

Annual report 2002

RIJEČKA BANKA d.d.



**RIJEČKA
BANKA** d.d.





Annual report 2002

Czechia

Česka spořitelna, a.s.

Slovakia

Slovenská sporiteľňa, a.s.

Austria

Erste Bank und
Sparkassen A.G.

Hungary

Erste Bank
Hungary Rt.

Croatia

Erste & Steiermärkische Bank d.d.
Riječka banka d.d.

RIJEČKA BANKA d.d.

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Report of the President of the Management Board

_____ It is a particular pleasure for me to present, on behalf of the Bank's Management Board, the successfully concluded business year 2002 to our shareholders and business partners.

_____ In 2002, Riječka banka d.d. accomplished the demanding objectives set out by its plan of operations. Positive steps and results have been achieved in all segments of the Bank's activities, and these are to a large extent covered by this annual report.

_____ The year 2002 has been extremely important for the Bank's progress and represents the beginning of a new development period, which the Bank started with increased confidence and strengthened by its new strategic shareholder. The Bank's primary task has been accomplished, namely the successful conclusion of its strategic alliance with one of the leading Central European banks, Erste Bank from Vienna. The new strategic partner has contributed in particular to the strengthening of the Bank's reputation and the confidence of its customers, who recognized a sound business partner in the Bank after public disclosure was made of the known illegal foreign exchange trading activities in the field of currency arbitrage, i.e. of the hiding of losses incurred over several years in those operations that had been undisclosed.

_____ Moreover, in the second half of the year, the merger process of Riječka banka d.d. and Erste & Steiermärkische Bank d.d. started. Through the utilization of both regional advantages and the specific characteristics of each of the two banks, our customers will be offered new and improved opportunities in their financial activities.

_____ In the course of last year, the permanent upgrading of product quality and variety at competitive prices increasingly strengthened the Bank position on money and capital markets and contributed to Riječka banka's successful performance. We are particularly pleased with the increased confidence shown by our depositors, which has had a visible impact on the Bank's balance sheet.

_____ The business year ended with a balance sheet total of HRK 8.413m and profit amounting to HRK 121,6m. Profit before taxation was 24% higher than planned and, after inclusion of income based on deferred taxation, profit was 96 % higher than planned.

_____ During 2002, the loan portfolio increased by 14%, as the result of intensive lending activities targeted at both corporate and retail customers.

_____ In the segment of retail activities, an increase was recorded owing to the introduction of new products adjusted to market



Petar Radaković, President of the Management Board

requirements. In an effort make its offer to the customers even more competitive, Riječka banka d.d. launched new products, the so called "Bonus saving" and mortgage loans, and it also improved retail lending terms. The success of the "Bonus saving," a joint project of Riječka Banka and Erste Bank, has also been shown, according to business indicators, as pointing to the further increase of foreign currency savings. The positive impact of "Bonus saving" has been particularly reflected in the level of regained confidence shown by Riječka banka's depositors.

_____ Likewise, the Bank's increased focus on small and medium-sized enterprises has resulted in the Bank joining the lending program aimed at supporting entrepreneurs in cooperation with the Ministry for Crafts, Small and Medium-sized Enterprises and the Ministry of Finance.

_____ What is particularly important for the Bank's progress, in addition to its orientation towards the introduction of new products and services and attracting new customers, is the commencement of the integrated IT system (IBIS) implementation. The new integrated IT system will enable the Bank to achieve greater efficiency and competitiveness.

_____ During the past year, the Bank also pursued its planned

goals for dynamic development by means of the further expansion of its business network to new areas. At the beginning of 2002, the Žminj Agency was opened as well as the new location of the Pula branch office.

_____ In order to provide the highest service quality to both its present and future customers, Riječka banka d.d. started renovating its business premises in line with modern architectural guidelines.

_____ Riječka Banka customers have access to the Erste & Steiermärkische Bank ATM network free of charge. In addition to the existing 108 Riječka banka ATMs, the users have also 68 Erste & Steiermärkische Bank ATMs at their disposal.

_____ The expansion of the ATM network, the growing utilization of card products, the introduction of telephone banking and - recently - Internet banking, have enabled Bank customers to use our services 24 hours a day, every day.

_____ The above-mentioned achievements are all the more significant if we consider the environment in which the Bank operated. The business objectives were realized thanks to our own development, the Bank's professional and motivated human resources, participation of domestic and foreign experts, both in the business and technological fields.

_____ The guidelines for the Bank's development in 2003 are based on continued business growth and further quality improvement. One of the main features of the Bank's activities will continue to be the focus on the customers, on their needs and requirements, with the objective of further increasing customer satisfaction and positioning itself as a Bank capable of offering a full range of quality services 24 hours a day.

_____ I have no doubts that we are going to succeed. I believe that we will be in position to achieve the demanding objectives set for the year ahead of us, thanks to the presence of our new strategic partner, the synergy of two excellent banks, the confidence of our customers and also our experience and knowledge.

_____ Let me thank the Bank shareholders and all our customers for their confidence in the Bank and the Supervisory Board members and all the Bank employees for their invaluable contribution to the achievement of our planned strategic objectives.



Petar Radaković
President of the Management Board



Sava Dalbokov, Member of the Management Board



Sladana Jagar, Member of the Management Board

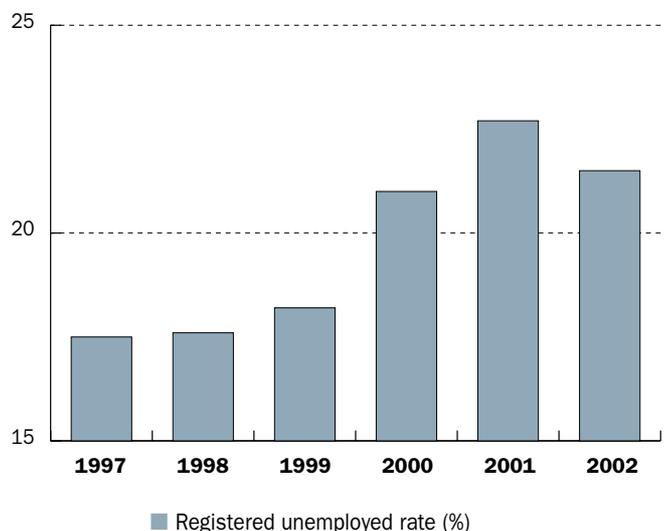
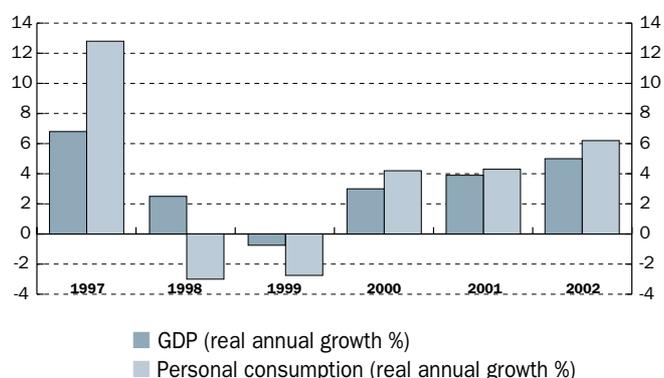
Economic environment

