

Annual Report 2003

ERSTE & STEIERMÄRKISCHE BANK D.D.

Key performance indicators Erste & Steiermärkische Bank d.d.
for the year ending 31 December 2003 (all amounts are in HRK 000)

Profit and Loss Statement Items	2003	2002
Net interest income after provisioning	528.038	225.876
Net fee and commission income	97.236	51.915
Net currency translation gains	86.419	47.319
Net profit from securities trading	17.758	10.257
Other operating income	37.533	20.383
Total costs	-555.682	-278.805
Pre-tax profit	211.302	76.945
Net profit	228.383	121.568
Balance Sheet Items	2003	2002
Total assets	19.517.204	8.412.988
Loans to clients	9.592.529	3.935.213
Liabilities to depositors	10.783.111	5.272.090
Total equity	1.603.883	958.244
Employees	1540	988
Number of units with the business network	118	77

General information

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Letter to shareholders by the Chairman of the Supervisory Board

_____ It is with a great deal of pleasure that I share with you the information on the excellent performance in 2003 by the now merged and stronger Erste & Steiermärkische Bank d.d. Rijeka, member of the Erste Bank Group.

_____ The performance recorded in 2003 fully justifies the decision taken by the Bank to merge Riječka banka d.d. Rijeka and Erste & Steiermärkische Bank d.d. Zagreb as well as our trust in the strength of the two banks and the capabilities of their employees.

_____ Business processes were upgraded, employees were trained and IT systems were merged in the course of 2003, so that the organization is now aligned with market expectations while products and services have been developed in order to create a structure fit for one of the leading banks in Croatia, a bank which has outgrown its regional focus to become a national bank with a well-developed regional network and a market share of 10 percent.

_____ The Bank's Supervisory Board has performed all its responsibilities in the area of the supervision and planning of the Bank operations, as specified by the Bank's Articles of Association, other relevant legal provisions, and its own decisions aimed at supporting quality initiatives and activities performed by the Bank.

_____ Following the proposal of the Bank's Management Board, the Supervisory Board has passed the Resolution on profit allocation and dividend payout, according to which the total profit of HRK 228.3 million will be allocated so that the amount of 216.9 million kuna will be paid in dividends to the Bank shareholders, or 16,38 kuna per share, while the remaining profit will be allocated to the Bank capital, additionally strengthening Bank stability for the future.

_____ We showed in the year 2003 that we can achieve more and better. This is why I would like to thank all the employees of the merged and strengthened bank, which is currently the third largest bank in Croatia, as well as all the members of the Management and Supervisory Boards for their energy, decisiveness, hard work and achieved performance.

Reinhard Ortner, BSc
Chairman of the Supervisory Board

Report of the President of the Management Board

_____ It is with great satisfaction that we present the 2003 business results of Erste & Steiermärkische Bank d.d. Rijeka. On behalf of the Management Board, I would like say a few words in lieu of an introduction.

_____ The trends we have seen in the Croatian banking sector over the past years have continued; these include globalization, the falling cost of capital, improved liquidity, the expansion of alternative methods in the sales and distribution of banking services, and a relatively stable macroeconomic environment. Nevertheless, business activities in 2003 were influenced to the largest extent by the restrictive measures of the Croatian National Bank and the restriction of the growth of loans, and we have successfully met these challenges.

_____ Bank operations in 2003 were to the greatest extent focused on completing the merger of Erste & Steiermärkische Bank d.d. Zagreb and Riječka Banka d.d. Rijeka, and so all of our operations on a micro and macro level were arranged with this as the goal. At the same time we worked towards improving the quality of services with the introduction, as well as the continued development, of already existing, new products and channels of distribution.

_____ Using the complementary advantages of each bank as well as the knowledge and experience of our employees, we improved our business operations, put in place a unique IT system, and redefined and improved the organizational structure of the Bank. We have insured a quality system of education for our employees so that we can justify the trust our clients put in us on a daily basis.

_____ The operational indicators of the newly consolidated Erste & Steiermärkische Bank d.d. Rijeka have also confirmed the success of the merger and the realization of the goals set.

The Bank's balance sheet amounted to HRK 19.5 billion, as at 31 Dec. 2003, and this is up almost 25 percent on that shown in the consolidated balance sheet of Erste & Steiermärkische Bank d.d. Zagreb and Riječka banka as at 31 Dec. 2002. Assets per employee grew 15,6 percent and total capital by 6,5 percent, while the net profit of the Bank was up 8 percent to HRK 228.3 million.

_____ The total loan portfolio of the Retail Division increased 23 percent over the year and as at 31 Dec. 2003 stood at HRK 4.9 billion, while the loan portfolio of the Corporate Banking Division amounted to HRK 5.4 billion, increasing 12 percent on that the previous year. Retail deposits increased 16 percent, while the deposits of legal entities were up 12 percent, additionally confirming our leading position on the Croatian banking market.

_____ With the goal of offering a wider array of top quality services to small and medium-sized enterprises, loan placements to this segment stood at more than HRK 312 million, and the Bank's excellent collaboration continued with the Ministries of Crafts and SMEs and Tourism. The value of this collaboration with

the Ministry of Crafts and SMEs can also be seen in the presentation of the "Nova dimenzija" (New Dimension) award. Because of our reasonable loan terms, our collaboration with the Croatian Bank for Reconstruction and Development was also strengthened.

_____ During 2003, the Bank's branch network was expanded with new branch offices in Požega, Šibenik and Zagreb. The innovativeness of the Bank and its attention to the trends and demands of the market were additionally affirmed by the opening of the first branch office for young people in Croatia, on Rijeka's main street, Korzo. With this move, Bank clients are offered, along with standard banking services, a special and completely new nook for educating and bringing together young people. This additionally demonstrates the Bank's innovativeness and orientation towards its clients. Also, the Bank was the first bank in Croatia last year to begin issuing cards with the Maestro chip. This was the first step made in changing over to EMV chip technology as well as a step towards the greater protection of user financial transactions.

_____ In 2003, the Bank made a significant advance on the Croatian Capital Market, placing itself here also as one of the most innovative, highest quality banks. We participated in issuing the first long-term government bonds in Croatian kuna, and at the end of 2003, we received authorization to issue municipal bonds for the city of Koprivnica, the first issue of long-term municipal bonds in kuna on the market.

_____ Proudly bringing my introduction to a close, I would like to thank all the employees of Erste & Steiermärkische Bank as well as my colleagues from the Management and the Supervisory Boards for their efforts and contributions to the excellent results achieved. And I would also like to take this opportunity to thank all of our clients and shareholders for all the support and confidence they have shown us.

Petar Radaković
President of the Management Board

Management Board



Petar Radaković, President,
responsible for Risk Management Division,
Internal Audit Department and Legal Department



Tomislav Vuić, Vice president,
responsible for Retail Division,
Multi Channel Management Department, Marketing and Communication
Department and Human Resources Department



Borislav Centner, Member,
responsible for Corporate Division and Property Management Division



Sava Dalbokov, Member,
responsible for Treasury Division,
IT and Organization Division and Securities Custody Department



Slađana Jagar, Member,
responsible for Accounting and Controlling Division and Processing Division

Retail Division

_____ The Erste & Steiermärkische Bank faced a number of extraordinary challenges in the banking market last year. Banking operations were marked by restrictions in the growth of placements and changes in the account coding system, while the Bank simultaneously completed a demanding and complex merger.

The merger was carried out in three stages:

- In the first stage, completed on 1 May 2003, credit operations were merged.
- The second phase was completed on 1 August 2003, the day of the legally completed merger.
- The third and most demanding stage for the Retail Division, the depository operations merger, was completed on 1 November 2003.

_____ In addition to the major changes and active involvement in the preparation of data for IT migration into the single IT system of the Bank, a new divisional organization was introduced in 2003, including the redefined status of Bank business units carrying out operations - branch offices, branches and advisory centers. In line with the new organization, five regional management centers became operational on 1 August 2003 - Istra, Rijeka, South, Zagreb and East, as well as the MCM Center and the Sales Support Center.

_____ Erste & Steiermärkische Bank d.d. Rijeka adopted the IBIS IT system of the former Erste & Steiermärkische Bank d.d. Zagreb, and employees were trained throughout the year on the use of the new system. The training was successfully completed by the end of 2003, with the total number of 400 employees going through the training.

_____ The Bank business network was widened with new branch offices in Požega, Šibenik and Zagreb, and a new branch office for young people in Rijeka. At the end of 2003, the Bank had 118 business operations units. The recently opened branch office for young people is more than a usual bank outlet and is the first of its kind in Croatia. The branch office has been decorated to appeal to young people and is completely different from the usual style of decoration. This provides our clients between 15 and 26 years of age not only with banking services, but also with non-banking ones, such as surfing the Internet, listening to music, watching music videos, having a drink and enjoying various magazines.

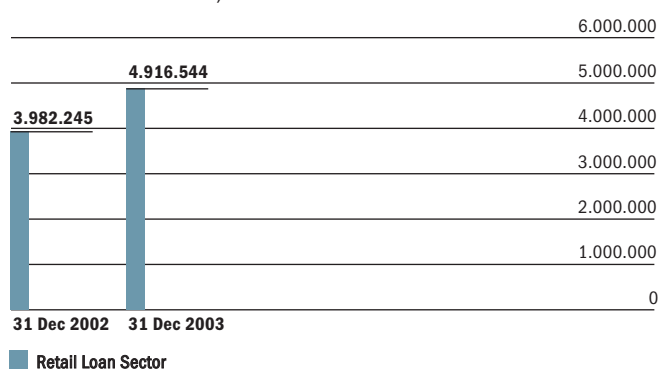
_____ In spite of all the activities connected with the merger, the Bank was able to continue its high growth rates in both the loan and the deposit portfolios in 2003.

_____ Due to easier comparable purposes consolidated data of Riječka banka d.d. Rijeka and Erste & Steiermärkische Bank d.d. Zagreb for 2002 have been shown in further analyses parallel with the data of the Bank for 2003.

Loans

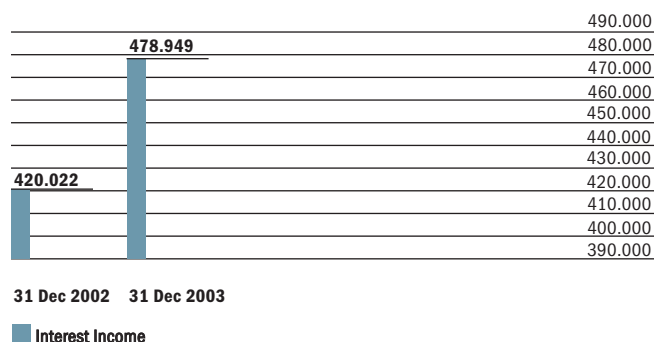
The Bank loan portfolio increased by 23 percent,

Retail Loan Sector, in 000 kuna



and interest income increased by 14 percent.

Interest Income, in 000 kuna

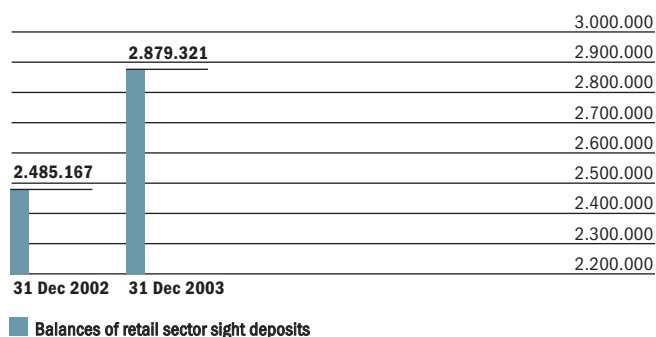


Deposits

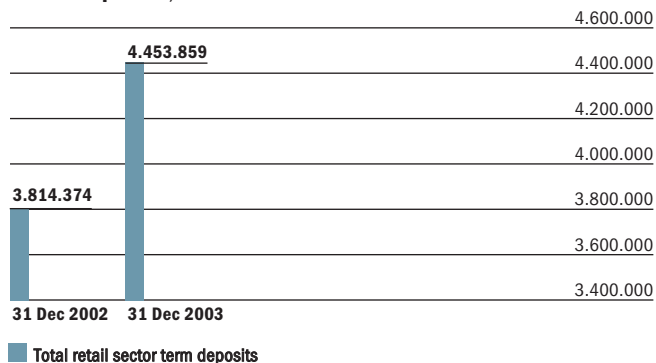
One of the most important objectives to be met by the Bank in 2003 was to regain the trust of savers and to attract deposits again.

The international reputation enjoyed by the majority owners of Erste & Steiermärkische Bank d.d. Rijeka, together with a competitive range of Bank products, made a major contribution to the Bank's effort to regain and strengthen the confidence of its clients. The fact that deposits grew by an impressive rate of 16% is a clear proof of the Bank's success in that endeavor.

