

■ ANNUAL REPORT ■ 2003



Nova banka



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■ **REPORT OF THE PRESIDENT OF THE MANAGEMENT BOARD**

Last year, 2003, was a successful year for the Nova banka group. This is best confirmed by excellent business results which not only represent a dramatic turnaround when compared to the year 2002, when the group posted a loss, but as first positive consolidated results of the banks which created Nova banka over the last five years, they confirm the success of the business strategy and the set direction, business consolidation and restructuring of the Nova banka group.

It is with pleasure that we inform you that our group consisting of Nova and Dubrovačka banka, Dalbank invest and Dalbank nekretnine made a profit of HRK 76 million in the year 2003, of which a profit HRK 45.9 million accounts for Nova banka. Net interest income grew by 38.6 per cent when compared to the year 2002, as an outcome of strengthened lending activities in the retail segment. Owing to the successfully completed process of restructuring, the Bank cut its operating costs by 15 per cent, and staffing costs fell by 3.5 per cent. Also, the bank achieved HRK 34.9 earnings per share.

Last year the balance sheet of Nova banka grew by 5.8 per cent, i.e. 2.9 percent at group level. At the same time, we have kept confidence and realised a growth of retail deposits of 4.4 per cent, witnessing thus that this market segment was and will remain in the focus of the Bank's business activities. The capital base of Nova banka has also grown, i.e. of the whole group, to HRK 600.2 million, and this is an increase of 20.8 per cent when compared to the year 2002. By increasing the capital of Nova banka in September and keeping the profit, in the year 2003 the Bank reached the rate of capital adequacy of 14.4 per cent.

We are convinced that these results are a good basis to continue in the year 2004 the initiated trend of positive business performance and realise a further balance sheet and income growth and additionally cut operating costs. However, we have another challenge ahead - merger of Nova and Dubrovačka banka. This will be preceded by the business and technological integration of both banks whereby we shall increase our operating efficiency, cut costs and update and enrich our offer of products and services. Also, the realisation of our projections will depend on a further growth in lending activities and deposits, the restructuring of the existing assets, further cost control and monitoring, staff downsizing and the efficiency of the new organisational structure.

Our last year's results additionally motivate us, but they also oblige us that in this year, as well as in the future, we remain persistent in our intention to realise our business goals in conditions of tight competition, keeping the confidence of our clients and the loyalty of our employees.

We are confident that in this year and in the years to come, Nova banka will successfully confirm its position as the domicile bank in Zadar, North Dalmatia, Dubrovnik and the Neretva region, Istria nad Sisak, and also that it will keep its market position in the Croatian banking market.

Damir Odak,
President of the Management Board

■ MANAGEMENT RESPONSIBILITY

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

After making enquiries, the Board has a reasonable expectation that the bank and group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the bank and the group and must also ensure that the financial statements comply with the Croatian Accounting Law (90/92). The Board is also responsible for safeguarding the assets of the bank and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Board on 23 February 2004



Damir Odak, President of the Management Board
Nova banka d.d.
Divka Budaka 1 d
10 142 Zagreb





■ INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Nova banka d.d., Zagreb

We have audited the financial statements of Nova banka d.d., Zagreb ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group") for the year ended 31 December 2003, which comprise balance sheets, statements of income and of cash flows and statements of changes in equity of the Bank and the Group for the year then ended. These financial statements are the responsibility of the Bank's Management Board. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Group and of the Bank for the year ended 31 December 2002 were audited by another auditor, whose report dated 12 May 2002 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that 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. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank and of the Group as at 31 December 2003 and of the results of their operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

DELOITTE & TOUCHE d.o.o.

Deloitte.

Zagreb, 23 February 2004

■ **INCOME STATEMENTS***for the years ended 31 December 2003 and 2002*

	Notes	Group Year ended 31 December		Bank Year ended 31 December	
		2003 HRK'000	2002 HRK'000	2003 HRK'000	2002 HRK'000
Interest income	3	450,236	376,162	271,892	249,075
Interest expense	3	(170,683)	(203,441)	(105,229)	(128,792)
Net interest income		279,553	172,721	166,663	120,283
Fee and commission income	4	104,153	92,992	67,155	65,322
Fee and commission expense	4	(44,878)	(41,323)	(29,698)	(27,148)
Net fee and commission income		59,275	51,669	37,457	38,174
Exchange differences, net	5	36,650	38,309	22,013	29,687
Other operating income	6	41,659	91,354	39,032	40,259
Operating income		417,137	354,053	265,165	228,403
Operating expenses	7	(350,760)	(390,195)	(242,510)	(285,358)
Increase/(decrease) in provisions	9	(10,379)	(28,193)	3,220	(33,144)
Profit/(loss) before taxes		55,998	(64,335)	25,875	(90,099)
Income tax	10	19,973	(2,000)	20,000	-
Net profit/(loss) for the year		75,971	(66,335)	45,875	(90,099)
EARNINGS PER SHARE (expressed in HRK)					
- basic	11	34,9	(33,98)	-	-

The accompanying notes form an integral part of these financial statements.

■ **BALANCE SHEETS**

As at 31 December 2003 and 2002

	Notes	Group		Bank	
		As at 31 December		As at 31 December	
		2003	2002	2003	2002
		HRK'ooo	HRK'ooo	HRK'ooo	HRK'ooo
ASSETS					
Cash and balances with the Croatian National Bank	12	1,367,209	1,209,868	843,859	614,698
Amounts due from other banks	13	784,630	977,066	847,155	1,027,939
Originated loans and other originated financial assets	14	3,988,425	3,346,928	2,424,724	1,897,405
Investments held to maturity	15	83,479	112,306	83,479	111,998
Other assets	16	81,555	85,797	68,920	47,779
Deferred tax assets	10	20,000	-	20,000	-
Assets available for sale	17	1,358,111	1,681,204	692,495	942,463
Investments in subsidiaries	18	-	-	240,548	225,139
Tangible and intangible assets	19	203,537	217,887	122,117	160,405
Goodwill	20	71,969	100,958	48,076	69,721
Total assets		7,958,915	7,732,014	5,391,373	5,097,547
LIABILITIES					
Amounts due to other banks	21	154,903	73,484	364,839	128,805
Amounts due to customers	22	6,399,933	6,442,153	3,957,526	3,995,104
Other borrowed funds	23	697,717	582,659	454,109	423,930
Provisions	24	42,772	52,951	14,994	13,967
Other liabilities	25	63,384	84,118	36,979	49,373
Total liabilities		7,358,709	7,235,365	4,828,447	4,611,179
SHAREHOLDERS' EQUITY					
Share capital	26	455,280	425,280	455,280	425,280
Share premium	26	171,178	171,178	171,178	171,178
Less: Treasury shares	26	(29)	(29)	(29)	(29)
Accumulated losses	27	(79,687)	(152,561)	(116,967)	(162,842)
Other reserves	27	53,464	52,781	53,464	52,781
Total shareholders' equity		600,206	496,649	562,926	486,368
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		7,958,915	7,732,014	5,391,373	5,097,547
CONTINGENCIES AND COMMITMENTS	28	457,249	505,764	302,043	386,091

The issuance of these financial statements was approved by the Bank's Management Board on 23 February 2004. The financial statements were signed by:

Zorislav Vidović
Management Board Member



Damir Odak
President of the Management Board



The accompanying notes form an integral part of these financial statements.

■ **CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY GROUP**

For the years ended 31 December 2003 and 2002

	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings / (accumulated losses)	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January 2002 as previously reported	300,000	76,143	(69)	52,480	(85,012)	343,542
Merger effects	14,280	6,524	69	-	(1,039)	19,834
Balance at 1 January 2002 - restated	314,280	82,667	-	52,480	(86,051)	363,376
Issue of share capital	111,000	88,800	-	-	-	199,800
Other	-	(289)	-	301	(175)	(163)
Purchase of treasury shares	-	-	(29)	-	-	(29)
Net loss for the year	-	-	-	-	(66,335)	(66,335)
Balance at 31 December 2002	425,280	171,178	(29)	52,781	(152,561)	496,649
Balance at 1 January 2003	425,280	171,178	(29)	52,781	(152,561)	496,649
Opening balance correction for liquidation of related companies	-	-	-	-	(3,097)	(3,097)
Corrected balance as at 1 January	425,280	171,178	(29)	52,781	(155,658)	493,552
Issue of share capital	30,000	-	-	-	-	30,000
Unpaid dividends from previous years	-	-	-	683	-	683
Profit for the year	-	-	-	-	75,971	75,971
	455,280	171,178	(29)	53,464	(79,687)	600,206

The accompanying notes form an integral part of these financial statements.

■ STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY BANK

For the years ended 31 December 2003 and 2002

	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings / (accumulated losses)	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January 2002 as previously reported	300,000	76,143	(69)	52,480	(47,300)	381,254
Merger effects	14,280	6,524	69	-	(25,443)	(4,570)
Balance at 1 January 2002 - restated	314,280	82,667	-	52,480	(72,743)	376,684
Issue of share capital	111,000	88,800	-	-	-	199,800
Other	-	(289)	-	301	-	12
Purchase of treasury shares	-	-	(29)	-	-	(29)
Net loss for the year	-	-	-	-	(90,099)	(90,099)
Balance at 31 December 2002	425,280	171,178	(29)	52,781	(162,842)	486,368
Balance at 1 January 2003	425,280	171,178	(29)	52,781	(162,842)	486,368
Issue of share capital	30,000	-	-	-	-	30,000
Unpaid dividends from previous years	-	-	-	683	-	683
Profit for the year	-	-	-	-	45,875	45,875
	455,280	171,178	(29)	53,464	(116,967)	562,926

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY BANK

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENTS

For the years ended 31 December 2003 and 2002

Notes	Group Year ended 31 December		Bank Year ended 31 December	
	2003 HRK'000	2002 HRK'000	2003 HRK'000	2002 HRK'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before taxes	55,998	(64,335)	25,875	(90,099)
Adjustments to reconcile profit/(loss) before taxes to net cash from operating activities				
Increase in provisions and value adjustment	9	10,379	28,193	(3,220)
Depreciation	7,19	21,609	25,105	14,345
(Gains) on sale and disposal of tangible and intangible assets	6	(10,168)	(7,157)	(12,196)
Decrease in other assets		17,632	9,530	7,275
(Decrease) in other liabilities		(21,851)	(10,134)	(11,714)
Amortization of goodwill	7,20	28,989	27,157	21,645
Adjustment of debt and equity securities resulting from remeasurement at fair value	6	(1,096)	(605)	(1,096)
(Gains) on sale of equity securities	6	(710)	-	(746)
Dividends from investments	6	(2,181)	(986)	(9,656)
Loss on sale of foreclosed tangible assets	7	921	-	921
Value adjustment of foreclosed tangible assets	7	251	5,016	251
Fair value adjustment of derivatives		(365)	(37)	(365)
Indexation of replacement bonds	7	(3,593)	(8,215)	(3,593)
(Profit) on liquidation of related companies	6,18	-	-	(2,707)
Operating results before changes in operating assets and liabilities		95,815	3,532	25,019
Changes in operating assets and liabilities				
Net increase in amounts due to other banks	21	81,419	44,976	236,034
Net (decrease) in amounts due to customers	22	(42,220)	(232,047)	(37,578)
Purchase of treasury bills of the Croatian Ministry of Finance	14 b	(28,242)	-	(9,285)
Net (increase)/decrease in mandatory reserve with Croatian National Bank	12	(234,731)	(371,635)	(266,814)
Net (increase) in amounts due from other banks		(95,435)	(3,967)	(10,660)
Net (increase) in originated loans and advances to customers		(425,355)	(420,940)	(374,144)
Paid provisions		(14,164)	(117,729)	(5,207)
Income tax paid		(3,344)	(543)	-
Net cash provided by/(used in) operating activities		(666,257)	(1,098,353)	(442,635)

The accompanying notes form an integral part of these financial statements.