Activities of the Business Sector and Employment

— The growth of the Croatian economy in 2002 was characterized by trends that had started already in 2001. The real gross domestic product (GDP) increase was still led by strong growth in domestic consumption and investments in fixed assets throughout 2002. In an environment of relatively small purchasing power changes (stagnation in average salaries, a slight increase in the average exchange rate with the EUR) it may be concluded that domestic consumption in 2001 was partly prompted by considerable foreign currency reserves held by households that came to light during the translation of European currencies into EUR and that were then partly released and transformed into consumption. In 2002 domestic consumption resulted, to a large extent, in the increased credit activity of the Croatian banking system. The investment cycle that had begun in 2001 continued also throughout 2002, wherein the highest growth was recorded by investments in fixed assets. For the third consecutive year, the consolidation of the government fiscal system caused a decrease in government consumption in real terms - as a component of the GDP. The fall in world economic activity and high domestic personal consumption exerted strong negative pressure on foreign demand, as a GDP component. While the fall in world economic activities reduced the export growth rate, the expansion of domestic demand raised imports to unpleasant levels.

— Expressed in figures, in the first three quarters of 2002, the real GDP recorded an increase of 5% compared to that the same period the previous year. In the same period, personal consumption increased by 6.3% in real terms, fixed asset investments by a high 11.4% while government consumption recorded a fall estimated at 1.7% in real terms. The export of goods and services, as a component of foreign demand, increased in real terms by 1.6% only in the first three quarters, while the import of goods and services in the same period recorded a high growth of 8%. Since the mentioned components' trends did not show significant changes in the last quarter of 2002 either, we expect that the real GDP growth for the year as a whole will amount to 5%, which in regional terms, represents quite a sound figure (the Czech Republic 2.7%, Hungary 3.2%, Poland 1.3%, Slovakia 4%). Last year's average industrial production exceeded that recorded in 2001 by 5.4%. The highest growth was

recorded in the last quarter and amounted to 9.3% - which was mainly due to the reversal of trends in the processing industry where production increased by almost 10% in the same period. The processing industry recorded an annual growth of 6%. The expansion of construction projects in the course of 2002 (the physical volume of construction projects increased somewhat over 10% for the year) also contributed to industrial production growth. Trade turnover has been growing for already four years, and an additional acceleration was recorded in 2002. In 2002 as a whole, induced by personal consumption, the trade turnover average growth was estimated at about 13%. Last year tourism recorded a somewhat more conservative growth rate. The increase in overnight stays was estimated at 3% while the number of tourists increased by 6%.



Despite the relatively high increase in economic activities, the number of unemployed remains at an unenviable level. On the basis of preliminary data, registered unemployment at the end of the year was just 1.2 percentage points below the 22.7% registered in 2001. In any case the fall in unemployment helps, however the current 21.5% is still an exceptionally high percentage, threatening the political-economic stability.

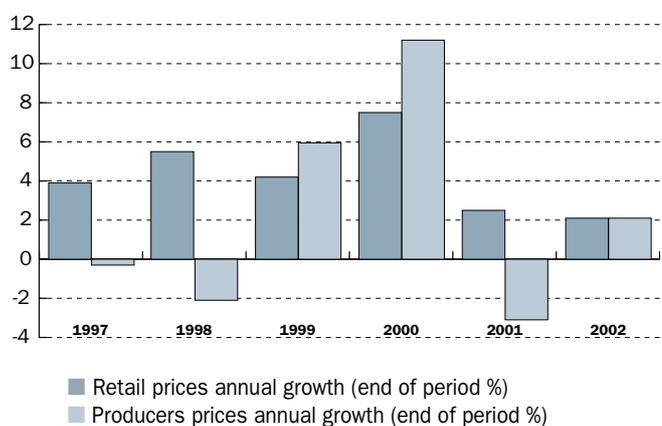
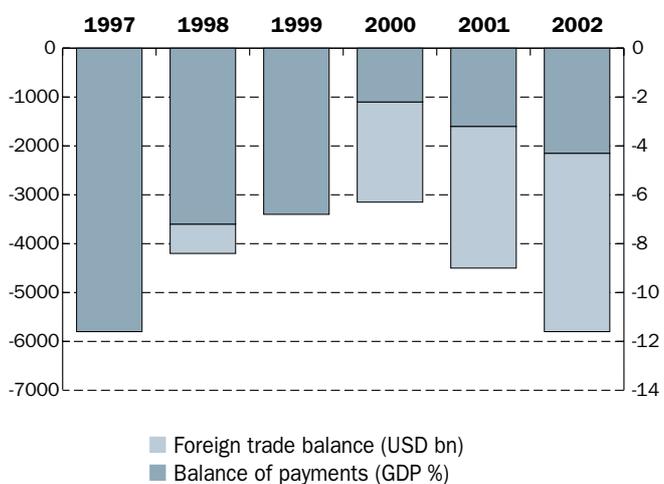
Looking ahead, personal consumption and investments will remain the prime mover of the Croatian economy; however, we expect that the retention of fiscal discipline (despite the pre-election year) and the already high personal indebtedness of Croatian households is going to contribute to a moderate fall in economic activity. Therefore, the mild slowing down of the mentioned components, on the one hand, and the expected global economic recovery on the other, should enable the current year's retention of the overall Croatian economic growth on a sound, although somewhat lower, level than last year.

Foreign Trade and Balance of Payments

In addition to the already mentioned components that had an essential impact on economic growth (investments, personal consumption), the following must also be mentioned. While the strong growth of personal consumption last year influenced the

“painful” growth in imports, the reduction of foreign consumption stood in the way of exports. The result has been a foreign trade deficit of USD 5.8bn, i.e. almost 30% more than the USD amount recorded in 2001 (more than 25% of the estimated GDP for the year 2002), which unfortunately discredits the otherwise sound achievements of other growth components. Foreign trade balance data show that imports increased by 17%, and exports by 5% only, for the year. Fortunately income from tourism again saved the situation in the government current account, keeping its deficit at a still acceptable level, slightly exceeding the estimated 4% of GDP.

