average equity of the Group in 2003 reached 19.65 percent, which is a remarkable achievement.
The balance sheet of the Group continued to rise. Total assets on 31 December 2003 amounted to HRK 42.4 billion, which is an increase of 22 percent in comparison to 2002.
Looking ahead, the top strategic objective of PBZ is to strengthen its market position and further improve its profitability in order to remain strong, efficient and successful player on the Croatian financial market.
We have to succeed in the tough and highly competitive banking industry by meeting the demands of our customers at the highest possible level and thus increasing their satisfaction. One of the key elements we are building on is the successful completion of the IT projects, which will provide more favourable conditions for corporate, retail and treasury business and allow us to introduce other new and modern banking services.
The management of the Bank enjoys the complete confidence of the shareholders. On behalf of the Supervisory Board, I would like to express our gratitude and appreciation to the employees for their high level of effort in their work and dedication, and to the management of the Bank for their strong leadership, which all contributed to this outstanding performance. We have good reason to be proud of the present attitude of the exceptionally professional team of employees and management, which makes us convinced of the future success of the PBZ Group.
Finally, I take this opportunity to thank my fellow colleagues from the Supervisory Board as well for their committed efforts in contributing to and supporting the work of the management in fulfilling the objectives of the Bank.

Respectfully,

Dr. Györgyi Surányi
President of the Supervisory Board

26 February 2004

Report from the President of the Management Board

Dear Shareholders,
On behalf of the Management Board of Privredna banka Zagreb d.d., it is my pleasure to present you with the year 2003 business results and market position of the PBZ Group as of 31 December 2003. The upward trend of our business has continued for the fifth consecutive year. At the end of 2003, the PBZ Group had a firm hold on almost 21 percent of the market share in the Republic of Croatia, measured in total assets, whilst relating to market share in loans or deposits, it controls between 19 and 25 percent of the market (25 percent of the market share in retail loans).
We are particularly proud of our leading role in the area of card products and electronic distribution channels, where our market share exceeds 30 percent. These results are the product of technological excellence and the innovativeness of our human resources, along with a strong client base.
As a part of the largest Italian banking group for the past five years - Banca Intesa, along with the supporting role of another important shareholder - the European Bank for Reconstruction and Development, we have implemented the key components and attained skills in the areas of corporate governance, risk management and information technology.
The result of focused and coordinated effort is seen in the quality of our portfolio of banking products and services, as well as quantitative business indicators. The growth of our balance in 2003 amounted to 22 percent, so that the consolidated assets of the Group amounted to 42.4 billion kunas (5.6 billion euros), whilst the net profit of the Group amounted to 695 million kunas (91 million euros). Here the return on average capital stood at almost 20 percent, whilst the EPS amounted to 41.8 kunas (8 percent more than in 2002). Economic value added (EVA) amounted to 437 million kunas (57 million euros) and the relation of costs and income (CIR) after extraordinary items stood at 54 percent, which is one of the best in the Central and Eastern European region.

Important projects and initiatives in 2003

The start of the Building Society was a success, which contributed to the range of retail banking products and services offered. Within the framework of this function we also initiated the private banking project, with the aim of offering a new option to our clients with greater financial potential. At the end of the year we successfully integrated Riadria banka, thereby consolidating our business network regionally. In 2004 we plan to integrate Laguna banka. PBZ American Express card company successfully launched a new chip revolving credit card, and celebrated its issue of the 400,000th card, and 7 billion kunas turnover.
Some projects, such as the project to integrate all distribution channels into a united platform and intensified orientation to clients are part of the continuing effort to improve services, security and speed of transactions.
We are very satisfied with the work of our investment funds, especially the PBZ Croatia osiguranje pension fund which is already, for the second consecutive year, creating the greatest yields on the assets it manages.
Last year we were honored by the with visit of the Chief Executive Officer of Banca Intesa, Mr. Corrado Passera, and the Chief Executive Officer of American Express, Mr. Ken Chenault.
Finally we would also like to point out that we were the recipients of the 2003 Croatian Chamber of Commerce's award for the Best Bank in the Republic of Croatia.
Our results oblige us to attain our strategic goals in the coming years. I would like to thank the President, members of the Supervisory Board, and all shareholders for their support, and especially all our employees and management at all levels.

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

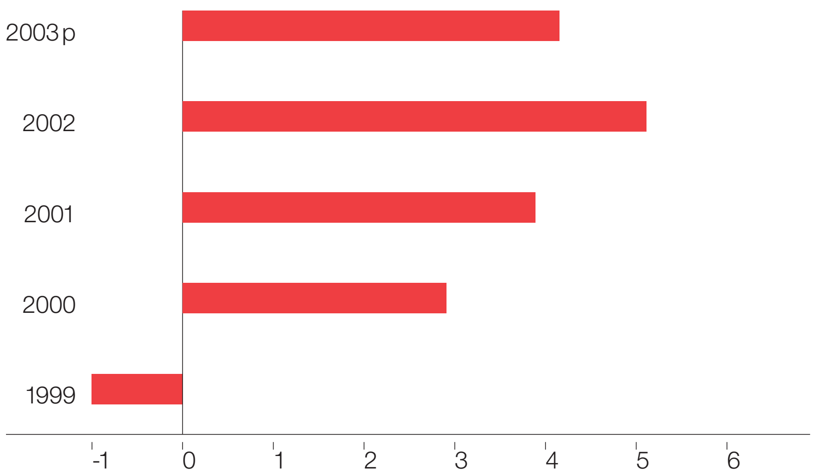
26 February 2004

KULEN, A HOMEMADE PRESERVED SAUSAGE, IS AN AUTHENTIC CROATIAN PRODUCT.
IT DEVELOPED FROM THE NEED TO PRESERVE FOOD, AND ITS CONSTANT FORMATION AND IMPROVEMENT OVER THE YEARS HAS LED TO THE FACT THAT TODAY KULEN IS A COMPLETELY UNIQUE PRODUCT, CHARACTERISTIC FOR THIS REGION. IT IS MADE FROM PORK MEAT, BY A SPECIAL PROCESS, STUFFED INTO NATURAL SKINS AND AFTER PROCESSING AND MATURATION, IT IS CURED IN COLD SMOKE FOR A SPECIFIC LENGTH OF TIME.

Review of the Croatian economy in 2003

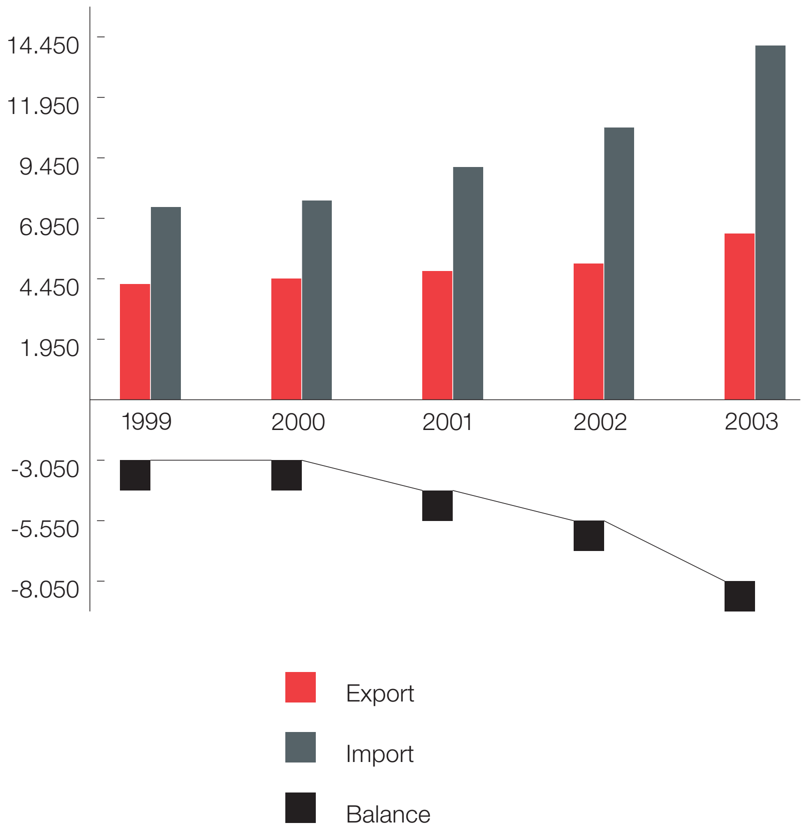
The year 2003 was the fourth year of consecutive growth in economic activity. The available data indicate a growth rate in 2003 of around 4.21 percent. However, although the economy experienced a GDP growth of 4.9 and 5 percent respectively in the first and the second quarter of 2003, certain changes of individual economic indicators provide signals that imply slowing trends in the growth of economic activity. In this context, there is additional evidence in the fact that annualised GDP growth in the third quarter of 2003 stood at 3.9 percent.
The most significant contribution to the growth was given by fixed capital investments that mark two-digit growth rate. In the last three quarters, personal consumption grew by 4.3 percent, however, compared to the previous year the trend recorded noticeable slowdown.

GDP growth rates 1999-2003
In %



Source: Croatian Bureau of Statistics, p-projection

Foreign trade
USD million

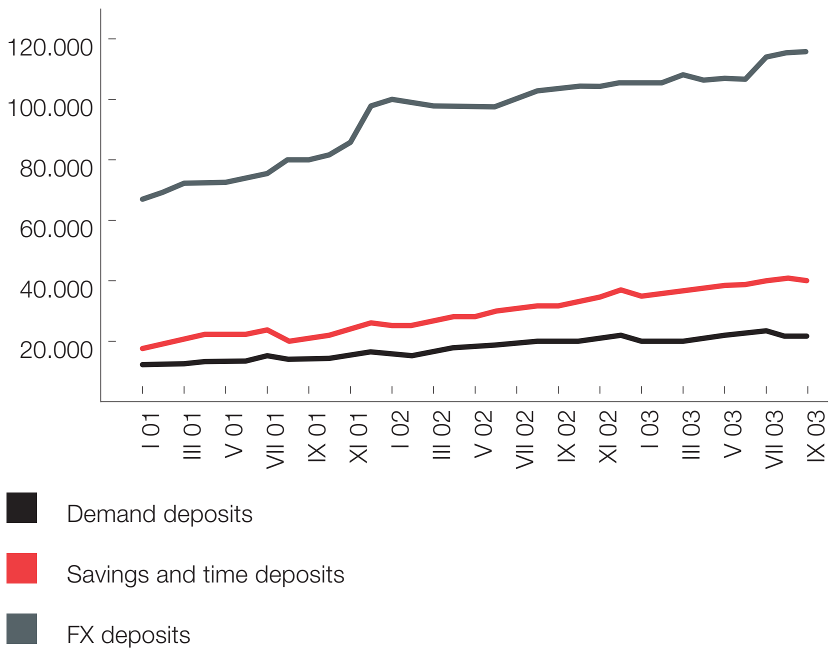


Following the decision to curtail credit lending in January 2003, with intention to reduce the foreign trade imbalance, growing BOP deficit and rapid external debt growth, Croatian National Bank continued in September 2003 with restrictive measures by increasing obligatory reserve rate on foreign exchange liabilities. Although the CNB has managed to somewhat slow down credit activity, which should lead to slower growth in domestic demand and the related growth in demand for imports, there are still no signs of slower import growth. Although on the rise, foreign debt sustainability appears to be unquestionable. Nonetheless, in the short-term period and assuming normal conditions on the international capital markets, there are presently no signs pointing towards difficulties in debt servicing. The ratio of the CNB net reserves at the end of 2003 and debt portions that are due in 2004 can additionally support this statement. Croatian foreign trade deficit in 2003 equalled USD 8.03 billion (HRK 53.6 billion) which represents 34 percent (or USD 2.2 billion) larger deficit than in 2002. Even though the deficit expressed in USD is under weakening impact of the US currency, it is evident that it largely reflects expansion of the overall economic activity followed by slower export growth.

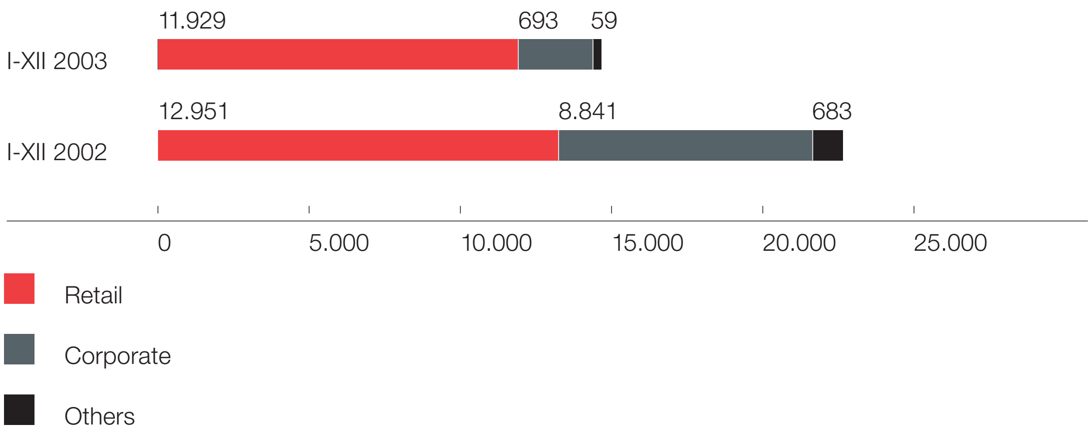
Along with the afore-stated measures from the CNB, which restrict the growth of credit lending up to 16 percent per annum, and with expectations that lending will truly grow at a slower pace compared to 2002, the overall banking industry indeed recorded subdued credit activity in 2003 in comparison with the year before.
According to official CNB data, total receivables from the private sector by commercial banks at the end of 2003 stood at HRK 110 billion which represents an increase of 14.7 percent in comparison with the same period in 2002. The year 2003 also showed higher lending to retail rather than corporate sector. It is worth mentioning that a small group of large companies financed their operating activities through short-term non-banking instruments such as corporate bond issues. It is evident from these indicators that small enterprises experience lower acceptability on the financial markets.
Total bank deposits at the end of October 2003 amounted to HRK 117.7 billion, of which foreign deposits equalled HRK 76 billion. In terms of kuna amounts, foreign exchange deposits increased by 5.5 percent or HRK 4 billion in comparison to the end of 2002, whilst in euros that increase stands at 3 percent or EUR 262 million. At the same time, kuna deposits, both term and on demand, rose by 41.3 percent, ie. HRK 5.4 billion.