■ **CASH FLOW STATEMENTS** (continued)
For the years ended 31 December 2003 and 2002

	Notes	Group Year ended 31 December		Bank Year ended 31 December	
		2003 HRK'000	2002 HRK'000	2003 HRK'000	2002 HRK'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of subsidiary, net of cash acquired	18	-	831,723	-	-
Acquisition of subsidiary	18	-	-	-	(219,456)
Dividends from investments	6	2,181	986	9,656	986
Net decrease in investments held to maturity	15	36,658	36,703	36,350	37,011
Sale/(Purchases) of assets available for sale, equity securities		300,852	(300,457)	216,928	(386,309)
Purchase of penalty bills of the Croatian National Bank	15	(7,831)	-	(7,831)	-
Liquidation of related companies		(3,097)	-	5,774	-
Proceeds from sale of assets available for sale, equity securities		6,395	8,652	11,250	5,385
Net (decrease) in assets available for sale, foreclosed tangible assets		18,831	7,187	18,831	7,187
Purchases of tangible and intangible assets		(12,997)	(14,126)	(7,857)	(4,460)
Proceeds from sale of tangible and intangible assets		5,989	12,010	5,766	22,875
Net cash provided by/(used in) investing activities		346,981	582,678	288,867	(536,781)
CASH FLOWS FROM FINANCING ACTIVITIES					
Issue of shares	26	30,000	199,800	30,000	199,800
(Purchases) of treasury shares	26	-	(29)	-	(29)
Net increase/ (decrease) in other borrowed funds	23	115,058	(372,464)	30,179	(169,893)
Net cash provided by/(used in) financing activities		145,058	(172,693)	60,179	29,878
Net (decrease) in cash and cash equivalents		(174,218)	(688,368)	(93,589)	(1,124,300)
Cash and cash equivalents at beginning of year	29	1,427,497	2,115,865	986,176	2,110,476
Cash and cash equivalents at end of year	29	1,253,279	1,427,497	892,587	986,176

The accompanying notes form an integral part of these financial statements.

■ NOTES TO THE FINANCIAL STATEMENTS

For the years ended 31 December 2003 and 2002

1. GENERAL

The consolidated group of Nova banka d.d. ("the Group") consists of parent company Nova banka d.d. ("the Bank") and 3 related companies fully owned by the Bank (Dubrovačka banka d.d., Dalbank Invest d.o.o. and Dalbank Nekretnine d.o.o.). The Bank is headquartered in Zagreb, Divka Budaka 1 d., and was incorporated in the Republic of Croatia. The Bank provides retail and corporate banking services. The Bank is registered at the Commercial Court in Zagreb, with the registered share capital in the amount of HRK 455,279,600.00 at 11 September 2003.

The Bank's main areas of operation are as follows:

1. accepting and placing of deposits
2. providing current and term deposit accounts
3. granting short- and long-term loans and guarantees to the Ministry of Finance, local and regional authorities, corporate customers, private individuals and other credit institutions dealing with finance lease and foreign exchange transactions
4. treasury operations in the interbank market
5. trust management and investment banking services
6. performing local and international payments
7. providing bank services through an extensive branch network in Croatia.

Directors and Management

General Assembly

Viktor Siništaj	President of the General Assembly
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Supervisory Board

Robert Hans von Griethuysen	President
Ronald Oliver Drake	Member
David McMahon	Member
David Donald Curl	Member
Marijan Kostrenčić	Member

Management Board

Damir Odak	President
Helena Banjad	Member
Zorislav Vidović	Member

1. GENERAL (continued)

The shareholding structure of the Bank is as follows:

	31 December 2003		31 December 2002	
	Paid capital	Ownership %	Paid capital	Ownership %
Reginter d.o.o.	308,659	67.80	283,882	66.75
SEEF Holdings Limited	105,938	23.27	98,600	23.18
SWR Investment Limited	20,600	4.52	20,600	4.84
Nova Banka	27	0.00	27	0.00
Small shareholders	20,056	4.41	22,171	5.23
Total	455,280	100.00	425,280	100.00

Operating income was substantially generated from the provision of banking services in Croatia. The Group considers that its products and services arise from one segment of business, that is the provision of banking and related services.

2. ACCOUNTING POLICIES

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

(a) Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB), effective as of 31 December 2003.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of the date of the consolidated financial statements, and actual results in the future could differ from those estimates. The effect of any change in estimates will be included in the financial statements when determinable.

These financial statements are prepared under the historical cost convention, except for certain financial instruments that are carried at fair values. Financial assets and liabilities whose fair value cannot be determined reliably, as well as all non-financial assets and liabilities are stated at amortised cost or cost of purchase decreased for possible impairment. Income and expenditure is recorded in the period in which they arise.

The financial statements are stated in Croatian kuna (HRK). At 31 December 2003, the exchange rate for USD 1 and EUR 1 was HRK 6.12 and HRK 7.65, respectively (31 December 2002: USD 1 = HRK 7.15 and EUR 1 = HRK 7.44).

The Group applies its accounting policies consistently and there are no changes in the accounting policies compared to previous years.

The financial statements are presented in the commonly used and internationally recognised format in accordance with IAS 30 - "Disclosures in Financial Statements of Banks and Similar Financial Institutions".

The financial statements have been prepared on the going concern assumption.

(b) Basis of consolidation

The financial statements presented are of the Bank and of the Group. The consolidated financial statements of the Group consist of the financial statements of the Bank and of the Bank's subsidiary undertakings.

Subsidiary undertakings are those companies controlled by the Bank Control is achieved where the Company has the power to govern the financial and operating policies of an invested enterprise so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the effective date of control until the date of expiry of control.

All significant intercompany transactions and balances between Group enterprises are eliminated on consolidation.

Unrealised profits from transactions with subsidiary companies are eliminated to the extent of the Group's share in the companies. Unrealised losses are eliminated to same extent as unrealised profits, except to the extent that unrealised losses provide evidence of impairment.

In 2003, the Bank initiated liquidation proceedings for two of its subsidiaries, Dalbank Vrijednosnice d.o.o. and Dalbank Consulting d.o.o., which were completed in December 2003 (Note 18).

(c) Foreign currencies

Income and expenditure arising from transactions denominated in foreign currencies are translated to Croatian kuna at the official rates of exchange on the date of the transaction. Assets and liabilities are translated at the official middle exchange rate valid at the balance sheet date. Any gain or loss resulting from translation of foreign currencies is included in the income statement for the period to which it relates.

(d) Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Interest is calculated in accordance with Croatian law or the underlying agreement between lender and borrower. Interest is added to the principal when this is foreseen by the underlying agreement. Interest income is suspended when deemed uncollectible and recognised as income when collected.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.



(e) Fee and commission income

Fees and commissions are generally recognised on an accrual basis. Fees on loans under which drawdowns of funds are likely are accrued (together with the related cost) and recognised as adjustment to effective yield on the loan. Fees and commissions arising from negotiations or participations in negotiations about a transaction on behalf of a third party, e.g. in connection with acquisition of loans, shares or other securities, or purchases or disposal of enterprises, are recognised upon completion of the underlying transaction.

(f) Sale and repurchase agreements

Securities sold subject to a linked repurchase agreements ('repos') are retained in the financial statements as trading or investment securities or financial asset originated by Bank and the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits, or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

(g) Net trading income

Net trading income includes gains and losses on trading in foreign currencies and sale or fair valuation of trading financial assets and liabilities.

(h) Dividend income

Dividends received on equity securities, except for investments in associates are recognised as income in the income statement when the right to dividend has been established.

(i) Trading securities

Trading securities are initially recognised at cost (which includes transaction costs) and subsequently remeasured at fair value based on quoted bid prices. All realised and unrealised gains on trading securities are recognised as net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends are shown under dividend income. At year-end, the Group held no trading securities.

(j) Investments held to maturity and assets available for sale

The Group classified its investment securities into the following two categories: (1) held to maturity (public debt, Housing Bonds of the Croatian Ministry of Finance and Mandatory Treasury Bills), and (2) available for sale (equity securities, debt securities and foreclosed tangible assets). Investments held to maturity and assets available for sale are initially stated at cost increased by all transaction costs.

(1) Investments held to maturity

are recognised at amortised cost, less any losses on impairment recognised based on irrecoverable amounts. The amortisation charge for the year of any discount premium arisen on acquisition of held-to-maturity securities is included in other investment income throughout the period of investment, so that the income recognised in each period represents a permanent yield on investments. Held-to-maturity investments include securities the Group has both the intention and the ability to hold until maturity and comprise mostly securities issued by the Croatian Government.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

Financial assets held to maturity for which no quoted market prices are available and whose fair value cannot be estimated reliably by applying the aforesaid models are carried at cost less any provision for permanent impairment.