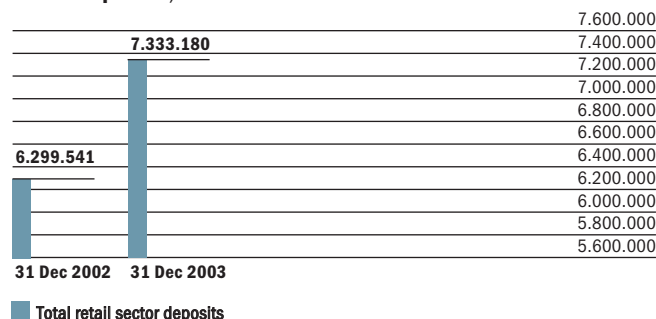
Sight Deposits, in 000 kuna



Term Deposits, in 000 kuna



Total Deposits, in 000 kuna



Distribution Channels

Two main goals were set for the Distribution Channel Management Division in the year 2003 - the merging and migration of data and the reorganization of Bank operating procedures in the same area.

Card Operations

Card type	Balance as at 31 Dec 2002	Balance as at 31 Dec 2003	Growth
MBCard/Maestro	206.305	245.072	18,79%
Visa Electron	11.455	23.577	105,82%
EC/MC (charge and revolving)	15.170	26.550	75,02%
Visa Business	1.155	2.233	93,33%
Visa Corporate Gold	34	98	188,24%
MasterCard Business	280	560	100,00%
Total	234.399	298.090	27,17%

In spite of the merger in the area of card operations, the Bank recorded a 27,17% growth in the number of cards issued, with the total number of Bank card holders reaching 298,090 on 31 December 2003.

Growth in the number of cards was also accompanied by card activation growth, which was around 60% at the end of the year. The number of transactions performed with cards also increased by 19% compared to 2002.

The number of ATMs and POS terminals increased from 177 ATMs and 556 POS devices in 2002 to 213 ATMs and 856 POS devices in 2003, with the growth rate in ATMs being 20,34%, and in POS devices 53,96%.

The number of transactions performed by ATMs also increased by 23,58% in 2003 compared to that in 2002, and the growth rate on POS devices was 66,88%.

2003 saw the beginning of a transition to EMV chip technology, with the project of issuing Maestro chip cards completed, so that the Bank was the first one in Croatia to start issuing cards based on the latest technology.

The year 2003 also saw the start of the Ersteclub card issue, which further contributed to advancements in current account operations for young people.

Telephone Banking

_____ The main objective of telephone banking in 2003 was to reduce the number of transactions performed in branches while providing the Bank clients with additional information on the Bank services, as well as on changes in operations following the merger. Info telephone service on 0800 7890 was made available. There were about 200 enquiries daily by clients concerning the merger, data migration, changes in operating conditions and the like, with the number of calls growing from one month to the next. The number of calls recorded in December last year reached almost 6.000, with the range of services provided enlarged to encompass the reporting of complaints and transaction calls.

Electronic Banking

_____ The number of visitors to the Bank Internet pages increased by over 100% in the course of 2003. The address www.esb.hr was visited more than 2 million times in the course of 2003 and more than 6 million pages were viewed.

_____ The number of individual NetBanking users increased by 267% in 2003, compared to that in 2002, while the number of corporate NetBanking users increased by 211%. The growth recorded was also followed by a 350% increase in the number of transactions performed using NetBanking, so that the total number of transactions with the NetBanking service in 2003 reached 1.3 million.

_____ The number of users of the SMS service increased by 30% compared to 2002 levels, and the number of users of standing orders was up by about 25%.

Corporate Division

_____ The 2003 operations were influenced by the merger of Erste & Steiermärkische and Riječka banks. On 31 December 2003, the Division had 137 employees.

_____ The Division reorganization was completed in 2003, with corporate operations performed by 11 Commercial and 6 Profit Centers established following the regional principle to provide services to small and medium sized companies, which represent the Corporate Division's target market segment. Large and international companies are serviced by organizational units located in Zagreb and Rijeka.

_____ The Division recorded planned growth rates in its corporate operations in the course of 2003, with continued growth in the market share in both corporate loans and deposits. The corporate deposit market share grew from 8,5% on 31 December 2002 to 9,8% as at 30 December 2003, and the share in the corporate loan market grew from 8,9% to 9,2%.

_____ The very good cooperation established with the Ministries responsible for craftsmen, SMEs and tourism continued in 2003. The Bank provided support for all the lending programs of these ministries as well as cooperation with local government units (cities and counties).

_____ The Bank made placements totaling more than HRK 312 million in the above mentioned programs in the course of last year and was among the banks most actively participating in the field.

_____ Due to our favorable lending terms and focus on widening the scope of services provided to the SMEs, the Bank intensified its cooperation with the Croatian Bank for Reconstruction and Development.

_____ As at 31 December 2003, legal entities held 17.672 business accounts with the bank, of which 11.781 were settlement accounts, and this number represents about 9% of all settlement accounts held by legal entities. The total number of business accounts held by legal entities and craftsmen at the Bank stood 30.811 as at 31 December 2003, which represents more than 10% of all such accounts in the Republic of Croatia.

_____ The share of Corporate Division in the overall Bank credit risk exposure was 35,33% as at 31 December 2003.

_____ 2003 saw continued market competition for corporate clients, and this caused a continued fall in interest margins. The average yield on loans used stood at 6,6% in December 2003.

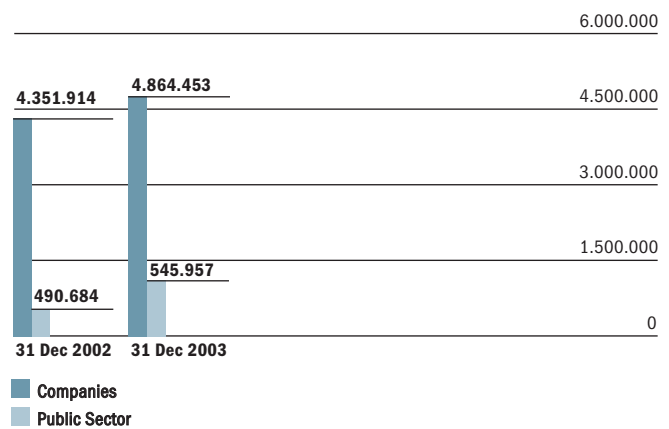
_____ A considerable part of the Bank's income came from non-interest revenues, mostly as a consequence of domestic payment operations being performed by the Bank and the increase in the use of Internet banking services

or NetBanking, via which used in December 2003 15% of domestic payment operations transactions and more than 30% of the total number of transactions with foreign countries were made.

_____ The gross corporate loan portfolio grew 11,8% in the course of 2003, while market growth in the period to the end of December 2003 was 8,2%.

_____ Due to easier comparable purposes consolidated data of Riječka banka d.d. Rijeka and Erste & Steiermärkische Bank d.d. Zagreb for 2002 have been shown in further analyses parallel with the data of the Bank for 2003.

Gross Loan Portfolio - Corporate Sector, in 000 kuna



Off-balance sheet placements to the business sector

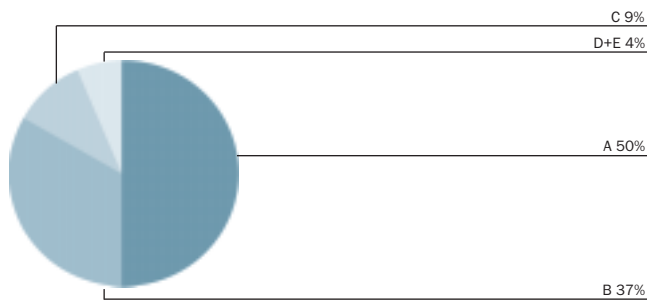
in 000 kuna	31 Dec 2002	31 Dec 2003
Guarantees	743.339	789.665
L/Cs	139.638	150.395
B/Es	17.372	17.587
Loans not used	408.985	698.719
Other off-balance sheet risk item	3.173	0
Total	1.312.507	1.656.366

_____ Off balance sheet items increased by 26% in the course of 2003.

Credit risk exposure by industry on 31 December 2003:

Industry/debtor	Exposure in 000 HRK	%
Retail and wholesale trade	2.238.420	31,65%
Processing industry	1.695.671	23,98%
Hotels and restaurants	588.342	8,32%
Construction	557.632	7,88%
Transport, warehousing and communications	543.212	7,68%
Electricity, gas and water supply	375.820	5,31%
Financial intermediation	335.973	4,75%
Real estate, rentals and business services	310.009	4,38%
Agriculture, hunting, forestry and fishing	223.880	3,17%
Other	203.689	2,88%
Total	7.072.648	100,00 %

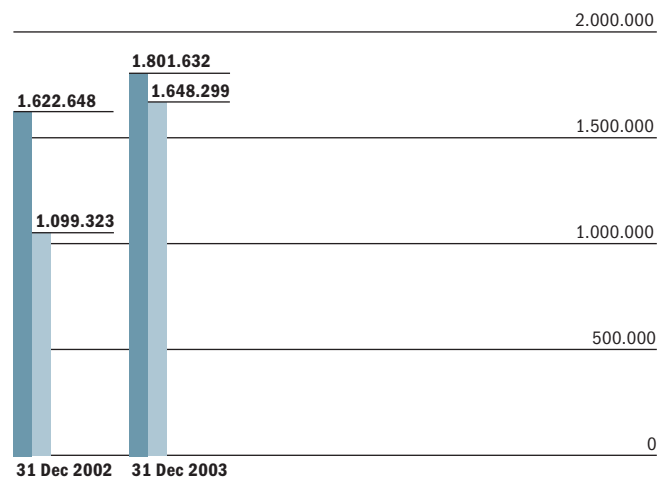
Total provisions made for identified and unidentified risks in the corporate sector amounted to 462,883.45 thousand kuna on 31 December 2003 and covered the total risk exposed balance sheet and off-balance sheet loan portfolio to the corporate sector at 6,55%.



Corporate Deposits

Deposit growth recorded in 2003 was 26,74%. Term deposits grew at the rate of 49,94%, and sight deposits at the rate of 11,03% compared to that at the end of 2002.

Corporate Deposits, in 000 kuna



Treasury Division

_____ The Treasury Division recorded another successful year in 2003 with the Bank's position strengthened on the domestic capital market due to the efficient management of the structural risks faced by the Bank. These were the trends shaping the market in the year 2003:

- Merger of the Treasury Division of Riječka banka d.d. and the former Erste & Steiermärkische Bank d.d.
- Strengthening role of the Bank on the domestic capital market
- Introduction of new products and increasing the number of clients
- Optimum balance sheet management of the Bank

Merging the Treasury Division of Riječka banka d.d. and the former Erste & Steiermärkische Bank d.d.

_____ Integration of the treasury operations of Riječka banka d.d. and the former Erste & Steiermärkische Bank d.d. was successfully completed in the first half of 2003, and this enabled the merged Bank to start operating with a consolidated treasury function and an optimized ability to manage Bank assets and liabilities. Due to the efficient and timely coordination in the integration process of the two Treasuries, Erste & Steiermärkische Bank d.d. Rijeka (ESB) was able to profit fully from the synergies in the balance sheets of the banks even before the merger was formally completed. Making full use of the expertise and market understanding of the employees of both banks, the merged Erste & Steiermärkische Bank intensified its focus on clients, enabling it to offer the clients improved services and a wider range of products, while continuing with an intensive approach to a large number of institutional, corporate and private clients.

Strengthening the Role of Erste & Steiermärkische Bank on Domestic Capital Market

_____ The year 2003 was also important for the Erste & Steiermärkische Bank operations in Croatian capital market because the bank was given the mandate (together with Splitska banka d.d.) to issue the first long-term Government bonds denominated in Croatian kuna. The issue represented a turning point in the domestic fixed-income securities market, as it paved the way for similar future issues. The bond issue - totaling HRK 1 billion, with a maturity of 5 years and a nominal interest rate of 6,125% - has been very well received by both domestic and foreign investors and has contributed in a major way to the strengthening of the rating of Erste & Steiermärkische Bank in the domestic securities market. At the end of 2003 the Bank was authorized to issue the municipal bonds of the City of Koprivnica, the first issue of long-term kuna-denominated municipal bonds in the market.

_____ Making use of the large balance sheet and a wide client base, Erste & Steiermärkische Bank became an important player in the Croatian bond market. With its participation in the development of the market, the Bank is uniquely positioned to continue strengthening its position in this very attractive market segment.

New Product Introduction and Treasury Client Base Expansion

_____ In line with the predominant market trends, Erste & Steiermärkische Bank continued introducing a number of new products in order to offer new opportunities to its clients:

- FX Swaps
- FX Forwards and
- Money market products
(repo and repo reverse contracts, sell & buy back contracts)

_____ Performing in line with its focus on product innovation, the Bank introduced a number of more advanced financial instruments to the Croatian market, such as currency options and structured products.