Total deposits with comercial banks
HRK million

Source: Croatian Bureau of Statistics



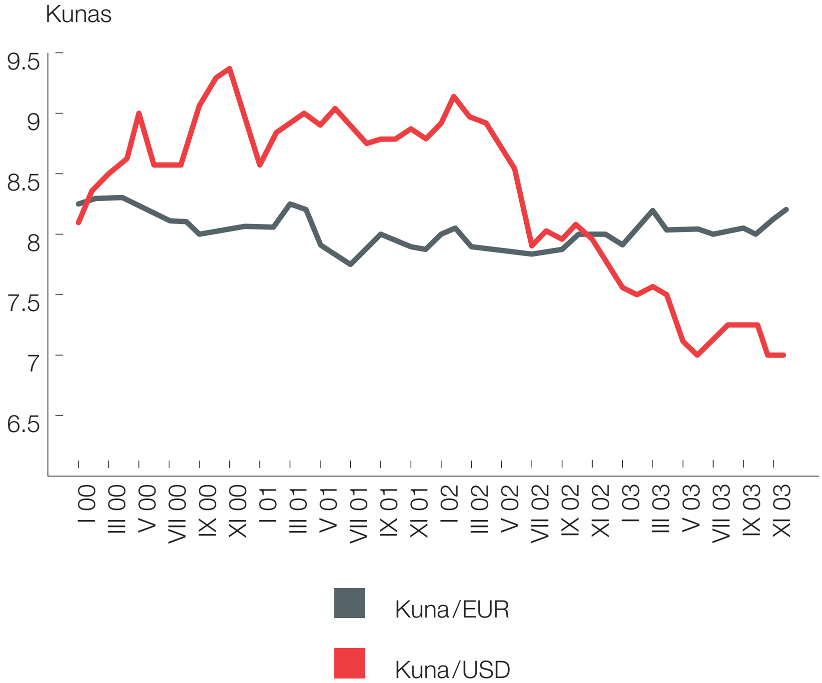
The structure of the growth in claims of commercial banks
In HRK million



Source: CNB

Appreciation pressures on the kuna were weaker than in the previous years. Foreign exchange developments were mostly determined by Croatian National Bank measures and by corporate demand generated by strong imports. Relatively stable exchange rate led to an overall price stability. Consumer prices grew on average 1.5 percent whilst producer prices were on average 1.9 percent higher in comparison to 2002.

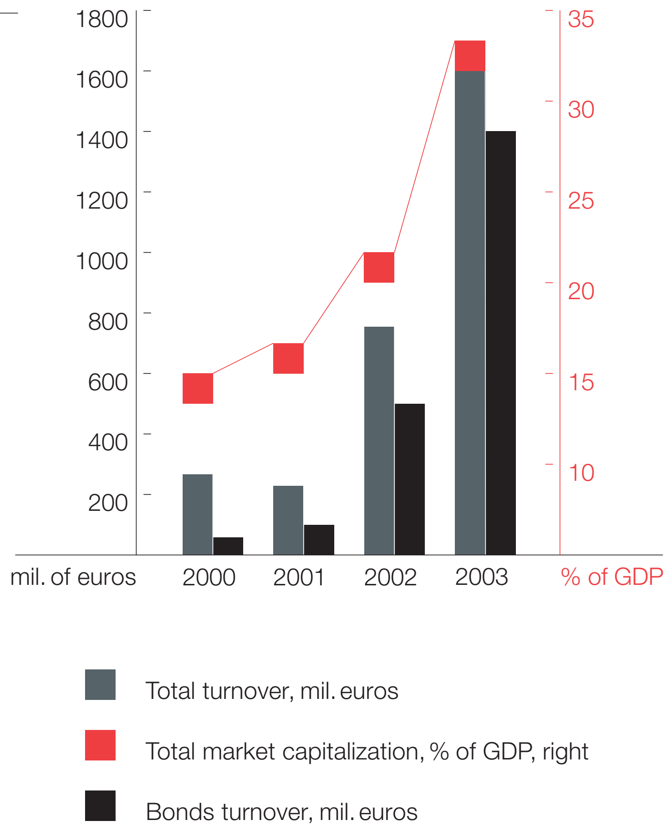
Exchange rate developments



Source: CNB

Further positive trends on the capital market were experienced in 2003. Total volume increase was twice as high as the one recorded in 2002, whilst the total market capitalisation on the Zagreb Stock Exchange surpassed 50 percent. This strong volume growth, related both to debt and equity securities, was induced by intensified activity of the pension and open-ended investment funds as well as insurance companies. There was a noticeable amount of listings on the stock exchange based on the legally prescribed quotation of public joint stock companies that also led to further strengthening of the domestic capital market.

Capital market developments



Macroeconomic indicators

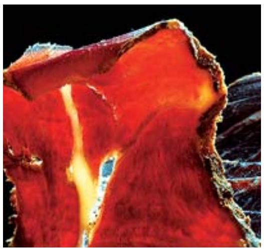
	Year-on-year, eop	Indicator value	Year-on-year	Indicator value
Retail prices, % ch.	XII / 2003	1.8	I-XII / 2003	1.5
Producer prices, % ch.	XII / 2003	1.0	I-XII / 2003	1.9
Industrial production, % ch.	XII / 2003	2.3	I-XI / 2003	4.1
Retail trade, real, % ch.	XI / 2003	-1.0	I-XI / 2003	3.8
Construction, % ch.	XI / 2003	17.5	I-XI / 2003	22.8
Tourist nights, % ch.	XI / 2003	6.0	I-XI / 2003	4.0
Export of goods, mil. USD	XI / 2003	512.1	I-XI / 2003	5,651.3
Imports of goods, mil. USD	XI / 2003	1,232.5	I-XI / 2003	12,775.6
Current account balance, mil. USD	H1 / 2003	-2,266.8	2002	-1,586.9
Average net salary, in kunas	XI / 2003	4,054	I-XI / 2003	3,931
Real net salaries, % ch.	XI / 2003	0.7	I-XI / 2003	3.9
Number of unemployed, CES	XII / 2003	318,684		
Unemployment rate, CES, %	XI / 2003	19.1		
Unemployment rate, ILO, %	H1 / 2003	14.1		
Public sector debt, mil. kunas	XI / 2003	84.3		
External debt, bil. USD	XII / 2003	23.6		
BDP, growth rate, %	Q3 / 2003	3.9		

eop - end of period; avg - average
Source: CBS, CES, Mof, CNB

Their colour varies from yellowy-brown, green to a greyish green colour. They are the most highly prized form of truffles. They have a very strong fragrance, which depends on the plant with which they were in symbiosis. Their season runs from October to the end of December, and they are sought, as the other forms of truffles, with the help of trained dogs. Truffles demand a particular climate and good quality soil, and are to be found at a depth of about 10-15 cm. Motovun forest is rich in truffles and the largest ever found (recorded in the Guinness Book of Records) weighed 1.31 kg and was found in 1999 not far from Buje.

Organisational Chart

- Office of the Supervisory Board
- **Supervisory Board**
  - Internal Audit Division
    Giancarlo Miranda
  - Audit Committee
- Office of the Management Board
- **Management Board**
  mr. Božo Prka, President of the Management Board
  - Subsidiaries Management
    Ivan Krolo
  - HR, Legal Affairs & Taxation Mngmt
    Nediljko Matić
  - Office for Corporate Communications
  - Office for Econ. Research & Strat.Planning
  - Project Management Office
  - Credit Committee
  - Asset Quality Monitoring Committee
  - ALCO
  - IT Steering Committee
  - Real Estate Committee
  - **Retail Banking Group**
    Tomislav Lazarić
    - Distribution Channel Development Division
    - Product Development Division
    - Client Relationship Development and Marketing Division
    - Regional Branches (Retail Banking)
  - **Corporate Banking Group**
    Ivan Gerovac
    - Office of Corporate Banking Group
    - Large & Multinational Corporations Division
    - SME and Subsidaries & Branch Coordination Division
    - Financial Inst. & Spec. Financing Division
    - Support Division
    - Regional Branches (Corporate Banking)
  - **Finance Group**
    Draženko Pavlinić
    - Middle Office of the Finance Group
    - Treasury Division
    - Corporate Financing Division
    - Investment Management Division
  - **Risk Management & Risk Control Group**
    Giancarlo Miranda
    - Risk Management Division
    - Credit Analysis Division
    - Credit Risk Monitoring and Reporting Division
    - Loan Recovery and Reconstructing Division
      Ivan Krolo
  - **IT and Operations**
    Davor Holjevac
    - Organisation and Work Technology Division
    - Operations Division
    - Payment Transactions Division
    - Information and Communication Technology Subgroup ICT
      - ICT Governance Office
        Dr. Zoran Šimunić
      - Application SW Division
      - Electronic Channels Division
      - Central Data Processing Division
      - Telecommunication and Customer Support Division
  - **Acc., Fin. Contr. and Gen. Admin.**
    Antonello Dessanti
    - Office of the CFO
    - Accounting Division
    - Financial Control Division
    - General Administration Division



WITH ITS UNIQUE AUTHENTIC FLAVOUR, ORIGINAL POSEDARSKI PRŠUT HAM IS A SUPREME PLEASURE FOR FOOD LOVERS BOTH IN THIS COUNTRY AND ABROAD. IT IS MADE IN THE TRADITIONAL MANNER USING ONLY FOUR COMPONENTS: SEA SALT, THE BORA WIND ON VELEBIT, COLD SMOKE AND MANUAL LABOUR. THE RESULT IS A PRODUCE WITH A SPECIFIC FRAGRANCE AND FLAVOUR, ONE OF ITS KIND IN THE WORLD.

Business description of the Bank

Privredna banka Zagreb d.d. is one of the largest and among the oldest financial institutions in the Republic of Croatia, with a long continuity of banking operations. It was founded in 1962 as a universal bank on the basis and the banking tradition of The First Croatian Savings Bank which was initially established in 1846 in Zagreb by the members of the Farming Association of Croatia and Slavonia.

During all periods of its history, PBZ has been supporting the largest investment programs in tourism, agriculture, industrialization, shipbuilding, electrification and road construction. PBZ has become a synonym for the economic vitality, continuity and Croatian identity.

Privredna banka Zagreb today is a modern and dynamic financial institution, which has actively sought and won the role of the market leader on financial markets in Croatia. It is a fully licensed bank with the nationwide branch network.

With its 16 branches and more than 148 outlets, as well as with a broad group of banking and non-banking subsidiaries, PBZ is one of the unique banks that cover the whole territory of the Republic of Croatia.

Organisational Structure and Business Activities

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

Upon successful privatisation in December 1999, PBZ became a member of Gruppo Intesa - the leading Italian banking group and one of the ten greatest European banking groups. With this partnership, supported by the EBRD through its minority shareholding stake, PBZ has retained its business strategy aimed to modern forms of banking and new products, confirming its image of a dynamic and modern European bank, which meets the demands of the market and its clients.

Along with the adoption of business and corporate governance standards set by its parent bank, Privredna banka Zagreb has maintained the strategic developments orientation of a modern, client oriented, technically innovative universal financial institution. PBZ is focused on the continued advancement of its economic performance well into the future, as well as solidifying its position as a product leader in offering the most progressive banking products, through the optimal mix of traditional and modern distribution channels. This ensures that PBZ will continue to be able to set standards of the highest quality for product innovations and services offered both to its domestic and international clients.

This commitment to quality and advanced banking practices was clearly witnessed through number of awards achieved by Privredna banka Zagreb in the last few years. These awards included Best Bank in Croatia from Euromoney in 2001 and 2002 as well as The Bankers' Award for the Croatian Bank of the year in 2002. In 2003, PBZ's quality was confirmed once more by receiving Global Finance's Award for the Best Bank in Croatia and by the domestic prestige award Golden Share of the Year for the best banking share in the country.

Privredna banka Zagreb employs some 2,940 employees and provides a full range of specialized services in the area of retail, corporate and investment banking services. The business activities of the Bank are organized into 3 principal client-oriented business groups.

Retail Banking Group

With respect to the retail banking segment, PBZ holds a comparative advantage over its competitors given the wide spread branch network in Croatia consisting of 148 organisational units in 16 regions which cover the entire territory of the country. Moreover, three banking subsidiaries in the Group, Privredna banka Laguna banka, Riadria banka and Međimurska banka provide an effective presence in these regions.

In accordance with its business philosophy of focusing on client needs and demands, the Bank introduced personal bankers 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 are constantly in development 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 direct banking. It has extended the network of ATMs which accept Maestro, MasterCard, Visa and American Express cards (a total of 340 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 9,000. 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, PBZ Optima and PBZ Lite 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. At present, approximately half of all transactions with retail customers are executed through electronic channels.

The Bank has also modified and supplemented its wide range of retail products and services. Regardless of the fact that they were introduced few years ago, consumer and cash loans for PBZ American Express card holders on the basis of credit scoring still produce successful results on the market. The similar effects have been experienced with very popular "quick loans" (cash loans) that are placed to the clients of the Bank based on their credit scoring.

Consumer car loans (through PBZ Leasing) were redesigned and, as a result, the Bank achieved the leading position in the market. In the card products segment, PBZ as a card issuer and acceptor, replaced all cheque cards of retail current accounts with the internationally accepted Cirrus Maestro debit card. This was a successful move, 790,000 Maestro cards were issued, which led to the increase in number of the Bank's current accounts to 490,000. PBZ has issued over 180,000 Visa Electron debit cards linked to the users' 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, Visa and American Express payment systems as well as co-branded revolving card (Konzum American Express) with Konzum, the biggest domestic retail chain. PBZ also sold more than 11,500 pre-paid Maestro cards being the first and still the only bank in the country offering that product.

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, personal bankers, retail network education). 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).

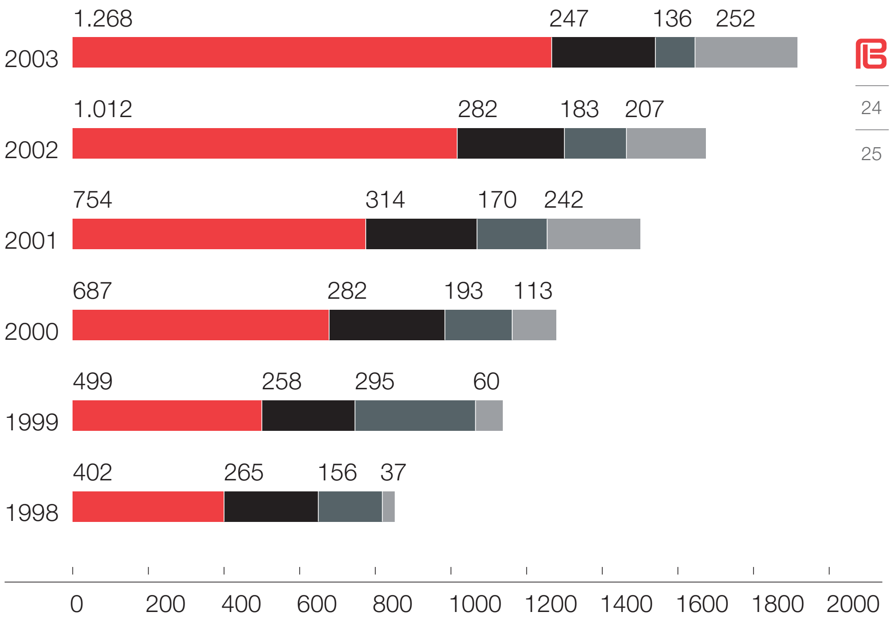
Division for the development of client relationships and marketing

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.