Although we do not expect the situation in the trade balance to change essentially in nominal terms in the course of this year, some positive steps may be possible in the export sector, as a consequence of the expected recovery of the world economy in the second half of the year and the fostering of economic relations (CEFTA, south-eastern neighbours). It should be stressed that “no essential changes in nominal terms” are expected, considering the fact that the future recovery of the export sector (manufacturing, first of all) depends on imports of the necessary raw materials and technology for the purpose of manufacturing or processing. Naturally, the import of means for investment-related production and processing does not guarantee a decrease in the foreign trade deficit in the short-run, but will undoubtedly result in positive trends in the years to come.



Prices

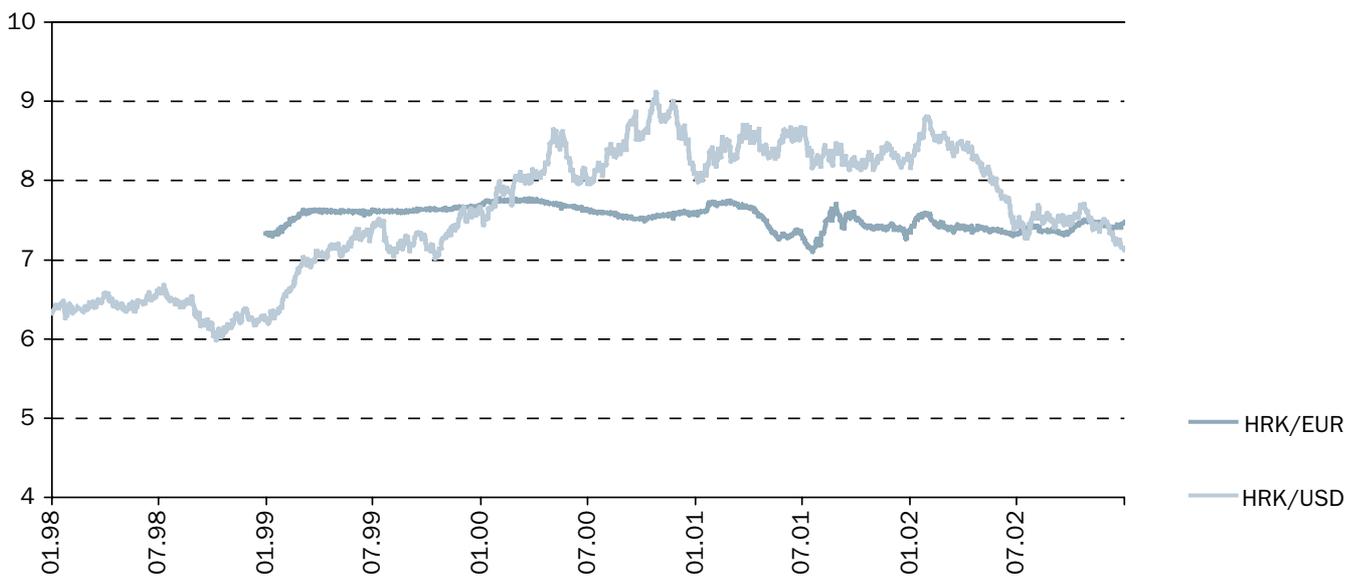
— Croatian retail prices, like producers' industrial prices in 2002, followed the inflation movements recorded in the region. The relatively strong kuna, global inflation trends (the mild pressure on food product prices weakened the effect of major increases in energy prices in the second half of the year) and fierce competition reduced the pressure on retail prices that ended the year just 2.3% over the level they had recorded at the end of 2001. On average, the increase was even lower (2.2%). Producers' industrial product prices were not excluded from the mentioned trend and on average were even 0.4% lower than in 2001, and they concluded the year on a 2.3% higher level than the one recorded in December 2001.

— In the upcoming period, prices in Croatia could easily be under the influence of growing energy prices. Although these trends might have an impact on the retail price index, as well as on producers' industrial product prices, we estimate that this increase will not move much away from the very agreeable growth rates recorded last year.

Exchange Rate

— Concerning kuna exchange rates against the EUR, no significant changes were recorded in 2002. Following the summer appreciation that, despite CNB efforts, strengthened the kuna even above 7.30 to the EUR, the reduction of pressure in autumn and winter weakened the kuna and kept it within the range 7.4 - 7.5. At the CNB middle rate, the kuna ended the year 2002 at 7.44 to the EUR, just a bit weaker than the year before (7.37), while the average yearly rate was even higher (7.41) compared to the 2001 (7.47). Almost the whole of 2002 was marked by the weakening of USD against the EUR, which was, naturally, reflected in the kuna-USD exchange rate, too. The average exchange rate of the kuna against USD strengthened from 8.34 in 2001 to 7.86 in 2002. At the end of 2002 the exchange rate of kuna against the EUR stabilized at 7.15.

— While the strengthened EUR, as well as restrictions imposed on bank lending, and the new regulations linked to the coverage rate for foreign currency liabilities with foreign currency assets are going to exert a mild depreciation pressure, further government indebtedness in foreign currency as well as expectations regarding privatization income are going to keep the kuna strong in



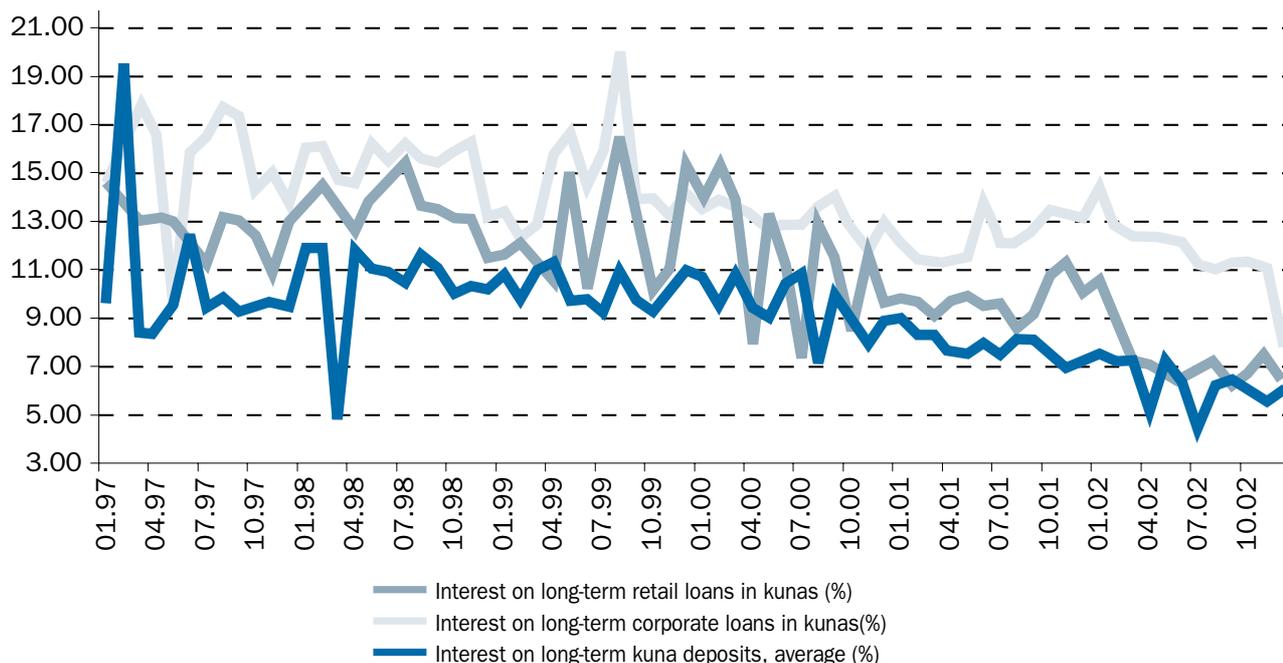
the upcoming period. We expect that the Central Bank will continue to intervene in cases of major fluctuations. No fundamental changes in the exchange rate policy are expected in the upcoming period. We consider the risk of a significant depreciation to be minimal (the mentioned appreciation factors plus avoidance of possible inflationary effects).