_____ The Bank was simultaneously able to record high growth rates in its basic trading areas - currency (including foreign currency), money market instruments and fixed-income securities - while enlarging its client base with a successful market expansion.

_____ The Bank's Treasury is a major player in all the segments of the Croatian capital market. Clients enjoy competitive terms, professional service and access to innovative and sophisticated solutions in the field of derivatives and structured products.

_____ In the area of correspondent banking, Erste & Steiermärkische Bank continued to build stable relationships with a wide network of international financial institutions, thus strengthening Bank's international business portfolio as well as its reputation.

Optimum Asset and Liabilities Management

_____ The Croatian market experienced a series of volatile periods in 2003 due, first of all, to the measures introduced by the Croatian National Bank aimed primarily at containing the country's level of external indebtedness. This was the environment that the Erste & Steiermärkische Bank Treasury operated in with high level of efficiency in spite of the merger process. Optimizing the Bank's exposure to market risk and interest rate risk had a favorable impact on the Bank's revenue. Major advancements were also achieved with the introduction of sophisticated tools in the process of managing the Bank's assets and liabilities in order to maximize overall performance.

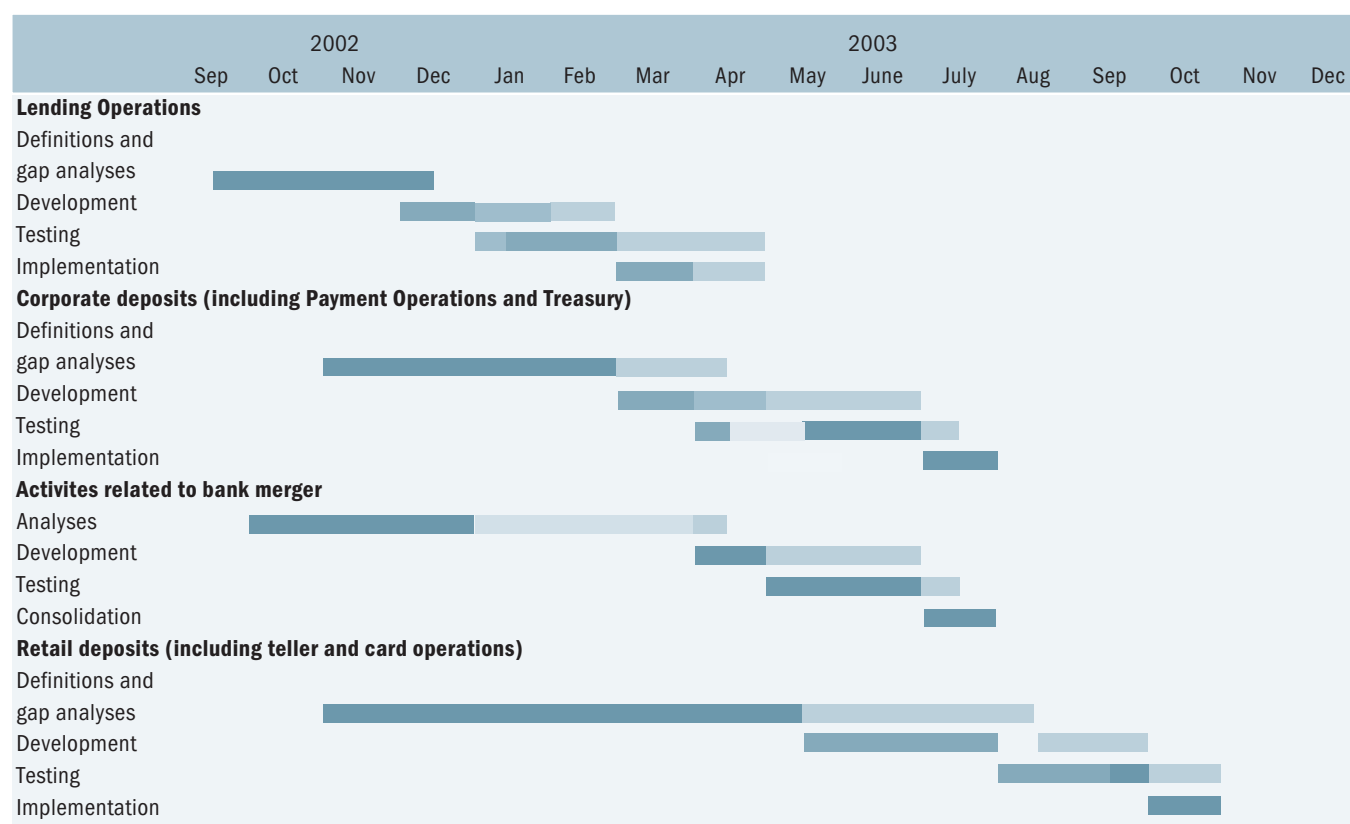
_____ Last year was marked by both the challenges and achievements of the Bank's Treasury Division, but it was also a period when the foundations were laid for future successful and expanded operations in the field.

IT and Organization Division

IBIS RB project

IBIS RB project was implemented simultaneously both with the merger of Erste & Steiermärkische Bank and Riječka banka and with the transformation process of the Bank. The objectives and tasks defined by the project were to introduce IBIS (integrated banking system developed and already used by ESB), data migration from Riječka banka systems, installation of the equipment necessary to run IBIS and the replacement of the RB system. All other activities required in the process of merging the two banks were also carried out, including the merger of their data bases, introduction of consolidated work procedures, as well as products and standards related to the use of the IBIS system. The project also included activities related to the introduction of changes in the IBIS system necessary to enable the consolidation of systems and operations formerly carried out by the two banks. The project was started on 1 October 2002, and ended, as planned, on 18 November 2003. The implementation went through three stages: the migration of lending operations on 30 May, the migration of corporate deposits and the merger on 31 July and the migration of retail deposits on 31 October.

Plan and Implementation of the IBIS RB Project



IT and Organization Division

_____ In the course of the project the Bank had to handle around 200 change requirements, of which half required a change in a product or process, and the other half was aimed at software development in the IBIS system. The project involved around 170 people and spent over 15,700 MD (man-days) of which about 9,500 MD were consumed by IT resources. In addition to that, almost 8,000 MD were used in the training program for about 650 employees trained to use the IBIS system.

_____ The project saw major improvements introduced to the Bank IT infrastructure: a central host computer was installed in the Bank, 800 work stations were replaced, (of which 200 were at the tellers of the former Riječka banka) and the telecommunication network was upgraded to allow increased capacity across all lines. The central computer system (computer room) was organized in Bjelovar to meet all state-of-the-art requirements and house both the host and server computers.

_____ In addition to the above, the Bank implemented and initiated a number of additional projects in the course of 2003, all aimed at improving the stability and efficiency of operations, including:

- Disaster/Recovery System - The establishment of a reserve location with a reserve central host computer and memory discs made the Bank ready to recover after a catastrophe. Regarding the automation of back-up processes, the Bank has started the introduction of an automated system of data capture on the entire network using magnetic tape (tape back-up library), with its full implementation expected in the first quarter of 2004.

- Exchange 2000 - The merger and consolidation of the telecommunications networks of the two banks and their e-mail systems was completed within this project. Connecting the domain with the Exchange system of the Erste Bank Group is the next stage and this will enable the use of e-mail services at the Group level.

- IP telephony - Upgrading the telephone infrastructure of the Bank enables the Bank to optimize its telephone infrastructure and to cut operating costs. The first stage of the project was completed when the new Bank headquarters were ready in Zagreb (Vukovar Street #41) for IP telephony. The Bank's IP telephony is the first project of this size in Croatia.

- Domestic payment operations (Model 3) - In January 2003, the Bank changed its domestic payments operations system when such operations were taken over by the Bank. The IT Division developed the system and application services thus enabling the Bank to carry out payment operations while enabling the clients to have the payment order execution service performed in real time using the distribution network of the Bank.

- IT Helpdesk - The IT Helpdesk was established in October 2003 with the aim of providing help and support to employees of the merged bank in the area of IT system use. The IT Helpdesk concept proved especially useful in the final stage of the IBIS RB migration when about 250 cashiers started using the new equipment and IBIS system. In coordination with the MCM services of the Bank Call Center, preparations have started on similar support being made available also to clients of the NetBanking Internet banking system.

- IT reorganization - following the consolidation of the Bank's IT infrastructure (IBIS migration, e-mail, network) it became necessary to allocate or move certain tasks or functions in order to achieve efficiencies, reduce costs and avoid redundancies. This was the reason why the IT and Organization Division reorganization project was undertaken, aimed at building the required definitions of the targeted model of the IT and Organization Division of the merged Bank in the first quarter of 2004. Implementation is expected in the course of the second quarter of 2004.

_____ In addition to the projects listed above, the Division resources were also engaged in the process of changing the chart of accounts of the Bank General ledger, initiated by the changes in the regulations passed by the Croatian National Bank and related to harmonization with International Accounting Standards no. 39. Activities on the changes to be introduced started in November 2003, immediately after the completion of activities on the IBIS RB project. The completion of these changes coincided with the most recent monthly and quarterly reports prepared in the year 2004.

Human Resources

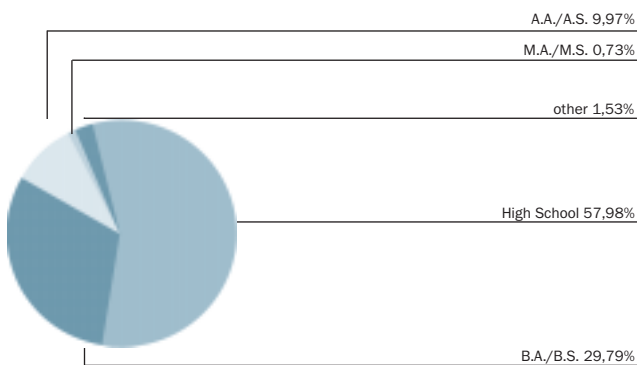
_____ The key role in the implementation of the Bank mission and vision was played by the Bank's employees. While facing numerous challenges in 2003, among them the merger of two regional banks but also ambitious future growth plans and market expansion, the employees of Erste & Steiermärkische Bank showed once again the full range of their talents, quality and flexibility as well as adaptability to new requirements.

_____ The key challenge in the merger was to merge two different corporate cultures, introduce many changes and a new work system. A number of projects were carried out in the course of the year for the purpose of speeding up the merger process and minimizing the "pain" in the process, while implementing Erste Group standards, with improvements and the alignment of service quality wherever Erste Bank operates.

Employee Status

_____ The reorganization and centralization of the new Bank's operations resulted in employee redundancies, while the network expansion also meant that certain operating areas required new highly skilled personnel. In the process of reorganization, special attention was paid to retaining quality personnel in the Bank. In the course of 2003 and 2004, 250 employees have left and will have left the Bank, while at the same time 150 new employees were employed, mostly in new fields of operations.

Employment Educational Levels as at 31 Dec 2003



_____ The average age of Bank employees was 38 years-old as at 31 December 2003, while the average age of management was 40. The Bank qualification structure shows that 57,98% of the Bank employees have high-school qualifications, while 29,79% of employees hold university degrees.

_____ The Bank employs 74,81% women and 25,19% men. The same ratio in the management is 60,42% men and 39,59% women.

Training and Development

_____ The Erste & Steiermärkische Bank pays a lot of attention to continued employee education, training and personal development, a means of achieving specified short-term and long-term goals of the Bank at a higher quality level. Training and development are investments in the career advancement of each employee and a method of the adequate use of everybody's talent and capabilities.

_____ Training programs carried out in 2003 met two major goals: training for new skills and tasks to be performed by the merged bank, new IT platform and products and an overall improved efficiency, while at the same time improving the quality of work performed by employees and service provided to clients.

_____ The Bank employees spent 9.720 days in training in 2003. Of all the training programs, 95% were organized internally using an internal network of trainers, which proved an efficient method of disseminating skills through the Bank, exchanging experiences and development of team work.

_____ In addition to all the changes witnessed in the course of the merger, when the best features of two corporate cultures were mixed and adopted, a step forward was also made in improving communication, education and the introduction of new benefits for employees - the preferential use of all the Bank products and services, private additional health insurance, etc. Encouraging open and frank communications and team work in 2003 confirmed that the Bank was the preferred employer for the best workers.

Independent Auditor's Report



■ Ernst & Young Croatia d.o.o.
Milana Sachsa 1
10000 Zagreb
Croatia

To the Board of Directors and the Shareholders of Erste & Steiermärkische Bank d.d. Rijeka:

_____ We have audited the accompanying financial statements of Erste & Steiermärkische Bank d.d. Rijeka (the Bank) as at 31 December 2003, as set out on pages 18 to 52. The financial statements have been prepared in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, as required by the Croatian Accounting Law.

Respective responsibilities of the Board and auditors

_____ These financial statements are the responsibility of the Bank's Board. Our responsibility is to express an independent opinion on these financial statements based on our audit.

Basis of opinion

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

Opinion

_____ In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2003 and of the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards, as required by the Croatian Accounting Law.