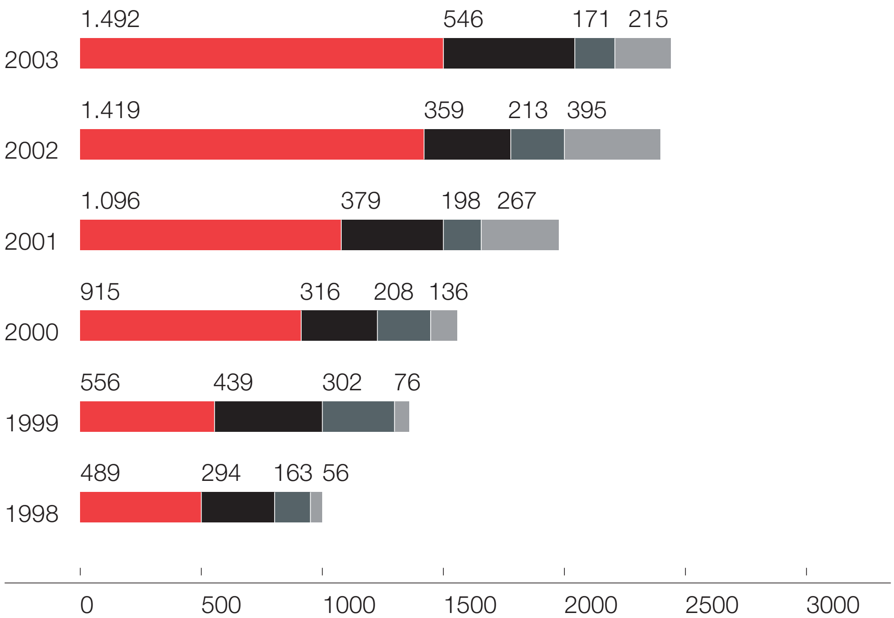
Net operating income

In HRK million

Bank



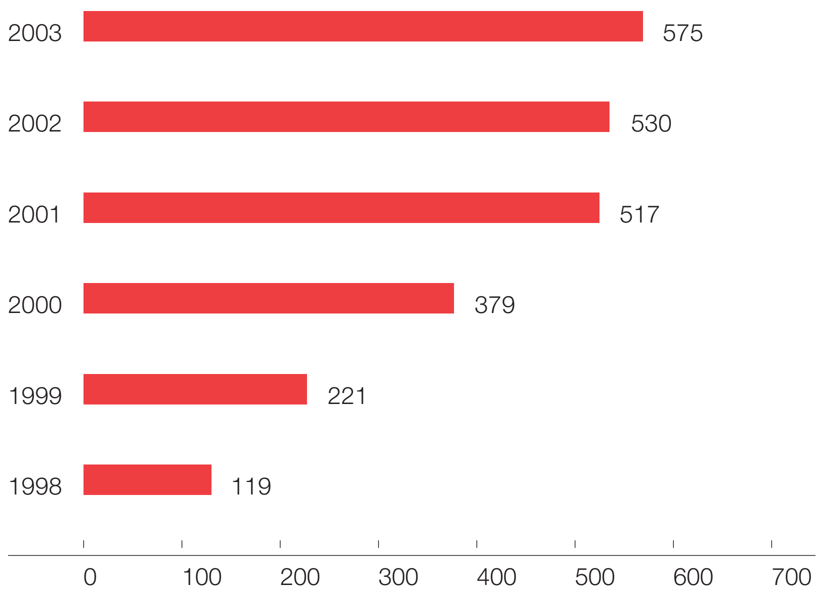
Group



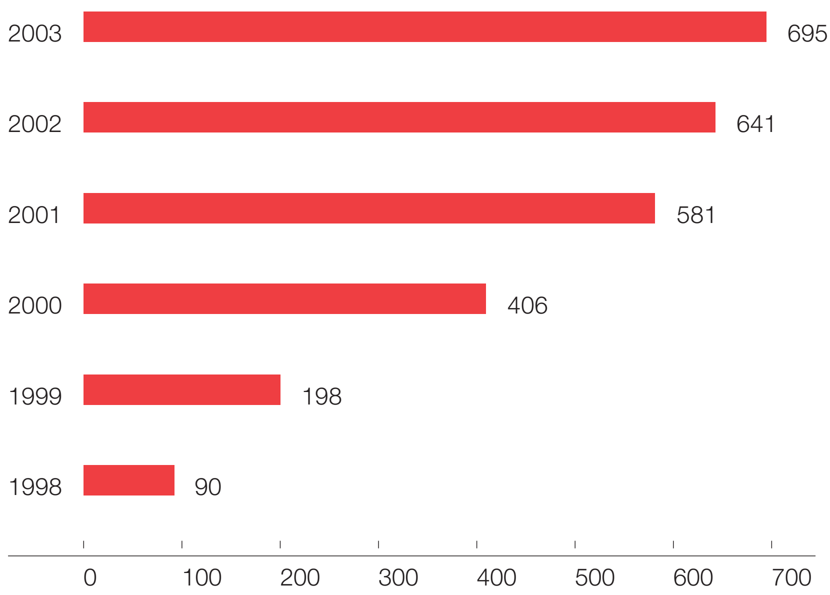
- Net interest income
- Net fee and commission income
- Net foreign exchange gains
- Other operating income

Net profit for the year
In HRK million

Bank



Group



Corporate Banking Group

Privredna banka Zagreb is one of the leading Croatian banks when it comes to corporate banking. With a wide range of products and services offered to its corporate clients both locally and internationally it is hard to find a major company in Croatia today that does not do business with Privredna banka Zagreb. Supported by powerful electronic distribution channels, our network of well-organised branches is the key driving force in serving our clients effectively. We strive to create additional value by providing integrated financial solutions to meet individual requirements of our clients.

At the end of 2003, we actively served close to 6 thousand clients with respect to credit financing, which represents an increase of 31 percent in comparison to 2002. This number mainly comprises small and medium companies which utilise variety of our well-suited products. Total number of clients with established current accounts in domestic currency exceeds 37 thousand which surpasses the same number recorded in 2002 by 10.5 percent.

During 2003, there were significant advances in the execution of domestic payment system. Modifications in the range of the services offered to our clients were extraordinary (conversion to Model 3 - which represents a new phase of domestic payment system that allows origination of payments orders in the Bank, introduction of foreign payment system on internet banking application as well as PBZ info service). Internet banking service is expanding every day in PBZ. Total number of transactions carried out through Com@Net topped 275 thousand whilst overall number of users rose almost 50 percent as opposed to previous year, which accounts for over 6 thousand corporate users.

The year 2003 also outlines great improvements in the development of IT system. In that view, we can state that majority of our products have been integrated in new information system. Significant progress was made in the relationship between the Bank and clients, primarily through creation of the Customer Call Centre with the aim to accept and resolve all queries from corporate clients. We 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.
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.

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
Privredna banka Zagreb, with highly developed network of corresponding banks, is one of the leading Croatian financial institutions in international banking. Financial institutions and special financing division are 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. We are determined to be recognized as the best financial services company in the region. We achieved this recognition from our clients through our ability to deliver the best quality in everything we do.

Treasury division

The Treasury division has continued to be an important and active player on the Croatian market as it is clearly reflected by its superior performance. 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 CNB bills and Treasury bills of the Ministry of Finance) and in capital markets (trading government bonds and transactions with long term securities).
An important part of the activities is covered by the Corporate Desk, which focuses on operations with clients and helps them in meeting their daily requirements.
Due to the changes in foreign currency regulations, the Bank has recorded an increase in operations with corporate customers in the area of forward foreign currency transactions.

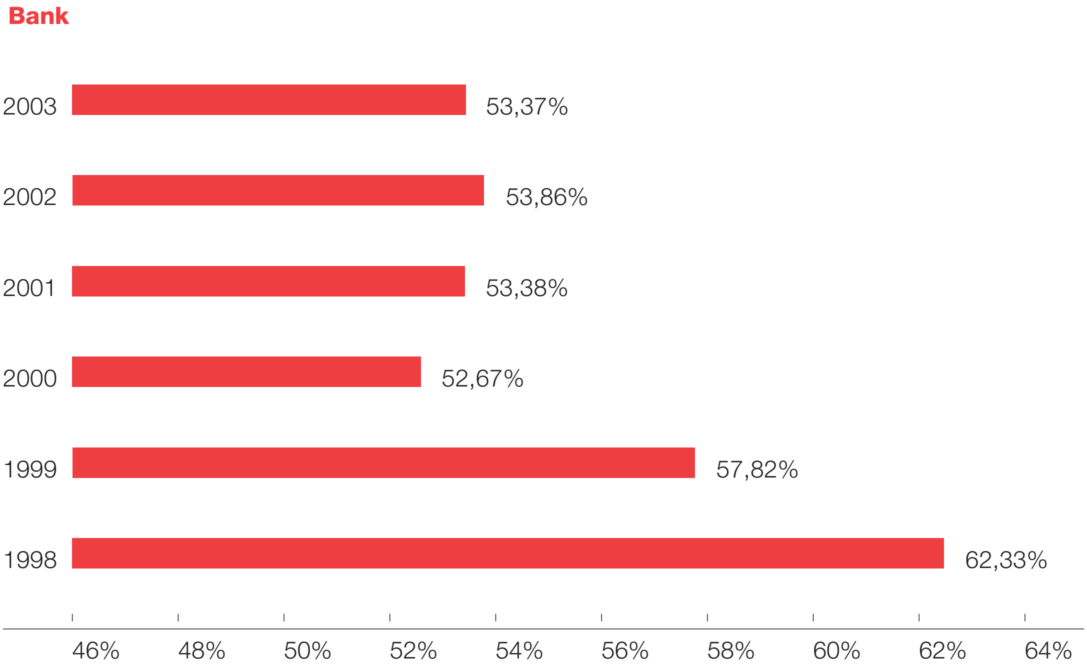
Corporate finance division

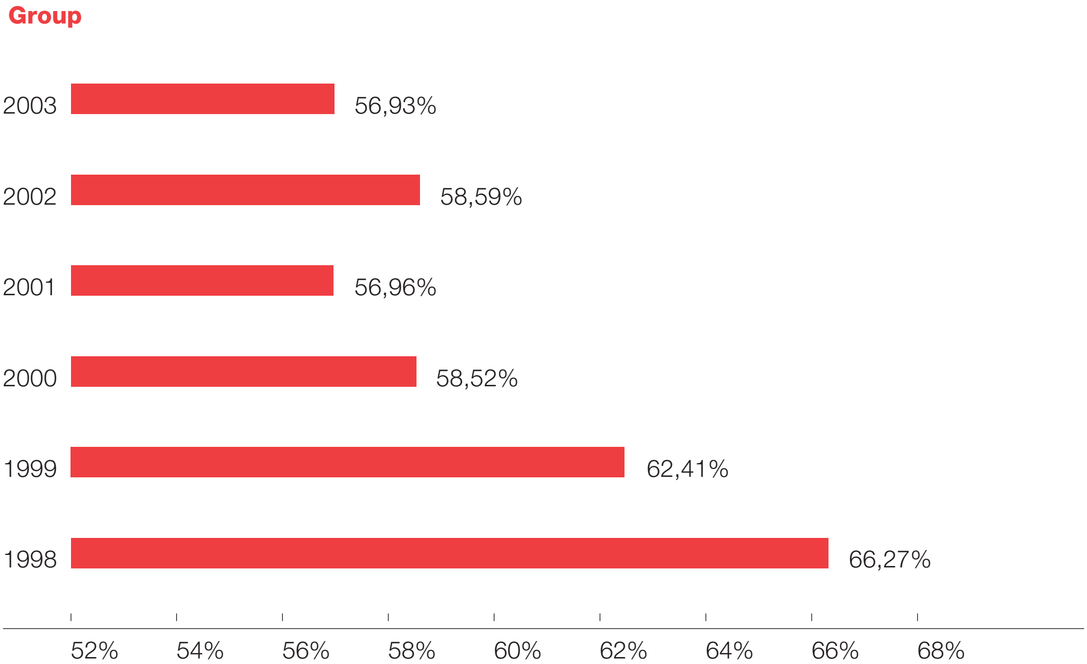
The Corporate finance division provides a wide spectrum of investment banking products and services geared towards companies, government entities, municipalities and financial institutions.
We act for equity and debt issues on the domestic capital markets in the fundamental roles of issue agent, manager, arranger, dealer and underwriter in a comprehensive range of associated activities that include corporate commercial papers, medium-term note programmes, eurobonds, corporate bonds, government bonds, etc. PBZ is the leading underwriter and arranger of sovereign debt issues in Croatia. We managed sovereign debt issues and were involved in the government eurobond issues together totalling over EUR 2.7 billion. Furthermore, PBZ pioneered the development of the domestic corporate debt markets and has been an active player on the corporate short-term paper and bond markets since their inception. Over the past two years, we successfully arranged over EUR 133 million of corporate debt securities for a number of leading companies in the country.
With the process of Croatia's transition to a market economy, encompassing numerous privatisations and company restructurings, PBZ has introduced a series of financial advisory services in order to facilitate the requirements of the investment market. Our financial advisory services, provided to domestic and foreign clients, are focused on the areas such as mergers and acquisitions, divestments, employee stock ownership programs, project management and other transaction-based projects.
We have represented clients in several industries, including pharmaceutical, food processing, confectionery, tourism, banking, retail, paper and paper products, sporting goods and others.
Our dedicated staff, focused know-how and in-depth knowledge of local and regional developments all contribute to unparalleled client service. With proven expertise as the leader in the Croatian investment banking industry and an outstanding reputation for innovative solutions, we are well prepared to lead our clients through the complexities of corporate finance business deals.

Investment Banking Division

The Investment management division of Privredna Banka Zagreb delivers solutions for demanding institutional and private clients through brokerage, margin trading, 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.
Fund management company PBZ Invest, pension fund management company and PBZ Croatia osiguranje set up as separate corporate entities according to the Securities and Investment fund Law, are constitutive parts of the Investment Banking Division which is responsible for their supervision.
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 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. Through effective utilization of all of our resources, we develop smart solutions for our clients and we enable them to make the best financial decisions.

Cost income ratio
In HRK million





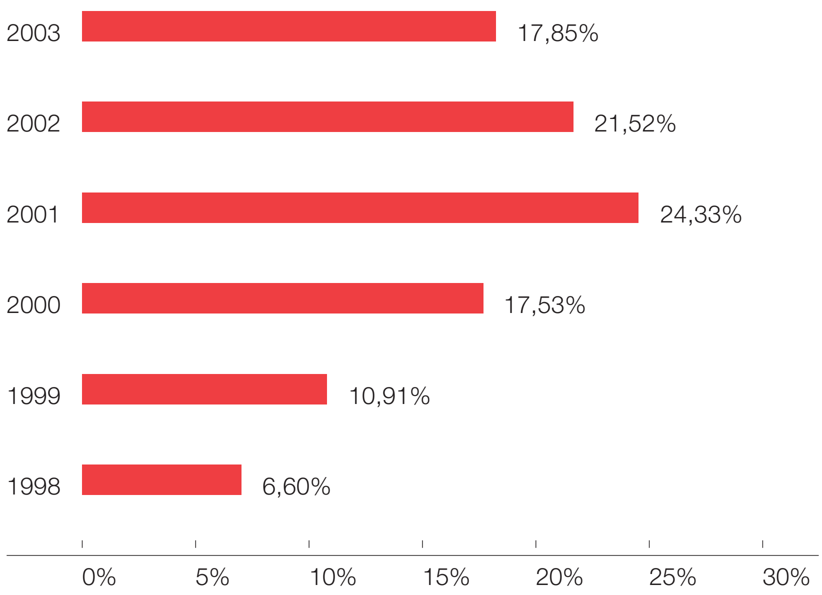
Logistics areas

Business areas focusing on client requirements can only fully exploit their potential if they are provided with a reliable and efficient infrastructure.
Accounting, Financial control and General administration Group, led by Chief financial officer, provide skilful and in-debt support with regard to all financial monitoring and reporting matters, financial planning and budgeting as well as administrative assistance to the business groups.
IT and Operations Group represents a key part of organisation that serves entire Bank by providing IT and communications assistance, supporting distribution channels and feeding the system with financial information.
Risk management and control is the crucial part of our commitment to providing consistent, high-quality returns for our shareholders. It is our belief that delivery of superior shareholder returns greatly depends on achieving the appropriate balance between risk and return. In that view, we established Risk Management and Risk Control Group with the approach to protect the Bank from the risk of severe loss as a result of unlikely events arising from any of the material risks we face and to limit the scope of materially adverse implications to shareholder returns. Within the same Group there is a Loan recovery and restructuring division established with the goal of helping clients, which are unable to meet their financial obligations, to accomplish economic recovery through restructuring.
Subsidiaries management division, Human resource division, Legal affairs and taxation management division, Corporate communications office, Economic research and strategic planning office, Project management office, Management Board office as well as Supervisory Board office are integral elements of the overall logistics and support of the business groups and the management.