Monetary Aggregates and Interest Rates

The end of 2001 was characterized by the growth of foreign currency deposits as the consequence of the replacement of EMU currencies by the EUR. In 2002 the strong effective growth of foreign currency deposits continued in the corporate customer segment (27.5%), however greater changes were recorded in the retail segment. The growth recorded the year before was reversed into a fall of 0.6% for the year. Two essential factors contributed to the development: i) the very high inflow of foreign currency retail deposits at the end of 2001 was a one-time event; ii) the problems in Riječka Banka at the beginning of 2002.

A growth in bank lending activity was recorded in 2002 as well and even accelerated. Total bank loans (in domestic and foreign currency) at the end of 2002 amounted to HRK 97.5bn. While corporate loans increased by 22.7% for the year, the increase in retail loans amounted to a significant 43%. Along with the further increase of the banks' market share, the economic growth and the fall of interest rates on world markets, the acceleration of lending activities was caused in great part by fierce competition in the banking sector and by battles to win-over each single customer. Credit expansion financing was mainly covered by the banks' increased foreign liabilities and by growth in commercial bank deposits. Interest rates continued the trend established at the end of 2001 and, following global economic trends, they reached record low levels at the end of 2002.

Given the fact that since February this year, based on a CNB decision, restrictions have been imposed on loans growth (4% quarterly, 16% annually), we expect a stabilization in the growth of retail and corporate loans. On the other hand, since the measures do not limit government financing, positive breakthroughs may be expected in this field.







TIME IS MONEY. THAT IS WHY I MAKE MONEY THROUGH FAST REACTIONS. I RELY ON NEW MEDIA WHEN DOING BANKING OPERATIONS AND THE BANK IS ALWAYS THERE FOR ME EVEN WHEN I AM ON ABROAD.

DR JURAJ BARTO, CONSULTANT, BRATISLAVA

Corporate operations

_____ The Bank's corporate activity during 2002 has been characterized by exceptional efforts made to recover the reputation and confidence that the Bank had had with its customers. The criminal activities that were revealed in the Bank in the first quarter of the reporting year caused not only losses from the financial point of view but they also undermined relationships with customers and business partners that had been built and well-cared for many years.

_____ Owing to the new strategic partner in the first place, to the Croatian Government support, the CNB, Deposit Insurance Agency (Cr: DAB) and to efforts by the employees themselves, who knew how to make the most of the advantages that the Bank had enjoyed in its environment, corporate credit operations in 2002 recorded positive trends.



_____ Loans and guarantees were performed following strictly defined criteria. Bank products were made available to low-risk customers, i.e. to those who settle their obligations on time and in an orderly fashion, so as to retain the quality of the loan portfolio and to ensure safe and stable Bank activities.

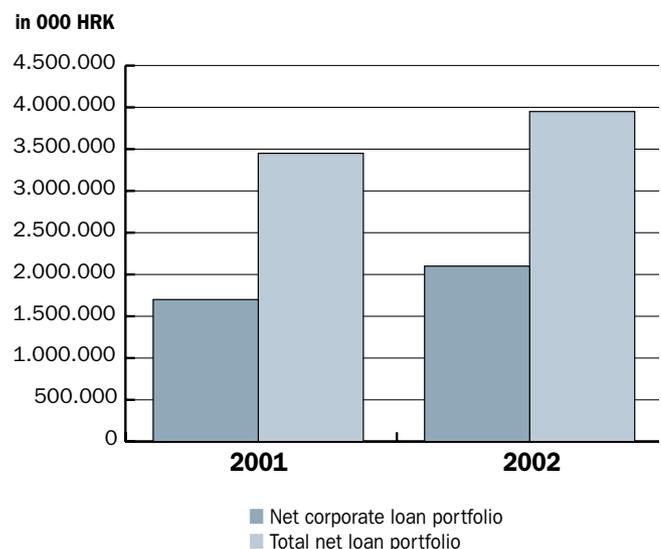
_____ The business cooperation has been extended to a great number of local and regional government entities with whom the Bank, in cooperation with the Ministry of Tourism and the Ministry for Crafts, Small and Medium-sized Enterprises, joined the small and medium-sized entrepreneurs loan project in areas covered by the Bank network. Cooperation with the Development and Employment Fund created new opportunities for the Bank to lend to export-oriented development programs, as well as to those that result in new employment.

At the end of 2002, the net loan portfolio amounted to HRK 2.104m, which compared to that at 31 December 2001, represented an increase of 22%. At the same time, the total net loan portfolio recorded an increase of 14%.