(2) Financial assets available for sale

After initial recognition, **Equity and debt securities** are subsequently remeasured at fair values based on quoted bid prices or amounts derived from cash flow models. Where no quoted bid prices are available, fair values of debt securities are estimated using the present value of future cash flows. Fair values for unquoted equity instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the income statement as other operating income or expense. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as other operating income or expense.

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less allowance for permanent diminution in value, when appropriate.

Assets available for sale consist of equity investments (associated companies) and debt securities (Bonds of the Republic of Croatia, Replacement Bonds and the Bonds of State Agency for Savings Deposit Insurance and Bank Rehabilitation for the rehabilitation of Dubrovačka banka), as presented in Note 17.

Associated undertakings are those in which the Bank has 20% and 50% voting rights or in which the Bank has a significant influence but which it does not control.

(2) Financial assets available for sale (continued)

Under equity method, the Bank's share in the profit or loss of associated companies is recognised in the income statement following the acquisition.

Unrealised gains and losses resulting from changes in the value of investments in associates are included in the income statement under other income and expense, respectively.

Foreclosed assets are initially recognised at cost, which represents the fair value of consideration given on acquisition and are subsequently carried at fair value estimated on the basis of expected future cash inflows from available-for-sale assets as determined by certified valuation experts.

Unrealised gains and losses arising from changes in the fair value of foreclosed assets classified as available-for-sale are recognised in the income statement as other operating income or expense. When the foreclosed assets are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as other operating income or expense.

(k) Treasury bills

Treasury bills and notes acquired from the issuer are classified as financial assets originated by the Bank and reported at investment cost adjusted by any premium or discount amortisation based on the effective interest rate until maturity. Premium or discount amortization is included in interest income.

(l) Originated loans and provisions for loan impairment

Loans originated by the Group by providing money directly to a debtor at draw-down are categorised as loans originated by the Group and are carried at amortised cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to debtors.

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

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

When a loan is uncollectable, it is written off against the related provision for impairments; subsequent recoveries are credited to the bad and doubtful debt expense in the income statement.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the bad and doubtful debt expense.



(m) Derivative financial instruments

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include currency forward agreements. These financial instruments are used by the Bank to hedge currency exchange risk associated with its transactions in the financial markets.

Derivative financial instruments are initially recognised at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Statement of Income as they arise. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(n) Computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense as incurred. However, expenditure that enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives.

(o) Tangible and intangible assets

All tangible and intangible assets are stated at cost less accumulated depreciation/amortisation and impairment loss, if any.

Depreciation and amortization are calculated for all assets, except for land and assets under construction, on the straight line method at rates estimated to write off the cost of each asset to their residual values over their estimated useful life as follows:

	2003	2002
Buildings	33-40 years	33-40 years
Computers	3.3-5 years	3.3-5 years
Furniture and equipment	5-10 years	5-10 years
Motor vehicles	4 years	4 years
Intangible assets	3.3 years	3.3 years

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred. Repairs and maintenance costs are charged to the income statement when incurred, and every improvement is capitalised.

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.



(o) Tangible and intangible assets *(continued)*

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. If the carrying amounts of property, equipment and other tangible assets exceed their estimated recoverable amounts, they are written down to the estimated recoverable amount.

(p) Goodwill

Goodwill represents the difference between the higher cost of acquisition of interest in a subsidiary and the lower fair value of the subsidiary's identifiable net assets at the date of acquisition. Following the merger with Istarska banka and Sisačka banka, the Bank recognised in its balance sheet as at 30 June 2002 amount of goodwill. Goodwill from Dubrovačka banka acquisition is recognised in consolidated financial statements only.

Goodwill is amortised on a straight-line basis over its estimated useful life (5 years) and included in the income statement of the Bank and of the Group.

(q) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and cash equivalents with original maturities of less than 90 days, including treasury bills and amounts due from other banks.

(r) Off-balance sheet commitments and contingencies

In the ordinary course of business, the Bank enters into credit related commitments that are recorded in off-balance-sheet accounts and primarily include guarantees, letters of credit and transactions with financial instruments. The provision for possible commitments and contingent liabilities losses is maintained at a level Bank's management believes is adequate to absorb probable future losses. Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Bank recognises a provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation. If these conditions are not met, no provision should be recognised.

(s) Income tax

Taxes currently due are calculated in accordance with the Croatian legislation. Income tax was computed on the basis of taxable profit, calculated by adjusting the statutory financial result for certain income and expenditure items as required under the law.

Deferred income taxes are provided using the balance sheet liability method of accounting under which deferred tax consequences are recognised for differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes. Any tax effects related to transactions and other events recognized in the statement of operations are also recognized in the statement of operations and tax effects related to transactions and events recognized directly in equity are also recognized directly in equity.

A deferred tax liability is recognized for all taxable temporary differences unless it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Current and deferred taxes are recognized as income or expense and are included in the net profit for the period except to the extent that the tax arises from a transaction or event that is recognized in the same or different period, directly in equity.

(t) Share capital and Treasury shares

External costs directly attributable to issuance of new shares, except for those resulting from transactions, are deducted from the equity net of any related taxes.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

When the Bank or its subsidiary undertakings purchase the Bank's share capital or become entitled to purchase its share capital, the consideration paid, including all transaction costs less any taxes, is presented as a deduction from the total equity. Gains and losses on the sale of treasury shares are credited and charged, respectively, to treasury shares within equity.

(u) Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements when the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

(v) Employee benefits

The Company provides benefits for its employees, which include long-service benefits (jubilee awards) and one-off retirement bonuses. The obligation and the cost of these benefits are determined using the Projected Unit Credit Method. The Projected Unit Credit Method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

3. NET INTEREST INCOME

	Grup		Bank	
	2003	2002	2003	2002
	HRK'000	HRK'000	HRK'000	HRK'000
Interest and similar income				
Cash reserves and placements with other banks	8,296	22,161	18,694	24,006
Balances with Croatian National Bank	20,327	22,017	8,344	13,712
Corporate loans	93,602	96,911	57,032	70,699
Retail loans	223,388	139,538	138,315	83,206
Debt securities	77,791	77,298	28,035	39,235
Replacement bonds	18,006	17,822	18,006	17,822
Other	8,826	415	3,466	395
	450,236	376,162	271,892	249,075
Interest and similar expense				
Current accounts and deposits of retail customers	125,324	140,875	66,653	84,785
Current accounts and deposits of corporate customers	19,151	29,342	11,499	18,292
Borrowings from, current accounts and deposits of other banks	25,641	31,414	26,587	24,982
Other	567	1,810	490	733
	170,683	203,441	105,229	128,792

4. NET FEE AND COMMISSION INCOME

	Grup		Bank	
	2003	2002	2003	2002
	HRK'000	HRK'000	HRK'000	HRK'000
Fee and commission income				
Corporate customers	42,655	36,679	33,942	29,017
Banks	2,098	3,259	574	2,303
Retail customers	59,400	53,054	32,639	34,002
	104,153	92,992	67,155	65,322
Fee and commission expense				
Corporate customers	29,262	24,670	17,783	15,875
Banks	8,995	9,384	5,830	5,276
Retail and other customers	6,621	7,269	6,085	5,997
	44,878	41,323	29,698	27,148

5. EXCHANGE DIFFERENCES (NET)

	Grup		Bank	
	2003	2002	2003	2002
	HRK'000	HRK'000	HRK'000	HRK'000
Net gains on foreign currency dealings	39,097	46,860	24,314	34,152
Net foreign exchange losses on translation of balance sheet items at medium rates	(2,447)	(8,551)	(2,301)	(4,465)
	36,650	38,309	22,013	29,687

6. OTHER OPERATING INCOME

	Grup		Bank	
	2003	2002	2003	2002
	HRK'000	HRK'000	HRK'000	HRK'000
Gains on sale and disposal of property and equipment	10,168	7,157	12,196	21,120
Indexation of replacement bonds	3,593	8,215	3,593	8,215
Dividend income	2,181	1,044	9,656	986
Profit on liquidation of related companies (Note 19)	2,707	-	2,707	-
Effect of fair valuation of debt and equity securities	1,096	605	1,096	744
Gains on sale of equity securities	710	-	746	-
Fair value adjustment of derivative financial instruments - currency forwards (Note 16,28)	365	37	365	37
Other income	20,839	74,296	8,673	9,157
	41,659	91,354	39,032	40,259

Gains on sale and disposal of property and equipment during 2003 for the Bank include HRK 1,992 thousand of profit on the sale of a building to the subsidiary Dalbank Invest, in which a Bank's branch in Sisak was previously accommodated (2002 : HRK 14,078 thousand).

The Bank's dividend income in 2003 includes dividend received from the related company Dalbank Invest d.o.o. in the amount of HRK 7,475 thousand.

Other income of the Group in 2003 include closed-end investment fund PIF Velebit managing fee in the amount of HRK 9,805, in 2002 include a one-off profit in the amount of HRK 51,773 thousand arising from the legal restructuring of the former privatisation investment fund PIF Velebit, managed by the Group, into a closed-end investment fund.

7. OPERATING EXPENSES

	Grup		Bank	
	2003	2002	2003	2002
	HRK'000	HRK'000	HRK'000	HRK'000
Staff costs (Note 8)	156,018	159,962	106,186	110,086
Professional services and cost of material	82,220	90,333	60,169	68,574
Savings deposit insurance premiums	26,227	24,880	16,579	16,999
Marketing	9,227	17,953	9,148	14,737
Amortization of goodwill (Note 20)	28,989	27,157	21,645	21,645
Depreciation (Note 19)	21,609	25,105	14,345	18,514
Administrative expenses	16,435	11,982	8,764	8,844
Loss on sale of foreclosed assets (Note 17 c)	921	-	921	-
Other taxes and contributions	655	2,046	655	1,074
Effect of fair valuation of foreclosed assets (Note 17 c)	251	5,016	251	5,016
Other costs	8,208	25,761	3,847	19,869
	350,760	390,195	242,510	285,358

8. STAFF COSTS

	Grup		Bank	
	2003	2002	2003	2002
	HRK'000	HRK'000	HRK'000	HRK'000
Gross salary	119,546	130,315	79,834	87,395
- Net salaries	82,984	87,141	55,222	57,105
- Taxes, surtaxes and contributions	36,562	43,174	24,612	30,290
Contributions on salaries	20,544	22,316	13,749	15,360
Other payments to employees	15,928	7,331	12,603	7,331
	156,018	159,962	106,186	110,086

At year-end, the Group had 1,266 (2002: 1,519) and the Bank 836 (2002: 1,004) employees.