Return on average equity

In HRK million

Bank



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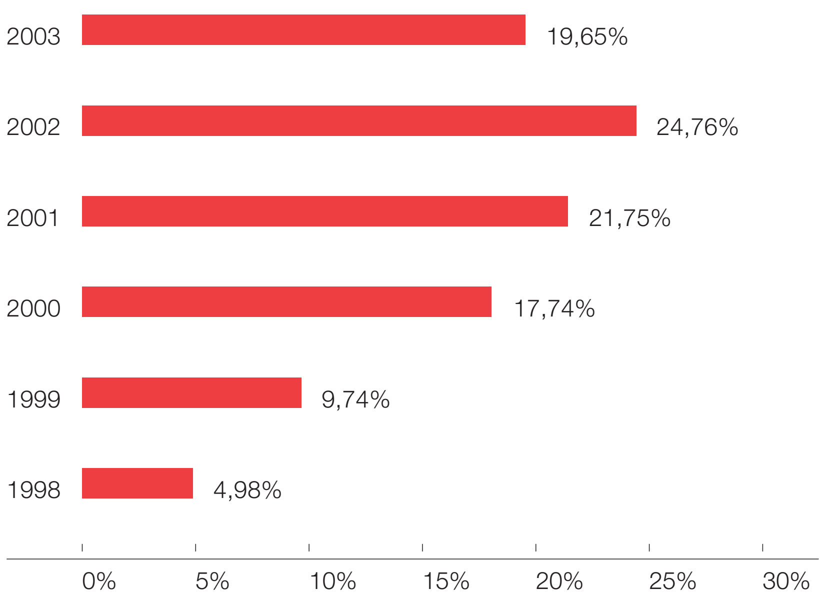
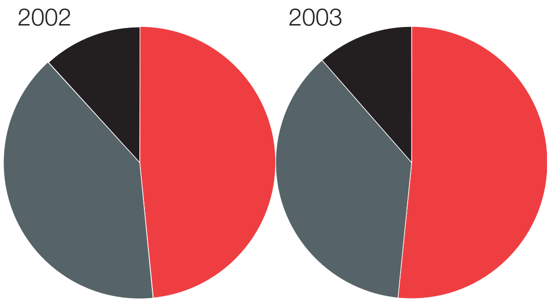
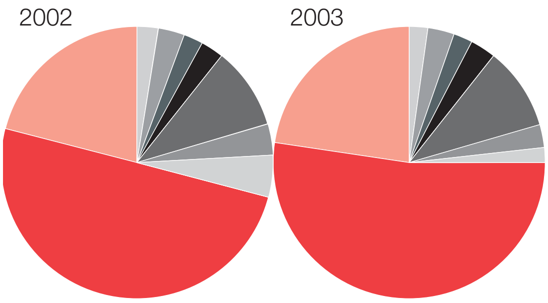


Loans and advances to customers | Group

In HRK million





Analysis by type of customer

In HRK million

	2002	%	2003	%
Citizens	10,503	49	13,423	52
Companies	8,652	41	9,317	37
Public sector and other	2,157	10	2,678	11

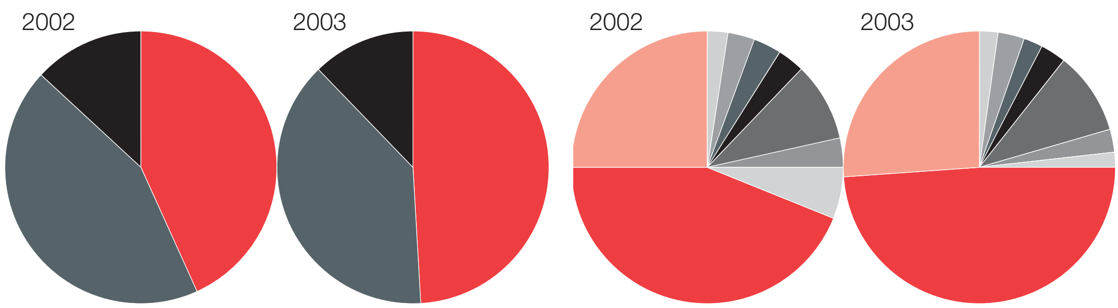
Analysis by sector

In HRK million

	2002	%	2003	%
Agriculture, forestry and fishing	428	2	560	2
Food and drinks productions	595	3	671	3
Oil refining	44	0	78	0
Energy products - trade	490	2	394	2
Construction	653	3	699	3
Wholesale and retail trade	2,378	11	2,589	10
Hotels, restaurants	651	3	756	3
Transport and communication	938	4	576	2
Citizens	10,503	50	13,423	53
Other	4,632	22	5,672	22

Loans and advances to customers | Bank

In HRK million



Analysis by type of customer

In HRK million

	2002	%	2003	%
Citizens	8,312	44	10,694	49
Companies	8,166	44	8,712	39
Public sector and other	2,142	12	2,667	12

Analysis by sector

In HRK million

	2002	%	2003	%
Agriculture, forestry and fishing	391	2	519	2
Food and drinks productions	569	3	647	3
Oil refining	44	0	78	0
Energy products - trade	467	3	364	2
Construction	594	3	629	3
Wholesale and retail trade	2,116	11	2,255	10
Hotels, restaurants	560	3	667	3
Transport and communication	885	5	516	2
Citizens	8,312	45	10,694	45
Other	4,682	25	5,704	26

In the 16th century Dominican monks in Zadar were already making an excellent liqueur from the small, bitter Dalmatian maraska cherries. In the 18th and 19th centuries this liqueur was a frequent guest on the tables of the castles of the great world leaders, and even today it is well-known and loved throughout the world. The tradition of producing the liqueur has continued in Zadar's liqueur factory, whilst keeping the secret of the recipe for the liqueur, whose flavour is undoubtedly encapsulated in the healing qualities of the maraska sour cherry.

The Group

The Privredna banka Zagreb Group is a Croatian based financial services group which provides a full range of retail and corporate banking services to customers in Croatia. The Group currently employs some 3,860 employees and serves over 1.3 million both private and corporate clients in the country. PBZ Group today is a well-organized institution whose market share in the overall banking system stands at 21 percent.

On 31 December 2003 the Group consisted of Privredna banka Zagreb and 13 subsidiaries. In line with its current strategic plan, Privredna banka Zagreb effectively integrated Riadria banka d.d. from 1 January 2004 (refer to Riadria banka and note 39).
The composition of the Group and a brief description of each subsidiary is set out below.

Privredna banka Zagreb d.d.

- Riadria banka 85% (integrated in PBZ in 2004)
- PBZ American Express d.o.o. 100%
  - PBZ American Express Skopje Macedonia 95%
  - PBZ American Express Ljubljana Slovenia 100%
- PBZ Leasing d.o.o. 100%
- PBZ Kapital d.o.o. 100%
- PBZ Invest d.o.o. 100%
- PBZ Croatia osiguranje d.d. 50%
- Međimurska banka d.d. 98%
- Privredna banka Laguna banka d.d. 100%
- Invest Holding Karlovac d.o.o. 56%
- PBZ Nekretnine d.o.o. 100%
- PBZ Stambena štedionica d.d. 100%

Riadria banka d.d.

Effectively as of 1 January 2004 Privredna banka Zagreb fully integrated Riadria banka d.d. upon obtaining legally valid resolution from the Commercial Court in Rijeka, Croatia. Riadria banka was integrated with PBZ Rijeka branch. This process created new Riadria branch Rijeka within PBZ operating network and with the new logo. The new branch, with 24 outlets, 35 ATMs, 1,135 EFT POS units and with the balance sheet exceeding HRK 3.3 billion, is the second largest in the Bank. Riadria banka was a multi-regional bank with the strong emphasis on retail banking. Its total assets amounted to over HRK 1.9 billion as at 31 December 2003 making it one of the largest regional banks in Croatia. With well-developed distribution network it covers three north-western Croatian counties; Primorsko-goranska, Istarska and Ličko-Senjska. Owing to its well positioned distribution chain, product range, expert staff and tradition, Riadria is one of the leaders in terms of market share in this region with over 600 thousand inhabitants.

Međimurska banka

Međimurska banka was established in 1954 under the name of Zadružna banka i Štedionica Čakovec. Since that time, 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 Međimurska banka was among the first banks in Croatia to obtain the certificate for quality management standards in line with the ISO 9002 quality system. Privredna banka Zagreb acquired a majority stake in Međimurska banka at the end of 2000 making it a member of the PBZ Group and Gruppo Intesa.
Currently the bank has 17 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. Its main activities are concentrated on lending where several new products were launched which include customer deposits, direct banking, card operations, kuna and foreign currency processing. The bank also significantly increased the number of ATMs and EFT POS units.
Međimurska banka successfully completed implementation and launching of the payment system during the payment system reform in 2002. The bank operates the system independently. It opens and runs business accounts and payment transactions for corporate clients while offering to them a one-stop shopping for banking services in less time and with lower cost. This is a new and dynamic product which has significantly boosted non-interest income of the bank.

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 11 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 from 1998.
The company is the leading card operating organization in Croatia. It is accepted at approximately 30 thousand locations countrywide. In the last five years, the company grew from 180 thousand members to more than 400 thousand members. In 2003, it made a record turnover in excess of HRK 7 billion which is almost a 4 times larger revenue than the one recorded in 1998.
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. In 2003, the company introduced a new Blue American Express card which is adapted to a new, technologically advanced era. It is well suited for the customers that require flexibility and safety in on-line shopping as well as at every point of sale location. PBZ American Express is the first company that introduced a chip card on domestic market.
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.
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 - PBZ Novčani fond, an open-ended investment fund. In the following years, four new funds were established, PBZ Euro novčani fond, PBZ Kunski novčani fond, PBZ Global fond and PBZ International bond fond. Up-to-now, assets under management in the funds run by the company have exceeded HRK 800 million which represents an increase of approximately 45 percent as compared to previous year.

PBZ Novčani fond, open-ended investment fund

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

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 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, 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 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. With highly skilful employees, including five court experts on the field of construction, and with very well developed network of associates, PBZ Nekretnine is capable to meet all the requests of the customers no matter how complex they may be. The company has been operating successfully within the Group 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. The company is a true market leader in car financing in the country.
In 2003, PBZ Leasing granted around 16 thousand loans, which totalled over HRK 1 billion placed in car purchase loans.
In the past several years, leasing has become an increasingly important activity for the company.
It has made a significant expansion of its operations in leasing of real estates, company cars, sailboats and heavy equipment. During 2003, PBZ Leasing made over 1 thousand lease arrangements with customers which in financial terms was close to HRK 30 million.
Presently, PBZ Leasing holds 33 percent of the market share in car loans as well as 8 percent in car leases.

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 2002 with initial share capital of HRK 40 million.

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. In 2002, the company gained the largest return on investment of all the compulsory pension funds in Croatia. Despite fierce competition and exceptional volatility on the market, the company's pension fund continued to operate successfully during 2003. As a result, the net asset value per unit rose significantly in the past year.

At this point, the fund has over 170 thousand members and net assets in personal accounts exceeding HRK 800 million which represents a sound base for the long-term stable and profitable operation of the company.

PBZ Stambena štedionica

PBZ Stambena štedionica is the newest building society on the Croatian financial market. It was founded by Privredna banka Zagreb with a share capital of HRK 30 million. Given the large number of our clients interested in housing savings, the company offers to them three types of savings: Prima, Basic and Golden savings.

Prima and Basic types are aimed to clients whose goal is to make use of a housing loan with the exceptionally favourable interest rates. Golden savings are designed for clients whose first intention is in long-term saving. The afore-mentioned types of savings are run with a foreign currency clause in euros whilst deposits are insured in accordance with the Banking Act. The initial activity of the company showed that there is a strong interest of our clients in these types of producsts.

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.

THE TURKEY CAME FROM NORTH AMERICA TO CROATIA WAY BACK IN 1561, ACTUALLY TO HRVATSKO ZAGORJE.
IN THOSE FAR OFF DAYS, TURKEYS COULD BE FOUND ON THE TABLES OF THE RICH NOBILITY, AND TODAY THERE IS A MOVE AFOOT TO REVIVE THE PRODUCTION OF TURKEYS AND EXPORT THEM TO FOREIGN MARKETS. THIS SLIGHTLY FORGOTTEN AUTHENTIC CROATIAN PRODUCT IS NOW ENJOYING A RENAISSANCE.

Corporate governance

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. The duties and responsibilities of members of both boards are regulated by the Companies Act.

Supervisory Board

The Supervisory Board consists of seven members. The Board meets quarterly and oversees the Management Board. The current members of the Bank's Supervisory Board, appointed on the three year term by the Extraordinary General Assembly held at 23 January 2004, are as follows:
György Surányi (President of the Supervisory Board, Banca Intesa)
Giovanni Boccolini (Vicepresident of the Supervisory Board, Banca Intesa)
Adriano Arietti (Banca Intesa)
Massimo Pierdicchi (Banca Intesa)
Luigi de Puppi de Puppi (Banca Intesa)
Massimo Malagoli (Banca Intesa)
Claudio Viezzoli (EBRD)

Previous members in 2003 were also:
Adriano Bisogni (Vicepresident of the Supervisory Board, Banca Intesa - resigned 1 July 2003)
Gianfranco Mandelli (Banca Intesa - resigned 23 January 2004)
Illaria Benucci (EBRD - resigned 3 October 2003).

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.