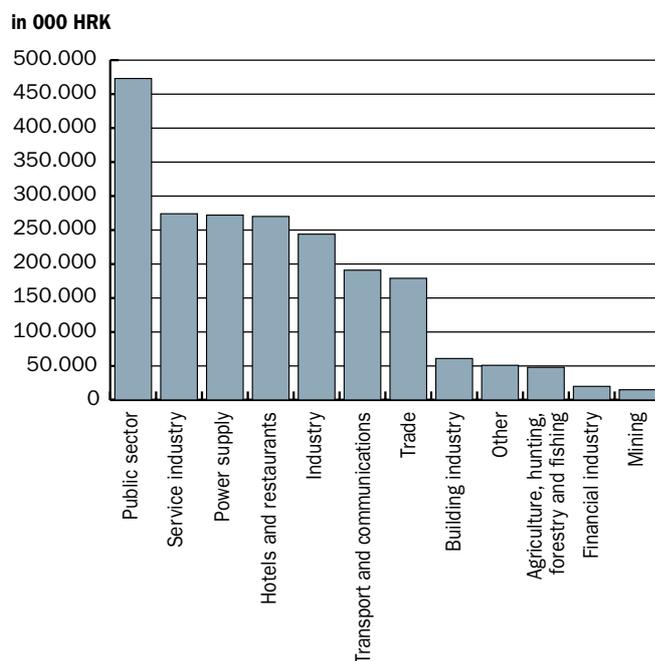
_____ In the total net corporate loan portfolio, loans in kuna amounted to HRK 1.270m or 60% of the portfolio, and foreign currency loans to HRK 834 m or 40% of the portfolio.

_____ Out of the total corporate loan portfolio at the end of the year, the majority were loans to the public sector (HRK 473m, or 22%), fol-

Net corporate loan portfolio and total loan portfolio

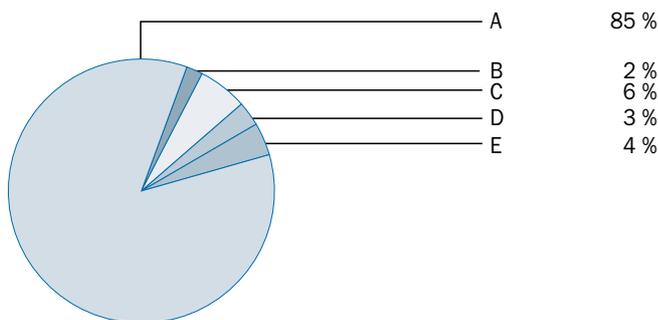


Structure of corporate loan by industry in 2002

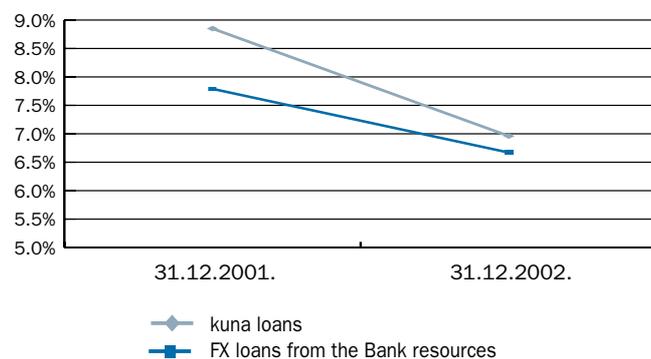


lowed by the service industry (HRK 274m, or 13%), power supply (HRK 272m, or 13%), hotels and restaurants (HRK 270m, or 13%), manufacturing (HRK 244m, or 12%), transport and communications (HRK 191m, or 9%), trade (HRK 179m, or 8%), the construction

Corporate risk loans by risk groups as at 31st December, 2002 (gross)



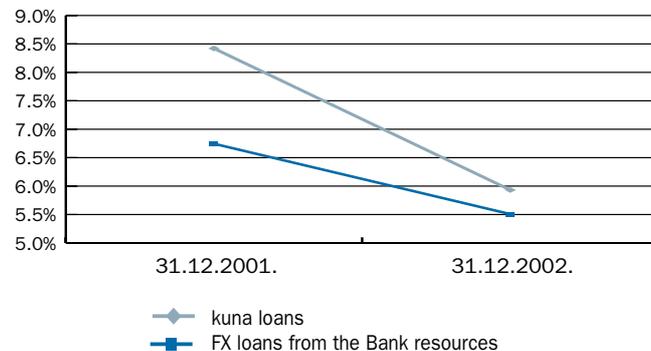
Weighted interest on loans granted to corporate clients



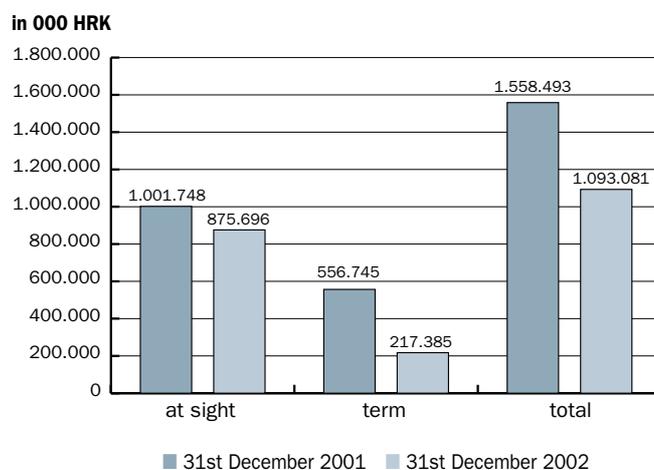
industry (HRK 61m, or 3%) agriculture (HRK 48m, or 2%). Out of the total corporate loan portfolio, only 5% relates to all other industries. A strong competition among banks influenced the interest rates on corporate loans. As at 31 December 2002, the average weighted interest on kuna corporate loans amounted to 6.96%, compared to 8.85% as at 31 December 2001. The weighted interest on foreign currency loans from the Bank resources accounted for 6.67%, in comparison with 7.79% as at 31 December 2001.

At the same time, the average weighted interest on kuna loans granted to State entities amounted to 5.88%, in relation to 8.31% as at 31 December 2001, while for foreign currency loans from Bank resources amounted to 5.50%, compared to 6.20% as at 31 December 2001.

Weighted interest on loans granted to state entities



Trend of corporate deposits



_____ The illegal operations, revealed in the Bank at the beginning of the year, had a significant impact on the corporate deposits trend, particularly on term deposits, which recorded a great decrease during the first half of the year. In the second half of the year, customer confidence was gradually restored; thus, this type of deposit has been constantly increasing.

_____ In 2002, difficulties with the payment operations reform were successfully overcome. The Bank commenced performing independent domestic payment operations for its customers by acceptance of FINA model 3.

_____ As at 31 December 2002, a total of 8,305 corporate customers had accounts with the Bank. Of this amount, 6,522 accounts relate to the corporate customers having master accounts with the Bank.