9. PROVISIONS AND IMPAIRMENT LOSSES

	Grup		Bank	
	2003	2002	2003	2002
	HRK'000	HRK'000	HRK'000	HRK'000
Amounts due from other banks (Note 13)	(5,611)	7,782	(7,579)	4,775
Loans and advances to customers (Note 14)	10,178	44,918	621	35,581
Other assets (Note 16)	(1,973)	1,148	(2,496)	1,090
Provision for litigation, termination bonuses and obligations (Note 24)	7,785	(25,655)	6,234	(8,302)
	10,379	28,193	(3,220)	33,144

10. TAXATION

	Grup		Bank	
	2003	2002	2003	2002
	HRK'000	HRK'000	HRK'000	HRK'000
Current taxes:				
Corporate income tax expense	27	2,000	-	-
	27	2,000	-	-
Deferred taxes:				
Deferred tax revenue	(20,000)	-	(20,000)	-
	(20,000)	-	(20,000)	-
	(19,973)	2,000	(20,000)	-

Current tax represents amount payable in accordance with Croatian law, assessed at a rate of 20% (2002: 20%).

The income tax expense in relation to the accounting profit or loss of the Bank can be analysed as follows:

	Bank	
	2003	2002
	HRK'000	HRK'000
Accounting profit/(loss) before taxation	25,875	(90,099)
Tax disallowable expense	3,373	11,918
Nontaxable income	(35,804)	(906)
Taxable (losses)	(6,556)	(79,087)
Tax expense at 20% rate (2002: 20%)	-	-

The Group is subject to corporate income tax in accordance with Croatian law. Tax gains and losses of individual Group companies cannot be utilised on the Group level or transferred to one Group member to another. Taxable profit may be reduced only to the extent of tax losses brought forward by the Group companies. At 31 December 2003, only one Group company "Dalbank Nekretnine" d.o.o., had income tax liability determined according to the tax balance sheet in the amount of HRK 27 thousand (2002: "Dalbank Invest" d.o.o., in the amount of HRK 1,976 thousand and "Dalbank Nekretnine" in the amount of HRK 24 thousand), whereas all other Group companies had no income tax liability as a result of tax losses amounting to HRK 441,743 thousand in total (2002: HRK 545,017 thousand) on the Group level and to HRK 342,658 thousand (2002: HRK 340,274 thousand) on the Bank level. Tax losses can be carried forward up to five years and are subject to inspection by the Croatian Ministry of Finance

10. TAXATION (continued)

Tax losses:

	Grup		Bank	
	2003	2002	2003	2002
	HRK'000	HRK'000	HRK'000	HRK'000
Tax losses brought forward	545,071	1,804,199	340,274	262,894
Tax loss for the year	7,244	79,856	6,556	79,087
Amounts utilised in the year	(39,974)	(20,688)	-	-
Expired tax losses	(70,598)	(1,318,296)	(4,172)	(1,707)
Total tax losses available to carry forward	441,743	545,071	342,658	340,274
Tax effect from tax losses carried forward (at a rate of 20%)	88,348	109,014	68,532	68,055
Amount not recognised as deferred tax assets	68,348	109,014	48,532	68,055
Recognised deferred tax assets	20,000	-	20,000	-

At the balance sheet date, unutilised tax losses that are available for setting off against the future profits amount to HRK 88,348 thousand (2002: HRK 109,014 thousand) for the Group and HRK 68,532 thousand (2002: HRK 68,055 thousand) for the Bank. Based on these losses, deferred tax assets in the amount of HRK 20,000 thousand have been recognised both for the Group and the Bank (2002: HRK 0 thousand), whereas the remaining HRK 68,348 thousand (2002: HRK 109,014 thousand) for the Group and HRK 48,532 thousand (2002: HRK 68,055 thousand) for the Bank have not been recognised as deferred tax assets due to uncertainty as to the ability to generate taxable profit in the future.

At 31 December 2003, tax losses available for carry forward expire as follows:

	Grup		Bank	
	2003	2002	2003	2002
	HRK'000	HRK'000	HRK'000	HRK'000
Up to 5 years	7,244	79,856	6,556	79,087
Up to 4 years	79,856	107,504	79,087	107,504
Up to 3 years	107,504	142,610	107,504	60,028
Up to 2 years	142,610	89,484	60,028	89,483
Up to 1 year	104,529	125,617	89,483	4,172
Total tax loss carried forward	441,743	545,071	342,658	340,274

11. EARNINGS PER SHARE

For the purposes of computing earnings per share, earnings represent net profit after taxation. The number of ordinary shares represents the weighted average number of ordinary shares in the year following the deduction of treasury shares. The weighted average number of ordinary shares used to calculate basic earnings per share was 2,176,261. (2002: 1,951,877).

12. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Cash in hand	105,442	124,154	73,768	98,437
Giro account balance	43,666	65,305	12,876	15,975
Current accounts with foreign banks	44,576	71,429	17,757	23,570
Current accounts with domestic banks	9,334	13,717	4,568	6,422
Items in course of collection	11,078	16,891	7,755	9,973
Assets included in cash and cash equivalents (Note 29)	214,106	291,496	116,724	154,377
Obligatory reserve at Croatian National Bank				
- in HRK	619,010	461,166	397,803	294,997
-in foreign currency	534,093	457,206	329,332	165,324
Subtotal: Total obligatory reserve at Croatian National Bank	1,153,103	918,372	727,135	460,321
	1,367,209	1,209,868	843,859	614,698

Obligatory reserves in HRK and in foreign currency (Note 31) are calculated at the rate of 19% on HRK and foreign currency deposits, and foreign currency loans. The Bank is as at 31 December 2003 bound to hold at least 40% of such reserves in its account with the Croatian National Bank. Obligatory reserve deposits are not available for use in the Bank's day-to-day operations.

13. AMOUNTS DUE FROM OTHER BANKS

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Short-term placements with other banks	789,159	960,151	515,776	749,489
Loans and advances to other banks in Croatia	2,313	29,368	75	1,368
Placements to subsidiaries	-	-	333,171	286,528
Subtotal: Total gross amount due from other banks	791,472	989,519	849,022	1,037,385
Provisions				
-specific loan losses (Note 10)	(6,842)	(12,453)	(1,867)	(9,446)
	784,630	977,066	847,155	1,027,939

Placements are measured by amortised costs

14. ORIGINATED LOANS AND OTHER ORIGINATED FINANCIAL ASSETS

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Loans and advances to customers	3,588,157	3,171,556	2,226,729	1,851,782
Other originated financial assets	400,268	175,372	197,995	45,623
	3,988,425	3,346,928	2,424,724	1,897,405

a) Loans and advances to customers

Analysis by type of product

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
HRK denominated				
Retail customers	2,492,071	1,893,105	1,448,487	1,013,820
Corporate customers	1,279,601	1,667,599	1,016,629	1,085,768
Foreign currency denominated				
Retail customers	9,766	10,099	9,766	10,099
Corporate customers	403,316	357,742	162,006	257,369
Loans to subsidiaries	-	-	-	19,055
Total loans	4,184,754	3,928,545	2,636,888	2,386,111
Less: provision for				
- specific loan losses	(543,999)	(709,934)	(377,529)	(503,470)
- other losses in the loan portfolio	(52,598)	(47,055)	(32,630)	(30,859)
	3,588,157	3,171,556	2,226,729	1,851,782

Movements in provisions for possible losses on loans and advances were as follows:

GROUP

	31/12/2003		31/12/2002	
	Specific	Other	Specific	Other
	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January	709,934	47,055	482,274	26,168
Acquisition of subsidiary	-	-	212,166	36,349
Amounts collected and reversed (Note 9)	-	-	-	(15,462)
New provisions made (Note 9)	4,635	5,543	60,380	-
Exchange differences	15,303	-	5,703	-
Amounts written off	(185,873)	-	(50,589)	-
Balance at 31 December	543,999	52,598	709,934	47,055

At 31 December 2003, total non-performing loans and those that do not accrue interest amounted to HRK 776,140 thousand for the Group (2002: HRK 1,075,705 thousand). Unrecognised interest for the Group on these loans amounts to HRK 375,777 thousand at 31 December 2003 (2002: 346,545 thousand). Accrued interest outstanding for 2003 in respect of impaired loans amounts to HRK 5,027 thousand at 31 December 2003.

BANK

	31/12/2003		31/12/2002	
	Specific	Other	Specific	Other
	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January	503,470	30,859	482,274	26,168
New provisions made (Note 9)	(1,150)	1,771	30,890	4,691
Exchange differences	12,796	-	7,672	-
Amounts written off	(137,587)	-	(17,366)	-
Balance at 31 December	377,529	32,630	503,470	30,859

At 31 December 2003, total non-performing loans and those that do not accrue interest amounted to HRK 595,371 thousand for the Bank (2002: HRK 809,859 thousand). Unrecognised interest for the Bank on these loans amounts to HRK 198,190 thousand at 31 December 2003 (2002: 214,395 thousand). Accrued interest outstanding for 2003 in respect of impaired loans amounts to HRK 3,263 thousand at 31 December 2003.

