

# Annual Report 2002



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## Report of the President of the Supervisory Board

On behalf of the Supervisory Board, it is my pleasure to again share with you the excellent results of Erste & Steiermärkische Bank d.d.

We expected a lot last year, and the results we achieved showed that we can and have to expect even more.

With the quality of operations, the continuing improvement of the Bank's services, the education of the employees and the development of new products, the Bank is positioned as a young and innovative bank completely oriented to its clients' needs.

The Bank's position on the Croatian financial market was further strengthened, and the operations were clearly directed toward retail banking and small and medium-sized enterprises.

A further decrease of the cost of capital on the banking market opened up new opportunities, but also increased competition among Croatian banks. The quality of products and services and the orientation towards meeting clients' specific needs therefore became a priority. With its wide range of banking products and services, professional work and the extraordinary effort of all the employees, the Bank readily, dynamically and flexibly reacted to each new challenge and change.

The results achieved in 2002 are significant both for the Bank and the Erste Bank Group.

The Supervisory Board has accepted the proposal of the Management Board of the Bank for allocation of the profit and the pay out of the dividends. Accordingly, the net profit of the Bank realized in 2002 in the amount of 88,939,770.21 HRK is to be allocated as follows: the amount of 62,419,010.00 HRK is to be paid out to the shareholders in dividends and the remaining amount is retained in the statutory reserves of the Bank.

In accordance with its authority, the Supervisory Board carried out all of the planned activities pertaining to the

supervision of the Bank's business activities, as well as those activities pertaining to planning. Moreover, the Supervisory Board made decisions and fulfilled the responsibilities as mandated by the Articles of Association of the Bank.

One of the most significant decisions made concerned the acquisition of new business premises. This marked the further improvement in expansion of the existing network of retail offices of the Bank throughout Republic of Croatia. The other important matter taken up by the Board concerned the merger of Erste & Steiermärkische Bank d.d. with Riječka banka d.d.. This merger will contribute to the Bank becoming the third largest on the Croatian banking market.

Based on the results achieved so far, I am convinced that we will achieve this.

I thank all the employees and Members of the Bank's Management and Supervisory Boards for their quality cooperation, dedicated work and the achieved results.



Mr.Sc. Reinhard Ortner

President of the Supervisory Board

## Report of the President of the Management Board

On behalf of the Management Board, it is my great pleasure to present the 2002 business results of Erste & Steiermärkische Bank d.d. In line with our desire to give our clients security and the best possible services and top quality products along with ensuring value for our shareholders and employees, we achieved excellent results in all the segments of operations last year.

In 2002, the Croatian banking sector bore witness to further trends in globalisation, the fall in the cost of capital, improved liquidity, and the expansion of alternative approaches to the sales and distribution of banking services which were initiated in previous years, as well as the further growth of banks in a relatively stable economic environment. The steady strengthening of the competitive positions of Croatian banks presented new challenges to the Bank which it readily met.

In spite of its conservative risk management policy, the Bank's assets grew by 47% compared to that in 2001, while at the same time the return on equity amounted to 17%. The substantial growth and the Bank's increased market share in retail and corporate deposits confirm the long-standing trust that retail and corporate clients have placed in Erste & Steiermärkische Bank.

Erste & Steiermärkische Bank operations in 2002 were marked by a range of new products and technological innovativeness. Payment operations were developed; clients were provided with the Bank's own solution - the Internet banking - Erste NetBanking, and card products were further developed.

The business network of Erste & Steiermärkische Bank was expanded as two advisory and commercial centres were opened in Karlovac and Osijek, and four new branch offices were opened in Zagreb and Sisak.

The Bank continued to actively and very successfully participate in credit programmes aiming at stimulating entrepreneurs, offering the best in several credit lines and ranking second in Croatia in the total number and volume of approved loans, what was the reason for an award from the Ministry of Crafts and small and medium-sized enterprises.

We are especially proud of the results of the market survey where clients rated the Bank as the best bank on the Croatian banking market according to the criterion of satisfaction with the Bank's operations. Erste & Steiermärkische Bank was also rated highest compared to other business banks according to the criterion of trust in the main bank.

The most important business event was the acquisition of Riječka banka d.d. by Erste Bank AG and the beginning of the merger process between the two banks. The merger will create the third largest bank in Croatia with a balance of more than HRK 15 bn, a wide business network of 116 branch offices and a market share of approximately 10%.

It is with pride that I present our business results and thank the Bank's clients on behalf of the Management Board for their demonstrated trust. I sincerely thank the employees of Erste & Steiermärkische Bank for the effort and devotion they have shown and my colleagues on the Management Board and the Supervisory Board for their contribution which have made our results even more valuable, each in their own segment.

Tomislav Vuić

President of the Management Board

## **Mission and Vision**

**Our aim is to be the best bank in Croatia by providing our clients with security, the best services and products, to the benefit of our shareholders and employees.**

**We are part of the leading financial group in Central Europe, headquartered in Austria. Our broad range of banking products is primarily aimed at retail clients, and small and medium-sized companies.**

**We pay special attention to our employees and the development of existing and new sales channels, using our own experience and the experience of our majority shareholders: Erste Bank AG from Vienna and Steiermärkische Bank und Sparkassen AG from Graz.**

# The Management Board



**TOMISLAV VUIĆ, PRESIDENT OF THE MANAGEMENT BOARD**

**RESPONSIBLE FOR: RETAIL DIVISION, MARKETING & PR DEPARTMENT, HUMAN RESOURCES DEPARTMENT, LEGAL DEPARTMENT AND INTERNAL AUDIT DEPARTMENT**



**BORISLAV CENTNER, MEMBER OF THE MANAGEMENT BOARD**

**RESPONSIBLE FOR: CORPORATE DIVISION, TREASURY DIVISION, ACCOUNTING & CONTROLLING DIVISION AND PROPERTY MANAGEMENT DEPARTMENT**



**DRAGUTIN BOHUŠ, MEMBER OF THE MANAGEMENT BOARD**

**RESPONSIBLE FOR: RISK MANAGEMENT DIVISION, PROCESSING DIVISION, IT & ORGANISATION DIVISION AND PARTICIPATIONS & STRATEGIC INVESTMENTS DEPARTMENT**

# Economic Environment

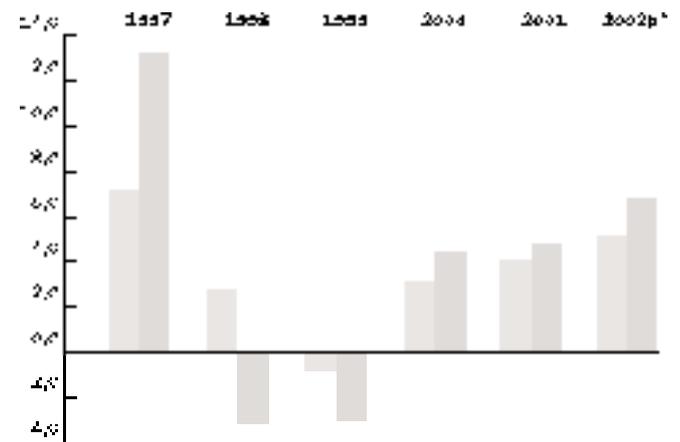
## Activities of the Manufacturing Sector and Employment

The growth of the Croatian economy in 2002 was characterized by trends that had started already in 2001. The real increase of the gross domestic product (GDP) was still led by strong growth of domestic consumption and fixed capital investments throughout the year 2002. In an environment of relatively small purchasing power changes (stagnation of average salaries, slight increase of the average exchange rate to EUR) it may be concluded that domestic consumption in 2001 was partly prompted by considerable households reserves that came to light on occasion of the translation of European currencies into EUR and that were partly released and transformed in consumption. In 2002 domestic consumption developed in great part in increased credit activity of the Croatian banking system. The investment cycle that began in 2001 continued also throughout 2002, wherein the highest growth was recorded by investments in fixed capital. For the third consecutive year the consolidation of the state treasury has been causing a real fall in state consumption - as a component of the GDP. The fall in world economic activity and high domestic personal consumption exerted a 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.