Ernst & Young Croatia d.o.o.

Zagreb, 09.02.2004.

Profit and Loss Account

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

	Note	2003	2002
Interest income	3	1.038.728	518.715
Interest expense	3	(415.791)	(239.570)
Net interest income before provisions		622.937	279.145
	11, 13, 14		
Provisions for identified and unidentified losses	15, 16, 17, 24	(94.899)	(53.269)
Net interest income after provisions		528.038	225.876
Fee and commission income	4	220.664	89.853
Fee and commission expense	4	(123.428)	(37.938)
Net fee and commission income		97.236	51.915
Net foreign exchange gains	5	86.419	47.319
Income from trading securities and value adjustments	6	17.758	10.257
Other operating income	7	37.533	20.383
Total income		766.984	355.750
Depreciation	18	(59.651)	(28.420)
General administrative expenses	8	(471.282)	(221.869)
Other operating expenses	9	(24.749)	(28.516)
Total expenses		(555.682)	(278.805)
Profit before taxation		211.302	76.945
Income taxes current year	10	(43.902)	-
Deferred tax income	10	60.983	44.623
Net profit for the year		228.383	121.568

Balance Sheet

at 31 December 2003 (all amounts expressed in HRK thousand)

	Note	2003	2002
ASSETS			
Cash and current accounts with banks	11	1.583.102	475.242
Balances with Croatian National Bank	12	1.102.988	488.026
Securities	13	1.787.321	1.612.390
Due from other banks	14	4.691.188	1.530.464
Loans to customers	15	9.592.529	3.935.213
Accrued interest and other assets	16	210.314	93.880
Deferred tax asset	10	61.704	44.623
Equity securities	17	46.085	35.339
Tangible and intangible assets	18	441.973	197.811
Total assets		19.517.204	8.412.988
LIABILITIES			
Due to other banks	19	1.953.602	606.433
Due to customers	20	10.783.111	5.272.090
Other borrowed funds	21	4.528.571	1.280.467
Accrued interest	22	109.614	40.571
Other liabilities	23	181.919	82.656
Provisions for contingencies	24	40.308	23.681
Subordinated instruments	25	316.196	148.846
Total liabilities		17.913.321	7.454.744
SHAREHOLDERS' EQUITY			
Share capital	26	1.324.237	838.244
Reserves		51.263	-
Loss carried forward		-	(1.568)
Profit for the year		228.383	121.568
Total shareholders' equity		1.603.883	958.244
Total equity and liabilities		19.517.204	8.412.988
Commitments and contingencies	27	2.307.463	929.927

The financial statements were approved by the Management Board on 9th February 2004:

Member of the Management Board



Slađana Jagar

President of the Management Board



Petar Radaković

Statement of Changes in Shareholders' Equity

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

	Share capital	Reserves for treasury shares	Premium on issued shares	Legal reserves	Other reserves	Accumulated losses/retained earnings	Net income/loss current period	Total
Balance as at 1 January 2002	503.315	2.685	66.316	20.668	12.581	294.745	(644.078)	256.232
Purchase of treasury shares	(2.924)	-	(4.680)	-	-	-	-	(7.604)
Transfers	-	2.924	-	-	-	(2.924)	-	-
Cancellation of treasury shares	-	(5.609)	-	-	-	5.609	-	-
Netting with previous year loss	-	-	(61.636)	(20.668)	(12.581)	(297.430)	392.315	-
Decrease of share capital	(250.195)	-	-	-	-	-	250.195	-
Issued shares	588.048	-	-	-	-	-	-	588.048
Loss transfer	-	-	-	-	-	(1.568)	1.568	-
Net profit for the year	-	-	-	-	-	-	121.568	121.568
Balance as at 31 December 2002	838.244	-	-	-	-	(1.568)	121.568	958.244
Issue of shares for merged banks shareholders	486.004	-	-	-	-	-	-	486.004
Purchase of treasury shares	(11)	-	-	-	-	-	-	(11)
Distribution of profit	-	-	-	6.000	45.263	1.568	(52.831)	-
Payment of dividend for the year 2002	-	-	-	-	-	-	(68.737)	(68.737)
Net profit for the year	-	-	-	-	-	-	228.383	228.383
Balance as at 31 December 2003	1.324.237	-	-	6.000	45.263	-	228.383	1.603.883

Cash Flow Statement

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

	2003	2002
Net cash flow from operating activities		
Net profit for the year	228.383	121.568
Provisions for identified and unidentified loan losses, net of recoveries	94.899	53.269
Tax assets recognized within the period	(17.081)	(44.623)
(Increase)/decrease of value adjustments of equity securities	(796)	8.468
Depreciation	59.651	28.420
	365.056	167.102
Changes in assets		
(Increase)/decrease in balances with the Croatian National Bank	(201.930)	153.476
Decrease in securities	393.003	544.712
Increase in loans to banks	(1.551)	-
Increase in loans to customers	(1.574.003)	(523.907)
Decrease/(increase) in accrued interest and other assets	93.534	(21.751)
Changes in liabilities		
Increase in due to other banks	892.784	97.802
Increase/(decrease) in due to customers	1.761.599	(2.137.657)
Increase/(decrease) in other borrowed funds	1.185.809	(159.853)
Increase/(decrease) in accrued interest	19.737	(28.064)
Decrease in other liabilities	(103.318)	(799.813)
Net cash flow from operating activities	2.830.720	(2.707.953)
Cash flows from investing Activities		
(Increase)/decrease in equity securities	(2.365)	100.778
Increase in investments in tangible and intangible assets	(116.888)	(39.124)
Net cash flow from investing activities	(119.253)	61.654
Cash flows from financing Activities		
Increase in subordinated instruments	8.461	148.846
Increase in share capital	-	588.048
Purchase of own shares	(11)	(7.604)
Payment of dividend to the shareholders of the merged bank	(62.419)	-
Payment of dividend	(68.737)	-
Net cash flow from financing activities	(122.706)	729.290
Net increase (decrease) in cash and cash equivalents	2.588.761	(1.917.009)
Cash acquired by the merger	1.084.881	-
Cash and cash equivalents at the beginning of the year	2.647.884	4.564.893
Cash and cash equivalents at the end of the year (Note 28)	6.321.526	2.647.884
Paid interest	398.054	248.967
Collected interest	1.023.725	519.193
Received dividends	1.248	1.680

_____ The following notes form an integral part of these financial statements.

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

1. General information

_____ As of 1 August 2003 Erste & Steiermärkische Bank d.d. Rijeka ("Bank") is the new name of the former Riječka Banka d.d. Rijeka. On the same date the merger with Erste & Steiermärkische Bank d.d. Zagreb was registered at the Commercial Court in Rijeka, this being in accordance with the merger contract as confirmed by the general assemblies of both entities on 15 May 2003.

_____ In line with the merger contract, Riječka Banka d.d. Rijeka gained effective control over Erste & Steiermärkische Bank d.d. Zagreb on the 1 January 2003 and has accounted for this merger by using the purchase method as from 1 January 2003.

_____ Erste & Steiermärkische Bank d.d. Rijeka was established in 1954 and was entered into the Court Register as joint stock company on 24th January 1990. The Bank's registered head office is at Jadranski trg 3a, Rijeka, the Republic of Croatia.

_____ The Bank is licensed to conduct commercial banking activities in the Republic of Croatia. The main activities of the Bank are offering of various types of deposit and credit services to legal entities and individuals, domestic and international payment operations, issuing of letter's of credit, sureties and other types of guarantees, taking over of other financial commitments, buying and selling of securities and other banking services.

Members of the Management Board of Erste & Steiermärkische Bank d.d. Rijeka:

Until 1st August 2003

Petar Radaković, President of the Management Board
Sava Dalbokov, member of the Management Board
Sladana Jagar, member of the Management Board

As of 1st August 2003

Petar Radaković, President of the Management Board
Tomislav Vuić, Deputy President of the Management Board
Borislav Centner, member of the Management Board
Sava Dalbokov, member of the Management Board
Sladana Jagar, member of the Management Board

Members of the Supervisory Board of Erste & Steiermärkische Bank d.d. Rijeka in 2003

Until 1 August 2003

Mag. Reinhard Ortner, President
Dr. Christian Coreth, Deputy President till 15 May 2003
Mag. Herbert Martinetz, member till 15 May 2003
August Jost, member till 20 May 2003,
and Deputy President as of 20 May 2003
Dr. Manfred Wimmer, member
Mag. Karin Svoboda, member
Dr. Kristijan Schellander, member
Reinhold Schuster, member as of 15 May 2003
Bernhard Spalt, member as of 15 May 2003

As of 1st August 2003

Mag. Reinhard Ortner, President
August Jost, Deputy President
Dr. Manfred Wimmer, member
Mag. Karin Svoboda, member
Dr. Kristijan Schellander, member
Reinhold Schuster, member
Bernhard Spalt, member
Franz Mally, member
Josip Stanković, member

_____ As at 31 December 2003, the Bank had 1540 employees (as at 31 December 2002, the number of employees was 988), and through the merger of Erste & Steiermärkische Bank d.d. Zagreb added 550 employees.

_____ Note 35 provides the consolidated Balance Sheet of Riječka Banka d.d. Rijeka and Erste & Steiermärkische Bank d.d. Zagreb as at 31 December 2002 with Note 36 providing the consolidated Profit and Loss Account for 2002.

2. Accounting policies

_____ The principal accounting policies adopted in the preparation of these financial statements are set out below.

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

a) Basis of presentation

These financial statements have been prepared in accordance with the International Accounting Standards (IAS) as adopted by the International Accounting Standards Board (IASB), currently applicable interpretations issued by the Standing Interpretations Committee of the IASB and the relevant Croatian laws.

b) Basis of preparation

The financial statements are presented in kuna (HRK), rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for financial assets and liabilities classified as held for trading, and financial assets classified as available for sale, except those for which a reliable measure of fair value is not available. These and other financial assets and liabilities and non-financial assets and liabilities are stated at depreciated cost or historical cost.

The financial statements have been stated in a format generally adopted and internationally recognized and in accordance with IAS 30, "Disclosures in the Financial Statements of Banks and Similar Financial Institutions".

c) Group accounts

Group accounts have not been prepared on the grounds that the result, assets and liabilities of the Bank's subsidiaries are either insignificant in comparison to those of the Bank or control is intended to be temporary.

d) Interest income and expenses

Income from fully recoverable loans and expenses are stated in the Profit and Loss Account on an accrual basis. As of 2001, and following the adoption of IAS 39, interest income has been recognized on an accrual basis for partially recoverable loans using the effective interest rate, and based on the recoverable claim amount.

e) Fee and commission income

Fee and commission income relates mainly to fees for guarantees, letters of credit, payment transactions and similar instruments, foreign currency transactions, as well as mandate transactions and other services rendered by the Bank. Fees are recognized as income as services are provided.

f) Foreign currency payment instruments

Income and expenses in foreign currencies are converted into HRK at the rate quoted on the day of transaction. Claims and liabilities stated in foreign currencies are converted into HRK at the Croatian National Bank mid rate quoted on the last day of accounting period, and claims and liabilities stated in kuna, with foreign currency clause, are converted at the actual agreed rate. Gains and losses arising from recalculation of foreign currencies are stated in the Profit and Loss Account for the relevant year.

The major exchange rates used as of 31 December 2003 are 1 EUR 7,646909 HRK and 1 USD 6,118506 HRK and of 31 December 2002 are 1 EUR 7,442292 HRK and 1 USD 7,145744 HRK.

g) Securities

Securities are measured initially at cost, including transaction costs.

Securities held for trading are shown at their fair values. The fair value of financial assets is established on the basis of the price quoted on the market as of balance sheet date, not including reductions for transaction costs. Where the market price is not available, the fair value of assets is estimated by discounted cash flows method.

Securities held to maturity include debt securities with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold until maturity. Premiums and discounts including initial transaction costs are included in the book value of the instrument and are amortized or accreted using the effective interest rate. Valuation is carried out at amortized cost, less any impairment.

Securities available for sale include some debt and equity securities. They are assessed according to fair value or at investment cost if there is no market price, where the market price may not be determined even approximately, subject to checking for value reduction.

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

Income and expenses resulted from changes in fair or market value of trading assets and financial assets available for sale are recognized in the Profit and Loss Account.

In accounting for securities trading the Bank uses the settlement date.

h) Investments in subsidiaries and associated companies

Investments in associated companies, with a shareholding of between 20% and 50%, are originally recorded at investment cost, and subsequently valued according to the equity method. Investments in subsidiaries are recorded at investment cost, and are consolidated where the financial statements of the subsidiary are deemed to be significant.

i) Loans to clients

Loans are stated in the Balance Sheet in the amount of principal outstanding, net of any required value adjustments.

The Bank reviews at each Balance Sheet date whether objective indications of value reduction exist. In the case of the financial assets value reduction, its recoverable value is re-estimated.