14. ORIGINATED LOANS AND OTHER ORIGINATED FINANCIAL ASSETS (continued)

a) Loans and advances to customers (continued)

Concentrations of credit risk by industry

Set out below is an overview of the Group's and the Bank's concentrations by various types of industries (gross amounts before specific and general provision for impairment):

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
State Agency for Savings Deposit Insurance and Bank Rehabilitation	177,520	287,785	-	-
Agriculture, forestry and fisheries	125,503	145,353	104,105	99,340
Mining	6,001	8,730	6,001	8,730
Food and beverages	119,766	102,860	112,044	96,465
Leather and textiles	1,376	6,460	1,376	972
Publishing and printing	11,166	16,818	11,166	14,763
Non-metal mineral and chemical products	3,946	13,953	3,946	13,953
Metal-working industry	13,722	17,236	13,722	15,982
Other manufacturing industries	135,292	195,065	132,950	168,400
Energy, gas and water supply	7,009	29,118	7,009	28,661
Construction	138,483	151,519	119,296	135,453
Trade and commerce	519,547	627,113	438,494	521,730
Hotels and restaurants	104,373	109,459	59,103	54,790
Transport and communications	102,623	108,825	63,226	67,921
Financial intermediation	201	7,236	201	19,290
Real estate	72,775	82,426	43,344	55,366
Public administration and defence	19,423	20,168	19,423	20,139
Education, health and social welfare	4,816	7,373	4,816	6,713
Other services and social activities	119,375	63,961	38,413	33,515
Foreign persons	-	23,881	-	9
Subtotal: Total corporate loans	1,682,917	2,025,341	1,178,635	1,362,192
Individuals	2,501,837	1,903,204	1,458,253	1,023,919
Total loans	4,184,754	3,928,545	2,636,888	2,386,111
Less provision for loan impairment	(596,597)	(756,989)	(410,159)	(534,329)
	3,588,157	3,171,556	2,226,729	1,851,782

The loan to the Agency was granted on the basis of the contract on the sale and portfolio management concluded on 4 February 2002. This was, during the privatisation, a common transaction of transfer of investment portfolio to the Government Agency by banks. Based on the contract, the Bank sold and transferred to the Agency its business interests, valid receivables and properties in the amount of HRK 301,679 thousand, i.e. at the net book value of the portfolio as recorded in the Bank's accounts at 31 December 2001. The net book value of transferred loans was HRK 208,671 thousand, of business interests HRK 78,264 thousand and of properties HRK 14,744 thousand. The settlement date for the entire sales price is 30 June 2005. The price amount is pegged to the middle exchange rate of Euro as published by the Croatian National Bank at 28 March 2002 (date of the portfolio transfer) and is determined specifically at each payment date. Interest is accrued on a quarterly basis at the rate of EURIBOR plus 2 percentage points and paid every six months.

b) Other financial assets originated by Bank

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'ooo	HRK'ooo	HRK'ooo	HRK'ooo
Foreign currency treasury bills of the Croatian National Bank	362,028	35,625	178,712	35,625
Treasury bills of the Croatian National Bank in HRK	-	129,749	-	-
Treasury bills of the Croatian Ministry of Finance in HRK	38,240	9,998	19,283	9,998
	400,268	175,372	197,995	45,623

The interest rate on treasury bills is determined by the CNB depending on maturity, and at 31 December 2003 it ranged from 0.97% to 1.94%, whereas at 31 December 2002 it was 1.96%. % at 31 December 2003 and 1.96% at 31 December 2002. The CNB treasury bills had a maturity of 65 days from the date of subscription.

Interest on treasury notes of the Croatian Ministry of Finance denominated in Croatian kuna was calculated at rates ranging from 6.7% to 6.75% in 2003, and 186% to 4.43% in 2002.

At 31 December 2003, HRK 12,483 thousand of the foreign currency treasury bills of the Croatian National Bank were pledged at Hypo Alpe Adria Banka as collateral for received repos loans (Note 23 b).

15. HELD TO MATURITY INVESTMENTS

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Receivables for public debt	58,887	95,995	58,887	95,687
Housing bonds of the Croatian Ministry of Finance	16,761	16,311	16,761	16,311
Obligatory treasury bills of the Croatian National Bank denominated in HRK	7,831	-	7,831	-
	83,479	112,306	83,479	111,998

Receivables for public debt represent foreign currency savings of individuals previously deposited at the former National Bank of Yugoslavia, which have been frozen since 27 April 1991. All the deposits were converted into public debt of the Republic of Croatia on 23 December 1991.

During 1992 the Bank assumed liabilities under deposits with other banks outside Croatia. Amounts due include exchange differences arisen on translation of deposit amounts to Euro at year-end. Interest is paid in cash, through bonds and bills of exchange.

The public debt of the Republic of Croatia is paid in 10 semi-annual installments and commenced on 30 June 1995. The interest rate is 5%.

The bonds of the Ministry of Finance relate to receivables from the Republic of Croatia for purchased flats for which the Croatian Ministry of Finance undertook to issue bonds.

Obligatory treasury bills of the Croatian National Bank ("the CNB") were subscribed under the CNB decision on mandatory subscription of treasury bills dated 18 September 2003, when the direct supervision findings of the CNB revealed a growth in the Bank's placements over the first three months of 2003 in excess of the prescribed limit by 0.11%. The treasury bills were subscribed for a period of 90 days from the date of subscription, which was 15 October 2003, and accrue interest at a rate of 0.5%. No trading in the treasury bills is allowed.

16. OTHER ASSETS

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Accrued interest	18,890	30,573	11,336	14,362
Accrued fees and commissions	20,431	22,455	7,061	8,270
Items in course of collection	56,136	60,271	40,270	43,784
Receivables for prepaid taxes and contributions	442	2,228	442	2,228
Prepaid expenses	3,460	2,250	3,460	1,239
Due from Auctor based on sale of investment	9,735	-	9,735	-
Due from Dalbank Invest	-	-	14,980	-
Income tax prepayments	1,317	-	-	-
Currency forwards (Note 28)	402	37	402	37
Other	9,681	8,895	2,057	1,178
Provision for impairment	(38,939)	(40,912)	(20,823)	(23,319)
	81,555	85,797	68,920	47,779

The balance due from Auctor in the amount of HRK 9,735 thousand represents receivables for the sale of investment in Končar, to be settled by Auctor within a year in succession. The Bank is registered fiduciary owner of these shares until the final settlement of debt by Auctor.

The amount due from Dalbank Invest consists of HRK 9,000 thousand for sold property (Note 17) and of HRK 5,980 thousand for the sale of investment in the company Brodomerkur.

17. ASSETS AVAILABLE FOR SALE

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Equity securities	47,777	63,192	35,746	61,960
Debt securities	1,286,821	1,582,989	633,236	845,480
Foreclosed assets	23,513	35,023	23,513	35,023
	1,358,111	1,681,204	692,495	942,463

17. ASSETS AVAILABLE FOR SALE (continued)

a) Equity securities

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Equity securities at cost				
- unquoted	98,927	259,062	80,707	257,830
<i>Subtotal: Total equity securities at cost</i>	<i>98,927</i>	<i>259,062</i>	<i>80,707</i>	<i>257,830</i>
Fair value adjustment				
- unquoted	51,150	195,870	44,961	195,870
<i>Subtotal: fair value adjustment</i>	<i>51,150</i>	<i>195,870</i>		<i>195,870</i>
	47,777	63,192	35,746	61,960

Most significant investments available for sale are as follows:

Name of company	Business	Effective share	
		31/12/2003	31/12/2002
		%	%
Brodmerkur d.d., Split	Trade	26.12	26.12
Jadranka d.d., Mali Lošinj	Tourism	5.36	5.36
Končar Zagreb	Electronic components manufacturer	-	7.89
Uljanik d.d., Pula	Shipbuilding	0.63	0.63
Istra d.d., Pula	Trade	1.95	1.95
Naprijed d.d., Split	Publishing	37.70	37.70
Tekstilna industrija Zadar	Textiles	25.61	25.61
MBU - Zagreb	Financial sector	11.78	11.78
Tržište novca - Zagreb	Financial sector	12.4	12.4
Zagrebačka burza Zagreb	Financial sector	2.22	-
ITS Fažana	Non-metal manufacturing	12.99	12.99
Istarska autocesta Zagreb	Transport and communications	3.08	3.08
Hotel Imperijal Rab	Tourism	-	5.80
Dubrovkinja Nuova	Trade	-	23.27

Available-for-sale equity securities have been acquired mostly in exchange for impaired receivables. The value of investments in shares of Tekstilna industrija Zadar and Naprijed d.d. Split approximates zero. These two companies are under liquidation and bankruptcy proceeding.

b) Debt securities

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Quoted				
HZZO bonds	24,549	24,772	24,549	24,772
Agency bonds	11,263	11,202	11,263	11,202
Bonds of Ministry of Finance	30,580	132,589	30,580	132,589
Corporate bonds	-	9,485	-	9,485
CBRD bonds	23,889	22,328	23,889	22,328
Bonds of foreign governments	13,529	92,125	13,529	92,125
Corporate bills of exchange	13,432	19,769	6,494	18,357
Bills of exchange issued by local self-government units	3,876	-	3,876	-
Investment funds	-	4,021	-	-
Subtotal: Quoted debt securities	121,118	316,291	114,180	310,858
Agency bonds for the restructuring of Dubrovačka banka	793,538	898,186	146,891	166,110
Replacement bonds of the Croatian Ministry of Finance	372,165	368,512	372,165	368,512
Subtotal: Unquoted debt securities	1,165,703	1,266,698	519,056	534,622
	1,286,821	1,582,989	633,236	845,480

The bonds of the Croatian Health Insurance Institute (HZZO) were issued with the guarantee of the Croatian Ministry of Finance on behalf of the Croatian Government. The bonds are denominated in Croatian kuna and linked to EUR under the currency clause; the interest rate on these bonds is 8.5% and interest is paid semi-annually. Bonds mature in full amounts at 19 July 2004. The bonds are quoted on the Zagreb Stock Exchange (1st Quotation).

The bonds of the State Agency for Savings Deposit Insurance and Bank Rehabilitation (DAB) were issued with the guarantee of the Ministry of Finance on behalf of the Croatian Government. The bonds are denominated in Croatian kuna and linked to EUR under the currency clause; the interest rate on these bonds is 8.375 % and interest is paid semi-annually. Bonds expire in full amount at 19 December 2005. The bonds are quoted on the Zagreb Stock Exchange (1st Quotation).

The bonds of the Croatian Bank for Reconstruction and Development (CBRD) are issued with the guarantee of the Ministry of Finance on behalf of the Croatian Government. The bonds are denominated in Euro and the interest rate on these bonds is 5.75% and interest is paid annually. The bonds mature in full amount at 4 December 2012. These bonds are quoted on the Luxembourg Stock Exchange.

The bonds of the Croatian Ministry of Finance (the so-called Brady B) are denominated in USD, and interest is calculated at six-month USLIBOR + 81.25 bp. The bonds are due in semi-annual installments, with the ultimate maturity date 31 July 2006. These bonds are quoted on the Luxembourg Stock Exchange.

17. ASSETS AVAILABLE FOR SALE (continued)

b) Debt securities (continued)

The entire principal is due on 8 January 2008. These bonds are quoted on EBS Swiss Stock Exchange; (b) Federal Republic of Germany - Sovereign in the amount of EUR 1,000,000, at an interest rate of 4.125%, with interest paid annually. The entire principal is due on 4 July 2008. These bonds are quoted on German stock exchanges.