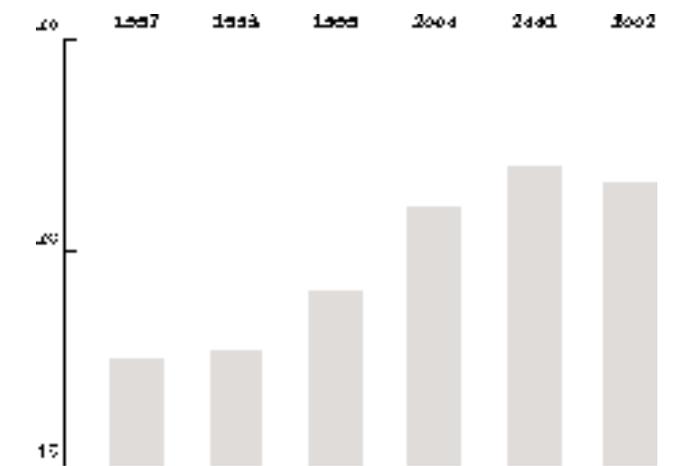
Expressed in figures, in the first three quarters of 2002 the real GDP recorded an increase of 5% compared to the same period of the year before. In the same period personal consumption increased by real 6.3%, fixed capital investments by high 11.4% while state consumption recorded a real fall of estimated 1.7%. Goods and services exports, as a component of foreign demand, increased in real terms by 1.6% only in the first three quarters, while the goods and services imports 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 industrial production exceeded in average the one 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 turnabout of trends in the processing industry, where production increased by almost 10% in the same period.

At yearly level the processing industry recorded a growth of 6%. The construction works expansion in the course of 2002 (the physical volume of construction works increased somewhat over 10% at yearly level) 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



■ GDP (% real annual growth) ■ Personal consumption (% real annual growth)



■ Registered unemployment rate (%)

average growth was estimated to some 13% . Last year tourism recorded a somewhat more conservative growth rate. The increase of overnight stays was estimated to 3%, while the number of tourists increased by 6%.

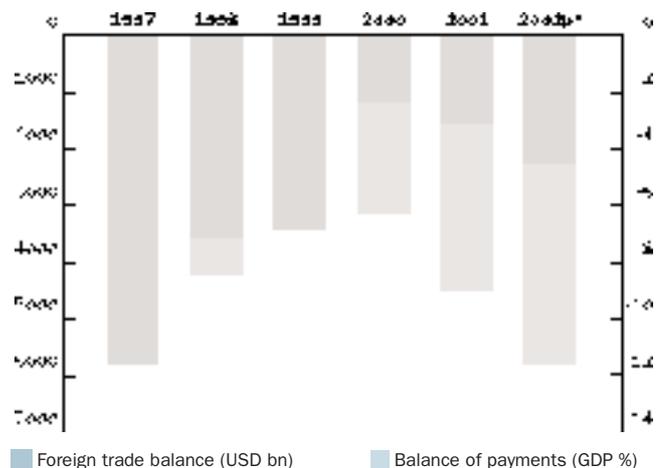
Despite the relatively high increase of economic activities, the number of unemployed remains at an unenviable level. On the basis of preliminary data, registered unemployment at the end of the year was just 1.2 percentage points below the 22.7% registered in 2001. In any case the fall in unemployment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

\_\_\_\_\_ Looked ahead of time, personal consumption and investments will still remain the moving force of the Croatian economy, however we expect that the retaining 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 retaining 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" imports' growth, 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, on a yearly level.

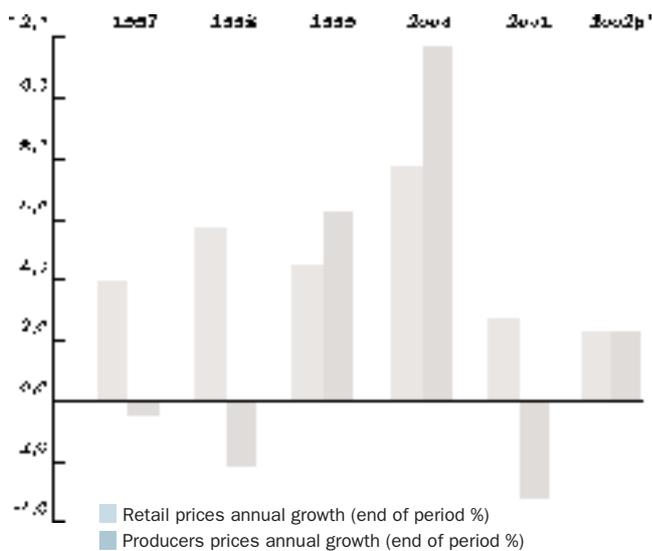
\_\_\_\_\_ Although we do not expect the situation in the trade balance to change essentially in nominal terms in the course of this year, some positive steps may be possible in the export sector, as a consequence of expected recovery of the world



economy in the second half of the year and the fostering of economic relations (CEFTA, south-eastern neighbours). The clause "no essential changes in nominal terms" should be emphasized, however - considering the fact that the future recovery of the export sector (production first of all) is conditioned by imports for the purpose of production or processing of the necessary raw materials and techniques. Naturally, the import of means for the investment-related production and processing does not promise the decrease of foreign trade deficit in the short-run, but will be undoubtedly positive for 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 attenuated the major increases of 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.

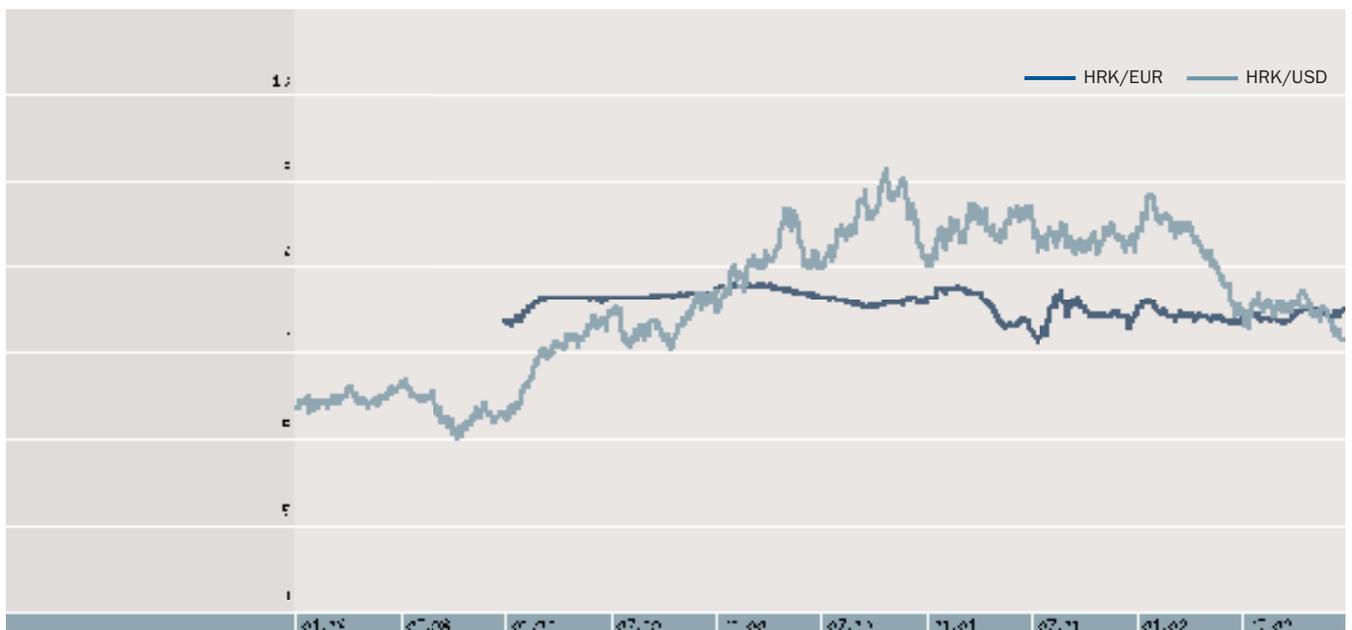


In the forthcoming period prices in Croatia could easily find themselves targeted by growing energy prices. Although these trends will have an impact on the retail prices index, as well as on producers' industrial products prices, we estimate that this

increase will not move much away from the very agreeable growth rates recorded last year.