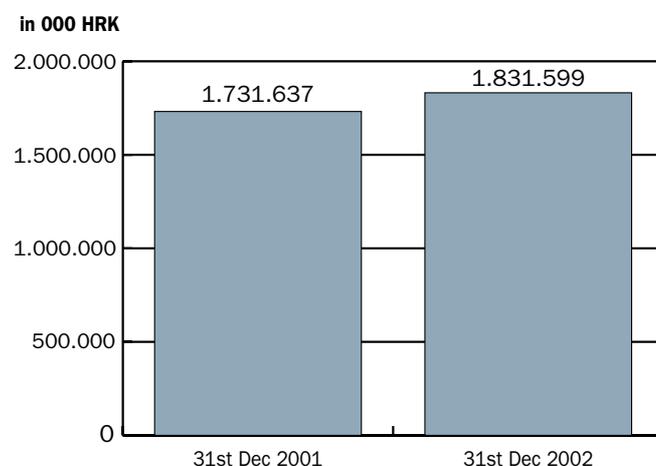
Retail operations

_____ Retail operations represent one of the major segments of the Bank's business, both as sources of financing and in the loans segment.

Loans

_____ Based on the amount of HRK 1.832m, achieved at the end of 2002, retail loans accounted for 21.8% of the Bank's total assets, or 46.5% of total loans to customers. In comparison with December 2001, they increased by HRK 100m, or 5.8%.

Retail loans



_____ Car purchase loans, participating with 43.3 %, are mostly represented in net total retail loans, followed by cash loans, accounting for 30.7%, and housing loans, participating with 15.0%. In terms of branch offices, retail loans in the Riječka Banka Head Office amounted to HRK 378m, or 20.6%, and in branch offices, they amounted to HRK 1.454m, or 79.4%.

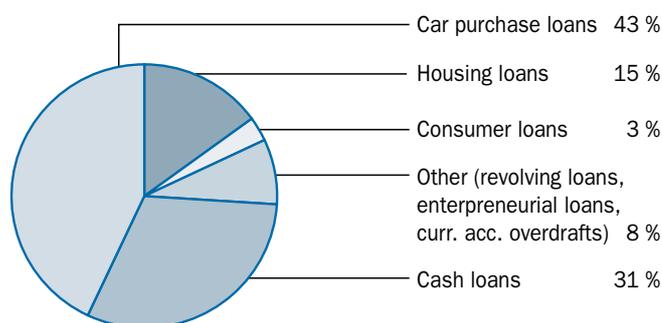
_____ Having achieved a level of HRK 593m, the Zagreb Branch Office recorded 32.4% of the Bank's total retail loans. Significant retail loan figures have been recorded also in the following branches: Pazin (HRK 134m), Pula (HRK 89m), Ogulin (HRK 84m), Labin and Crikvenica (HRK 70m) and Opatija (HRK 72m).

_____ During the period from January to December 2002, total

SIX YEARS AGO MY WISH WAS TO START MY OWN BUSINESS AND TODAY I AM ALREADY MAKING PLANS FOR ANOTHER ONE. MY PERSONAL ADVISOR AND HIS TEAM IN THE BANK ARE THERE TO HELP ME REGARDING ALL MY QUESTIONS CONCERNING FINANCING.

EVA DRAČIĆ, HAIRDRESSER, ZAGREB

Retail loans structure



retail loans amounted to HRK 650m, the majority related to car purchase loans in the amount of HRK 273m, or 42.0 %, and cash loans totalling HRK 230m, or 35.4%.

Deposits

_____ At the end of 2002, total retail deposits amounted to HRK 4.179m, or EUR 561m, participating in the Bank's total liabilities with 49.7%, which represents 5.6 percentage points less, if compared to December 2001.

_____ During the previous year, total retail deposits decreased by HRK 1.672m, or 28,6% as the result of deposits withdrawn in March after revelations of criminal activities in the Bank., Total disbursements from retail deposits to citizens amounted to HRK 2bn.

_____ The situation stabilized the following month and deposits have been increasing since May. A significant growth in these deposits was recorded in July (HRK 191m) and August (HRK 141m), mostly due to favourable tourist season results.

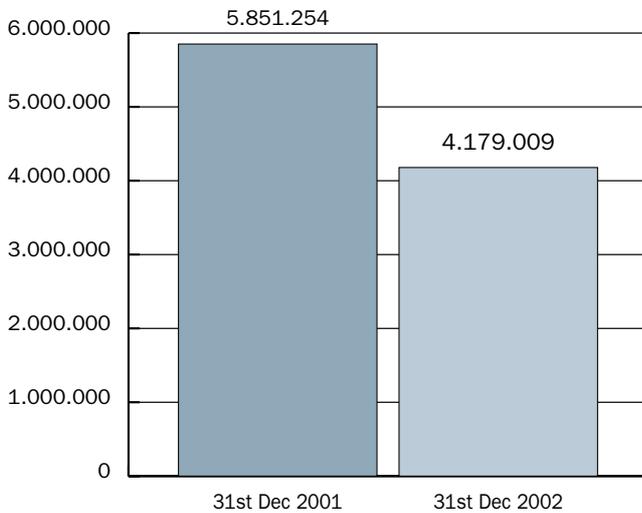
_____ At the beginning of August 2002, "bonus saving" was introduced involving favourable interest rates and this additionally encouraged citizens to entrust the Bank with their savings.

_____ Over the period January-December 2002, deposits in domestic currency increased by HRK 80m, or 11.4 %. The most remarkable decrease of these deposits, in the amount of HRK 177m, was recorded in March, while the highest growth, or HRK 70m, was achieved in December.

_____ During the previous year, deposits in foreign currency

Retail deposits

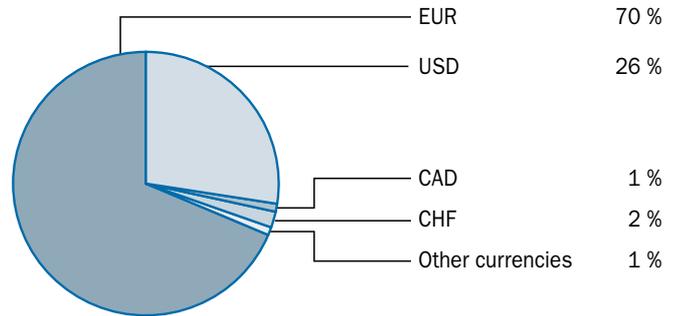
in 000 HRK



decreased by HRK 1.752m, or 34%, whereas in March alone they decreased by HRK 1.878m. Foreign currency savings recovery commenced in May. Foreign currency deposits were growing actually and by the end of the year they amounted to HRK 3.398m.