The rehabilitation bonds represent bonds issued by the Agency (DAB) as part of the rehabilitation of Dubrovačka banka for the purpose of covering accumulated losses of the Bank, which exceeded the Bank's capital during the rehabilitation, as well as for the necessary initial increase of the Bank's capital. The rehabilitation bonds were issued in two series, denominated in Croatian kuna and linked to Euro under the currency clause. The total amount of A-series bonds is HRK 1,002 million, and the maturity date is 25 November 2007; The total amount of B-series bonds is HRK 1,600 million, with maturity date 15 November 2008. The rehabilitation bonds were issued at fixed annual rates of 6% and 7%.

The rehabilitation bonds are can be sold only following prior approval by the Agency and they may be pledged at the Croatian National Bank for Lombard loans.

At 31 December 2003, HRK 168,821 thousand of equity securities were pledged at commercial banks as collateral for received loans and deposits.

Replacement bonds were issued by the Croatian Government to replace the economic restructuring bonds based on the Government decision of 6 April 2000.

The replacement bonds are indexed using the industrial product price and are denominated in Croatian kuna. The interest rate on these bonds is 5% annually, and the interest is paid on a semi-annual basis. The principal is due in 2011. Unrealised gains or losses on indexation of these bonds, determined by inflation rate, are included in the income statement

c) Foreclosed assets

Assets acquired on effecting collaterals provided for receivables comprise the following:

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Land and buildings	17,701	29,085	17,701	29,085
Machinery and equipment	5,812	5,938	5,812	5,938
Total	23,513	35,023	23,513	35,023
Movements in foreclosed assets:				
Balance at 1 January	35,023	96,710	35,023	96,710
Additions during the year	16,615	8,659	16,615	8,659
Disposals during the year	(26,953)	(65,330)	(26,953)	(65,330)
Net expense in the income statement	(1,172)	(5,016)	(1,172)	(5,016)
Balance at 31 December	23,513	35,023	23,513	35,023

The value of the remaining foreclosed assets is stated at recoverable amounts based on estimates made by certified valuation experts.

18. INVESTMENTS IN SUBSIDIARY COMPANIES

Set out below are the operating subsidiaries of the Bank, included in the consolidated statements of the Group:

Name	Business activity	Effective share	
		31/12/2003	31/12/2002
Dubrovačka banka d.d.	Banking	100%	100%
Dalbank Vrijednosnice d.o.o.	Brokerage services	-	100%
Dalbank Invest d.o.o.	Investment Fund		
	Management Company	100%	100%
Dalbank Consulting d.o.o.	Consultancy	-	100%
Dalbank Nekretnine d.o.o.	Real estate	100%	100%

During 2003, the Bank initiated liquidation proceedings for two of its subsidiaries, Dalbank Vrijednosnice d.o.o. and Dalbank Consulting d.o.o., which were concluded in December 2003. In the final balance sheets for liquidation purposes, which the Bank adopted and included in its account, the assets exceeded the liabilities.

	Dalbank Vrijednosnice HRK'000	Dalbank Consulting HRK'000	Total HRK'000
Assets			
Property and equipment	67	12	79
Receivables	837	3	840
Cash	5,760	14	5,774
Total assets	6,664	29	6,693
Equity and liabilities			
Short-term liabilities	(3)	-	(3)
Equity	(3,783)	(200)	(3,983)
Total equity and liabilities	(3,786)	(200)	(3,986)
Net assets gained /(losses) (Note 7)	2,878	(171)	2,707

18. INVESTMENTS IN SUBSIDIARY COMPANIES *(continued)*

In March 2002, the Bank acquired the entire shareholding in Dubrovačka banka d.d., Dubrovnik for a cash consideration of HRK 182.5 million, with additional capital contribution in the amount of HRK 37 million.

The effects of the acquisition on the Group's assets and liabilities were as follows:

	31/12/2003	31/12/2002
	HRK'ooo	HRK'ooo
Cash	-	138,880
Balances with Croatian National Bank	-	453,809
Amounts due from other banks	-	458,490
Loans and advances to customers	-	1,254,321
Other assets	-	51,759
Assets available for sale	-	817,038
Tangible and intangible assets	-	56,560
Amounts due to other banks	-	(12,430)
Amounts due to customers	-	(2,412,013)
Other borrowed funds	-	(361,271)
Other liabilities	-	(93,495)
Provisions	-	(168,941)
Minority interests	-	-
Net identified assets and liabilities	-	182,707
Goodwill at acquisition date (Note 20)	-	36,749
Consideration paid	-	(219,456)
Cash and cash equivalents acquired	-	1,051,179
Acquisition of subsidiary, net of cash acquired	-	831,723

19. TANGIBLE AND INTANGIBLE ASSETS

	Group							
	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Intangible asset	Asset under construction	Total
	HRK'ooo	HRK'ooo	HRK'ooo	HRK'ooo	HRK'ooo	HRK'ooo	HRK'ooo	HRK'ooo
Cost:								
At 1 January 2003	236,426	89,880	89,477	7,647	697	30,416	14,243	468,786
Additions	-	354	185	192	-	289	11,977	12,997
Transfers from assets under construction	33	5,325	4,577	-	-	3,349	(13,284)	-
Disposals	(1,950)	(764)	(1,591)	(222)	-	-	(7,644)	(12,171)
At 31 December 2003	234,509	94,795	92,648	7,617	697	34,054	5,292	469,612
<i>Accumulated depreciation /amortisation:</i>								
At 1 January 2003	67,925	80,743	66,805	6,501	-	26,387	2,538	250,899
Charge for the year	5,913	5,929	6,334	496	-	2,937	-	21,609
Disposals	(1,449)	(683)	(1,547)	(216)	-	0	(2,538)	(6,433)
At 31 December 2003	72,389	85,989	71,592	6,781	-	29,324	-	266,075
Net book value:								
At 31 December 2003	162,120	8,806	21,05	83	697	4,730	5,292	203,537
At 1 January 2003	168,501	9,137	22,672	1,146	697	4,029	11,705	217,887

Net book value of intangible assets in the amount of HRK 4,198 thousand relates to software (2002: HRK 2,969 thousand).

19. TANGIBLE AND INTANGIBLE ASSETS (continued)

	Bank							
	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Intangible asset	Asset under construction	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Cost:								
At 1 January 2003	176,005	61,852	66,039	5,661	697	22,074	14,243	346,571
Additions	-	238	173	-	-	289	7,236	7,936
Transfer from assets under construction	-	4,912	420	-	-	3,211	(8,543)	-
Disposals	(31,923)	(468)	(564)	(222)	-	-	(7,644)	(40,821)
At 31 December 2003	144,082	66,534	66,068	5,439	697	25,574	5,292	313,686
<i>Accumulated depreciation /amortisation:</i>								
At 1 January 2003	55,323	57,059	47,284	4,803	-	19,159	2,538	186,166
Charge for the year	4,287	3,394	4,146	345	-	2,173	-	14,345
Disposals	(5,183)	(445)	(560)	(216)	-	-	(2,538)	(8,942)
At 31 December 2003	54,427	60,008	50,870	4,932	-	21,332	-	191,569
Net book value:								
At 31 December 2003	89,655	6,526	15,198	507	697	4,242	5,292	122,117
At 1 January 2003	120,682	4,793	18,755	858	697	2,915	11,705	160,405

Net book value of HRK 3,710 thousand relates to software (2002: HRK 1,856 thousand).

20. GOODWILL

Goodwill stated on the Bank's balance sheet represents goodwill arisen on acquisition of Istarska banka d.d., Pula and Sisačka banka d.d., Sisak, which is included in the Bank's account following the merger on 30 June 2002. Goodwill on the Group's balance sheet represents goodwill arisen on consolidation of Dubrovačka banka d.d. Goodwill amortization charge is included in the income statement under "Operating expenses".

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
At 1 January	100,958	91,366	69,721	91,366
Amortization charge (Note 7)	(28,989)	(27,157)	(21,645)	(21,645)
Acquisition of subsidiary (Note 18)	-	36,749	-	-
At 31 December	71,969	100,958	48,076	69,721

21. AMOUNTS DUE TO OTHER BANKS

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Demand deposits				
HRK denominated	1,485	2,455	1,485	2,455
Foreign currency denominated	1,510	3,157	1,220	2,258
Time deposits				
HRK denominated	55,603	-	55,603	-
Foreign currency denominated	96,305	67,872	84,116	28,092
Deposits of subsidiaries	-	-	222,415	96,000
	154,903	73,484	364,839	128,805

22. AMOUNTS DUE TO CUSTOMERS

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Retail customers				
Demand deposits				
HRK denominated	619,185	559,049	468,973	421,549
Foreign currency denominated	1,499,561	1,567,889	1,044,196	1,085,385
Time deposits				
HRK denominated	233,054	207,314	143,705	124,580
Foreign currency denominated	3,127,529	3,027,205	1,729,755	1,597,025
Frozen foreign currency savings	23,411	37,767	23,411	37,767
Corporate customers				
Demand deposits				
HRK denominated	455,789	510,441	327,960	362,422
Foreign currency denominated	82,299	95,232	56,772	69,641
Time deposits				
HRK denominated	251,470	335,112	124,560	226,875
Foreign currency denominated	107,635	102,144	36,055	43,252
Current accounts and deposits of subsidiaries	-	-	2,139	26,608
	6,399,933	6,442,153	3,957,526	3,995,104

Frozen foreign currency deposits represent deposits of individuals placed with commercial banks prior to 27 April 1991, which were frozen in accordance with the Government's decision.

23. OTHER BORROWED FUNDS

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Domestic creditors:				
Croatian Bank for Reconstruction and Development	238,968	288,999	177,020	215,369
Ministry of Finance	1,079	2,120	-	-
Other borrowings from domestic banks	66,251	23,219	61,185	18,138
Borrowings of subsidiaries	-	-	-	28,000
Foreign creditors:				
Refinanced foreign currency borrowings	47,543	66,769	41,013	57,131
Commercial banks	296,888	154,052	127,903	57,792
Government agencies	46,988	47,500	46,988	47,500
	697,717	582,659	454,109	423,930

(a) Amounts due to the Croatian Bank for Reconstruction and Development

At 31 December 2003, the total debt to the Croatian Bank for Reconstruction and Development were HRK 238,968 thousands for the Group (2002: HRK 288,999 thousand) and HRK 177,020 thousand for the Bank (2002: HRK 215,369 thousand). The funds are designated for approving loans to end users - corporate and retail customers - under the SMEs, tourist trade and agriculture incentive programme supported by the CBRD, at an average interest rate of 3.07% (2002: 3.07%).