### Exchange Rate

As to exchange rates, considering the EUR, no significant changes were recorded in 2002. Following the summer appreciation that, despite CNB efforts, strengthened the kuna even above the 7.30 to the EUR, the reduction of pressure in autumn and winter weakened the kuna and retained it within the range 7.4 - 7.5. At the CNB mean rate, the kuna ended the year 2002 at 7.44 to the EUR, just a bit weaker than the year before (7.37), while on average it was even stronger (7.41) compared to the 2001 average (7.47). Almost the whole of 2002 was marked by the weakening of USD to the EUR, which, naturally, reflected on the kuna - USD exchange rate, too. The average rate of kuna to the USD grew from 8.34 in 2001 to 7.86 in 2002. At the end of 2002 the exchange rate of kuna to the EUR was fixed to 7.15. While the strengthened EUR, as well as new limitations in the banks lending policy, as well as the new regulations linked to the coverage rate of foreign currency liabilities with foreign currency assets are going to exert a mild depreciation pressure,

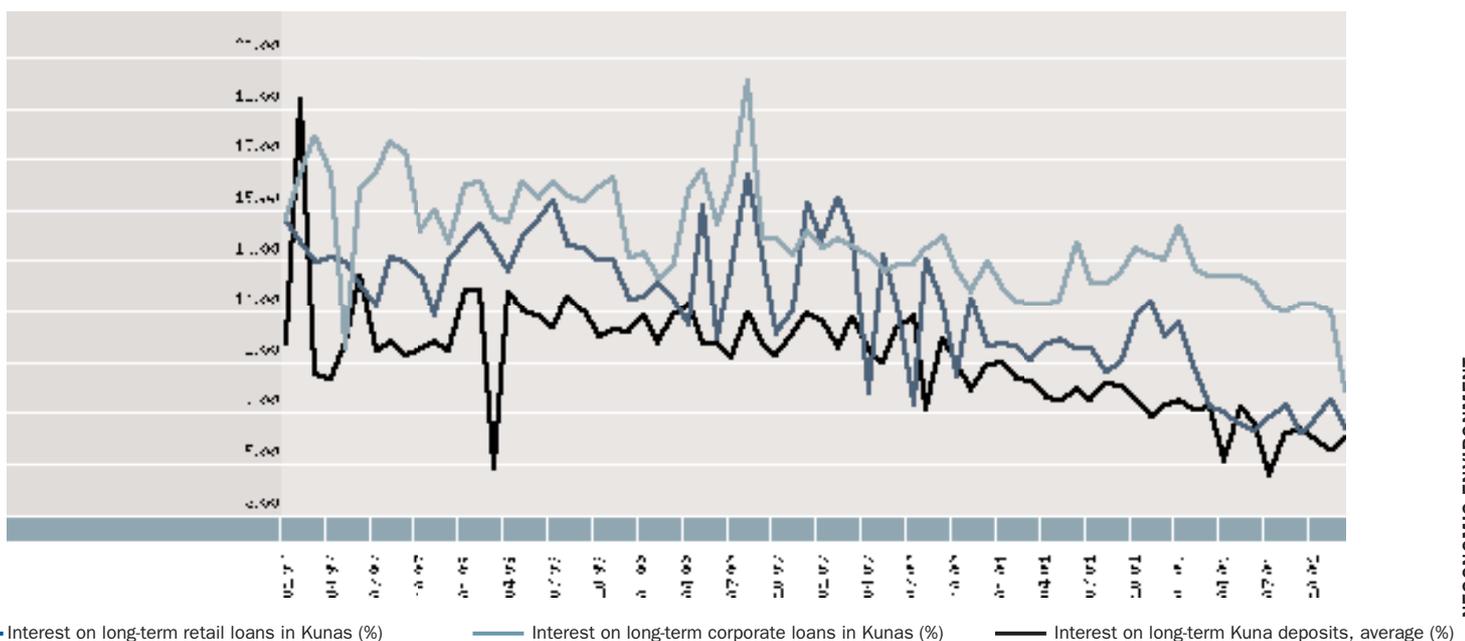


further State indebtedness in foreign currency as well as the privatization income expectations are going to keep the kuna strong in the forthcoming period. We expect that the Central bank will continue to intervene in cases of major oscillations. No fundamental changes in the exchange rate policy are expected in the forthcoming period. We consider the risk of a significant depreciation to be minimal (the mentioned appreciation factors plus avoidance of possible inflation effects).

## Monetary Aggregates and Interest Rates

The end of 2001 was characterized by the growth of foreign currency deposits as the consequence of the replacements of EMU currencies by the EUR. In 2002 the strong effective growth of foreign currency deposits continued in the corporate customers 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% at yearly level. Two essential factors contributed to the mentioned trend: i) the very high inflow of foreign currency retail deposits at the end of 2001 was a one-time episode; ii) the problems in Riječka Banka at the

beginning of 2002. The growth in the banks lending activity was recorded in the year 2002 too, it even accelerated. Total banks' loans (in domestic and foreign currency) at the end of 2002 amounted to HRK 97.5bn. While corporate loans increased by 22.7% at yearly level, the increase of 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 system and by fights for the winning-over of each single customer. Credit expansion financing was mainly covered by banks' increased foreign liabilities and by growth of commercial banks' deposits. Interest rates continued the trend from the end of 2001 and, following global economic trends, they reached the record low level at the end of 2002. Given the fact that since February this year, based on CNB decision, limitations are being applied to 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 State 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 Banking

On 31 December 2002, the Corporate Banking Division had 66 employees.

The operations of the Corporate Banking Division during 2002 reached the volume planned for the year so that the trend of the Bank's growing market share in deposits attracted from as well as in loans granted to the business sector continued.

The market share of deposits held by the business sector in the Bank increased from 4.5% on 31 December 2001 to 5.6% on 31 December 2002. The ESB's market share of total deposits held by all sectors on 31 December 2002 was 3.5%.

The market share of loans granted to the business sector increased from 4.83% on 31 December 2001 to 5.26% on 31 December 2002. The ESB's market share of total loans granted to all sectors on 31 December 2002 was 4.73%.

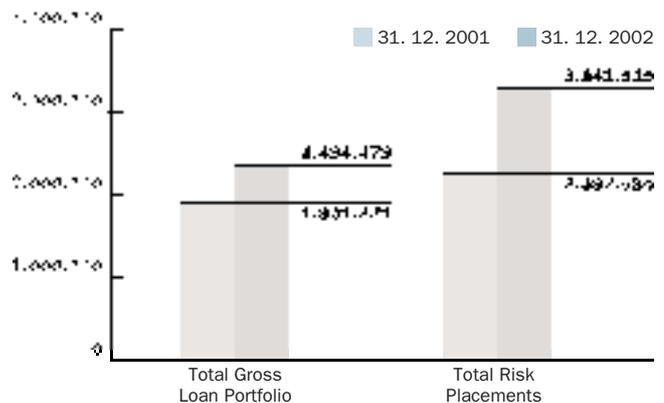
Our target client group within the business sector consisted of small and medium-sized companies that we provide services to

regionally, using the Bank's network of commercial centers, while our large and international clients were provided with the Bank's services from the headquarters in Zagreb. In 2002, the Bank's seventh commercial center was opened in Osijek. For the purpose of providing a more complete service, the Trade and Export Finance Department was set up, which will focus on the operations of factoring and forfaiting.

In 2002, the Bank continued its previously established good cooperation with the Ministry of Crafts and Small and Medium-sized Enterprises as well as with the Ministry of Tourism. The Bank has been an active participant in all the lending programs offered by both ministries and has maintained its role as one of the most active banks in that respect.



### Gross Loan Portfolio and Total Risk Placements to the Business Sector in 000 kuna



### Off-balance Sheet Placements to the Business Sector in 000 kuna

	31. 12. 2001	31. 12. 2002
Guarantees	304,533	333,046
Letters of credit	40,846	53,978
Bills of exchange	10,887	17,372
Unutilized overdraft facilities	163,384	307,969
Other off-balance sheet risk items	35,440	-
<b>Total</b>	<b>555,090</b>	<b>712,365</b>

Corporate operations carried out during the year 2002 were definitely marked by the successful implementation of the new Payment Operations Act that came into force on 1 April 2002. Payment operation services were also upgraded with the introduction of Erste NetBanking - our Internet banking service.

On 31 December 2002, the number of legal entities with settlement accounts at ESB was 5,560, out of a total of 134,975 legal entities, or 4.12 % of the total number of settlement accounts held by legal entities. The total number of business transaction accounts held by legal entities at ESB was 7,493.

Total risk placements to the corporate sector, held both on and off the balance sheet on 31 December 2002, increased by 34.70%, while the gross loan portfolio increased by 33.97 % compared to that at 31 December 2001.