Management Board members

Božo Prka, President of the Management Board
Giancarlo Miranda, Vicepresident of the Management Board, responsible for Risk Management and Control Group
Ivan Gerovac, responsible for the Corporate Banking Group
Draženko Pavlinić, responsible for the Finance Banking Group
Tomislav Lazarić, responsible for the Retail Banking Group
Davor Holjevac, responsible for the Information Technology and Operations Group

Antonello Dessanti, Chief financial officer

APART FROM ITS RICH HISTORY, OLD WALLS (THE LONGEST IN EUROPE) AND HOUSES, STON OFFERS ANOTHER EXCEPTIONAL SPECIALITY - OYSTERS. FOR CENTURIES NOW OYSTERS HAVE BEEN FARMED IN THE BAY OF STON, AND AS A RESULT THE NAME STON HAS LONG BEEN KNOWN THROUGHOUT THE WORLD. THE BAY WHERE STON IS LOCATED HAS ALL THE RIGHT CHARACTERISTICS FOR FARMING THESE SHELLFISH, AND SO IS USED FOR PRECISELY THIS PURPOSE.
MANY RESTAURANTS PROUDLY OFFER YOU THEIR SEAFOOD SPECIALITIES AND DEMONSTRATE TO EVERYONE WHAT A JOY IT IS TO EAT OYSTERS FRESH FROM THE SEA.

Statement of responsibilities of the Management Board

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
10000Zagreb
Republic of Croatia

17 February 2004

ERNST & YOUNG

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 2003, as set out on pages 46 to 89. 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.

Respective responsibilities of the Board and auditors
As described on page 43, 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 2003 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.

Ernst & Young d.o.o.

Ernst & Young d.o.o., Zagreb
Republic of Croatia
Zagreb, 2 July 2003
Zagreb, 17 February 2004

Income statement

In HRK million

	Note	Group		Bank	
		2003	2002	2003	2002
Interest income	2	2,401	2,284	2,073	1,771
Interest expense	2	(909)	(865)	(805)	(759)
Net interest income		**1,492**	**1,419**	**1,268**	**1,012**
Fee and commission income	3	777	551	452	445
Fee and commission expense	3	(231)	(192)	(205)	(163)
Net fee and commission income		**546**	**359**	**247**	**282**
Other operating income	4	386	486	252	390
Operating income		**2,424**	**2,264**	**1,767**	**1,684**
Provisions	5	(168)	(174)	(112)	(108)
Other operating expenses	6, 7	(1,156)	(1,059)	(797)	(758)
Depreciation and amortization of property and equipment and intangible assets	8	(224)	(217)	(146)	(149)
Profit before income taxes		**876**	**814**	**712**	**669**
Income arising from investments accounted by net equity method		4	-	-	-
Income taxes	9	(178)	(167)	(137)	(139)
Minority interests	31	(7)	(6)	-	-
Net profit for the year		**695**	**641**	**575**	**530**
			in HRK		**in HRK**
Basic earnings per share	40	41.8	38.7	34.7	32.0

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

Balance sheet

In HRK million

	Note	Group		Bank	
		2003	2002	2003	2002
Assets					
Cash	10	638	502	547	412
Balances with Croatian National Bank	11	8,264	4,270	7,427	3,526
Assets held for trading	12	1,778	3,286	1,441	2,849
Due from banks	13	4,503	3,664	4,247	3,304
Loans and advances to customers	14	23,409	19,147	20,399	16,742
Assets available for sale	15	162	27	-	-
Held to maturity investments	16	2,033	2,357	1,976	2,231
Equity investments in subsidiaries	17	29	127	396	406
Intangible assets	18	226	242	118	118
Property and equipment	19	1,010	839	684	567
Other assets	20	192	194	102	171
Accrued income receivable and prepaid expenses	21	146	237	130	189
Deferred tax assets	22	51	25	38	21
Total assets		**42,441**	**34,917**	**37,505**	**30,536**
Liabilities					
Due to banks	23	8,414	3,690	8,434	3,666
Due to customers	24	28,308	25,905	24,602	22,606
Other due in securities	25	20	20	20	20
Other liabilities	26	1,184	1,165	536	577
Deferred income	26	524	544	396	415
Allowances for risks and charges	27	201	263	162	226
Total liabilities		**38,651**	**31,587**	**34,150**	**27,510**
Minority interests	31	60	50	-	-
Shareholders' equity					
Share capital	29	1,666	1,666	1,666	1,666
Treasury shares		(20)	(12)	(20)	(12)
Reserves and retained earnings	30	1,389	985	1,134	842
Net profit for the year		695	641	575	530
		3,730	3,280	3,355	3,026
Total liabilities and shareholders' equity		**42,441**	**34,917**	**37,505**	**30,536**

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 2004.

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

Antonello Dessanti
Chief financial officer

Cash flow statement

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Cash flow from operating activities				
Operating profit	695	641	575	530
Provisions for bad and doubtful debts	168	174	112	108
Proceeds from sale of property and equipment	(4)	(6)	(4)	(5)
Depreciation and amortization	224	217	146	149
Taxes paid	(178)	(167)	(137)	(139)
	905	**859**	**692**	**643**
(Increase)/decrease in operating assets				
Balances with Croatian National Bank	(3,994)	(100)	(3,901)	(70)
Due from banks	(839)	2,113	(943)	2,080
Loans and advances to customers	(4,361)	(6,116)	(3,782)	(5,560)
Disposals/(acquisitions) of assets held for trading and assets available for sale	1,375	(1,370)	1,408	(1,173)
Accrued income and other assets	89	(192)	128	(194)
Increase/(decrease) in operating liabilities				
Due to banks	1,084	1,163	1,332	1,103
Due to customers	2,364	2,563	1,927	2,317
Other liabilities	1	236	(60)	55
Net cash from operating activities	**(3,376)**	**(844)**	**(3,199)**	**(799)**
Cash flows from investing activities				
Purchase of property and equipment	(375)	(189)	(224)	(79)
Acquisition of long term investment	98	30	10	9
Acquisition of assets held to maturity	322	434	255	328
Net cash from investing activities	**45**	**275**	**41**	**258**
Cash flows from financing activities				
Dividend paid	(212)	(268)	(212)	(268)
Other borrowed funds	3,679	(789)	3,505	(693)
Net cash from financing activities	**3,467**	**(1,057)**	**3,293**	**(961)**
Net increase/(decrease) in cash	**136**	**(1,626)**	**135**	**(1,502)**
Cash at the beginning of the year	502	2,128	412	1,914
Cash at the end of the year	638	502	547	412
Supplementary information				
Interest paid	912	845	798	752
Interest received	2,072	1,739	1,791	1,523
Dividend paid	212	268	212	268
Dividend received	2	2	42	23

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
Group					
Balance at 1 January 2002	**1,666**	**(14)**	**658**	**581**	**2,891**
Transfer to reserves	-	-	581	(581)	-
(Purchase)/sale of treasury shares	-	(2)	-	-	2
Dividends paid	-	-	(268)	-	(268)
Increase in shareholdings	-	-	6	-	6
Consolidation adjustment	-	-	8	-	8
Net profit for the year	-	-	-	641	641
Balance at 31 December 2002	**1,666**	**(12)**	**985**	**641**	**3,280**
Adjustment of the opening balance	-	(4)	(28)	-	(32)
Transfer to reserves	-	-	641	(641)	-
(Purchase)/sale of treasury shares	-	(4)	-	-	(4)
Dividends paid	-	-	(212)	-	(212)
Capital gain on sale of treasury shares	-	-	3	-	3
Net profit for the year	-	-	-	695	695
Balance at 31 December 2003	**1,666**	**(20)**	**1,389**	**695**	**3,730**
Bank					
Balance at 1 January 2002	**1,666**	**(14)**	**585**	**517**	**2,754**
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
Balance at 31 December 2002	**1,666**	**(12)**	**842**	**530**	**3,026**
Adjustment of the opening balance	-	(4)	(28)	-	(32)
Transfer to reserves	-	-	530	(530)	-
(Purchase)/sale of treasury shares	-	(4)	-	-	(4)
Dividends paid	-	-	(212)	-	(212)
Capital gain on sale of treasury shares	-	-	2	-	2
Net profit for the year	-	-	-	575	575
Balance at 31 December 2003	**1,666**	**(20)**	**1,134**	**575**	**3,355**

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.

Basis of consolidated (Privredna banka Zagreb Group) and Bank only 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, which 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 intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments in Group companies, within Bank only financial statements, are those in which the Bank - directly or indirectly - holds a majority of the voting rights, or those that are in any case subject to the company's dominant influence. These investments are accounted for at cost decreased by an impairment provision.

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 income statement 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 more than 90 days overdue. 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.

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 likely to be drawn down, are generally deferred and recognised as an adjustment to the effective yield on the loan.

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

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:

	2003	2002
Contributions for State Pension Fund	15.00%	8.75%
Contributions for State Health Insurance Fund	*	7.00%
Contributions for Unemployment Fund	1.70%	0.85%
Injuries at work	0.47%	-

* contributions for State Pension Fund and State Health Insurance Fund were paid in 2003 using the single percentage of 15 percent of the gross salary.

The Group is also obliged to withhold contributions from the gross pay on behalf of the employee for the same funds.
The contributions on behalf of employees and on behalf of the employer are charged to expenses in the period to which they relate (refer to note 7).

Retirement allowances
Under the Labour Code, if determined in the employment contract or the Regulation on Personal income, the Group and the Bank are obliged to pay a retirement allowance of HRK 8 thousand to individuals who 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 the 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.

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 amount of the tax assets.

Accounting policies

The Bank is subject to a tax rate of 20 percent in accordance with Section 2 of the Profit Tax Law. A few Group members currently have carry forward tax losses from prior years. These losses can be carried forward for a maximum of five years starting from the year when the loss was incurred (refer to note 9).

Financial instruments

Financial assets and financial liabilities recorded 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.

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 or the amortised cost which approximates fair value. 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 the trade date, which is the date when the Group commits to purchase or sell the asset.

Assets available for sale

Financial instruments included in assets available for sale relate to debt and equity securities. These instruments are initially recognised at cost and subsequently stated at fair value or amortised cost, that approximates fair value. Gains and losses arising from changes in the fair value of assets available for sale are recognised in income statement as gains less losses from these securities in the period that the change occurs. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the statement of income as gains less losses from securities available for sale.

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 of investment securities are recognised at the trade date, which is the date when the Group commits to purchase 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. The amount of potential losses not specifically identified but which experience indicates is present in the portfolio of loans and advances is also recognised as an expense and deducted from the total carrying amount of loans and advances as a provision for losses on loans and advances. The assessment of these losses depends on the judgement of management.
When a loan is deemed uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the income statement.

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 income statement.

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 repo agreements.

Leases

Finance - Group as lessor

When assets are leased under finance lease arrangements, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Initial direct costs are recognised as expenses in the income statement in the period when incurred.

Operating - Group as lessor

Assets leased under operating lease arrangements are included in tangible assets in the balance sheet. They are depreciated over their expected useful lives which is based on duration of lease contracts (see tangible fixed assets accounting policy). Initial direct costs incurred specifically to earn revenues from an operating lease are recognised as an expense in the income statement in the period in which they are incurred.

Operating - Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating lease arrangements. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

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 income statement.

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 income statement 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.

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

	2003 years	2002 years
Buildings	10 to 40	10 to 40
Furniture	5	5
Computers	4	4
Motor vehicles	4	4
Equipment and other assets	4 to 10	4 to 10

Land is not depreciated.

Intangible assets and goodwill

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits 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.

Accounting policies

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.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost (including transactions costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.
Changes in the fair value of derivatives are included in the net trading income. The Bank and the Group had no hedge accounting in 2003.

Impairment of assets

An assessment is made on 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 income statement. In addition, a provision is made to cover impairments 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 circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset 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 their revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset. The recoverable amount is the higher of an asset's net selling price and its value in use.

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.

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. The details are set out in note 32.

Comparatives and reclassification

Prior year financial statements have been reclassified and/or adjusted in order to comply with current year classification.
Allowances for taxes in the amount of HRK 33 million were netted off with respective prepayments for taxes which reduced the total balance sheet by the same amount. Adjustment to retained earnings was carried out due to the change in accounting approach regarding deduction of direct costs in deferring fee income in a total of HRK 29 million in order to conform with the current year treatment of loan origination fees. A net off of the loans and advances to customers with deferred loan origination fees was made in the amount of HRK 64 million which resulted in a decrease in the balance sheet. Other reclassifications and adjustments did not impact net profit and total assets.

Notes to the Bank and the Group Financial Statements

2 | Interest income and expense

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Interest income				
Citizens	1,268	1,168	1,077	740
Companies	572	584	530	541
Bonds and securities	284	262	263	238
Banks	192	189	119	173
Public sector and others	85	81	84	79
	2,401	**2,284**	**2,073**	**1,771**
Interest expense				
Citizens	514	545	428	457
Companies	162	140	152	122
Banks	195	126	193	131
Public sector and others	38	54	32	49
	909	**865**	**805**	**759**

3 | Fee and commission income and expense

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Fee and commission income				
Fees and commission on credit card services	366	109	123	95
Payment transaction fees and commission	203	76	174	76
Fees and commission on customer loans	66	115	40	88
Fees and commission on guarantees given	31	39	30	38
Fees and commission on customer services	25	53	22	43
Other fee and commission income	86	159	63	105
	777	**551**	**452**	**445**
Fee and commission expense				
Payment transaction charges	157	129	137	113
Bank charges	28	28	13	24
Commission to post offices for citizens' current accounts	3	4	2	3
Other fee and commission expense	43	31	53	23
	231	**192**	**205**	**163**

Notes to the Bank and the Group Financial Statements

4 | Other operating income

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Foreign exchange trading gain	91	196	90	178
Foreign exchange revaluation	80	17	46	5
Profit from buying and selling securities held for trading and assets available for sale	54	148	54	137
Gains from disposal of fixed assets	4	6	4	5
Dividends received	2	2	42	23
Other income	166	83	35	14
Write ups/(downs) on securities held for trading and assets available for sale	(11)	34	(19)	28
	386	**486**	**252**	**390**

5 | Provisions

In HRK million

	Note	Group		Bank	
		2003	2002	2003	2002
Provisions for loans and advances to customers	14	127	26	84	(6)
Provisions for general credit risks	14	55	123	45	111
Provisions for due to banks	13	3	11	(1)	10
Provisions for legal claims	27	2	30	4	19
Provisions for financial investments	15	1	1	-	-
Provisions for guarantees and commitments	27	(20)	(17)	(20)	(26)
		168	**174**	**112**	**108**

6 | Other operating expenses

In HRK million

	Note	Group		Bank	
		2003	2002	2003	2002
Personnel expenses	7	544	505	406	383
Materials and services		379	355	231	220
Indirect and other taxes		10	9	8	7
Other operating expenses		223	190	152	148
		1,156	**1,059**	**797**	**758**

7 | Personnel expenses

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Net salaries	257	237	187	176
Health insurance costs	60	59	44	44
Taxes and surtaxes due to local authorities	61	58	43	41
Pension insurance costs	81	72	57	53
Expenses related to social program	-	16	-	15
Other personal expenses	85	63	75	54
	544	**505**	**406**	**383**

Included in salaries and other related costs of employees is the Bank's bonus in gross amount of HRK 22.7 million (2002: HRK 21.4 million). In addition, the same item includes the remuneration of the Bank's Management Board in gross amount of HRK 3.9 million (2002: HRK 3.9 million).
During the year the average number of employees within the Group was 3,766 (2002: 3,678) of which the Bank accounted for 2,866 employees (2002: 2,821).