(b) Other borrowings from domestic banks

Of the total loan debt to domestic banks, the major portion of HRK 45,500 thousand, both for the Group and for the Bank, represents liabilities for overnight deposits at domestic commercial banks. These borrowed funds pay an interest rate of 5% to 6% annually. Other borrowings of the Group and of the Bank from domestic banks include a liability to Hypo Alpe Adria Bank under repos loan in the amount of HRK 12,237 thousand, at an interest rate of 1.32% and the final repayment deadline 29 January 2004.

(c) Refinanced foreign currency loans

London Club

At 31 December 2003, the liabilities to the London Club were HRK 34,897 thousand for the Group (2002: HRK 49,756 thousand) and HRK 28,367 thousand for the Bank (2002: HRK 40,118 thousand). Based on the Information Memorandum of 9 May 1999 and the Notification of Offer of 14 June 1996, the Croatian Government assumed at 31 July 1996 the obligation in respect of 29.5% of reprogrammed debt of the former Yugoslavia to commercial banks under the New Financial Agreement by issuing own A- and B-series bonds on 31 July 1996 to replace the debt under the New Financial Agreement. The financial debt is USD denominated and has been reprogrammed over 14 years, at an interest rate of six-month LIBOR for USD + 13/16% margin annually.

Paris Club

At 31 December 2003, the liabilities to the Paris Club were 12,646 thousand for the Group (2002: HRK 16,958 thousand) and HRK 12,646 thousand for the Bank (2002: HRK 16,958 thousand). The loans repayable between 1984 and 1988 were refinanced and reprogrammed by means of several agreements, concluding with the Paris Club Agreement of 21 March 1995. Under the Agreement, principal is repayable in 24 semi-annual installments, commencing on 31 January 1998. During 1997 and 1998, further individual negotiations with Paris Club members took place and bilateral consolidation agreements were concluded. The agreement with Italy was still pending at the date of this report.

(d) Amounts due to commercial banks

Of the total debt to commercial banks, the major portion of HRK 49,478 thousand, both for the Group and for the Bank (2002: HRK 52,208 thousand) relates to the World Bank (IBRD). The interest on the borrowings is calculated at variable rate in the amount of EURIBOR +0.50% margin annually. The loan is repayable in semi-annual installments.

Other liabilities comprise loans granted by other commercial banks that have been placed to the Group's and the Bank's customers.

(e) Amounts due to government agencies

The major portion of this debt relates to the debt to the DEG, which amounts to HRK 39,098 thousand (2002: HRK 38,052 thousand). The loan was approved for a period of 6 years, at variable interest rate (6-month EURIBOR+4.5%); these funds are included in the Bank's supplementary capital in accordance with the Croatian law. The entire loan is due on 15 November 2009.

HRK 7,890 thousand of the total debt to government agencies (2002: HRK 9,448 thousand) represents a placement by the customer MEDIOCREDITO, which is repayable in equal semi-annual installments until 2011, at a fixed interest rate of 1.75%.

24. PROVISIONS

a) Analysis of provisions

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Provisions for off-balance sheet items	22,313	30,663	2,340	3,617
Litigation provision	12,677	19,254	6,240	10,292
Provision for severance pays and bonuses to employees	7,782	3,034	6,414	58
	42,772	52,951	14,994	13,967

b) Movements in provisions for liabilities and charges

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January	52,951	27,937	13,967	27,937
Acquisition of subsidiary	-	168,941	-	-
Net(expense)/income in the income statement (Note 9)	7,785	(25,655)	6,234	(8,302)
Transfer to other liabilities	(3,800)	-	-	-
Decrease in provisions	(14,164)	(120,797)	(5,207)	(5,668)
Exchange differences	-	2,525	-	-
Balance at 31 December	42,772	52,951	14,994	13,967

c) Legal actions

Registration

A small number of the shareholders of Istarska banka initiated a legal action in respect to the merger of Istarska banka and Sisačka banka with Dalmatinska banka and the subsequent registration of Dalmatinska banka, which was renamed to Nova banka. In the opinion of the management, the court will rule in favour of the Bank.

Other legal actions

Commodity Stockpiles Board filed a legal action against Nova banka in respect of payment of HRK 6,058 thousand, increased by penalty interest accrued as of 30 September 1998, and HRK 8,979 thousand, increased by penalty interest accrued as of 30 November 1998 on the grounds of two issued letters of intent to issue guarantees for the debt of Diona d.d. to the Board. In 2001, the Commercial Court in Rijeka ruled in favour of Nova banka. The Commodity Stockpiles Board lodged an appeal at the High Commercial Court in Zagreb, who returned the case before the Commercial Court in Pula, who confirmed the initial decision of the court in Rijeka. The plaintiff filed a appeal to the County Court. The action is still pending. In the opinion of the Bank's management, based on the opinion of the legal experts, the claim has no legal grounds. The Bank's management is confident that the court will rule in favour of the Bank. No provision for this litigation has been included in the financial statements.

A Croatian bank filed a legal action against Nova banka in respect of payment of DEM 2 million, increased by the interest rate of the Bank on retail demand deposits as of 23 June 1999, and for HRK 139 thousand, increased by penalty interest accrued as of 8 October 1998. The claim has been raised in connection with the letter of intent issued for a bank from Bosnia and Herzegovina in favour of the plaintiff. In 2002, the Commercial Court in Rijeka ruled in favour of the plaintiff. Nova banka lodged an appeal before the High Commercial Court, which cancelled the decision of the first-instance court and decided to bring the case back before the first-instance court for reconsideration due to insufficient evidence presented before the first-instance court. As the final outcome of this litigation is still pending, the management of the Bank made a provision to the extent of 50% of the amount under litigation.

A company filed a claim against the Bank, requesting payment of HRK 2,482 thousand, increased by penalty interest accrued as of 1 January 2000. In January 2003 the Bank made an out-of-court settlement with the plaintiff in the amount of HRK 3,605 thousand. The entire amount has been fully provided against in these financial statements.

d) Capital commitments

At 31 December 2003 neither the Group nor the Bank had any capital commitments.

25. OTHER LIABILITIES

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Accrued interest and fees	8,780	6,336	3,083	32,218
Amounts due to suppliers	14,101	20,187	5,012	10,214
Salaries and contributions	12,059	16,747	7,884	11,222
Due to the Agency	2,313	-	-	-
Income tax liability	11	2,000	-	-
Other liabilities	26,120	38,848	21,000	25,657
	63,384	84,118	36,979	79,311

26. ORDINARY SHARES, SHARE PREMIUM AND TREASURY SHARES

	Number of approved and issued preference shares	Nominal value of preference shares HRK	Number of approved and issued preference shares	Nominal value of preference shares	Total ordinary shares HRK'000	Share premium HRK'000	Treasury shares HRK'000
At 1 January 2002							
- as previously reported	1,500,000	200	-	-	300,000	76,143	(69)
Issue of shares on merger	71,393	200	5	200 HRK	14,280	6,524	69
At 1 January 2002 - restated	1,571,393	200	5	200 HRK	314,280	82,667	-
Shares issued during 2002	555,000	200	-	-	111,000	88,800	
Purchase of treasury shares	-	-	-	-	-	(289)	(29)
At 31 December 2002	2,126,393	200	5	200 HRK	425,280	171,178	(29)
Shares issued during 2003	150,000	200	-	-	30,000	-	-
Replacement of preference shares with ordinary shares	5	200	(5)	200 HRK	-	-	-
At 31 December 2003	2,276,398	200	-	-	455,280	171,178	(29)

Shares issued during 2003 represent new shares issued to SEEF Holdings and Reginter (2002: SEEF Holdings and Reginter).

Shares issued on the merger in 2002 represent shares issued to small shareholders of Istarska banka and Sisačka banka.

In the normal course of its equity trading and market activities, the Bank buys and sells its own shares. This is in accordance with the Bank's Statute, and all aspects of the Companies Act. These shares are treated as a deduction from the shareholders' equity. Gains and losses on sales of own shares are included in equity under reserves. There were 145 treasury shares at the end of 2003 (2002: 145 treasury shares).

The following are the Bank's shareholders with a holding in excess of 3%:

	Effective holding	
	31/12/2003	31/12/2002
Reginter d.o.o.	67.80%	66.75%
SEEF Holdings Limited	23.27%	23.18%
SWR Investment Limited	4.52%	4.84%

27. RESERVES AND ACCUMULATED LOSSES

	Group		Bank	
	Other reserves	Accumulated losses	Other reserves	Accumulated losses
	HRK'000	HRK'000	HRK'000	HRK'000
At 1 January 2002	52,480	(86,051)	52,480	(72,743)
Loss for the year	-	(66,335)	-	(90,099)
Other decreases	-	(175)	-	-
Transfer of unpaid dividend from previous years to reserve	301	-	301	-
At 31 December 2002	52,781	(152,561)	52,781	(162,842)
At 1 January 2003	52,781	(152,561)	52,781	(162,842)
Opening balance correction - liquidation of related companies	-	(3,097)	-	-
At 1 January 2003 - after correction	52,781	(155,658)	52,781	(162,842)
Profit for the year	-	75,971	-	45,875
Transfer of unpaid dividend from previous years to reserve	683	-	683	-
At 31 December 2003	53,468	(79,687)	53,464	(116,967)

Other reserves consist of legal, statutory and other reserves.

Legal reserve

Under Croatian law, a portion of the Bank's net profit is to be allocated to non-distributable legal reserve until such time the reserve funds reach 5% (HRK 22,736 thousand) of the Bank's share capital. At 31 December 2003, legal reserve amounted to HRK 22,340 thousand (2002: HRK 22,340 thousand).

Statutory reserve is formed as follows:

Up to 5% of the share capital (to cover the loss per written off bad debts, disbursement of dividend on preference shares and for the same purposes for which funds are allocated to legal reserve). At 31 December 2003 these statutory reserve funds amounted to HRK 7,037 thousand (2002: HRK 5,501 thousand)

For purchase of own shares - up to 10% of the Bank's share capital. At 31 December 2003, these reserve funds amounted to HRK 20,806 thousand (2002: HRK 20,806 thousand).