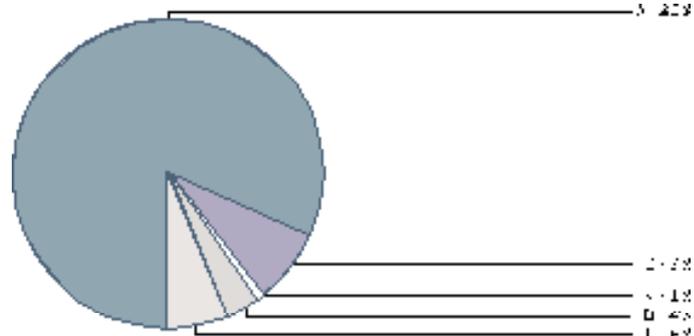
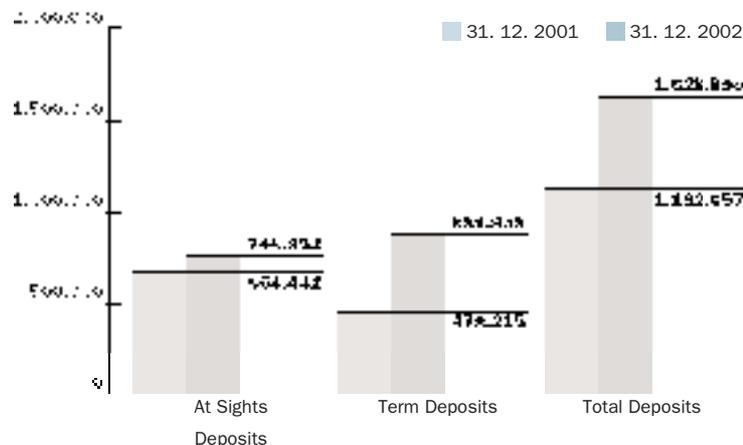
The share of the Corporate Division in the Bank's overall credit risk exposure was 45.05% on 31 December 2002.

2002 saw a continuation of the fierce struggle among competing banks for corporate clients, which resulted in a further decrease in the interest margin. The average weighted interest charged on loans granted to the corporate sector fell to an effective rate of 8.8% in 2002, compared to the 10.5% charged in 2001.

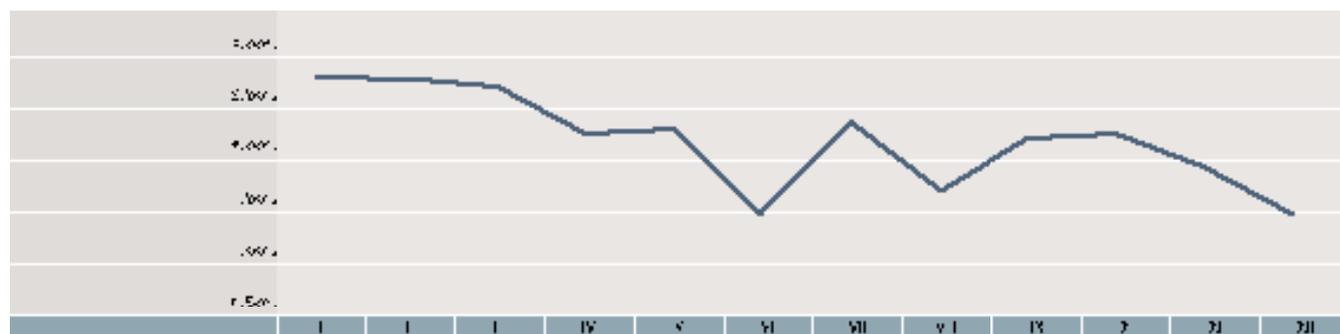
In 2002, corporate clients were granted loans amounting to a total of 1,752,438,000 kuna. The average weighted

interest on loans to the corporate sector granted in the course of 2002 was 8.06 %.

### Corporate Deposits in 000 kuna



### Weighted Interest Rate on Loans Granted in 2002 by Month



\_\_\_\_\_ In 2002, the Bank recorded considerable growth in term deposits, amounting to an increase of 84.4%, while total deposits increased by 43.8% compared to that the end of 2001.

\_\_\_\_\_ Total provisions for identified risks in the business sector amounted to 314,361,000 kuna as at 31 December 2002, providing 10% coverage to the total risk exposed business portfolio recorded both on and off the balance sheet.

#### Credit Risk Exposure by Sector of the Economy as at 31 December 2002

Activity / debtor	Exposure in 000 HRK	%
Agriculture, hunting, forestry and fishing	120,949	3.62%
Mining and extraction	7,665	0.23%
Food and beverages	165,507	4.95%
Garment industry, finishing and dyeing of fur	44,675	1.34%
Publishing and printing	64,370	1.93%
Production of coke, oil derivatives and nuclear fuel	3	0.00%
Production of chemicals and chemical products	34,227	1.02%
Production of other non-metal mineral products	64,474	1.93%
Production of metal products, except machines and equipment	63,055	1.89%
Production of other means of transport	15,193	0.45%
Other processing industry	415,398	12.43%
Supply of electrical energy, gas and water	5,642	0.17%
Construction industry	242,669	7.26%
Retail and wholesale trade, motor vehicle and household appliance repairs	1,492,619	44.66%
Hotels and restaurants	126,085	3.77%
Transport, warehousing and communications	140,421	4.20%
Financial intermediation	120,582	3.61%
Dealing in real estate, rentals and business services	137,707	4.12%
Public administration and defence	27,694	0.83%
Education	29,838	0.89%
Health care and social care	5,807	0.17%
Other social, welfare and personal services	17,349	0.52%
<b>Total</b>	<b>3,341,929</b>	<b>100.00%</b>

# Retail Banking

## All roads lead to the client

\_\_\_\_\_ The Croatian banking market was marked in 2002 by increasing competition among the banks. In spite of that, Erste & Steiermärkische Bank's performance shows that the Bank was able to successfully adjust its operations to the more complex market conditions.

\_\_\_\_\_ The Bank's operations with individuals, craftsmen and small companies, carried out within the Retail Banking Division, showed continued growth in all the services provided in 2002. Simultaneously, the Division trained employees to increase the level of quality of the services offered to the clients.

\_\_\_\_\_ The Bank continued developing its network of branch offices with six new commercial centers and branches opened in 2002. Of these, three were opened in the Zagreb area - in Dubrava, Špansko and Kvaternikov trg, and the other three were opened in Sisak, Osijek and Karlovac. The number of branches thus increased to a total of 38, of which eleven are located in the City of Zagreb and Zagreb County.

\_\_\_\_\_ In 2002, the Bank added new products to its portfolio of services offered to individual clients. Among them are new types of loans with flexible lending terms that can be quickly brought in line with changed market conditions.

The Bank intensified its cooperation with central and local governments and self-government units in the provision and expansion of lending programs supporting entrepreneurs, where Erste & Steiermärkische Bank holds a leading position.

2002 also saw the introduction of para-banking product sales in cooperation with the Kvarner Wienerstädtische insurance company and the Wüstenrot building society.

The introduction of payment operations as a commercial bank service, although seen as a considerable challenge by each commercial bank, was implemented without glitches by Erste & Steiermärkische Bank, so that the quality of its services was to a large extent the reason why it was able to increase its number of clients. The Erste NetBanking project was completed in 2002. As the Bank's proprietary project, it has put the Bank in the peer group able to monitor, use and develop new technologies in their services. Since the introduction of Erste NetBanking, the Bank has seen a continuous increase in the number of Erste NetBanking users.

**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.**

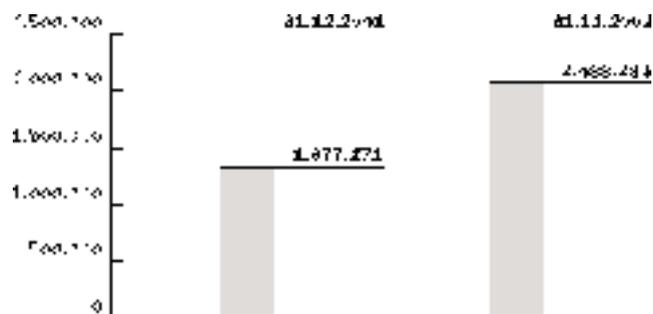
**EVA DRAČIĆ, HAIRDRESSER, ZAGREB**

### Loans

\_\_\_\_\_ Retail loans recorded growth in total credit risk exposure in 2002 compared to that in 2001 due to the strategic decision of the Bank to focus on retail banking. Consequently, in 2002 retail loans represented 45.56% of the Banks total credit risk exposure, while in 2001, their stake in the total credit risk exposure was 42.43%.

The total loan portfolio recorded growth of 51.62% compared to that in 2001, and as at 31 December 2002, the total gross loans granted amounted to 2,088,293,000 kuna.

#### Retail Division - Loans in 000 kuna



In spite of stiff competition present in the banking market, Erste & Steiermärkische Bank succeeded in increasing its share in the total loans granted by commercial banks from 4.58% in 2001 to 4.86% in 2002. In spite of a downward trend in interest rates, caused by increased competition among banks, and due to continuous monitoring of the purchasing power of its individual clients, the Bank recorded a 32.20% growth in interest income in the year 2002.