If it is determined that loan collection is not possible, and that all the legal options have been tried, the loan is written off. The written off claim is transferred to the off-balance sheet records.

j) Value adjustments of loans and advances

General provisions for unidentified losses are made for fully recoverable placements. The general provision for unidentified losses is charged against Bank's expenses, and is separate for both placements and for off-balance sheet items.

The provisions for partly recoverable loans are formed in the amount of the estimated bad and doubtful debt loss. The loss represents the difference between the book value of the loan and present value of expected future collections. This amount is arrived at by discounting by the loan actual interest rate (valid actual interest rate on the loan at time the loan was categorized into bad and doubtful debts).

A 100 percent value adjustment is formed for non-recoverable placements.

Provisions for identified and unidentified losses on balance sheet exposures are charged against the Bank's expenses and shown as a reduction of the related assets (being a value adjustment of bad and doubtful debts).

Any provisions for identified losses from the off-balance sheet items are reported as the Bank's expenditures and provisions in the liabilities of the Bank.

k) Tangible and intangible assets

All tangible assets are stated at the historical cost less depreciation.

Depreciation is calculated on a straight-line basis to write off the acquisition cost of each asset item over its estimated useful life, except for land and assets in preparation. The following yearly rates are used:

	as%
Buildings	2,5
Computers	25,0
Furniture and equipment	10,0 - 33,3
Motor vehicles	25,0
Software	25,0
Other intangible assets	20,0

Regular maintenance expenditure is directly charged against operating profit. Additional investments in reconstruction, renovation and modernization, which result in significant increase or improvement, increase its acquisition cost in the amount of investment.

l) Taxation

Income tax is calculated on the basis of taxable profit, which is calculated by adjusting the financial result for certain income and expense items (such as the costs of representation, partial costs for official cars, etc.) in accordance with Croatian regulations.

In accordance with IAS No. 12, "Income Taxes", deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets resulting from tax losses brought forward are recognized when it is probable that taxable profits will be available against which deferred tax assets can be utilized.

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

m) Cash and cash equivalents

_____ The cash flow report indicates cash and cash equivalent items with residual maturity less than 90 days from the balance sheet date, including: cash and current accounts with banks and claims from other banks with maturity up to 90 days, the State and Croatian National Bank highly liquid securities with maturity up to 90 days (see Note 28).

n) Operations on behalf and for account of third parties

_____ In addition to the operations that the Bank carries out on its behalf and for its account, it also performs operations on behalf and for account of third parties, charging a fee for its services. These operations are reported in separate bookkeeping records. The Bank is not exposed to any risk in connection with these activities.

o) Share capital and reserves

_____ Share capital is stated in HRK at nominal value. Any profit for the year after appropriations is transferred to reserves.

_____ The nominal value of treasury shares is netted off against share capital. The premium paid or discount received on treasury shares is charged to reserves.

p) Reclassification

_____ Where necessary, the prior year amounts have been reclassified so as to achieve consistency between the disclosed data and data related to the current financial year as well as other data.

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

3. Interest Income and Expense

	2003	2002
Interest income		
Loans to corporate clients	333.857	137.663
Loans to citizens	478.949	223.145
Croatian National Bank	32.916	23.021
Banks and other financial institutions	46.872	36.717
State and other public sector	144.480	97.016
Other organizations	1.654	1.153
	1.038.728	518.715
Interest expenses		
Deposits from banks and other financial institutions	25.575	11.977
- demand deposits	1.065	306
- term deposits	24.510	10.142
- interest expenses from previous years	-	1.529
Deposits from corporate clients	53.041	18.196
- demand deposits	8.799	6.739
- term deposits	44.242	11.069
- interest expenses from previous years	-	388
Deposits from individuals	170.600	117.790
- demand deposits	18.066	21.081
- term deposits	152.534	96.130
- interest expenses from previous years	-	579
Deposits from other institutions	824	718
- demand deposits	495	380
- term deposits	329	338
Deposits from the public sector	4.278	4.023
- demand deposits	1.116	2.019
- term deposits	3.162	2.004
Subordinated instruments	13.151	1.828
Other borrowed funds	148.322	85.038
	415.791	239.570

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

4. Net fee and commission income

	2003	2002
Fee and commission income		
Payment orders	165.128	63.564
Guarantees and letters of credit	17.954	10.432
Other fees and commissions	37.582	15.857
	220.664	89.853
Fee and commission expense		
Fees paid to financial institutions	29.708	4.777
Fees paid to Financial Agency (FINA)	77.198	29.390
Commission for postal services for private current account	3.743	3.696
Other fees and commissions	12.779	75
	123.428	37.938

5. Net foreign exchange gains

	2003	2002
Income from foreign currency purchase and sale	81.349	50.282
Income from Balance Sheet positions alignment to mid rate	(123.248)	(23.549)
Currency clause effects	128.318	20.586
	86.419	47.319

6. Income from trading securities and value adjustments

	2003	2002
Income from trading equity and other securities	12.928	9.195
Income from value adjustments of securities	4.034	9.530
Income from value adjustments of equity securities	796	(8.468)
	17.758	10.257

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

7. Other operating income

	2003	2002
Expenses reimbursement	12.091	-
Income from leases	3.021	351
Income from participations	1.248	-
Income from current accounts	-	3.004
Income from Bank services	-	1.236
Income from sale of tangible fixed assets	-	1.570
Income from loans to citizens	-	1.776
Provisions for severance payments	9.158	-
Other income	8.613	4.015
Exceptional income	3.402	8.431
	37.533	20.383

8. General administrative expenses

	2003	2002
Employee related costs		
- Salary expenses and compensation - net	119.382	59.027
- Costs of contribution, taxes and surtaxes	106.588	42.499
- Compensation to employees	33.839	11.264
Materials and services	124.989	68.736
Administration and marketing costs	47.239	16.155
Savings insurance premiums	32.106	22.350
Other insurance premiums	7.139	1.838
	471.282	221.869

9. Other operating expenses

	2003	2002
Taxes and contributions	1.429	3.087
Cash receipts and distribution expenses	3.951	1.970
Provisions for severance payments	-	11.696
Supervisory board remuneration	553	-
Provisions for pending legal disputes	2.705	-
Adjustment of claims for bonds for the sold RB owned flats	-	3.640
Expenses for sale of tangible fixed assets	5.818	-
Other	10.293	8.123
	24.749	28.516

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

10. Income taxes and deferred tax asset

	2003	2002
Loss carried forward from previous periods	(528.033)	(612.426)
Net income before taxes for the current period	211.301	76.945
Non-taxable income	(5.300)	(2.447)
Non tax deductible expenses	13.511	9.895
Tax basis for the current period	219.512	84.393
Taxable loss to be transferred to next period	(308.521)	(528.033)
Potential tax assets (20%)	(61.704)	(105.606)
Deferred tax asset recognized in the balance sheet	61.704	44.623
Tax assets not recognized at the end of the period	-	(60.983)

Changes in tax asset

	2003	2002
Balance of tax asset on 1 January	44.623	-
Changes in assessment of recoverability of prior period taxes	60.983	61.502
Utilization of tax asset in current year (tax base x 20%)	(43.902)	(16.879)
Balance of tax assets as at 31 December	61.704	44.623

At the end of 2001 the Bank had a tax loss being carried forward in total amounting to HRK 612.426 thousand. According to the estimation made in 2002, part of this loss amounting to HRK 223.115 thousand was to be used in future periods. The Bank thus formed a deferred tax asset of HRK 44.623 thousand. The Bank currently estimates that the full amount of tax losses will be utilized and a deferred tax asset in the amount of HRK 61.704 thousand was established. Tax losses available to be carried forward and utilized until the year 2006.

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

11. Cash and current accounts with banks

	2003		2002	
	HRK	Foreign currency	HRK	Foreign currency
Cash in hand	157.701	118.156	91.584	84.408
Items in the course of collection	768	9.177	3	2.681
Current accounts and amounts on demand with domestic banks	-	5.713	-	8.035
Current accounts and amounts on demand with foreign banks	-	32.750	-	49.224
Current account	1.269.456	-	249.699	-
	1.427.925	165.796	341.286	144.348
Provisions - specific	-	(10.619)	-	(10.392)
	1.427.925	155.177	341.286	133.956
	1.583.102		475.242	

Changes in provisions

	2003	2002
Balance as at 1 January	10.392	11.363
New provisions	350	-
Collected	(266)	(516)
Exchange rate revaluation	143	(455)
Balance as at 31 December	10.619	10.392

12. Balances with Croatian National Bank

	2003	2002
Obligatory reserve in HRK	778.980	219.196
Obligatory reserve in foreign currency	324.008	268.830
	1.102.988	488.026

_____ The HRK portion of obligatory reserve requirement at 31 December 2003 represents 19% of the relevant HRK deposits, increased by 42% of obligatory reserve for foreign currency loans and deposits. At least 40% of the total obligatory reserve requirement must be deposited on a special account with the Croatian National Bank and the remainder may be held in cash and/or on giro accounts. At year end the Bank held 40% of the total requirement in a special obligatory reserve deposit account with the Croatian National Bank. Interest is calculated on a monthly basis. The rate at year-end was 1,25% p.a. (at the end of year 2002 amounted 1,75% p.a.).

_____ The foreign currency obligatory reserve requirement at 31 December 2003 represented 19% of both foreign currency personal and corporate deposits and foreign currency borrowings. Of the calculated obligatory reserve in foreign currency, 42% is executed in Croatian kuna, while the remaining 58% is executed in foreign currency.

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

12. Balances with Croatian National Bank (continued)

_____ At 31 December 2003 40% of this foreign currency obligatory reserve was deposited with the Croatian National Bank in accordance with requirements with the remainder placed with foreign banks in accordance with Croatian National Bank selection criteria. Interest is calculated on a monthly basis. The rate at year-end was 1,04% p.a. for USD, and 2,05%p.a. for EUR (at year end 2002 1,30% and 2,82% respectively).

13. Securities

	2003	2002
Assets available for sale		
Bonds of the Republic of Croatia in foreign currency	366.169	35.295
Bonds of the Republic of Croatia in HRK	243.150	-
Treasury bills of the Ministry of Finance	138.316	-
Bills of exchange issued by companies	110.759	-
Bonds of the State Agency for Insurance of Saving Deposits and Rehabilitation of Banks (DAB)	77.473	57.816
Bonds of the Croatian Health Insurance Institute (HZZO)	12.776	-
Bonds of commercial customers	647	8.684
Bonds of the Croatian Bank for Reconstruction and Development (HBOR) 2012	-	7.433
	949.290	109.228
Assets held to maturity		
Replacement bonds	286.662	304.028
Rehabilitation bonds	196.615	232.530
Bonds of the Republic of Croatia	102.210	-
Public debt	117.860	171.104
- Bonds of the Republic of Croatia for frozen foreign currency deposits	112.928	166.526
- Bonds of the Republic of Croatia for payment in foreign currency for the purchase of flats	4.932	4.578
Bonds of the Croatian Health Insurance Institute (HZZO)	26.764	-
Bonds of the State Agency for Insurance of Saving Deposits and Rehabilitation of Banks (DAB)	87.939	-
Other securities	12.677	-
- Bonds of Plava laguna d.d.	2.367	-
- Bonds of Belišće d.d.	5.353	-
- Commercial bills of Belišće	4.957	-
Obligatory Treasury bills of the Croatian National Bank	8.996	-
Treasury bills of the Croatian National Bank	-	599.337
Treasury bills of the Ministry of Finance	-	193.231
Corporate bills of exchange	-	2.932
	839.723	1.503.162
Provision - specific	(1.692)	-
	1.787.321	1.612.390

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

13. Securities (continued)

Changes in provisions

	2003	2002
Balance as at 1 January	-	-
Acquired by the merger	1.514	-
New provisions	3.719	-
Collected	(3.541)	-
Balance as at 31 December	1.692	-

_____ Republic of Croatia bonds are of various issues, some denominated in foreign currency and others in kuna. They mature between 2004 and 2012. Interest rate of these bonds ranges from 4,625% p.a. to 7,375% p.a. These bonds are traded on an active market.

_____ DAB bonds are foreign currency denominated bonds issued in December 2000. DAB is the State Agency for Deposit Insurance and Bank Rehabilitation which issued bonds for the servicing of insured citizens' savings deposited in Croatian banks that are in bankruptcy procedure. The bonds carry interest of 8,375% per annum.

_____ The RC public debt refers to foreign currency savings of citizens which have been deposited with the former National Bank of Yugoslavia, and which were frozen on 27 April 1991. On 23 December 1991, all deposits were converted into public debt of the Republic of Croatia.

_____ These bonds are foreign currency denominated bonds and carry a fixed interest rate of 5% p.a., payable semi-annually. The principal is repaid in 20 semi-annual installments starting from 30 June 1995.

_____ Rehabilitation bonds are foreign currency denominated bonds issued in 1997 and repayable in twenty semi-annual installments at the interest rate of 6% per annum. The first installment fell due on 20 May 1998.