Out of total volume of retail deposits at the end of

Retail foreign currency savings structure



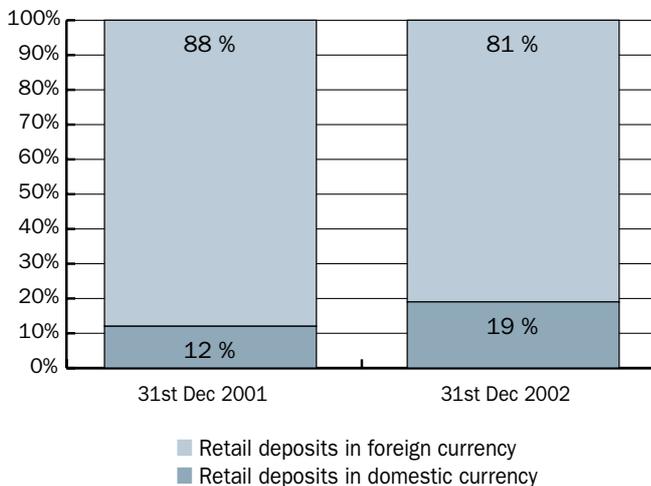
December of the previous year (HRK 4,179m) foreign currency deposits accounted for 81.3%, or HRK 3.398m, with the highest participation being the EUR (70%) and the USD (26%).

Deposits in domestic currency amounted to HRK 781m, or 18.7%.

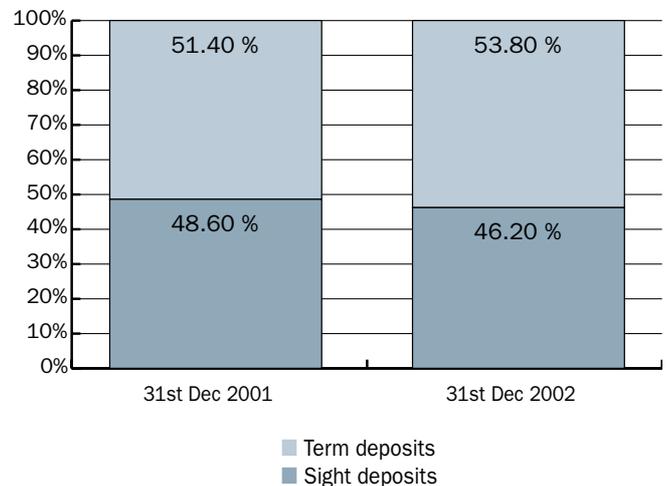
The following chart shows the foreign currency savings structure. More than a half of the retail deposits, 53.8 %, refers to term deposits, and sight deposits total HRK 1.931m, or 46.2 %.

In terms of branch offices, at the end of 2002, retail deposits in the Riječka Banka Head Office amounted to HRK 1.530m, or 36.6% of total retail funds, and the deposits in branch offices totalled HRK 2.649m, or 63.4%.

Retail deposits by currency



Retail funds by maturity



_____ A significant volume of deposits was recorded in the following branch offices: Opatija (HRK 396m, Labin (HRK 266m, Crikvenica (HRK 257m), Pazin (HRK 249m, Krk (HRK 238m) and Mali Lošinj (HRK 206m).

Exchange operations

_____ Exchange operations represent a significant segment in retail banking, having a specific importance in the collection of foreign currency.

_____ The Bank performs exchange operations through its exchange offices and in cooperation with contracted exchange operators. At the end of 2002, the Bank was cooperating with 193 exchange operators that with 337 exchange offices.

_____ During last year, in terms of foreign exchange operations, approximately USD 124m were purchased, of which USD 35.7m were purchased at the Bank and USD 88.3m by contracted exchange operators. Most of the foreign currency, 71.3%, was purchased by contracted exchange operators, which requires the retention of the number of existing exchange operators and also the acquisition of new ones.

_____ However, in comparison with 2001 when an amount of USD 150.4m was purchased, purchases decreased by 21.4%, as was expected, due to the increased use of foreign magnetic cards for ATM cash withdrawals.

Card operations

_____ In terms of card operations, 2002 saw a further strengthening of the card acceptance infrastructure for the purposes of making the services for customers - Bank card users, as transparent and profitable as possible.

_____ In that regard, an additional 21 ATMs and 167 EFTPOS terminals were installed, so at the end of the year the Bank had a network of total 108 ATMs and 515 EFTPOS terminals, through which 5 million transactions for cash withdrawal and the purchase of goods and services were recorded.

_____ At the beginning of 2002, aiming at the further extension of these alternative communication channels with customers, the Bank introduced a new function, the Call Centre with telebanking, enabling retail customers to perform transactions, obtain information and submit claims, not only at the counters, but also by telephone from 8 a.m. to 9 p.m. during work days, and from 8 a.m. to 12.00 a.m. by Saturdays. Forwarding the Statement on giro-account transactions and information on account balances are available to corporate customers. At the end of the year, the call centre and telebanking services were being used by 2,250 corporate and retail customers.



Foreign currency activities

THREE MONTHS AGO I HAD MANY IDEAS AND NOW MANY CLIENTS. THE MOST IMPORTANT THING FOR ME AT THE MOMENT IS TO CREATE FIRM BASIS FOR MY FUTURE INVESTEMENTS. THEREFORE THE BANK IS MY IDEAL PARTNER.

NIKOLAS HAUSER, OCULIST, VIENNA

_____ In international activities, in which Riječka Banka has enjoyed an enviable reputation for 35 years, its wide network of foreign correspondent banks has shown understanding and support in the crisis faced by the Bank in the first half of the preceding year.

_____ Thus, none of the credit or guarantee operations with foreign countries, including also the large long-term syndicated loan of €85m that was granted by 18 foreign banks, were terminated early due to the decreased confidence of foreign banks in the Bank. Moreover, the prevailing feeling is that through re-privatization and the change of strategic partner, the Bank's position has become even stronger.

_____ In 2002, the Bank offered varied services to its customers, including international payment operations, loans and guarantees. The relatively broad network of foreign correspondent banks has also contributed to the level of quality of the services. The process of reducing both the number and expenses related to accounts opened abroad continued in the course of the year. In this we were supported by the introduction of the EUR in the EMU countries as well as by a better utilization of the SWIFT network.

_____ The total level of international payment operations in 2002 did not change significantly in comparison with that in 2001, with slightly higher foreign currency outflows, mostly due to general economic trends. Income from fees on these bases was quite satisfactory considering the strict market conditions.

_____ Check transactions recorded mild growth, to which the exclusive contract for Italian pension disbursements in Croatia has significantly contributed.

_____ The number of foreign loans, as well as the level of indebtedness to foreign countries has decreased. Specifically, no new loans were granted because this was neither dictated by liquidity requirements nor by the Bank liability maturity structure. The issuing of guarantees abroad, payment guarantees in particular, has also decreased mainly due to the fact that foreign loan-related guarantees were replaced by corporate loans granted directly by the Bank, either in foreign currency or in kuna. Foreign letters of credit recorded considerable growth compared to that the previous year, primarily due to new, somewhat stronger, support given to the shipbuilding industry.