#### Retail Division - Interest Income in 000 kuna

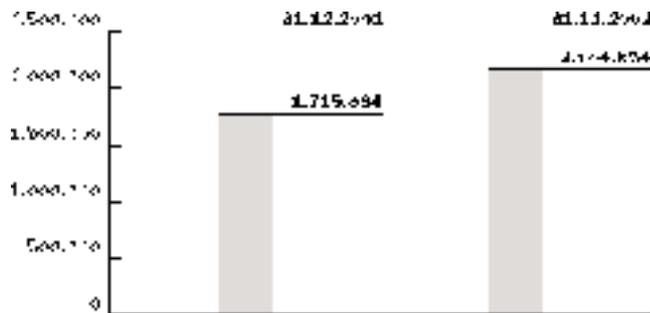




## Deposits

A stable level of savings held at the Bank shows that Erste & Steiermärkische enjoys the confidence of its clients'.

### Retail Division - Total Deposits in 000 kuna

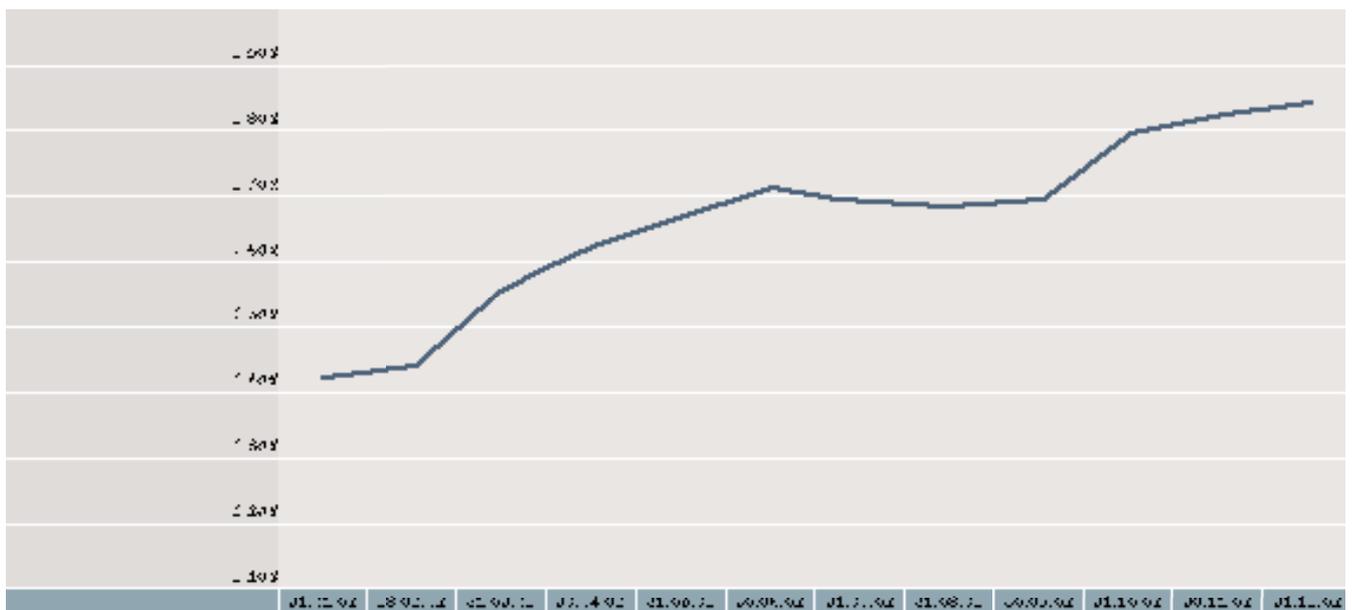


Savings held by individuals in the Erste & Steiermärkische Bank totaled over 2 billion kuna in 2002. As at 31 December 2002, total savings amounted to 2,104,854,000 kuna, which was an increase of 22.73% over that in 2001. It should also be stressed that the Bank was able, in spite of the fact that it was operating in an environment characterized by increased competition among banks, to further increase its share of total savings deposits held by individuals in all banks, which was 2.36% in 2001, and increased to 2.86% in 2002.

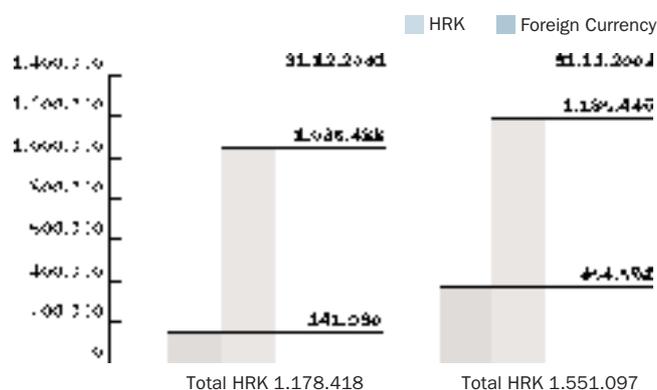
The maturity structure showed that our clients trust the Bank, which is a reason for satisfaction, because we have recorded a considerable increase in the Bank's share of term deposits in the total deposits held in banks in 2002.

As at 31 December 2002, sight deposits amounted to 553,757,000 kuna, while term deposits increased by 31.62% in 2002 compared to that in 2001, and as at 31 December 2002 amounted to 1,551,097 000 kuna.

### The Erste & Steiermärkische Bank's Share of Deposits in the Total Deposits Held by Commercial Banks



## Retail Division - Term Deposits in 000 kuna



## Card operations

Erste & Steiermärkische is a bank whose network of 68 ATMs all over Croatia represents a market share of 5.61%. In 2002, there were more than 1.1 million transactions completed via the Bank's ATMs, or on average 1,393 transactions per ATM, which is an impressive figure for the Croatian market although it is still below the European average.

The Bank has been operating with a number of cards, whose number of users increased considerably in the course of 2002.

2002 saw the introduction of a new product - a revolving credit where a card holder is able to choose which credit terms are best suited to his or her needs.

### Card operations

Cards	Number of cards		Increase in 2002
	as at 31. 12. 2002	as at 31. 12. 2001	
EUROCARD/MasterCard	6,330	1,982	219.37%
Maestro	63,744	47,370	34.57%
VISA Electron	11,455	8,962	27.82%
VISA Business	1,155	231	400.00%
<b>Total</b>	<b>82,684</b>	<b>58,545</b>	<b>41.23%</b>

## Treasury Division



TREASURY DIVISION



**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 PLÍŠKOVÁ, PHARMACIST, PRAGUE**

— The Treasury Division was successful in maintaining the Bank's kuna and foreign exchange liquidity all through 2002, while at the same time managing successfully the currency and maturity structure of the Bank's balance sheet.

— Another responsibility of the Treasury Division was to co-ordinate the Bank's loan expansion and to manage balance sheet growth while maintaining the required ratios at the level stipulated by law and by the Bank's by-laws. The Bank's Treasury Division has developed excellent relations with international financial institutions, which, coupled with the reputation ESB enjoys in international financial circles, resulted in long-term credit lines amounting to EUR 20 million that the Bank was able to realize in 2002 in cooperation with IFC and another EUR 20 million in cooperation with EBRD. Another activity carried out by the Treasury Division in 2002 was the participation in a EUR 60 million loan syndication, organized by Standard Bank from London and Erste Bank from Vienna with the participation of 15 well-known European banks.

— The Treasury Division was an active participant in the creation of the Croatian foreign exchange and securities market all through 2002. ESB was a participant in daily trading operations in both foreign currency and securities with other domestic and foreign financial institutions, as well as Croatian citizens and companies.

In addition to its securities trading services, the Treasury Division also organized custody services for its clients and their securities. The quality of services, together with the speed and price of custody services offered by ESB resulted in a considerable increase in the number of clients as well as in an increase in the total value of assets put by clients in the custody of the Bank.

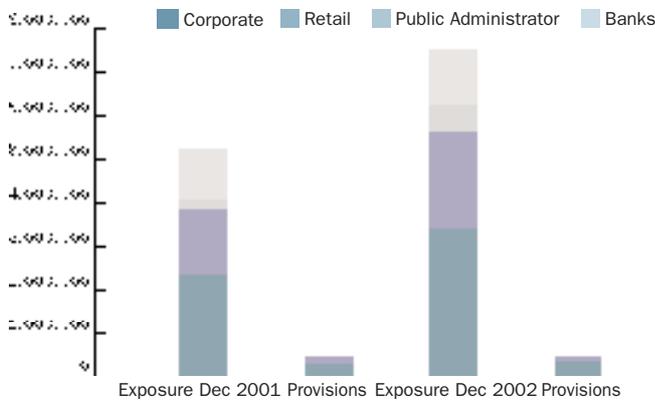


# Risk Management Division

\_\_\_\_\_ In the course of 2002, the Risk Management Division continued to focus on its main task, to carry out credit and market risk control, in order to ensure the sound growth of the portfolio while at the same time maintain its safety. In addition to the on-going tasks to be implemented, the Division invested a considerable amount of work in the field of training and improving the knowledge of employees both in the Risk Division and the Sales Divisions, as well as in creating additional control instruments and developing measures to implement them in the most efficient way possible.