_____ The restructuring bonds are foreign currency denominated bonds issued in 1996 and repayable in 30 semi-annual installments at the annual interest rate of 7,2%. The first installment fell due on 31 August 1996.

_____ The fair value of rehabilitation, restructuring and public debt (frozen deposits) bonds included in the held to maturity portfolio cannot be reliably measured as they are not traded on an active market.

_____ The fair value of assets held to maturity that are actively traded is HRK 5.476 thousand higher than its book value as at 31 December 2003. The unamortized premium in amount of HRK 7.249 thousand is presented as other assets.

_____ Securities available for sale include HRK 24.318 thousand of securities sold on repurchase arrangements.

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

14. Due from other banks

	2003	2002
HRK denominated	749.031	346
Foreign currency denominated	3.961.557	1.540.467
	4.710.588	1.540.813
Provision - specific	(19.400)	(10.349)
	4.691.188	1.530.464

Geographical analysis

	2003	2002
Croatia	805.280	52.131
Austria	625.372	151.247
France	542.930	-
Holland	529.945	61.330
Switzerland	397.678	209.102
Italy	375.345	134.931
Sweden	258.814	155.348
Germany	248.662	154.049
Finland	192.702	-
Belgium	191.173	238.719
Great Britain	151.023	122.617
Spain	146.821	-
Ireland	114.704	59.538
Denmark	94.822	130.714
Norway	32.422	69.745
Others	2.895	1.342
	4.710.588	1.540.813
Provisions - specific	(19.400)	(10.349)
	4.691.188	1.530.464

Changes in provisions

	2003	2002
Balance as at 1 January	10.349	1.517
Acquired by the merger	2.277	-
New provisions	53.169	8.884
Collected	(45.287)	-
Written off	(715)	-
Foreign exchange revaluation	(393)	(52)
Balance as at 31 December	19.400	10.349

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

15. Loans to customers

	2003	2002
Companies		
- in HRK	3.079.427	1.117.825
- in foreign currency	1.760.332	730.045
Public sector	545.957	473.724
Other organizations	24.694	26.542
Citizens	4.916.543	1.893.952
	10.326.953	4.242.088
Provision - specific	(575.592)	(255.810)
Provision - general	(158.832)	(51.065)
	9.592.529	3.935.213
Of this amount partly recoverable and irrecoverable loans amount to	1.145.298	420.601

Changes in provisions

	Specific	General
Balance as at 1 January 2002	210.071	70.597
Reclassification (see Note 24.)	-	(9.848)
New provisions	148.687	9.269
Collected	(98.194)	(18.953)
Written off	(5.352)	-
Foreign exchange revaluation	598	-
Balance as at 31 December 2002	255.810	51.065
Acquired by the merger	325.489	84.796
New provisions	353.077	61.135
Collected	(295.891)	(38.164)
Written off	(74.329)	-
Foreign exchange revaluation	11.436	-
Balance as at 31 December 2003	575.592	158.832

_____ Fair value of loans to customers approximates book values.

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

15. Loans to customers (continued)

The concentration of risk by industries within the customer's loan portfolio was as follows (in HRK thousand and percentage)

	2003		2002	
		%		%
Agriculture, hunting, forestry and fishery	181.039	1,8%	51.045	1,2%
Mining industry	28.026	0,3%	19.080	0,4%
Manufacture of food and beverages	230.340	2,2%	11.241	0,3%
Textile industry	68.972	0,7%	23.607	0,6%
Publishing and printing industry	55.476	0,5%	6.187	0,1%
Manufacture of coke, petroleum products and nuclear fuel	46.509	0,5%	53.928	1,3%
Manufacture of chemicals and chemical products	43.654	0,4%	9.424	0,2%
Manufacture of other non-metal and mineral products	74.291	0,7%	34.865	0,8%
Manufacture of metal products, except of machinery and equipment	74.204	0,7%	6.317	0,2%
Manufacture of other transport vehicles	81.553	0,8%	74.866	1,8%
Other manufacturing industry	486.296	4,7%	67.255	1,6%
Electricity, gas and water supply	299.349	2,9%	278.191	6,6%
Construction industry	304.225	2,9%	64.824	1,5%
Retail and wholesale trade, repair of motor vehicles and home appliances	1.703.550	16,5%	234.265	5,5%
Hotels and restaurants	483.598	4,7%	310.970	7,3%
Financial mediation	321	0,0%	22.327	0,5%
Transport, storage and communication	362.710	3,5%	238.577	5,6%
Real estate business operations, leases and business services	237.786	2,3%	300.430	7,1%
Public administration and defense	526.201	5,1%	485.479	11,4%
Education	28.785	0,3%	387	0,0%
Health and social services	23.517	0,2%	11.330	0,3%
Personnel services and other service business	68.235	0,7%	43.542	1,0%
Foreign customers	1.773	0,0%	-	0,0%
Citizens	4.916.543	47,6%	1.893.951	44,7%
	10.326.953	100,0%	4.242.088	100,0%
Provision	(734.424)		(306.875)	
	9.592.529		3.935.213	

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

16. Accrued interest and other assets

	2003	2002
Interest receivable	40.989	22.564
Accrued interest receivable	68.361	21.897
Assets held for sale	36.766	130
Receivables from card business	15.450	5.263
Prepayment income tax	14.742	-
Receivables from fees and commissions	13.992	4.431
Amounts due from buyers	9.443	4.203
Costs paid in advance	5.948	357
Receivables for paid court expenses	2.509	1.271
Advances paid	2.363	2.063
Inventories of office and other supplies	2.446	1.521
Currency receivables for paid interest, provisions or other expenses for the account of others	1.702	31
Coin collections	678	212
Amounts due for sold shares (participations)	-	29.515
Other assets	16.609	3.487
	231.998	96.945
Provision - specific	(21.684)	(3.065)
	210.314	93.880

Changes in provisions

	2003	2002
Balance at 1 January	3.065	3.356
Acquired by the merger	9.607	-
Acquired by the merger for repossessed assets	7.667	-
New provisions made	23.082	2.077
Collected	(19.435)	(2.051)
Written-off	(2.105)	(317)
Foreign exchange revaluation	(197)	-
Balance as at 31 December	21.684	3.065

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

17. Equity securities

Investments in equity securities may be analyzed as follows:

	2003	2002
Investments in subsidiaries and associated companies	40.474	25.566
Investments in companies	1.730	915
Investments in financial institutions	15.270	9.303
	57.474	35.784
Provision- specific	(11.389)	(445)
	46.085	35.339

The changes of the investments in equity securities are analyzed in the table below:

	Stakes in associated comp. and subsidiaries	Other investments (less than 20%)	Total
Balance as at 1 January 2002	32.713	111.872	144.585
Participations' value adjustments	(6.597)	(400)	(6.997)
Sold participations	(550)	(101.775)	(102.325)
Exchange rate revaluation	-	76	76
Balance as at 31 December 2002	25.566	9.773	35.339
Participations' value adjustments	3.428	921	4.349
Sale/purchase of participations	151	(1.571)	(1.420)
Acquired by the merger	1.867	5.859	7.726
Exchange rate revaluation	-	91	91
Balance as at 31 December 2003	31.012	15.073	46.085

Changes in provisions

	2003	2002
Balance as at 1 January	445	13.174
Acquired by the merger	15.831	-
New provisions made	6.921	-
Disposals	(10.217)	(12.729)
Written off	(1.526)	-
Other	(65)	-
Balance as at 31 December	11.389	445

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

18. Tangible and intangible assets

	Land and buildings	Computers	Furniture & fittings	Motor vehicles	Assets in course of construction	Intangible assets	Total
<i>Purchase value</i>							
Balance as at 1 January 2003	174.830	70.625	68.940	6.534	51.528	30.158	402.615
Acquired by the merger	102.970	83.921	32.819	3.038	9.483	19.758	251.989
Transfer to the current investments	19.928	21.404	8.185	161	(56.282)	6.604	-
Increase	-	-	-	-	138.891	-	138.891
Disposals	(12.532)	(8.774)	(7.677)	(2.666)	-	(20.241)	(51.890)
Balance as at 31 December 2003	285.196	167.176	102.267	7.067	143.620	36.279	741.605
<i>Depreciation</i>							
Balance as at 1 January 2003	85.292	47.231	56.862	5.140	-	10.279	204.804
Acquired by the merger	14.659	27.226	12.984	2.388	-	8.341	65.598
Eliminated on disposals	(1.992)	(8.198)	(6.236)	(2.335)	-	(11.660)	(30.421)
Depreciation in 2003	6.011	33.669	7.815	910	-	11.246	59.651
Balance as at 31 December 2003	103.970	99.928	71.425	6.103	-	18.206	299.632
<i>Net Book Value</i>							
Balance as at 31 December 2003	181.226	67.248	30.842	964	143.620	18.073	441.973
<i>Net Book Value</i>							
Balance as at 31 December 2002	89.538	23.394	12.078	1.394	51.528	19.879	197.811
Assets fully written off used by the Bank							
- as at 31 December 2003	5.592	22.610	3.480	-	-	-	31.682

_____ Capital commitments related to investments in tangible and intangible assets entered into by the Bank amount to HRK 17.372 thousand for which payment will be made in year 2004.

19. Due to other banks

		2003	2002
Demand deposits	- in HRK	71.976	16.324
	- in foreign currency	181.926	46.459
Term deposits	- in HRK	528.551	94.694
	- in foreign currency	1.171.149	448.956
		1.953.602	606.433

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

20. Due to customers

	2003	2002
Demand deposits		
Corporate clients		
- in HRK	1.138.064	490.522
- in foreign currency	429.750	152.604
Public sector		
- in HRK	137.800	137.606
- in foreign currency	1.061	56.320
Citizens		
- in HRK	966.901	551.241
- in foreign currency	1.912.420	1.380.169
Other organizations		
- in HRK	84.511	35.626
- in foreign currency	10.446	3.018
Total demand deposits	4.680.953	2.807.106
Term deposits		
Corporate clients		
- in HRK	1.193.114	181.418
- in foreign currency	382.121	16.142
Public sector		
- in HRK	63.862	16.318
Citizens		
- in HRK	1.840.779	230.233
- in foreign currency	2.613.080	2.017.366
Other organizations		
- in HRK	9.202	3.507
Total term deposits	6.102.158	2.464.984
Total due to customers	10.783.111	5.272.090

_____ Term deposits include the funds of HRK 24,318 thousand received under repurchase agreements. Collateral for these deposits are securities available for sale as indicated in note 13, and in the same amount.

21. Other borrowed funds

	2003	2002
Domestic borrowings	455.342	199.272
Foreign borrowings	3.779.233	723.820
Refinanced borrowings	268.893	332.239
Other borrowings	25.103	25.136
	4.528.571	1.280.467

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

22. Accrued interest

	2003	2002
Interest payable	3.493	1.303
Accrued interest	106.121	39.268
	109.614	40.571

23. Other liabilities

	2003	2002
Liabilities for foreign currencies purchases	8.477	4.000
Prepayments received from lenders	81.102	6.539
Amounts due to suppliers	34.277	17.034
Salaries payable	15.984	15.585
Liabilities from the employment contracts	6.324	11.696
Liabilities towards corporate customers	10.506	6.509
Liabilities for credit card operations	6.596	604
Provisions for legal disputes	4.299	1.000
Liabilities from refinanced borrowings	3.355	3.948
Deferred income	3.030	3.141
Derivatives valuation	1.702	-
Liabilities for advances received	1.235	3.378
Other	5.032	9.222
	181.919	82.656

24. Provisions for contingencies

	Specific	General
Balance as at 1 January 2002	8.736	-
Reclassification	-	9.848
New provisions	12.017	398
Collected	(3.915)	(1.367)
Koksara Bakar related interest payment	(1.418)	-
Foreign exchange revaluation	(618)	-
Balance as at 31 December 2002	14.802	8.879
Acquired by the merger	1.220	9.683
New provisions	37.987	12.820
Collected	(39.746)	(4.814)
Foreign exchange revaluation	(523)	-
Balance as at 31 December 2003	13.740	26.568

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

25. Subordinated instruments

_____ In 2002 Erste Bank der oesterreichischen Sparkassen AG, Wien granted the Bank funds in the amount of EUR 20 m, based on a subordinated uncollateralized long-term loan for the formation of supplementary capital. The loan has been granted for a period of 15 years, and at an agreed interest rate of 1,20% per annum in excess of EURIBOR.

_____ The Bank has acquired through merger a subordinated uncollateralized long-term loan in the amount of EUR 20 m granted by Erste Bank. Maturity of 50% of this loan is at 24 April 2011, and of the other 50% at 24 April 2012. The interest rate is 1,5% in excess of EURIBOR.