8 | Depreciation and amortization of property and equipment and intangible assets

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Depreciation of property and equipment	140	146	102	114
Depreciation of intangible assets	84	71	44	35
	224	**217**	**146**	**149**

There is an amount included within depreciation and amortization of property and equipment and intangible assets related to the impairment of property and equipment and intangible assets for the Group of HRK 155 thousand (2002: HRK 35 million) and the Bank of HRK 114 thousand (2002: HRK 19 million).

9 | Taxation

Profit tax is payable at the rate of 20 percent (2002: 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 comprises:

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Current income tax expense	(204)	(188)	(154)	(156)
Deferred tax assets utilised during the year	(25)	(4)	(21)	(4)
Deferred tax assets relating to temporary differences	51	25	38	21
	(178)	**(167)**	**(137)**	**(139)**

9 | Taxation | continued

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

	Group		Bank	
	2003	2002	2003	2002
Accounting profit before taxation	**876**	**814**	**712**	**669**
Statutory tax rate	20%	20%	20%	20%
Expected nominal tax	**175**	**163**	**142**	**134**
Tax effects of:				
Non deductible expenses	41	36	34	33
Non taxable income	(22)	(13)	(22)	(11)
Other	12	5	-	-
Tax losses brought forward	(2)	(3)	-	-
Tax expense	**204**	**188**	**154**	**156**
Effective tax rate	**23.3%**	**23.1%**	**21.6%**	**23.3%**

Movements of deferred tax assets are as follows:
In HRK million

	Group		Bank	
	2003	2002	2003	2002
Deferred tax asset recognised at 1 January	**(25)**	**(4)**	**(21)**	**(4)**
Tax (profits)/losses in the year recognised as deferred tax assets	(51)	(25)	(38)	(21)
Deferred tax (debit)/credit in the income statement	25	4	21	4
Deferred tax asset recognised at 31 December	**(51)**	**(25)**	**(38)**	**(21)**

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	
	2003	2002	2003	2002
31 December 2004	-	3	-	-
31 December 2005	4	6	-	-
31 December 2006	4	4	-	-
	8	**13**	**-**	**-**

10 | Cash

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

In HRK million	Group		Bank	
	2003	2002	2003	2002
Cash in hand	636	501	546	411
Other cash items	2	1	1	1
	638	**502**	**547**	**412**

11 | Balances with Croatian National Bank

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Obligatory reserve	3,296	2,710	2,771	2,236
Treasury bills	3,104	916	2,885	694
Giro accounts	1,768	552	1,681	506
Other deposits	96	92	90	90
	8,264	**4,270**	**7,427**	**3,526**

Obligatory reserve represents the amount of liquid assets required to be deposited with the Croatian National Bank. At the end of each month obligatory reserve is calculated on certain balances of attracted funds for the previous month. The obligatory reserve is calculated as 19 percent of HRK denominated (2002: 19 percent) and 19 percent of foreign currency denominated balances (2002: 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 1.25 percent for HRK amounts (2002: 1.75 percent), 1.0 percent for USD and 2.03 percent for EUR amounts (2002: 1.3 percent for USD and 2.82 percent for EUR amounts). 42 percent of the foreign currency obligatory reserve should be maintained in HRK. USD and EUR rates are not fixed.
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 | Assets held for trading

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Government bonds	795	889	672	793
Treasury bills	449	1,632	241	1,364
Equities and shares	298	381	295	371
Commercial papers	72	77	69	45
Other bonds	164	307	164	276
	1,778	**3,286**	**1,441**	**2,849**

13 | Due from banks

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Term deposits	3,723	2,911	3,485	2,631
Loans to banks	627	600	622	595
Current accounts and demand deposits	171	168	149	88
	4,521	**3,679**	**4,256**	**3,314**
Provisions	(18)	(15)	(9)	(10)
	4,503	**3,664**	**4,247**	**3,304**

Term deposits are normally short-term deposits (up to one month) with local and foreign banks bearing an average interest rate of 2.3 percent to 2.7 percent (2002: 2.8 and 3.4 percent respectively).
Included in the Bank placements with other banks are HRK 26.2 million (2002: HRK 36.8 million) related to refinanced borrowings due to the Republic of Croatia and HRK 146.5 million (2002: HRK 188.2 million) of refinanced borrowings due to the Government agencies. For more details refer to note 23.
The related currency analysis is provided in note 37.

a | Geographical analysis

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Italy	1,670	62	1,626	18
Austria	621	268	544	203
Germany	559	785	488	708
Republic of Croatia	432	988	611	750
United States of America	268	283	260	276
Switzerland	185	15	178	7
Belgium	136	317	60	237
Great Britain	129	96	105	76
France	1	224	1	224
Other countries	520	641	383	815
	4,521	**3,679**	**4,256**	**3,314**
Provisions	(18)	(15)	(9)	(10)
	4,503	**3,664**	**4,247**	**3,304**

13 | Due from banks | continued

b | Provisions for losses

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Balance at 1 January	**15**	**12**	**10**	**8**
Provisions	3	11	(1)	10
Other changes	-	(8)	-	(8)
Balance at 31 December	**18**	**15**	**9**	**10**

14 | Loans and advances to customers

In HRK million

	Group		Bank	
	2003	2002	2003	2002
a | Analysis by type of customer				
Citizens	13,423	10,503	10,694	8,312
Companies	9,317	8,652	8,712	8,166
Public sector and other	2,678	2,157	2,667	2,142
	25,418	**21,312**	**22,073**	**18,620**
Specific provisions	(1,483)	(1,729)	(1,216)	(1,545)
General provisions	(359)	(362)	(314)	(269)
Deferred fees recognised as an adjustment to the effective yield	(167)	(74)	(144)	(64)
	23,409	**19,147**	**20,399**	**16,742**
b | Analysis by sector				
Citizens	13,423	10,503	10,694	8,312
Wholesale and retail trade	2,589	2,378	2,255	2,116
Hotels, restaurants	756	651	667	560
Construction	699	653	629	594
Food and drinks productions	671	595	647	569
Transport and communication	576	938	516	885
Agriculture, forestry and fishing	560	428	519	391
Energy products	394	490	364	467
Oil refining and gas	78	44	78	44
Other	5,672	4,632	5,704	4,682
	25,418	**21,312**	**22,073**	**18,620**
Specific provisions	(1,483)	(1,729)	(1,216)	(1,545)
General provisions	(359)	(362)	(314)	(269)
Deferred fees recognised as an adjustment to the effective yield	(167)	(74)	(144)	(64)
	23,409	**19,147**	**20,399**	**16,742**

Within Loans and advances to customers were advances related to Treasury bills of the Ministry of Finance as well as Podravka corporate bonds purchased under agreements to resell (reverse repo) to other customers whose value at 31 December 2003 stood at HRK 8 million (2002: HRK 384 million).

14 | Loans and advances to customers | continued
In HRK million

c | Provisions for losses	2003 Specific	2003 General	2002 Specific	2002 General
Group				
Balance at 1 January	**1,729**	**362**	**2,039**	**180**
Transfer of provision	58	(58)	(124)	59
Amounts collected	(319)	-	(310)	-
Amounts written off	(408)	-	(212)	-
Foreign exchange (gain)/loss	(23)	-	-	-
Provisions	446	55	336	123
Balance at 31 December	**1,483**	**359**	**1,729**	**362**
	1,842		**2,091**	
Bank				
Balance at 1 January	**1,545**	**269**	**1,806**	**158**
Amounts collected	(258)	-	(218)	-
Amounts written off	(390)	-	(188)	-
Foreign exchange (gain)/loss	(23)	-	(67)	-
Provisions	342	45	212	111
Balance at 31 December	**1,216**	**314**	**1,545**	**269**
	1,530		**1,814**	

The Group and the Bank manage their exposure to the 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 Group and the Bank obtain acceptable collateral to reduce the level of the credit risk.
On 31 December 2003 the aggregate amount of loans and receivables on which interest is not being accrued for the Group equalled HRK 1,655 million and for the Bank HRK 1,300 million (2002: HRK 1,920 million and HRK 1,643 million respectively).

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 2,472 million (2002: HRK 2,714 million).
Total Bank loans and contingencies guaranteed by the Republic of Croatia or repayable from the state budget amount to HRK 2,425 million (2002: HRK 2,664 million).

14 | Loans and advances to customers | continued

e | Refinanced loans

Included in loans and receivables are HRK 177 million (2002: HRK 254 million) related to refinanced borrowings due to the Republic of Croatia and HRK 442 million (2002: HRK 516 million) of refinanced borrowings due to the Government Agencies.
For more detail on refinanced loans refer to note 23.

15 | Assets available for sale

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Balance at 31 January	**27**	**146**	**-**	**24**
Purchases/(disposals)	136	(118)	-	(24)
Value adjustments	(1)	(1)	-	-
Balance at 31 December	**162**	**27**	**-**	**-**

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

Equity Investments	**Country**	**Nature of business**	**Holding %**	
			2003	2002
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
Agromeđimurje d.d.	Croatia	agriculture	11	13
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
Tržište novca i kratkoročnih vrijednosnica d.d.	Croatia	finance	7	7
MBU d.o.o.	Croatia	finance	7	7
Poduzetnički riječki inkubator d.o.o.	Croatia	manufacturing	6	6
Adriadiesel d.d.	Croatia	manufacturing	4	4
Varaždinsko tržište vrijednosnica d.d.	Croatia	finance	3	3
Zagrebačka burza d.d.	Croatia	finance	2	2
Veterinarska stanica d.o.o. Čakovec	Croatia	food processing	2	2
Karlovačka banka d.d.	Croatia	banking	1	2
Središnja depozitarna agencija d.d.	Croatia	finance	1	1
Istarska autocesta d.d.	Croatia	transport	1	1
Elan d.d.	Slovenia	manufacturing	1	1

16 | Held to maturity investments

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Recapitalisation bonds	1,053	1,134	1,053	1,134
Rehabilitation bonds	554	583	554	583
Republic of Croatia bonds	401	616	339	514
Replacement bonds	25	24	-	-
Other corporate bonds	-	-	30	-
	2,033	**2,357**	**1,976**	**2,231**

Investment securities at 31 December 2003 were split into held to maturity investments and assets available for sale (refer to note 15) based on whether the management had positive intent and ability to hold certain securities until maturity at 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, which 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.
The Government declared the replacement of the Restructuring bonds with the Replacement bonds in April 2000 commencing from July 2001. The bonds bear an interest rate of 5 percent payable semi annually while the principal matures in 2011 and is denominated in HRK.

17 | Equity investments in subsidiaries

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Consolidated subsidiaries	-	-	367	337
Subsidiaries accounted for under equity method	28	126	28	68
Non-consolidated subsidiaries	1	1	1	1
	29	**127**	**396**	**406**
a | Movements				
Balance at 1 January	**127**	**127**	**406**	**391**
Acquired/(disposed)	(98)	-	(10)	15
Balance at 31 December	**29**	**127**	**396**	**406**

The principal investments in subsidiaries are as follows:

Consolidated subsidiaries	**Country**	**Nature of business**	**Holding %**	
			2003	2002
Laguna banka d.d.	Croatia	banking	100	100
Međimurska banka d.d.	Croatia	banking	98	98
Riadria 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
PBZ Stambena štedionica d.d.	Croatia	building society	100	-
Invest Holding Karlovac d.o.o.	Croatia	finance	56	56
PBZ Croatia osiguranje d.d.	Croatia	finance	50	50

PBZ Croatia osiguranje d.d. is accounted for under equity method.

Nonconsolidated subsidiaries	**Country**	**Nature of business**	**Holding %**	
			2003	2002
PBZ Export Handel Service GmbH Group (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 2003	**222**	**146**	**86**	**454**
Additions	11	30	28	69
Disposals and eliminations	-	(1)	(6)	(7)
Balance at 31 December 2003	**233**	**175**	**108**	**516**
Amortization				
Balance at 1 January 2003	**99**	**66**	**47**	**212**
Charge for the year	36	35	11	82
Disposals and eliminations	-	(1)	(3)	(4)
Balance at 31 December 2003	**135**	**100**	**55**	**290**
Net book value				
Balance at 31 December 2003	**98**	**75**	**53**	**226**
Balance at 31 December 2002	**123**	**80**	**39**	**242**

Bank	Goodwill/ Negative goodwill	Software	Other intangible assets	Total
Cost or valuation				
Balance at 1 January 2003	**23**	**118**	**71**	**212**
Additions	-	24	22	46
Disposals and eliminations	-	-	(2)	(2)
Balance at 31 December 2003	**23**	**142**	**91**	**256**
Amortization				
Balance at 1 January 2003	**4**	**50**	**40**	**94**
Charge for the year	2	32	11	45
Disposals and eliminations	-	-	(1)	(1)
Balance at 31 December 2003	**6**	**82**	**50**	**138**
Net book value				
Balance at 31 December 2003	**17**	**60**	**41**	**118**
Balance at 31 December 2002	**19**	**68**	**31**	**118**

19 | Property and equipment

In HRK million

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Total
Cost or valuation					
Balance at 1 January 2003	**753**	**167**	**83**	**426**	**1,429**
Additions	171	54	47	103	375
Disposals and eliminations	(72)	(17)	(12)	(43)	(144)
Balance at 31 December 2003	**852**	**204**	**118**	**486**	**1,660**
Depreciation					
Balance at 1 January 2003	**225**	**84**	**21**	**260**	**590**
Charge of the year	19	25	18	80	142
Disposals and eliminations	(13)	(5)	(7)	(57)	(82)
Balance at 31 December 2003	**231**	**104**	**32**	**283**	**650**
Net book value					
Balance at 31 December 2003	**621**	**100**	**86**	**203**	**1,010**
Balance at 31 December 2002	**528**	**83**	**62**	**166**	**839**

Bank	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Total
Cost or valuation					
Balance at 1 January 2003	**532**	**135**	**18**	**335**	**1,020**
Additions	103	38	7	76	224
Disposals and eliminations	(15)	(14)	(4)	(31)	(64)
Balance at 31 December 2003	**620**	**159**	**21**	**380**	**1,180**
Depreciation					
Balance at 1 January 2003	**173**	**68**	**13**	**199**	**453**
Charge of the year	14	19	4	64	101
Disposals and eliminations	(12)	(9)	(4)	(33)	(58)
Balance at 31 December 2003	**175**	**78**	**13**	**230**	**496**
Net book value					
Balance at 31 December 2003	**445**	**81**	**8**	**150**	**684**
Balance at 31 December 2002	**359**	**67**	**5**	**136**	**567**

Items Furniture and other equipment and Motor vehicles of the Group comprise assets leased under operating leases with net book value of total HRK 83.2 million (2002: HRK 49.7 million).

20 | Other assets

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Fees	24	17	21	17
Amounts due - deriving from foreign currency transactions	19	29	18	29
Derivatives	16	36	16	36
Amounts receivable from buyers	13	12	1	1
Amounts to be debited under processing	4	69	4	69
Other	116	31	42	19
	192	**194**	**102**	**171**

21 | Accrued income receivable and prepaid expenses

n HRK million

	Group		Bank	
	2003	2002	2003	2002
Accrued income receivable	126	184	116	139
Prepaid expenses	20	53	14	50
	146	**237**	**130**	**189**

The amount of accrued interest as at 31 December 2003 includes HRK 44 million of interest receivable on rehabilitation and recapitalisation bonds of the Republic of Croatia (2002: HRK 60 million).