\_\_\_\_\_ The Bank in 2002 achieved considerable portfolio growth in line with the Bank's programs and goals defined for the entire Bank. When analysing the growth structure applying sector-specific criteria, it was evident that the most important growth rates continued to be realized by the two most prominent Bank divisions, i.e. the Retail Banking Division and the Corporate Banking Division, where similar growth rates were recorded. If we analyse the risk exposure, it is obvious that the Corporate Banking Division continued to be by far the most risk exposed sector in the Bank portfolio, although the overall portfolio structure started to gradually change in favor of the Retail Banking Division, whose relative share in overall business activities has been growing over time, following the Erste Group strategy of focusing on retail business as its "core business." It is important to note that in spite of the high growth level of risk exposure, it was nevertheless possible to maintain full control

## Breakdown of Gross Risk Assets and Total Reserves



	31. 12. 2002		31. 12. 2001	
	Exposure	Provisions	Exposure	Provisions
Corporate	3,341,929	341,040	2,424,949	301,662
Retail	2,214,451	78,728	1,456,867	63,016
Public Adminis.	622,164	337	229,897	289
Banks	1,239,552	11,199	1,113,753	8,499
<b>Total</b>	<b>7,418,096</b>	<b>431,304</b>	<b>5,225,466</b>	<b>373,466</b>

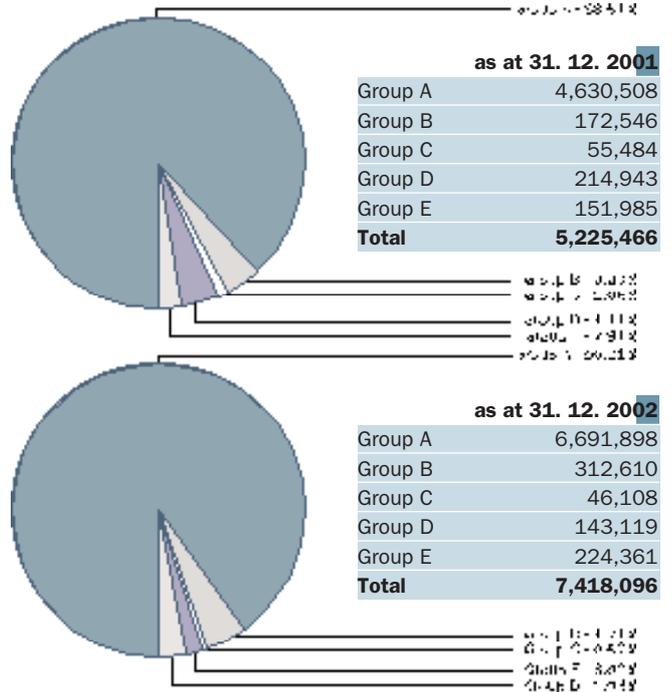
over the quality of the portfolio, mostly due to the continuous and efficient actions undertaken by the Risk Management Division. This was clearly evidenced by the movement in provisions, which have grown in absolute amounts, but at a considerably lower rate than the overall exposure, thus bringing about a further decrease in the share of provisions in proportion to the Bank's total portfolio. One of the reasons for this achievement is no doubt

**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.**

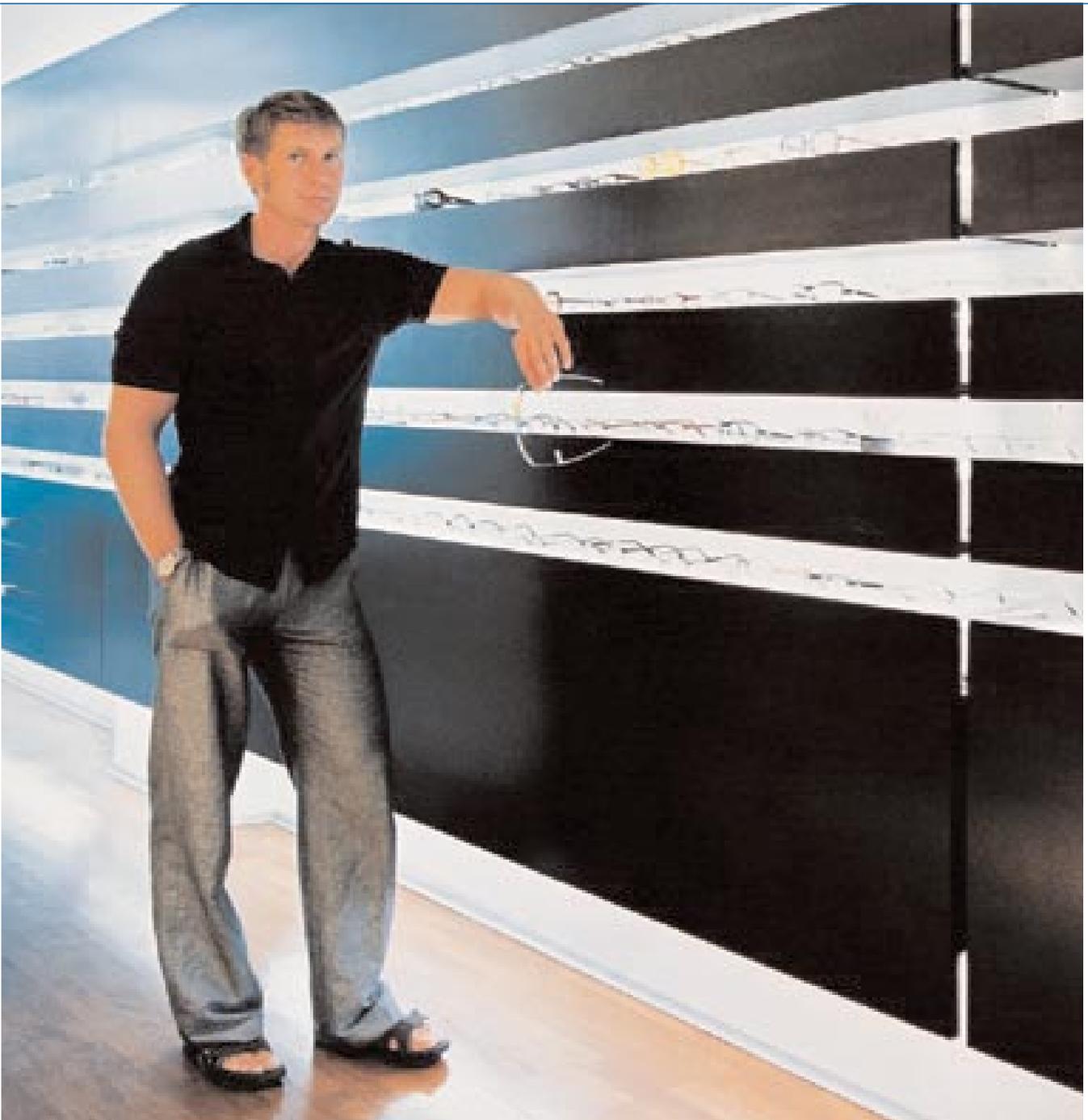
**NIKOLAS HAUSER, OCULIST, VIENNA**

to be found in the Bank's good performance in collecting doubtful receivables (the so-called credit workout), i.e. in the collection activities being both faster and higher in amounts than the simultaneously made new placements. The attached comparative overview of credit risk exposure by risk category shows clearly the impressive improvement in the structure of placements compared to that in 2001, as evidenced by the growing share of exposure in categories A and B (high-quality placements), while the share of other, poorer-quality placements in categories C to E has decreased considerably - thus continuing the already existing trend in the Bank's operations.

## Share of Risk Groups in Gross Risk Assets



\_\_\_\_\_ As regards market risks, the strict and continuous matching of assets and liabilities in terms of currency and interest has been the dominant business policy of the Bank. The activities carried out by the Risk Management Division contributed to the achieved planned growth as well as to the creation of quality prerequisites for continued further growth, thus protecting the interests of both the Bank's owners and its numerous clients, while at the same time providing satisfaction to both.