_____ The Bank also acquired through the merger bonds with a status of tier 2 capital issued during the year 1998. The bonds were issued for a period of 8 years with an interest rate of 6% per annum. The Bank has issued 8.626 bonds, each carrying a value of EUR 156,45 payable at the middle exchange rate of the Croatian National Bank at the day of repayment. Interest is paid quarterly.

26. Share capital

_____ The General assembly of Riječka Banka d.d. Rijeka (currently Erste & Steiermärkische Bank d.d. Rijeka) and General assembly of Erste & Steiermärkische Bank d.d. Zagreb have on the 15 May 2003 accepted the contract on the merger of these two banks. The contract stipulates that the acquiring bank (Riječka Banka d.d. Rijeka) will, as compensation for transferred assets and liabilities of the acquired bank (Erste & Steiermärkische Bank d.d. Zagreb) transfer to the existing shareholders of the acquired bank (in exchange for their shares in the acquired bank) shares of the acquiring bank in a ratio of 1:78,6402. Both shares of the acquiring as well as acquired bank were not actively traded. Fair value was determined using discounted future cash flow method and with the final ratio confirmed by an independent auditor.

_____ The acquiring Bank has committed within the terms of the contract to issue 4.860.043 shares, each with nominal value of HRK 100, in exchange for all shares of the acquired bank.

_____ The Bank has also committed to make cash compensation to all shareholders of the acquired bank who had insufficient number of shares to receive a full share of the acquiring bank. This way treasury shares were acquired.

_____ Shareholders of the Bank as at 31 December are as follows:

	SHARE			
	2003		2002	
	Shareholding	No. of shares	Shareholding	No. of shares
Erste Bank der oesterreichischen Sparkassen AG, Wien	77,3%	10.235.671	98,0%	8.215.247
Die Steiermärkische Bank und Sparkassen AG, Graz	15,1%	2.002.494	-	-
President of Management Board - Petar Radaković	0,4%	50.172	-	-
Member of Management Board - Borislav Centner	0,0%	6.605	-	-
Member of Management Board - Slađana Jađar	0,0%	235	-	-
Other shareholders:	7,2%	947.301	2,0%	167.188
- of which treasury shares	0,0%	110	-	-
Total	100,0%	13.242.478	100,0%	8.382.435

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

26. Share capital (continued)

Share nominal value

	2003	2002
- by the share	100	100
- total number of shares	13.242.478	8.382.435
Total share nominal value in HRK 000	1.324.248	838.244
Treasury shares	(11)	-
	1.324.237	838.244

Reconciliation of shares outstanding for the period:

	No. of shares	Amount (HRK thousand)
Opening balance	8.382.435	838.244
Issuing new shares	4.860.043	486.004
Treasury shares acquired in the merger	(110)	(11)
Closing balance	13.242.368	1.324.237

27. Commitments and contingencies

_____ The total volume of issued guarantees, granted letters of credit and commitments taken over at the end of the year amounted to:

	2003	2002
HRK guarantees	157.020	108.567
- short-term	83.354	7.859
- long-term	73.666	100.708
Foreign currency guarantees	332.169	107.897
Performance guarantees	310.162	200.776
Foreign currency letters of credit	152.777	85.878
- short-term	136.885	84.201
- long-term	15.892	1.677
Guaranteed and accepted bills of exchange	17.587	-
Commitments to lend	1.209.696	423.636
Amounts owed resulting from repurchase agreement	128.052	-
Other contingencies	-	3.173
	2.307.463	929.927

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

28. Cash and cash equivalents

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

	2003	Acquired by the merger 1.1.2003	2002
Cash and instruments in course of collection	285.802	57.747	178.676
Current accounts in Croatia and abroad	1.297.300	366.336	296.566
Placements to banks with a remaining maturity of up to 3 months	4.658.769	630.810	1.530.464
Treasury bills with a remaining period of up to 3 months	79.655	29.988	642.178
	6.321.526	1.084.881	2.647.884

29. Funds managed on behalf of third parties

_____ The Bank manages funds on behalf of third parties

	2003	2002
Companies	509.494	1.360
Other legal entities	320	140
Citizens	108.271	-
Less: assets	(614.710)	(1.500)
Funds in transit	3.375	-

30. Related party transaction

_____ Transaction with related parties represent a part of the Bank's ordinary operations. As at 31 December 2003 the related parties included Erste Bank der oesterreichischen Sparkassen AG, Wien, Steiermärkische Bank und sparkassen AG, Graz, members of Erste Bank Group and Bank employees.

	Receivables as at 31/12/2003	Payables as at 31/12/2003	Income for 2003	Expenses for 2003
Related parties				
Erste Bank der oesterreichischen Sparkassen AG, Wien	383.297	3.890.155	2.482	72.082
Steiermärkische Bank und Sprakassen AG, Graz	118	274.148	164	6.874
Other members of Erste Bank Group	33	22.505	723	2.537

_____ The employees of the Bank have HRK 115.456 thousand of loans at 31 December 2003. The deposits of employees amount to HRK 79.487 thousand.

_____ The terms under which the mentioned transactions were agreed do not differ significantly from prevailing market terms.

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

31. Fair values of financial assets and liabilities

_____ Fair value represents the amount for which an asset could be exchanged or a liability settled on an arm's length basis. As market prices are not available for a significant portion of the Bank's financial assets and liabilities, fair values have been based on management assumptions according to the profile of the respective assets and liabilities. The Management Board believes that the fair values of assets and liabilities are not significantly different from book values.

32. Interest rate risk

Interest sensitivity of assets and liabilities

_____ The Bank is exposed to various risks associated with the effects of fluctuations in prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, as categorized by either the earlier of contractual repricing or maturity dates.

Balance as at 31 December 2003

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Without interest	Total
Assets							
Cash and current accounts with banks	1.297.300	-	-	-	-	285.802	1.583.102
Balances with Croatian National Bank	1.102.988	-	-	-	-	-	1.102.988
Securities	991.480	18.518	129.701	287.656	356.987	2.979	1.787.321
Due from other banks	4.462.856	190.377	33.158	3.915	764	118	4.691.188
Loans to customers	8.452.317	117.212	369.850	405.801	247.349	-	9.592.529
Accrued interest and other assets	-	-	-	-	-	210.314	210.314
Deferred tax asset	-	-	-	-	-	61.704	61.704
Equity securities	-	-	-	-	-	46.085	46.085
Tangible and intangible assets	-	-	-	-	-	441.973	441.973
Total assets	16.306.941	326.107	532.709	697.372	605.100	1.048.975	19.517.204
Liabilities							
Due to other banks	1.849.114	21.343	77.298	5.675	172	-	1.953.602
Due to customers	9.433.276	698.525	232.399	92.117	85.950	240.844	10.783.111
- Demand deposits	4.680.953	-	-	-	-	-	4.680.953
- Term deposits	4.752.323	698.525	232.399	92.117	85.950	240.844	6.102.158
Other borrowed funds	774.893	947.633	2.353.053	61.516	391.476	-	4.528.571
Accrued interest	-	-	-	-	-	109.614	109.614
Other liabilities	-	-	-	-	-	181.919	181.919
Provisions for contingencies	-	-	-	-	-	40.308	40.308
Subordinated instruments	-	152.938	152.938	10.320	-	-	316.196
Total liabilities	12.057.283	1.820.439	2.815.688	169.628	477.598	572.685	17.913.321
Shareholders' equity	-	-	-	-	-	1.603.883	1.603.883
Total equity and liabilities	12.057.283	1.820.439	2.815.688	169.628	477.598	2.176.568	19.517.204
Interest rate risk	4.249.658	(1.494.332)	(2.282.979)	527.744	127.502	(1.127.593)	-

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

32. Interest rate (continued)

Balance as at 31 December 2002

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Without interest	Total
Assets							
Cash and current accounts with banks	288.591	-	-	-	-	186.651	475.242
Balances with Croatian National Bank	488.026	-	-	-	-	-	488.026
Securities	641.690	68.049	253.495	324.909	324.247	-	1.612.390
Due from other banks	1.515.546	14.885	-	-	-	33	1.530.464
Loans to customers	1.992.858	415.321	556.057	586.885	367.846	16.246	3.935.213
Accrued interest and other assets	-	-	-	-	-	93.880	93.880
Deferred tax asset	-	-	-	-	-	44.623	44.623
Equity securities	-	-	-	-	-	35.339	35.339
Tangible and intangible assets	-	-	-	-	-	197.811	197.811
Total assets	4.926.711	498.255	809.552	911.794	692.093	574.583	8.412.988
Liabilities							
Due to other banks	593.788	993	35	19	187	11.411	606.433
Due to customers	4.278.471	327.108	399.027	143.999	53.791	69.694	5.272.090
- Demand deposits	2.763.411	-	-	-	-	43.695	2.807.106
- Term deposits	1.515.060	327.108	399.027	143.999	53.791	25.999	2.464.984
Other borrowed funds	906.218	186.133	27.379	44.681	110.244	5.812	1.280.467
Accrued interest	-	-	-	-	-	40.571	40.571
Other liabilities	-	-	-	-	-	82.656	82.656
Provisions for contingencies	-	-	-	-	-	23.681	23.681
Subordinated instruments	-	148.846	-	-	-	-	148.846
Total liabilities	5.778.477	663.080	426.441	188.699	164.222	233.825	7.454.744
Shareholders' equity	-	-	-	-	-	958.244	958.244
Total equity and liabilities	5.778.477	663.080	426.441	188.699	164.222	1.192.069	8.412.988
Interest rate risk	(851.766)	(164.825)	383.111	723.095	527.871	(617.486)	-

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

32. Interest rate (continued)

_____ The average balance of the interest bearing assets and liabilities of the Bank is shown in the table below. The average interest rates represent the effective average yield on the financial instruments for the reporting period.

	2003		2002	
	Average balance	Average interest rate	Average balance	Average interest rate
Cash and current accounts with banks	1.213.917	0,1%	350.821	0,1%
Balances with Croatian National Bank	1.021.170	2,7%	548.036	3,0%
Securities	2.240.575	5,4%	1.562.553	5,3%
Due from other banks	2.843.882	1,6%	1.577.739	2,3%
Loans to customers	8.955.502	9,4%	3.732.167	9,4%
	16.275.046	6,4%	7.771.316	6,3%
Due to other banks	1.071.111	2,4%	283.416	3,7%
Due to customers	9.961.156	2,3%	5.531.322	2,5%
Other borrowed funds	4.127.749	3,6%	1.512.655	5,0%
Subordinated instruments	311.873	4,2%	45.713	4,0%
	15.471.889	2,7%	7.373.106	3,1%

_____ The average balance of interest-bearing assets and liabilities has been calculated as average of balance as at 1st January and balances at the end of each month during 2003 and 2002.

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

33. Currency risk

Concentration of assets and liabilities

_____ Significant foreign currency assets and liabilities are analyzed in the table below. The items in HRK with foreign currency clause are stated under the foreign currency to which they are linked.

Balance as at 31 December 2003

	EUR & linked currencies	USD	Other foreign currency	Total foreign currency	HRK	Total
Assets						
Cash and current accounts with banks	105.649	20.809	28.720	155.178	1.427.924	1.583.102
Balances with Croatian National Bank	5.858	318.150	-	324.008	778.980	1.102.988
Securities	1.289.836	133.899	-	1.423.735	363.586	1.787.321
Due from other banks	3.464.340	498.455	207.103	4.169.898	521.290	4.691.188
Loans to customers	8.120.189	223.074	62.150	8.405.413	1.187.116	9.592.529
Accrued interest and other assets	96.963	4.196	4.634	105.793	104.521	210.314
Deferred tax asset	-	-	-	-	61.704	61.704
Equity securities	8.233	-	-	8.233	37.852	46.085
Tangible and intangible assets	-	-	-	-	441.973	441.973
Total assets	13.091.068	1.198.583	302.607	14.592.258	4.924.946	19.517.204
Liabilities						
Due to other banks	1.533.101	12.335	9.584	1.555.020	398.582	1.953.602
Due to customers	6.164.903	1.044.330	217.714	7.426.947	3.356.164	10.783.111
- Demand deposits	1.768.125	481.400	113.714	2.363.239	2.317.714	4.680.953
- Term deposits	4.396.778	562.930	104.000	5.063.708	1.038.450	6.102.158
Other borrowed funds	4.236.913	136.771	37.652	4.411.336	117.235	4.528.571
Accrued interest	84.111	8.607	1.814	94.532	15.082	109.614
Other liabilities	76.344	9.530	589	86.463	95.456	181.919
Provisions for contingencies	6.334	46	1.378	7.758	32.550	40.308
Subordinated instruments	316.196	-	-	316.196	-	316.196
Total liabilities	12.417.902	1.211.619	268.731	13.898.252	4.015.069	17.913.321
Shareholders' equity	-	-	-	-	1.603.883	1.603.883
Total equity and liabilities	12.417.902	1.211.619	268.731	13.898.252	5.618.952	19.517.204
Net foreign exchange position	673.166	(13.036)	33.876	694.006	(694.006)	-