22 | Deferred tax assets

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Balance at 1 January	**25**	**4**	**21**	**4**
Utilisation	(25)	(4)	(21)	(4)
Recognition	51	25	38	21
Balance at 31 December	**51**	**25**	**38**	**21**

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20 percent (2002: 20 percent). Deferred tax assets are recognised regardless of when the timing difference is likely to reverse.

23 | Due to banks

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Term deposits	2,323	1,198	2,548	1,181
Demand deposits	132	68	170	100
Refinanced debt - due to banks	543	648	543	648
Other borrowed funds	5,416	1,776	5,173	1,737
	8,414	**3,690**	**8,434**	**3,666**
a | Refinanced debt				
Amounts due to the Republic of Croatia	607	663	607	663
Amounts due to the government agencies	616	897	616	897
	1,223	**1,560**	**1,223**	**1,560**

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.

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

Repayments of foreign currency borrowings previously due between 1984 and 1988 were rescheduled and refinanced by the agreement concluded with the Paris Club. Under this agreement repayments of principal were to be made in 24 semi-annual instalments commencing January 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 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 132 million in relation to the Treasury bills of Ministry of Finance as well as DAB bonds pledged under repurchase agreements (2002: HRK 62 million).

24 | Due to customers

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Term deposits	17,201	14,924	14,968	12,992
Demand deposits	10,296	9,977	8,823	8,640
Refinanced debt - due to customers	680	912	680	912
Other borrowed funds	131	92	131	62
	28,308	**25,905**	**24,602**	**22,606**

Customers' deposits for the Group include frozen foreign currency savings in amount to HRK 59 million (2002: HRK 116 million). Frozen foreign currency savings for the Bank stand at HRK 54 million (2002: HRK 104 million) - refer to note 16. 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 16).

25 | Other due in securities

In April 1999 the Bank issued long-term bonds with the repayment schedule linked to euro. These bonds were issued with maturity of 7 years and carry an interest of 7.5 percent. The amount at 31 December 2003 stood at HRK 20 million (2002: HRK 20 million).

26 | Other liabilities and deferred income

In HRK million

	Group		Bank	
	2003	2002	2003	2002
Amounts payable to creditors	563	488	8	8
Items in course of collection and other liabilities	443	432	404	374
Salaries and other staff costs	102	76	91	63
Taxes	74	166	31	129
Derivatives	2	3	2	3
	1,184	**1,165**	**536**	**577**
Deferred income	**524**	**544**	**396**	**415**
	1,708	**1,709**	**932**	**992**

27 | Allowances for risks and charges

In HRK million	Group		Bank	
	2003	2002	2003	2002
a | Analysis				
Provisions for contingent liabilities and commitments	112	130	91	111
Provisions for legal claims	85	131	71	115
Provisions for other risks and charges	4	2	-	-
	201	**263**	**162**	**226**
b | Movements				
Balance at 1 January	**263**	**267**	**226**	**247**
Utilisation/(release) of provisions	(50)	(12)	(50)	(12)
Provisions for guarantees and commitments (note 5)	(20)	(17)	(20)	(26)
Provisions for legal claims (note 5)	2	30	4	19
Foreign exchange loss	6	(5)	2	(2)
Balance at 31 December	**201**	**263**	**162**	**226**

28 | Contingent liabilities and commitments

Legal claims

As at 31 December 2003 there was a certain number of litigations outstanding against the Group. In the opinion of legal experts, there is a possibility that the Group may lose certain cases. For this reason the level of provisions for potential loss in litigation as at 31 December 2003 made by the Group stood at HRK 85 million whilst the Bank provided HRK 71 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 112 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	Group		Bank	
	2003	2002	2003	2002
Undrawn lending commitments	3,901	4,245	3,673	2,745
Performance guarantees	1,277	1,332	1,243	1,315
Foreign currency guarantees	374	409	356	377
Foreign currency letters of credit	207	299	196	283
HRK guarantees	381	227	343	209
	6,140	**6,512**	**5,811**	**4,929**

28 | Contingent liabilities and commitments | continued

On 31 December 2003 the Group and the Bank had long-term commitments in respect of rents for business premises and equipment lease agreements expiring between 2004 and 2008. The Management Board is confident that the future net revenues and funding will be sufficient to cover this commitment. The future minimum commitments for each of the next five years along with comparative numbers for 2003 are presented below:

	2003	2004	2005	2006	2007	2008	Total
Group							
Premises	20	22	24	25	27	29	147
Equipment	4	6	7	8	9	10	44
	24	**28**	**31**	**33**	**36**	**39**	**191**
Bank							
Premises	18	20	22	23	25	26	134
Equipment	4	6	7	8	9	10	44
	22	**26**	**29**	**31**	**34**	**36**	**178**

29 | Share capital

The total number of authorised registered shares on 31 December 2003 was 16,660 thousand (2002: 16,660 thousand) with a nominal value of HRK 100 per share (2002: HRK 100 per share).

On 17 December 1999, the State Agency for Deposit Insurance and Bank Rehabilitation and Comit Holding International (now Intesa 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 percent 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 percent of total share capital of the Bank).

Furthermore, on 22 November 2002, the State Agency for Deposit Insurance and Bank Rehabilitation, Intesa 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 Intesa Holding International gained remaining 10 percent from the State Agency for Deposit Insurance and Bank Rehabilitation.

Following finalisation of the public tender, as required in such circumstances by the Croatian law on take-over of the joint stock companies, Intesa Holding International and EBRD concluded a contract on 22 January 2003 for the purchase of 965,746 shares by EBRD from Intesa Holding International. The ownership structure as at 31 December 2003 was as follows.

29 | Share capital | continued

	Registered shares	
	Number of shares	Percentage of ownership
Intesa Holding International	12,712,007	76.3%
European Bank for Reconstruction and Development	3,464,746	20.8%
Minority shareholders	367,900	2.2%
Treasury shares blocked for the purpose of conversion with minority shareholders of Riadria banka	94,762	0.6%
Treasury shares	20,585	0.1%
	16,660,000	**100%**

During the year the movement of treasury shares was as follows.

	2003	2002
Balance at 1 January	**124,149**	**141,638**
Increase	85,411	49,320
Decrease	(188,975)	(66,809)
Balance at 31 December	**20,585**	**124,149**

30 | Reserves and retained earnings

In accordance with the local legislation, 5 percent of the net profit of the Bank is required to be trans-ferred to non-distributable legal reserves to equal 5 percent of the share capital of the Bank.
On 14 April 2003, the shareholders of Privredna banka Zagreb at their General Shareholders Meeting took a decision for the distribution of a dividend of HRK 212 million related to 2002 results. On the same meeting, the shareholders approved the allocation of 91,823 treasury shares of the Bank to the employees of PBZ as a share based bonus payment.
During 2003, the Bank purchased total amount of 85,411 of the treasury shares on open market with the purpose of conversion with the minority shareholders of Riadria banka.
Adjustment to the retained earnings was carried out to the change in accounting approach regarding deduction of direct costs in deffering fee income in a total of HRK 29 million in order to conform with the current year treatment of loan origination fees.

31 | Minority interests

In HRK million

	2003	2002
Balance at 1 January	**50**	**62**
Minority interests in profit/(loss)	(7)	(6)
Consolidation adjustment	17	(6)
Balance at 31 December	**60**	**50**

32 | Managed funds for and on behalf of third parties

In HRK million	Group		Bank	
	2003	2002	2003	2002
Liabilities				
Local authorities and similar organisations	522	682	521	672
Companies	10	53	10	52
Banks and other institutions	264	86	255	73
	796	**821**	**786**	**797**
Less: Assets	754	749	753	726
	42	**72**	**33**	**71**

The Group 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 Group. Income and expenses arising from these funds are credited and charged to corresponding sources and no liability falls on the Group in connection with these transactions. The Group is compensated for its services by fees chargeable to the funds.

33 | Leases

PBZ Leasing d.o.o., the company wholly-owned by the Bank, has entered into both finance and operating lease arrangements of various equipment, vessels and vehicles. Net investments in finance lease in the Group financial statements are included within loans and advances to customers in total amount of HRK 177.5 million (2002: HRK 100.7 million) (refer to note 13). The amounts related to the operating lease arrangements are classified within property and equipment (refer to note 19). Net book value of leased tangible fixed assets was HRK 83.2 million (2002: HRK 49.7 million).
Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are set out below:

In HRK million	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	2003	2003	2002	2002
Next year	64	48	36	27
Between one and five years	152	129	86	73
After five years	9	8	3	2
Total minimum lease payments receivable	**225**	**185**	**125**	**102**
Unearned finance income	(40)	-	(23)	-
Total investment in finance lease	**185**	**185**	**102**	**102**
Less: Allowance for uncollectable amounts	(7)	(7)	(1)	(1)
Net investment in finance lease	**178**	**178**	**101**	**101**

33 | Leases | continued

Future minimum rentals receivable under non-cancellable operating leases are as follows:
In HRK million

	2003	2002
Within one year	22	12
After one year but no more than five years	75	32
	97	**44**

34 | 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. As at 31 December 2003 the total gross exposure to related parties, including the Supervisory and the Management Board members, amounted to HRK 1,178 million (2002: HRK 849 million).

35 | 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, or amortised cost which approximates fair value, with the exception of unquoted equity investments which fair value is based on the latest available financial statements of the issuer. The unquoted fixed rate bonds issued by the Government of Croatia were marked to model and, as a result, their estimated fair value appeared not to be materially different from their carrying value. However, the afore-mentioned model did not include market liquidity factor on similar instruments;
- 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 16.

36 | Interest rate risk

Interest rate risk is the sensitivity of the Group'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 Group can reduce this risk by matching the repricing of assets and liabilities.

The Group 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 Group's and the Bank's interest rate sensitivity position at 31 December 2003 and 2002 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of others.

36 | Interest rate risk | continued

In HRK million Group	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2003						
Assets						
Cash	-	-	-	-	638	638
Balances with Croatian National Bank	6,420	1,622	-	-	222	8,264
Assets held for trading	858	36	273	403	208	1,778
Due from banks	4,173	312	-	-	18	4,503
Loans and advances to customers	21,233	236	871	1,069	-	23,409
Assets available for sale	-	20	12	98	32	162
Held to maturity investments	10	15	351	1,630	27	2,033
Equity investments in subsidiaries	-	-	-	-	29	29
Intangible assets	-	-	-	-	226	226
Property and equipment	-	-	-	-	1,010	1,010
Other assets	-	-	-	-	192	192
Accrued income receivable and prepaid expenses	-	-	-	-	146	146
Deferred tax assets	-	-	-	-	51	51
	32,694	**2,241**	**1,507**	**3,200**	**2,799**	**42,441**
Liabilities						
Due to banks	7,222	7	943	242	-	8,414
Due to customers	26,690	491	701	426	-	28,308
Other due in securities	-	-	-	20	-	20
Other liabilities	-	-	-	-	1,184	1,184
Deferred income	-	-	-	-	524	524
Allowances for risks and charges	-	-	-	-	201	201
	33,912	**498**	**1,644**	**688**	**1,909**	**38,651**
Interest sensitivity gap	**(1,218)**	**1,743**	**(137)**	**2,512**	**890**	**3,790**

36 | Interest rate risk | continued

In HRK million

Bank	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2003						
Assets						
Cash	-	-	-	-	547	547
Balances with Croatian National Bank	5,916	1,511	-	-	-	7,427
Assets held for trading	791	36	213	401	-	1,441
Due from banks	4,228	19	-	-	-	4,247
Loans and advances to customers	19,912	4	264	219	-	20,399
Assets available for sale	-	-	-	-	-	-
Held to maturity investments	31	-	338	1,607	-	1,976
Equity investments in subsidiaries	-	-	-	-	396	396
Intangible assets	-	-	-	-	118	118
Property and equipment	-	-	-	-	684	684
Other assets	-	-	-	-	102	102
Accrued income receivable and prepaid expenses	-	-	-	-	130	130
Deferred tax assets	-	-	-	-	38	38
	30,878	**1,570**	**815**	**2,227**	**2,015**	**37,505**
Liabilities						
Due to banks	7,273	7	942	212	-	8,434
Due to customers	24,523	39	31	9	-	24,602
Other due in securities	-	-	-	20	-	20
Other liabilities	-	-	-	-	536	536
Deferred income	-	-	-	-	396	396
Allowances for risks and charges	-	-	-	-	162	162
	31,796	**46**	**973**	**241**	**1,094**	**34,150**
Interest sensitivity gap	**(918)**	**1,524**	**(158)**	**1,986**	**921**	**3,355**

36 | Interest rate risk | continued

In HRK million

Group	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2002						
Assets						
Cash	-	-	-	-	502	502
Balances with Croatian National Bank	3,348	-	-	694	228	4,270
Assets held for trading	285	-	3,001	-	-	3.286
Due from banks	3,559	66	1	-	38	3,664
Loans and advances to customers	17,108	166	596	1,277	-	19,147
Assets available for sale	-	-	-	-	27	27
Held to maturity investments	-	-	-	2,357	-	2,357
Equity investments in subsidiaries	-	-	-	-	127	127
Intangible assets	-	-	-	-	242	242
Property and equipment	-	-	-	-	839	839
Other assets	-	-	-	-	194	194
Accrued income receivable and prepaid expenses	-	-	-	-	237	237
Deferred tax assets	-	-	-	-	25	25
	24,300	**232**	**3,598**	**4,328**	**2,459**	**34,917**
Liabilities						
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	-	-	-	-	1,165	1,165
Deferred income	-	-	-	-	544	544
Allowances for risks and charges	-	-	-	-	263	263
	26,503	**582**	**1,522**	**995**	**1,985**	**31,587**
Interest sensitivity gap	**(2,203)**	**(350)**	**2,076**	**3,333**	**474**	**3,330**

36 | Interest rate risk | continued

In HRK million

Bank	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2002						
Assets						
Cash	-	-	-	-	412	412
Balances with Croatian National Bank	2,832	-	-	694	-	3,526
Assets held for trading	-	-	2,849	-	-	2,849
Due from banks	3,249	55	-	-	-	3,304
Loans and advances to customers	16,057	6	301	378	-	16,742
Assets available for sale	-	-	-	-	-	-
Held to maturity investments	-	-	-	2,231	-	2,231
Equity investments in subsidiaries	-	-	-	-	406	406
Intangible assets	-	-	-	-	118	118
Property and equipment	-	-	-	-	567	567
Other assets	-	-	-	-	171	171
Accrued income receivable and prepaid expenses	-	-	-	-	189	189
Deferred tax assets	-	-	-	-	21	21
	22,138	**61**	**3,150**	**3,303**	**1,884**	**30,536**
Liabilities						
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	-	-	-	-	577	577
Deferred income	-	-	-	-	415	415
Allowances for risks and charges	-	-	-	-	226	226
	24,827	**117**	**893**	**455**	**1,218**	**27,510**
Interest sensitivity gap	**(2,689)**	**(56)**	**2,257**	**2,848**	**666**	**3,026**

37 | Currency risk

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.