Bank liquidity



BANK LIQUIDITY

I KNOW HOW TO HELP OTHER PEOPLE AND I ALWAYS THINK HOW TO IMPROVE THINGS. THE BANK IS MY COMPETENT PARTNER REGARDING ALL MY FINANCING.

HANA PLÍSKOVÁ, PHARMACIST, PRAGUE



_____ 2002 was characterized by business difficulties that occurred in the middle of March as the consequence of high pressure exerted by both corporate and retail customers on the bank deposit system, which resulted in a fall of deposits. These events had an impact on both the Bank's business results and its liquidity.

_____ In order to ensure the Bank's functioning under the extremely high pressure of its depositors, in the second half of the month of March 2002, the Bank sold in advance Ministry of Finance bonds and kuna denominated Croatian National Bank treasury bills in the total amount of HRK 944m in order to secure, by the purchase of foreign currency cash, a sufficient quantity of funds required for making disbursements to retail customers.

_____ At the same time, the Bank transferred to the Croatian National Bank bonds in the value of € 173,26m as pledge for the utilization of the liquidity loan amounting to HRK 1.271,7m, HRK 558m of which was utilized for the settlement of commitments to corporate and retail customers.

_____ Once the early stage of the crisis had been successfully overcome, and this was done exclusively from the bank's own reserves, the pressure linked to the withdrawal of funds from the Bank started to diminish, accompanied by a gradual restoration of confidence. The first step in this public manifestation of confidence was made by a consortium of Croatian banks (Privredna banka, Zagrebačka banka, Reiffeisenbank, Hypo Alpe-Adria bank, Dubrovačka banka and Erste & Steiermärkische Bank) that in April granted a loan to Riječka banka in the amount of HRK 1.200m, under favourable terms, and the loan to the Croatian National Bank was repaid out from these funds.

_____ The syndicated loan was granted for a six-month period, however the Bank utilized it only in part, in the amount of HRK 850m, and made its early repayment on 10th June 2002.

_____ Following the loan repayment, the pledged securities were released, part of which - amounting to € 67,4m was sold on the market.

_____ On 12th August 2002, under new ownership, Erste Bank der Österreichischen Sparkassen AG Vienna, the re-capitalization of Riječka banka was effected in the amount of HRK 588,0m. After re-capitalization, the Bank share capital amounted to HRK 838,2m, and Erste became its majority shareholder with 98.01% of the shares.

_____ On 26th September 2002, Erste Bank der Österreichischen Sparkassen AG Vienna granted a loan of € 20m for a term of 15 years for the purpose of increasing the liable capital.

_____ In October last year, the Bank sold its equity shares in the Njivice d.d. hotel chain as well as in Riviera Holding d.d.

_____ By the middle of the year the situation returned to normal, and after the Bank was re-capitalized by Erste, normal and successful activities have resumed and all the requirements set by the credit and monetary policies have been met. This is also illustrated by the fact that the Bank has allocated liquidity reserves in short-term securities in the amount of HRK 792,5m and has purchased bonds in the amount of HRK 108,8m. Thus, the foundations for further stable and safe Bank development have been laid down.



Human resources



HUMAN RESOURCES



WHEN MONEY IS IN QUESTION THE MOST IMPORTANT THING IS EXPERIENCE. THAT IS THE REASON WHY I GAVE MY TRUST TO THE BANK – I CAN BE SURE I WILL GET THE BEST POSSIBLE ADVICE FOR ALL MY INVESTEMENTS WHICH ENABLES ME TO ENJOY IN BEAUTIFUL THINGS IN LIFE.

TIBOR KERTESZ, ENTREPRENEUR, BUDAPEST

_____ Riječka Banka's operations in 2002 were characterised by numerous changes which had also an impact on the human resources segment, as an integral part of the Bank business operations.

_____ In the first quarter of 2002, final activities on the definition of the Bank's new organization were carried out. These activities included a large number of the Bank's employees, who contributed to the establishment of quality relations in the organization owing to their rich work experience.

_____ The new organization had as its aim to ensure Riječka Banka's image as a modern bank in which puts the quality of products and services first. In the framework of such a strategy, the emphasis was put on the people, who, with their knowledge, skills and capability of adjustment to the new circumstances and to modern work-flows, may offer competitive advantages to the Bank on the Croatian banking market.

_____ In March 2002, business irregularities were discovered in foreign currency arbitrage operations which resulted in a scandal and serious problems. A special contribution to overcoming this situation was made by the employees working in direct contact with the customers.

_____ Today, since Erste Bank from Vienna has become the Bank's new strategic partner, we are in the position to create, through the merger process of Riječka Banka and ESB, Zagreb a large modern bank that will be qualified for a high-grade breakthrough such as the one required by forecasts for the upcoming period.

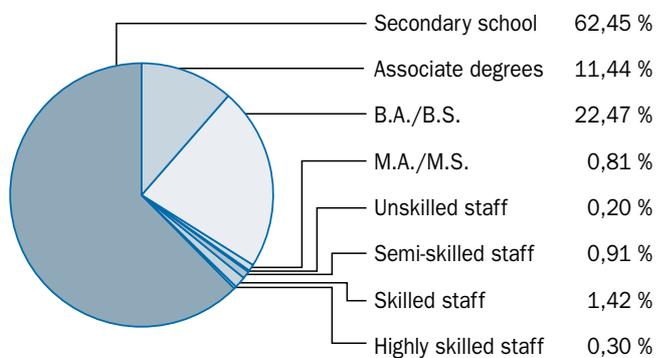
_____ Emphasis has been put again on the professionalism of the skilled and motivated staff and on their training as one of the most important ways of ensuring business quality. An education program has been started and is being carried out via internal workshops and training with the purpose of developing skills and competencies and spreading communication and corporate culture among the employees.

_____ To enable employees to make the most of their potential, an internal employment exchange has been launched. This is functioning in both banks simultaneously, and thus efforts are being made to fill up internally as many vacancies as possible. It is expected that there will be employees who, some reason or other, will not be in a position to adjust to the new requirements and keep up with the pace of change. They will be offered the possibility of leaving the Bank under favourable terms.

_____ In the new Bank's creation process, the values that guide us continue to be dedication to success and quality, openness to new ideas and rewarding of the best workers.

_____ At the end of 2002, Riječka Banka was staffed 988 employees, while the average number of employees for the year was 993.

Qualifications structure - balance as at 31st December 2002



| Qualification | Number employed |
|----------------------|-----------------|
| M.A./M.S. | 8 |
| B.A./B.S. | 222 |
| Associate degrees | 113 |
| Secondary school | 617 |
| Highly skilled staff | 3 |
| Skilled staff | 14 |
| Semi-skilled | 9 |
| Unskilled staff | 2 |
| Total | 988 |