# Payment Operations

## Domestic Payment Operations

\_\_\_\_\_ The new Domestic Payment Operations Act, that came into force in April 2002, set all the legal conditions required to organize and perform domestic payment operations. At this time, the Bank, in cooperation with FINA, was able to start providing the services for domestic payment operations.

\_\_\_\_\_ As at 31 December 2002, there were 11,070 accounts of business entities held at the Bank, of which 79% were the main transaction account for the business entity.

In 2002, the average amount paid monthly into accounts held by business entities was 339 million kuna, while the amount withdrawn was on average 119 million kuna, and the amount of receipts paid into the 24-hour safe box was 133 million kuna.

\_\_\_\_\_ The average number of non-cash orders processed monthly was 400,000.

\_\_\_\_\_ The Bank offered its clients the option of executing their payment orders electronically, in addition to the conventional way of doing it, and 981 clients took advantage of the new service.

## International Payment Operations

\_\_\_\_\_ In the course of 2002, the Erste & Steiermärkische Bank had correspondent relationships with more than 400 banks in 51 countries. It held 23 foreign currency accounts in European countries and countries outside Europe, all Croatia's main trading partners, while at the same time 15 foreign banks held their accounts in kuna and in foreign currencies in ESB.

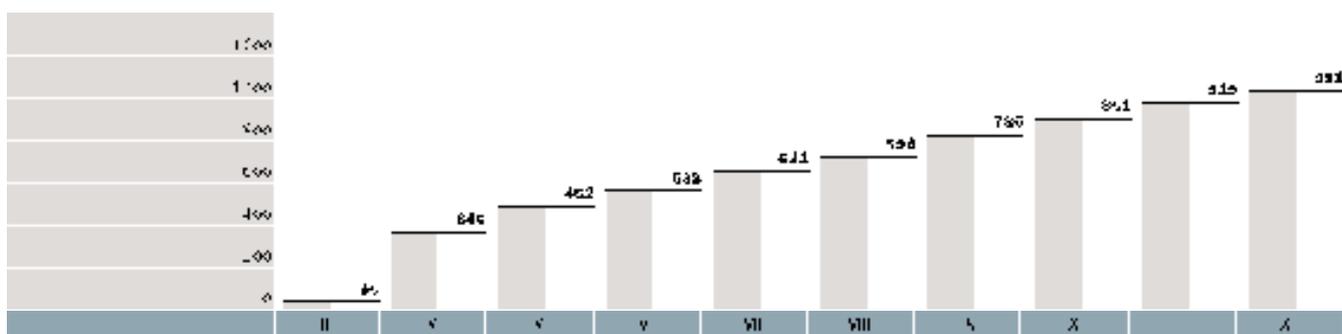
\_\_\_\_\_ In 2002, total turnover based on documentary and guarantee transactions was 19% higher than in 2001.

\_\_\_\_\_ In spite of the globally decreasing trend in the use of letters of credit as payment instruments in international trade, the Bank was able to maintain the use of letters of credit as a stable payment instrument with an almost unchanged number of these payment instruments issued yearly over the last 3 years.

\_\_\_\_\_ Due to a reduced level of risk present in the region, exporters started using simpler and cheaper payment instruments such as incasso, and the number of these instruments almost doubled in 2002.

## Domestic Payment Operations

### Upward trend in the number of companies and craftsmen using the Erste NetBanking service in 2002



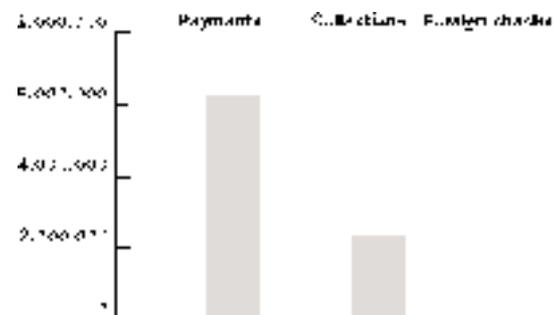
— The Bank intensified its activities in the field of purchasing outstanding cash receivables (forfaiting), mostly resulting from our clients' export transactions.

— Within the guarantees issued, standard guarantees were used, but also stand-by letters of credit and bills of exchange with the aval of the Bank.

— In the area of international payment operations, the overall increase in the payments realized in 2002 was 12% higher than that in 2001, while the overall number of collections increased by 7%. The highest growth was recorded in transactions involving checks where the increase over the year amounted to 36%.

— The Bank's clients adopted new communication channels to a larger extent throughout 2002, and delivered their foreign payment orders electronically to the Bank. The upward trend in such payments resulted in the total number of such orders reaching 40% of all payment orders received by the Bank.

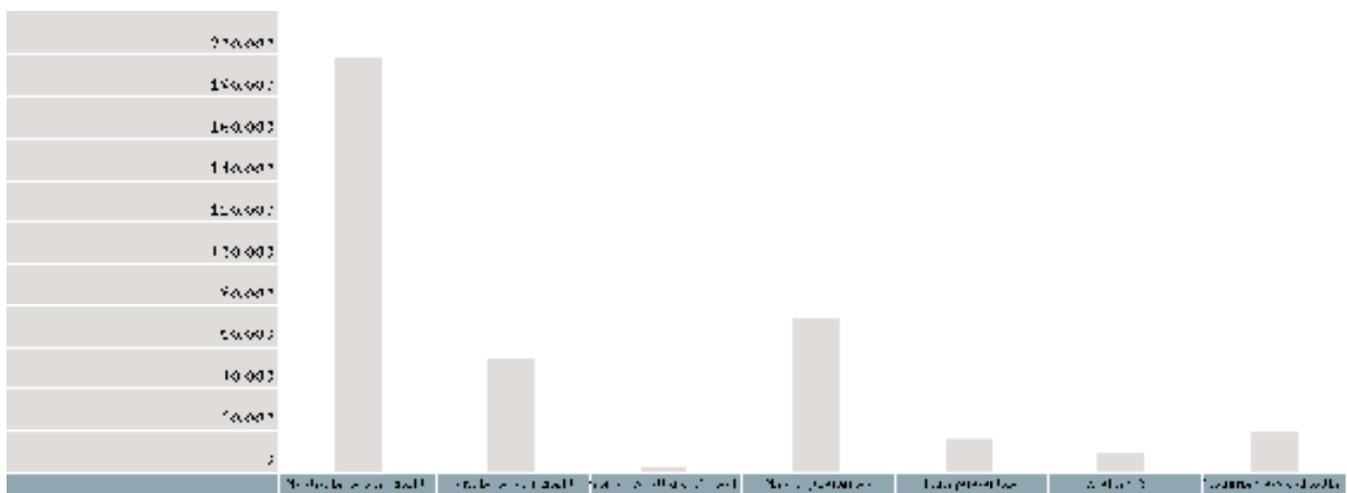
### International Payment Operations Instruments in 000 kuna



### International transactions in 000 kuna

	2002	%
Payments	6,218,768	12%
Collections	2,267,758	7%
Foreign checks	34,609	36%

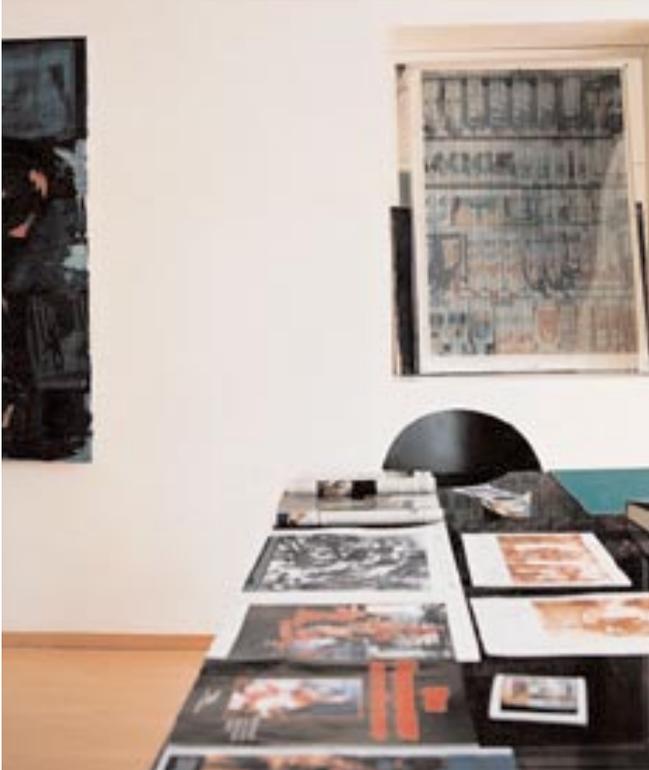
### International Payment Operations Documentary and Guarantee Operations in 000 kuna



## Human Resources

Competent and motivated





**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 KERTÉSZ, ENTREPRENEUR, BUDAPEST**

Erste & Steiermärkische Bank d.d. is a bank with human resources who have the knowledge, skills, capabilities and abilities to meet the new challenges and contemporary organizational developments which will ensure that the Bank continues to be competitive in the Croatian banking market.