In HRK million	EUR	CHF	USD	Other currencies	HRK	Total
Group						
As at 31 December 2003						
Assets						
Cash	208	20	29	14	367	638
Balances with Croatian National Bank	1,990	-	2,200	-	4,074	8,264
Assets held for trading	588	-	384	38	768	1,778
Due from banks	2,808	380	969	346	-	4,503
Loans and advances to customers	14,392	69	759	78	8,111	23,409
Assets available for sale	99	-	-	-	63	162
Held to maturity investments	2,033	-	-	-	-	2,033
Equity investments in subsidiaries	1	-	-	-	28	29
Intangible assets	-	-	-	-	226	226
Property and equipment	-	-	-	-	1,010	1,010
Other assets	34	4	2	1	151	192
Accrued income receivable and prepaid expenses	97	-	13	-	36	146
Deferred tax assets	-	-	-	-	51	51
	22,250	**473**	**4,356**	**477**	**14,885**	**42,441**
Liabilities						
Due to banks	3,630	25	1,304	42	3,413	8,414
Due to customers	17,335	493	2,888	355	7,237	28,308
Other due in securities	20	-	-	-	-	20
Other liabilities	128	1	34	81	940	1,184
Deferred income	162	4	28	2	328	524
Allowances for risks and charges	13	-	9	-	179	201
	21,288	**523**	**4,263**	**480**	**12,097**	**38,651**
Net Assets/Liabilities	**962**	**(50)**	**93**	**(3)**	**2,788**	**3,790**

37 | Currency risk | continued

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.

In HRK million	EUR	CHF	USD	Other currencies	HRK	Total
Bank						
As at 31 December 2003						
Assets						
Cash	174	17	25	11	320	547
Balances with Croatian National Bank	1,632	-	2,091	-	3,704	7,427
Assets held for trading	464	-	385	38	554	1,441
Due from banks	2,752	321	787	305	82	4,247
Loans and advances to customers	12,539	69	726	25	7,040	20,399
Assets available for sale	-	-	-	-	-	-
Held to maturity investments	1,976	-	-	-	-	1,976
Equity investments in subsidiaries	1	-	-	-	395	396
Intangible assets	-	-	-	-	118	118
Property and equipment	-	-	-	-	684	684
Other assets	32	4	2	-	64	102
Accrued income receivable and prepaid expenses	90	-	13	1	26	130
Deferred tax assets	-	-	-	-	38	38
	19,660	**411**	**4,029**	**380**	**13,025**	**37,505**
Liabilities						
Due to banks	3,457	25	1,304	21	3,627	8,434
Due to customers	15,022	383	2,583	293	6,321	24,602
Other due in securities	20	-	-	-	-	20
Other liabilities	108	1	33	45	349	536
Deferred income	147	4	25	2	218	396
Allowances for risks and charges	12	-	9	-	141	162
	18,766	**413**	**3,954**	**361**	**10,656**	**34,150**
Net Assets/Liabilities	**894**	**(2)**	**75**	**19**	**2,369**	**3,355**

37 | Currency risk | continued

In HRK million

Group	EUR	CHF	USD	Other currencies	HRK	Total
As at 31 December 2002						
Assets						
Cash	158	16	24	11	293	502
Balances with Croatian National Bank	383	-	1,134	-	2,753	4,270
Assets held for trading	715	-	429	56	2,086	3,286
Due from banks	1,404	513	1,318	244	185	3,664
Loans and advances to customers	13,521	9	1,012	32	4,573	19,147
Assets available for sale	-	-	-	-	27	27
Held to maturity investments	2,274	-	-	-	83	2,357
Equity investments in subsidiaries	1	-	-	-	126	127
Intangible assets	-	-	-	-	242	242
Property and equipment	-	-	-	-	839	839
Other assets	61	11	8	3	111	194
Accrued income receivable and prepaid expenses	125	-	39	3	70	237
Deferred tax assets	-	-	-	-	25	25
	18,642	**549**	**3,964**	**349**	**11,413**	**34,917**
Liabilities						
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	967	1,165
Deferred income	73	1	21	1	448	544
Allowances for risks and charges	21	-	10	-	232	263
	17,409	**548**	**3,856**	**320**	**9,454**	**31,587**
Net Assets/Liabilities	**1,233**	**1**	**108**	**29**	**1,959**	**3,330**

37 | Currency risk | continued

In HRK million

Bank	EUR	CHF	USD	Other currencies	HRK	Total
As at 31 December 2002						
Assets						
Cash	131	12	20	8	241	412
Balances with Croatian National Bank	17	-	1,020	-	2,489	3,526
Assets held for trading	660	-	428	56	1,705	2,849
Due from banks	1,416	434	1,138	217	99	3,304
Loans and advances to customers	12,270	7	976	31	3,458	16,742
Assets available for sale	-	-	-	-	-	-
Held to maturity investments	2,231	-	-	-	-	2,231
Equity investments in subsidiaries	1	-	-	-	405	406
Intangible assets	-	-	-	-	118	118
Property and equipment	-	-	-	-	567	567
Other assets	59	11	8	3	90	171
Accrued income receivable and prepaid expenses	132	-	38	3	16	189
Deferred tax assets	-	-	-	-	21	21
	16,917	**464**	**3,628**	**318**	**9,209**	**30,536**
Liabilities						
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	406	577
Deferred income	60	-	17	1	337	415
Allowances for risks and charges	21	-	10	-	195	226
	15,664	**463**	**3,521**	**297**	**7,565**	**27,510**
Net Assets/Liabilities	**1,253**	**1**	**107**	**21**	**1,644**	**3,026**

38 | Liquidity risk

In HRK million

Group	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
As at 31 December 2003						
Assets						
Cash	638	-	-	-	-	638
Balances with Croatian National Bank	6,617	1,641	6	-	-	8,264
Assets held for trading	511	36	374	300	557	1,778
Due from banks	3,713	342	84	326	38	4,503
Loans and advances to customers	4,417	1,528	3,648	9,323	4,493	23,409
Assets available for sale	154	-	-	-	8	162
Held to maturity investments	16	15	361	32	1,609	2,033
Equity investments in subsidiaries	-	-	-	-	29	29
Intangible assets	-	-	-	-	226	226
Property and equipment	-	-	-	-	1,010	1,010
Other assets	192	-	-	-	-	192
Accrued income receivable and prepaid expenses	146	-	-	-	-	146
Deferred tax assets	51	-	-	-	-	51
	16,455	**3,562**	**4,473**	**9,981**	**7,970**	**42,441**
Liabilities						
Due to banks	3,910	22	999	3,134	349	8,414
Due to customers	11,654	2,138	7,515	5,454	1,547	28,308
Other due in securities	-	-	-	-	20	20
Other liabilities	947	150	39	30	18	1,184
Deferred income	524	-	-	-	-	524
Allowances for risks and charges	201	-	-	-	-	201
	17,236	**2,310**	**8,553**	**8,618**	**1,934**	**38,651**
Net liquidity gap	**(781)**	**1,252**	**(4,080)**	**1,363**	**6,036**	**3,790**

38 | Liquidity risk | continued

In HRK million

Bank	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
As at 31 December 2003						
Assets						
Cash	547	-	-	-	-	547
Balances with Croatian National Bank	5,917	1,510	-	-	-	7,427
Assets held for trading	436	36	213	300	456	1,441
Due from banks	3,761	43	79	326	38	4,247
Loans and advances to customers	3,949	1,192	3,085	7,938	4,235	20,399
Assets available for sale	-	-	-	-	-	-
Held to maturity investments	30	-	339	-	1,607	1,976
Equity investments in subsidiaries	-	-	-	-	396	396
Intangible assets	-	-	-	-	118	118
Property and equipment	-	-	-	-	684	684
Other assets	102	-	-	-	-	102
Accrued income receivable and prepaid expenses	130	-	-	-	-	130
Deferred tax assets	38	-	-	-	-	38
	14,910	**2,781**	**3,716**	**8,564**	**7,534**	**37,505**
Liabilities						
Due to banks	3,961	22	999	3,104	348	8,434
Due to customers	10,350	1,371	6,551	5,055	1,275	24,602
Other due in securities	-	-	-	-	20	20
Other liabilities	518	-	-	-	18	536
Deferred income	396	-	-	-	-	396
Allowances for risks and charges	162	-	-	-	-	162
	15,387	**1,393**	**7,550**	**8,159**	**1,661**	**34,150**
Net liquidity gap	**(477)**	**1,388**	**(3,834)**	**405**	**5,873**	**3,355**

38 | Liquidity risk | continued

In HRK million

Group	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
As at 31 December 2002						
Assets						
Cash	502	-	-	-	-	502
Balances with Croatian National Bank	3,154	422	-	-	694	4,270
Assets held for trading	283	1	2,867	56	79	3,286
Due from banks	3,122	108	132	221	81	3,664
Loans and advances to customers	5,812	6,113	1,818	4,188	1,216	19,147
Assets available for sale	-	-	-	27	-	27
Held to maturity investments	-	-	-	-	2,357	2,357
Equity investments in subsidiaries	-	43	-	-	84	127
Intangible assets	-	-	-	-	242	242
Property and equipment	-	-	-	-	839	839
Other assets	194	-	-	-	-	194
Accrued income receivable and prepaid expenses	237	-	-	-	-	237
Deferred tax assets	25	-	-	-	-	25
	13,329	**6,687**	**4,817**	**4,492**	**5,592**	**34,917**
Liabilities						
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	1,163	2	-	-	-	1,165
Deferred income	544	-	-	-	-	544
Allowances for risks and charges	263	-	-	-	-	263
	14,097	**1,768**	**6,690**	**8,167**	**865**	**31,587**
Net liquidity gap	**(768)**	**4,919**	**(1,873)**	**(3,675)**	**4,727**	**3,330**

38 | Liquidity risk | continued

In HRK million

Bank	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
As at 31 December 2002						
Assets						
Cash	412	-	-	-	-	412
Balances with Croatian National Bank	2,832	-	-	-	694	3,526
Assets held for trading	-	-	2,849	-	-	2,849
Due from banks	2,903	55	42	223	81	3,304
Loans and advances to customers	5,017	6,347	1,528	2,810	1,040	16,742
Assets available for sale	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	2,231	2,231
Equity investments in subsidiaries	-	-	-	-	406	406
Intangible assets	-	-	-	-	118	118
Property and equipment	-	-	-	-	567	567
Other assets	171	-	-	-	-	171
Accrued income receivable and prepaid expenses	189	-	-	-	-	189
Deferred tax assets	21	-	-	-	-	21
	11,545	**6,402**	**4,419**	**3,033**	**5,137**	**30,536**
Liabilities						
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	577	-	-	-	-	577
Deferred income	415	-	-	-	-	415
Allowances for risks and charges	226	-	-	-	-	226
	12,210	**1,176**	**6,029**	**7,318**	**777**	**27,510**
Net liquidity gap	**(665)**	**5,226**	**(1,610)**	**(4,285)**	**4,360**	**3,026**

39 | Concentration of assets and liabilities

In HRK million

	Group			Bank		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
As at 31 December 2003						
Geographic region						
Republic of Croatia	38,806	32,881	5,600	34,300	28,462	3,929
European union	3,496	5,351	38	3,130	5,295	32
Other countries	139	419	502	75	393	1,850
	42,441	**38,651**	**6,140**	**37,505**	**34,150**	**5,811**
Industry sector						
Government	3,176	1,240	457	2,616	1,070	457
Commerce	2,480	924	451	2,255	752	401
Finance	13,528	4,168	1,983	12,474	4,035	83
Tourism	748	393	54	667	288	50
Agriculture	552	69	22	518	65	21
Citizens	12,364	17,843	1,972	10,550	14,762	1,802
Other sectors	9,593	14,014	1,201	8,425	13,178	2,997
	42,441	**38,651**	**6,140**	**37,505**	**34,150**	**5,811**
As at 31 December 2002						
Geographic region						
Republic of Croatia	32,618	29,786	4,644	28,718	25,850	4,826
European economic region	2,202	397	69	1,797	271	66
Other countries	97	1,404	1,799	21	1,389	37
	34,917	**31,587**	**6,512**	**30,536**	**27,510**	**4,929**
Industry sector						
Government	3,541	1,744	18	3,024	1,580	18
Commerce	2,325	593	346	2,116	541	301
Finance	9,909	1,930	52	8,886	2,039	52
Tourism	647	229	74	560	208	74
Agriculture	680	48	77	391	47	74
Citizens	9,772	14,930	1,606	8,312	13,468	1,419
Other sectors	8,043	12,113	4,339	7,247	9,627	2,991
	34,917	**31,587**	**6,512**	**30,536**	**27,510**	**4,929**

40 | 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 16,595,853 (2002: 16,547,001).

41 | Post balance sheet event

In accordance with the contract on integration signed on 16 May 2003 between Privredna banka Zagreb d.d. and Riadria banka d.d. and following legally valid resolution from the Commercial Court in Rijeka, Croatia, Riadria banka d.d. was effectively integrated with Privredna banka Zagreb d.d. as of 1 January 2004.

Supplementary financial statements in EUR (unaudited)

Income statement In EUR million	Group 2003	Group 2002	Bank 2003	Bank 2002
Interest income	314	307	271	238
Interest expense	(119)	(116)	(105)	(102)
Net interest income	**195**	**191**	**166**	**136**
Fee and commission income	102	74	59	60
Fee and commission expense	(30)	(26)	(27)	(22)
Net commission income	**72**	**48**	**32**	**38**
Other operating income	50	65	33	52
Operating income	**317**	**304**	**231**	**226**
Provisions	(22)	(23)	(15)	(14)
Other operating expenses	(151)	(143)	(104)	(102)
Depreciation and amortization of property and equipment and intangible assets	(30)	(29)	(19)	(20)
Profit before income taxes	**114**	**109**	**93**	**90**
Income arising from investments accounted by net equity method	1	-	-	-
Income taxes	(23)	(22)	(18)	(19)
Minority interests	(1)	(1)	-	-
Net profit for the year	**91**	**86**	**75**	**71**

Supplementary financial statements in EUR (unaudited)

Balance sheet In EUR million	**Group** 2003	2002	**Bank** 2003	2002
Assets				
Cash	83	67	72	55
Balances with Croatian National Bank	1,081	574	971	474
Assets held for trading	233	442	189	383
Due from banks	589	492	555	444
Loans and advances to customers	3,061	2,572	2,668	2,250
Assets available for sale	21	4	-	-
Held to maturity investments	266	317	258	300
Equity investments in subsidiaries	4	17	52	55
Intangible assets	30	33	15	16
Fixed assets	132	113	89	76
Other assets	25	26	13	23
Accrued income receivable and prepaid expenses	19	32	17	25
Deferred tax	6	3	5	3
Total assets	**5,550**	**4,692**	**4,904**	**4,104**
Liabilities				
Due to banks	1,100	496	1,103	493
Due to customers	3,702	3,481	3,217	3,038
Other due in securities	3	3	3	3
Other liabilities	155	157	70	78
Deferred income	68	73	52	56
Allowances for risks and charges	26	35	21	30
Total liabilities	**5,054**	**4,245**	**4,466**	**3,698**
Minority interests	8	7	-	-
Shareholders' equity				
Share capital	218	224	218	224
Treasury shares	(3)	(2)	(3)	(2)
Reserves and retained earnings	182	132	148	113
Net profit for the year	91	86	75	71
	488	**440**	**438**	**406**
Total liabilities and shareholders' equity	**5,550**	**4,692**	**4,904**	**4,104**

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