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

33. Currency risk (continued)

Balance as at 31 December 2002

	EUR & linked currencies	USD	Other foreign currency	Total foreign currency	HRK	Total
Assets						
Cash and current accounts with banks	79.729	25.777	28.450	133.956	341.286	475.242
Balances with Croatian National Bank	-	268.830	-	268.830	219.196	488.026
Securities	781.596	35.295	-	816.891	795.499	1.612.390
Due from other banks	693.670	658.480	178.281	1.530.431	33	1.530.464
Loans to customers	3.228.235	240.725	18.873	3.487.833	447.380	3.935.213
Accrued interest and other assets	38.131	3.391	227	41.749	52.131	93.880
Deferred tax asset	-	-	-	-	44.623	44.623
Equity securities	7.905	-	-	7.905	27.434	35.339
Tangible and intangible assets	-	-	-	-	197.811	197.811
Total assets	4.829.266	1.232.498	225.831	6.287.595	2.125.393	8.412.988
Liabilities						
Due to other banks	502.650	34.229	1.322	538.201	68.232	606.433
Due to customers	2.657.554	948.369	149.796	3.755.719	1.516.371	5.272.090
- Demand deposits	1.092.483	419.210	80.419	1.592.112	1.214.994	2.807.106
- Term deposits	1.565.071	529.159	69.377	2.163.607	301.377	2.464.984
Other borrowed funds	987.536	187.642	44.897	1.220.075	60.392	1.280.467
Accrued interest	26.204	6.815	1.387	34.406	6.165	40.571
Other liabilities	2.959	5.843	1.191	9.993	72.663	82.656
Provisions for contingencies	-	-	-	-	23.681	23.681
Subordinated instruments	148.846	-	-	148.846	-	148.846
Total liabilities	4.325.749	1.182.898	198.593	5.707.240	1.747.504	7.454.744
Shareholders' equity	-	-	-	-	958.244	958.244
Total equity and liabilities	4.325.749	1.182.898	198.593	5.707.240	2.705.748	8.412.988
Net foreign exchange position	503.517	49.600	27.238	580.355	(580.355)	-

_____ In the Bank's total assets 67% of claims refers to EUR and linked currencies, and 64% of total liabilities. A significant participation in EUR and currency clauses based on EUR is common practice in Croatian banks, given the economic orientation of Republic of Croatia to the EU countries.

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

34. Liquidity risk

Bank's assets and liabilities as at 31 December 2003 are presented in the table below and are analyzed by the remaining time to contractual maturities.

Balance as at 31 December 2003

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
Assets						
Cash and current accounts with banks	1.583.102	-	-	-	-	1.583.102
Balances with Croatian National Bank	1.102.988	-	-	-	-	1.102.988
Securities	994.459	18.518	129.701	287.656	356.987	1.787.321
Due from other banks	4.448.311	190.929	35.781	8.431	7.736	4.691.188
Loans to customers	943.273	519.602	1.885.532	2.925.316	3.318.806	9.592.529
Accrued interest and other assets	87.756	68.361	25.098	29.099	-	210.314
Deferred tax asset	-	-	-	61.704	-	61.704
Equity securities	-	-	-	-	46.085	46.085
Tangible and intangible assets	-	-	-	-	441.973	441.973
Total assets	9.159.889	797.410	2.076.112	3.312.206	4.171.587	19.517.204
Liabilities						
Due to other banks	1.151.105	226.378	563.182	5.702	7.235	1.953.602
Due to customers	6.275.493	1.992.104	1.775.979	438.957	300.578	10.783.111
- Demand deposits	4.680.953	-	-	-	-	4.680.953
- Term deposits	1.594.540	1.992.104	1.775.979	438.957	300.578	6.102.158
Other borrowed funds	61.451	83.525	191.196	1.401.236	2.791.163	4.528.571
Accrued interest	3.493	106.121	-	-	-	109.614
Other liabilities	151.468	4.732	18.065	7.654	-	181.919
Provisions for contingencies	-	-	-	-	40.308	40.308
Subordinated instruments	-	-	-	10.320	305.876	316.196
Total liabilities	7.643.010	2.412.860	2.548.422	1.863.869	3.445.160	17.913.321
Shareholders' equity	-	-	-	-	1.603.883	1.603.883
Total equity and liabilities	7.643.010	2.412.860	2.548.422	1.863.869	5.049.043	19.517.204
Net liquidity mismatch	1.516.879	(1.615.450)	(472.310)	1.448.337	(877.456)	-

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

34. Liquidity risk (continued)

Balance as at 31 December 2002

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
Assets						
Cash and current accounts with banks	475.242	-	-	-	-	475.242
Balances with Croatian National Bank	488.026	-	-	-	-	488.026
Securities	641.690	68.049	253.495	324.909	324.247	1.612.390
Due from other banks	1.515.579	14.885	-	-	-	1.530.464
Loans to customers	115.696	257.683	1.100.222	1.339.525	1.122.087	3.935.213
Accrued interest and other assets	76.795	8.994	5.123	1.892	1.076	93.880
Deferred tax asset	-	-	-	22.311	22.312	44.623
Equity securities	414	1.050	28.450	120	5.305	35.339
Tangible and intangible assets	-	-	-	-	197.811	197.811
Total assets	3.313.442	350.661	1.387.290	1.688.757	1.672.838	8.412.988
Liabilities						
Due to other banks	522.057	41.146	43.024	19	187	606.433
Due to customers	3.432.978	875.827	715.300	191.149	56.836	5.272.090
- Demand deposits	2.807.106	-	-	-	-	2.807.106
- Term deposits	625.872	875.827	715.300	191.149	56.836	2.464.984
Other borrowed funds	112.151	27.206	68.306	181.551	891.253	1.280.467
Accrued interest	26.904	5.594	8.004	53	16	40.571
Other liabilities	60.937	6.390	11.980	1.892	1.457	82.656
Provisions for contingencies	-	-	-	-	23.681	23.681
Subordinated instruments	-	-	-	-	148.846	148.846
Total liabilities	4.155.027	956.163	846.614	374.664	1.122.276	7.454.744
Shareholders' equity	-	-	-	-	958.244	958.244
Total equity and liabilities	4.155.027	956.163	846.614	374.664	2.080.520	8.412.988
Net liquidity mismatch	(841.585)	(605.502)	540.676	1.314.093	(407.682)	-

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

35. Consolidated Balance Sheet of Riječka Banka and Erste & Steiermärkische Bank d.d. Zagreb as at 31 December 2002

Balance as at 31 December 2002

	Riječka Banka	Erste & Steiermärkische Bank, Zagreb	Total	Elimination	Consolidated balance sheet
ASSETS					
Cash and current accounts with banks	475.242	424.083	899.325	826	898.499
Balances with Croatian National Bank	488.026	413.032	901.058	-	901.058
Securities	1.612.390	1.160.445	2.772.835	-	2.772.835
Due from other banks	1.530.464	661.678	2.192.142	-	2.192.142
Loans to customers	3.935.213	4.172.488	8.107.701	-	8.107.701
Accrued interest and other assets	93.880	209.968	303.848	-	303.848
Deferred tax asset	44.623	-	44.623	-	44.623
Equity securities	35.339	7.585	42.924	-	42.924
Tangible and intangible assets	197.811	186.391	384.202	-	384.202
Total assets	8.412.988	7.235.670	15.648.658	826	15.647.832
LIABILITIES					
Due to other banks	606.433	454.385	1.060.818	826	1.059.992
Due to customers	5.272.090	3.749.422	9.021.512	-	9.021.512
Other borrowed funds	1.280.467	2.062.295	3.342.762	-	3.342.762
Accrued interest	40.571	49.306	89.877	-	89.877
Other liabilities	82.656	202.581	285.237	-	285.237
Provisions for contingencies	23.681	10.903	34.584	-	34.584
Subordinated instruments	148.846	158.889	307.735	-	307.735
Total liabilities	7.454.744	6.687.781	14.142.525	826	14.141.699
SHAREHOLDERS' EQUITY					
Share capital	838.244	271.924	1.110.168	-	1.110.168
Reserves	-	187.025	187.025	-	187.025
Loss carried forward	(1.568)	-	(1.568)	-	(1.568)
Profit for the year	121.568	88.940	210.508	-	210.508
Total shareholders' equity	958.244	547.889	1.506.133	-	1.506.133
Total equity and liabilities	8.412.988	7.235.670	15.648.658	826	15.647.832

Notes to Financial Statements

for the year ended 31 December 2003 (all amounts expressed in HRK thousand)

36. Consolidated Profit and Loss Account for Riječka Banka and Erste & Steiermärkische Bank d.d. Zagreb for the year ended 31 December 2002

	Riječka Banka	Erste & Steiermärkische Bank, Zagreb	Total	Elimination	Consolidated P & L Account
Interest income	518.715	445.616	964.331	1.084	963.247
Interest expense	(239.570)	(180.124)	(419.694)	(1.084)	(418.610)
Net interest income before provisions	279.145	265.492	544.637	-	544.637
Provisions for identified and unidentified losses	(53.269)	(67.824)	(121.093)	-	(121.093)
Net interest income after provisions	225.876	197.668	423.544	-	423.544
Fee and commission income	89.853	96.922	186.775	-	186.775
Fee and commission expense	(37.938)	(61.704)	(99.642)	-	(99.642)
Net fee and commission income	51.915	35.218	87.133	-	87.133
Net foreign exchange gains	47.319	41.806	89.125	-	89.125
Income from trading securities and value adjustments	10.257	19.613	29.870	-	29.870
Other operating income	20.383	9.177	29.560	-	29.560
Total income	355.750	303.482	659.232	-	659.232
Depreciation	(28.420)	(18.644)	(47.064)	-	(47.064)
General administrative expenses	(221.869)	(166.644)	(388.513)	-	(388.513)
Other operating expenses	(28.516)	(5.364)	(33.880)	-	(33.880)
Total expenses	(278.805)	(190.652)	(469.457)	-	(469.457)
Profit before taxation	76.945	112.830	189.775	-	189.775
Income taxes	-	(23.890)	(23.890)	-	(23.890)
Deferred tax income	44.623	-	44.623	-	44.623
Net profit for the year	121.568	88.940	210.508	-	210.508

Erste & Steiermärkische Bank d.d.

Supervisory Board

Mag. Reinhard Ortner, President
August Jost, Vice President
Dr. Manfred Wimmer, Member
Mag. Karin Svoboda, Member
Dr. Kristijan Schellander, Member
Bernhard Spalt, Member
Reinhold Schuster, Member
Franz Mally, Member
Josip Stanković, Member

Management Board

Petar Radaković, President
Tomislav Vuić, Vice president
Borislav Centner, Member
Sava Dalbokov, Member
Sladana Jagar, Member

Management

Divisions:

Retail Division,

Head Saša Krbavac

Corporate Division,

Head Marko Krajina

IT and Organization Division,

Head Ivan Vuk

Processing Division,

Head Jasna Veseli

Accounting and Controlling

Division, Head Karma Perišin

Treasury Division,

Head Tomislav Kalafatić

(until 1.4.2004. - Dino Janković)

Property Management Division,

Head Ivan Prpić

Risk Management Division,

Head Damir Bronić

Departments:

Human Resources Department,

Head Vanda Szabo

Marketing and Communication Department,

Head Dijana Bojčeta

Legal Department,

Head Jasminka Hanušić

Securities Custody Department,

Head Lidija Kaić

Internal Audit Department,

Head Rade Cvjetičanin

Multi Channel Management

Department,

Head Igor Žganjer

Secretary of the Bank:

Irena Šunić

Retail Division

Regional Department East,

Bjelovar, Preradovićeva bb,
Head Zdenko Matak

Regional Department Istria,

Pula, Ciscuttieva 15,
Head Ticijan Peruško

Regional Department South,

Split, Trg Hrvatske bratske
zajednice 3, Head Jurica Smoljan

Regional Department Rijeka,

Rijeka, Jadranski trg 3a,
Head Ante Zubović

Regional Department West,

Zagreb, Ulica grada Vukovara 41,
Head Gordana Čutura

Corporate Division

Commercial Centre Bjelovar,

Bjelovar, Preradovićeva bb

Commercial Centre Čakovec,

Čakovec, Katarine Zrinski 1

Commercial Centre Istra I,

Pazin, 25. rujna 17

Commercial Centre Istra II,

Pula, Ciscuttieva 15

Commercial Centre Karlovac,

Karlovac, Trg J.B. Tita 2

Commercial Centre Osijek,

Osijek, Ribarska 2

Commercial Centre Rijeka,

Rijeka, Jadranski trg 3a

Commercial Centre Split, Split,

Trg Hrvatske bratske zajednice 3

Commercial Centre Zadar,

Zadar, Obala kneza Branimira 6

Commercial Centre Zagreb I,

Zagreb, Ulica grada Vukovara 41

Commercial Centre Zagreb II,

Zagreb, Ulica grada Vukovara 41