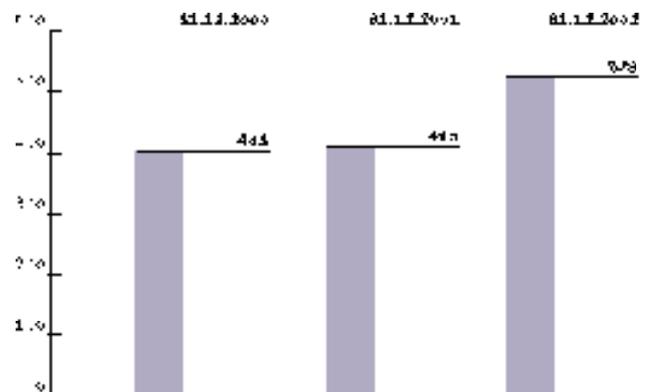
It should be stressed that the Bank has to adapt to the new circumstances it is facing, not only because of the rapid changes prevailing in the financial and banking markets but also because of the continued changes in the operations and organization of the Bank itself. Following the completion of the first triple merger ever in Croatia (in the year 2000) and then its consolidation (in 2001), the Bank is now facing another merger, which started in 2002, and which will enable the Bank to realize most of its long-term goals.



## The Bank employees

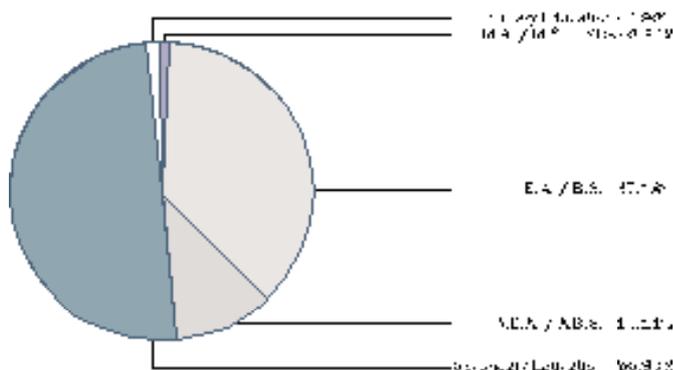
In the course of 2001, the Bank did not have to increase its number of employees due to the merger of three banks and the ensuring adequate employment level, while there was a 28.09% increase in the number of employees in the year 2002, due to the expansion of the Bank's sales network.

### Increase in the Number of Employees



\_\_\_\_\_ The average Bank employee age is 35, while the average age for the first and second-line management is 38. The qualification structure of the Bank shows that 50.90% of the employees have a high-school degree, and 37% of employees have a university degree. Compared to the year before, the number of university-educated employees increased by 3.85%, while the number of employees with high-school degrees went down by 2.63%. The Bank's staffing is 66.25% women and 33.75% men, while the Bank management consists of 48.65% women and 51.35% men.

#### Employee Qualifications as at 31.12.2002



\_\_\_\_\_ The Bank has continued with an employment policy that gives priority to existing Bank employees when looking for candidates to fill the vacancies at the Bank. The procedure should offer the Bank employees the opportunity to change positions within the Bank, while at the same time offering the possibility of further training and promotion in their respective professional fields. Only when no adequate candidate can be found for the vacant position within the Bank is the job vacancy advertised externally.

### Training and Development

\_\_\_\_\_ A lot of attention was given to employee training in 2002, with the Bank organizing a large number of workshops and seminars, including foreign language training, especially English and German. Employees were sent to seminars and workshops

organized externally for the purpose of developing their personal skills. Training and exchange programs attended by Bank employees that were organized within the Erste Group deserve to be mentioned in this context. It was precisely that form of training as well as the possibility of participation in the development of the leading group in central and eastern Europe that has been the guarantee of our continued advantage over some of the competitors present in the banking market.

\_\_\_\_\_ Employee satisfaction remains a focus for the Bank's Human Resources Department. In the course of 2002, a second survey was carried out with the aim of researching the level of employee satisfaction regarding different aspects of their work at the Bank. The survey, carried out anonymously and voluntarily, showed considerable progress in employee satisfaction with the working environment, compared to the previous survey, carried out at the time of the first merger in the year 2000.

\_\_\_\_\_ In 2003, Human Resources Department activities will be focused on preparations for the merger with Riječka Banka.

# Erste & Steiermärkische Bank d.d.

## Supervisory Board of the Bank

Mr.Sc. Reinhard Ortner  
President of the Supervisory Board

August Jost  
Deputy President of the Supervisory Board

Vladimir Jurašić  
Member of the Supervisory Board

Josef Kassler  
Member of the Supervisory Board

Ivan Ljubanović  
Member of the Supervisory Board

Franz Mally  
Member of the Supervisory Board

Mr.Sc. Herbert Martinetz  
Member of the Supervisory Board

Dr. Kristijan Schellander  
Member of the Supervisory Board

Reinhold Schuster  
Member of the Supervisory Board

Mr.Sc. Karin Svoboda  
Member of the Supervisory Board

## Management Board and Management of the Bank

Tomislav Vuić  
President of the Management Board

Borislav Centner  
Member of the Management Board

Dragutin Bohuš  
Member of the Management Board

Ivan Vuk  
Advisor to the Management Board and Head of IT & Organisation Division

Saša Krbavac  
Head of Retail Division

Marko Krajina  
Head of Corporate Division

Damir Bronić  
Head of Risk Management Division

Dino Janković  
Head of Treasury Division

Karma Perišin  
Head of Accounting and Controlling Division

Jasna Veseli  
Head of Processing Division

Jasminka Hanušić  
Head of Legal Department

Dijana Bojčeta  
Head of Marketing & PR Department

Vanda Szabo  
Head of Human Resources Department

Vesna Bila  
Head of Internal Audit Department

Pavle Drakulić  
Head of Participations & Strategic Investment Department

Željko Čanak  
Head of Property Management Department

# Erste & Steiermärkische Bank d.d.

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Karlovac, Trg Josipa Broza 2, phone ++ 385 47 609 400	Sisak, Stjepana i Antuna Radića 13, phone ++ 385 44 527 927
Osijek, Ribarska 2, phone ++ 385 31 226 820	Velika Gorica, Trg kralja Tomislava 38, phone ++ 385 1 6370 170
Rijeka, Adamićeve 7, phone ++ 385 51 352 422	Zagreb, Avenija Dubrava 49, phone ++ 385 1 2958 800
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Zagreb, Zelinska 3, phone ++ 385 1 6002 777	Zagreb, Vlaška 22, phone ++ 385 1 4814 080

## Advisory Center

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Garešnica, Vladimira Nazora 29, phone ++ 385 43 445 400	Čazma, Kralja Tomislava 1a, phone ++ 385 43 771 424
Karlovac, Trg Josipa Broza 2, phone ++ 385 47 609 400	Dubrava, Radnička 2, phone ++ 385 1 2726 081
Križevci, Trg J. J. Strossmayera 1, phone ++ 385 48 711 070	Hercegovac, Moslavačka 143, phone ++ 385 43 524 600
Osijek, Ribarska 2, phone ++ 385 31 226 800	Knin, Trg Oluje 15, phone ++ 385 22 662 369
Rijeka, Adamićeve 7, phone ++ 385 51 352 444	Lipik, Marije Terezije 5, phone ++ 385 34 421 636
Split, Trg hrvatske bratske zajednice 3, phone ++ 385 21 323 470	Molve, Kralja Tomislava 32, phone ++ 385 48 892 282
Zadar, Ulica Borelli 8, phone ++ 385 23 301 011	Pakrac, Trg dr. I. Šretera 1, phone ++ 385 34 412 424
Zagreb, Masarykova 1, phone ++ 385 1 4882 555	Pitomača, Kralja Tomislava 19, phone ++ 385 33 782 502
Zagreb, Zelinska 3, phone ++ 385 1 6002 700	Rovišće, Trg hrvatskih branitelja 3, phone ++ 385 43 878 032

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Koprivnica, A. Nemčića 1, phone ++ 385 48 625 510	Zagreb, Kranjčevićeva 29, phone ++ 385 1 3820 037
	Zagreb, Varšavska 3, phone ++ 385 1 4561 938