28. CONTINGENCIES AND COMMITMENTS

Presented below are contractual amounts of the Group's and the Bank's off-balance sheet financial instruments:

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Payment guarantees	137,162	153,956	108,207	108,317
Performance bonds	82,129	58,836	36,306	40,172
Letters of credit	72,530	45,686	69,674	36,429
Approved unused loans	182,944	276,071	89,623	204,790
Other	1,797	1,878	573	-
	479,562	536,427	304,383	389,708
Less: provision (Note 24 a)	(22,313)	(30,663)	(2,340)	(3,617)
	457,249	505,764	302,043	386,091

Derivative contracts are shown in the table below:

	FOR GROUP AND BANK					
	Contractual/ notional amount	31/12/2003		Contractual/ notional amount	31/12/2002	
		Fair value			Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Currency forwards	19,748	402	-	14,885	37	-
	19,748	402	-	14,885	37	-

Derivative contracts fair value recognised in this financial statements are included in Other Assets (note 16).

Details of the contractual or notional amount and the fair value of the Bank's derivate financial instruments (currency forwards) outstanding at year-end are stated above.

These instruments are entered into to allow the Bank and its customers to transfer, modify or reduce their interest rate and currency risks.

29. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statements, cash and cash equivalent comprise the following balances with maturities of up to 90 days:

	Group		Bank	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
	HRK'000	HRK'000	HRK'000	HRK'000
Cash and cash equivalents (excluding mandatory reserve with Croatian National Bank) (Note 12)	214,106	291,496	116.724	154,377
Amounts due from other banks (Notes 13 and 33)	677,145	970,627	597.151	796,174
Other receivables originated by the bank - Treasury bills of the Croatian National Bank (Note 14 b)	362,028	165,374	178.712	35,625
	1,253,279	1,427,497	892.587	986,176

30. CREDIT RISK

The Group and the Bank take on exposure to credit risk, which is the risk upon credit approval and when counterparty will be unable to pay amounts in full when due. Both the Group and the Bank structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Commitments to extend credit. The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credits in the form of loans, guarantees or stand-by letters of credit. Commitments to extend credit issued by the Bank and the Group represent issued loan commitments or guarantees, undrawn portions of and approved overdrafts loans. Commitments to extend credit or guarantees issued by the Bank which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. However, both the Group and the Bank record provisions for these instrument on the same basis as for their loans.

30. CREDIT RISK (continued)

Concentrations of assets, liabilities and off-balance sheet items

HRK'ooo	Group					
	2003.			2002.		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
Geographic region:						
Croatia	7,121,606	7,354,346	457,249	6,631,115	7,370,648	505,764
Former Yugoslavia	243	38,273	-	243	8,357	-
OECD	824,213	566,296	-	987,761	353,009	-
Others	12,853	-	-	112,895	-	-
Total	7,958,915	7,958,915	457,249	7,732,014	7,732,014	505,764
Economic sector:						
Croatian National Bank	1,450,579	-	-	1,059,835	-	-
Trade	380,772	116,938	98,166	424,447	140,358	117,703
Finances	900,011	385,385	30	1,807,602	952,165	300
Tourism	113,722	93,111	14,239	109,349	77,177	7,243
Agriculture	104,881	14,625	31,859	122,392	26,999	63,846
Manufacturing	349,021	145,324	65,609	390,840	184,168	86,044
Retail sector	2,424,167	5,053,670	101,033	2,092,320	5,383,590	178,818
Others	2,235,762	2,149,862	146,313	1,725,229	967,557	51,810
Total	7,958,915	7,958,915	457,249	7,732,014	7,732,014	505,764

HRK'ooo	Bank					
	2003.			2002.		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
Geographic region:						
Croatia	4,844,744	5,077,311	302,043	4,235,853	4,891,899	386,091
Former Yugoslavia	243	38,273	-	243	-	-
OECD	546,386	275,789	-	775,219	205,648	-
Others	-	-	-	86,232	-	-
Total	5,391,373	5,391,373	302,043	5,097,547	5,097,547	386,091
Economic sector:						
Croatian National Bank	927,232	-	-	501,577	-	-
Trade	299,719	87,185	68,846	318,186	111,332	91,178
Finances	1,146,108	779,352	30	1,333,974	542,409	300
Tourism	68,452	36,911	79	67,354	23,736	3,078
Agriculture	83,483	14,625	31,859	93,791	22,880	34,006
Manufacturing	319,770	95,736	47,357	358,597	140,018	69,781
Retail sector	1,387,128	3,278,916	72,540	962,689	3,151,364	151,743
Others	1,159,481	1,098,648	81,332	1,461,379	1,105,808	36,005
Total	5,391,373	5,391,373	302,043	5,097,547	5,097,547	386,091

31. CURRENCY RISK

Concentrations of assets, liabilities and off balance sheet items

The Bank and the Group take on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on their financial positions and cash flows.

The table below provides an analysis of the Group's and of the Bank's main currency exposures. The remaining currencies are shown within 'Other currencies.' Both the Group and the Bank monitor their foreign exchange (FX) position for compliance with the regulatory requirements of the Croatian National Bank established in respect of limits on open positions. Measuring the open positions of the Group and of the Bank includes monitoring the value at risk limit both for the Group and for the Bank.

	Group						
	EUR	EUR	Total	USD	HRK	Other	Total
	EUR	currency clause	EUR	USD	HRK	currencies	HRK
At 31 December 2003	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets							
Cash and balances with Croatian National Bank	96,264	-	96,264	520,509	733,990	16,446	1,367,209
Amounts due from other banks	311,860	-	311,860	330,128	1,449	141,193	784,630
Originated loans and other receivables	128,344	2,907,834	3,036,178	380,063	562,043	10,141	3,988,425
Investments held to maturity	16,760	57,350	74,110	-	9,369	-	83,479
Other assets	16,369	19,670	36,039	9,033	34,055	2,428	81,555
Deferred tax	-	-	-	-	20,000	-	20,000
Assets available for sale	32,668	827,127	859,795	37,227	455,725	5,364	1,358,111
Tangible and intangible assets	-	-	-	-	203,537	-	203,537
Goodwill	-	-	-	-	71,969	-	71,969
Total assets	602,265	3,811,981	4,414,246	1,276,960	2,092,137	175,572	7,958,915
Liabilities							
Amounts due to other banks	98,672	55,603	154,275	434	80	114	154,903
Amounts due to customers	3,576,681	164,919	3,741,600	1,094,813	1,403,215	160,305	6,399,933
Other borrowed funds	241,213	231,611	472,824	155,794	69,099	-	697,717
Provisions	8,488	-	8,488	9,555	24,729	-	42,772
Other liabilities	9,443	1,051	10,494	1,301	44,068	7,521	63,384
Total liabilities	3,934,497	453,184	4,387,681	1,261,897	1,541,191	167,940	7,358,709
Net FX position	(3,332,232)	3,358,797	26,565	15,063	550,946	7,632	600,206
Off balance sheet items	129,222	3,908	133,130	19,671	112,661	8,843	274,305
Credit commitments	-	3,705	3,705	-	179,239	-	182,944
At 31 December 2002							
Total assets	666,556	3,552,418	4,218,974	1,310,535	2,000,273	202,232	7,732,014
Total liabilities	3,604,170	575,851	4,180,021	1,300,904	1,557,166	197,274	7,235,365
Net FX position	(2,937,614)	2,976,567	38,953	9,631	443,107	4,958	496,649
Off balance sheet items	81,926	3,800	85,726	21,516	116,514	5,937	229,693
Commitments to extend credit	-	-	-	-	276,071	-	276,071

31. CURRENCY RISK (continued)

Concentrations of assets, liabilities and off balance sheet items (continued)

	Bank						
	EUR HRK'000	EUR currency clause HRK'000	Total EUR HRK'000	USD HRK'000	HRK HRK'000	Other currencies HRK'000	Total HRK'000
At 31 December 2003							
Assets							
Cash and balances with Croatian National Bank	64,647	-	64,647	304,834	465,816	8,562	843,859
Amounts due from other banks	570,225	-	570,225	187,180	12,950	76,800	847,155
Originated loans and other receivables	108,014	1,691,667	1,799,681	157,571	467,418	54	2,424,724
Investments held to maturity	16,760	57,350	74,110	-	9,369	-	83,479
Other assets	16,090	1,706	17,796	6,981	42,168	1,975	68,920
Deferred tax	-	-	-	-	20,000	-	20,000
Assets available for sale	32,668	180,480	213,148	30,289	443,694	5,364	692,495
Investments in subsidiaries	-	-	-	-	240,548	-	240,548
Tangible and intangible assets	-	-	-	-	122,117	-	122,117
Goodwill	-	-	-	-	48,076	-	48,076
Total assets	808,404	1,931,203	2,739,607	686,855	1,872,156	92,755	5,391,373
Liabilities							
Amounts due to other banks	84,788	55,603	140,391	21,849	202,485	114	364,839
Amounts due to customers	2,180,098	52,962	2,233,060	617,846	1,025,995	80,625	3,957,526
Other borrowed funds	178,078	165,020	343,098	43,289	67,722	-	454,109
Provisions	-	-	-	-	14,994	-	14,994
Other liabilities	8,664	45	8,709	1,165	19,653	7,452	36,979
Total liabilities	2,451,628	273,630	2,725,258	684,149	1,330,849	88,191	4,828,447
Net FX position	(1,643,224)	1,657,573	14,349	2,706	541,307	4,564	562,926
Off balance sheet items	131,740	3,908	135,648	5,708	62,221	8,843	212,420
Credit commitments	-	3,705	3,705	-	85,918	-	89,623
At 31 December 2002							
Total assets	881,200	1,626,004	2,507,204	745,382	1,731,633	113,328	5,097,547
Total liabilities	2,151,702	341,564	2,493,266	747,483	1,263,400	107,030	4,611,179
Net FX position	(1,270,502)	1,284,440	13,938	(2,101)	468,233	6,298	486,368
Off balance sheet items	50,484	3,800	54,284	4,566	116,514	5,937	181,301
Commitments to extend credit	-	-	-	-	204,790	-	204,790

32. INTEREST RATE RISK**Interest rate sensitivity of assets, liabilities and off balance sheet items**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group's and of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy both of the Group and of the Bank to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in 'Non-interest bearing' category.

	Group					Total	Fixed rate
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing		
At 31 December 2003	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets							
Cash and balances with Croatian National Bank	1,219,903	-	-	-	147,306	1,367,209	425,969
Originated loans and other receivables	514,064	228,743	12,001	29,822	-	784,630	0
Investments held to maturity	1,836,374	146,714	545,650	1,459,687	-	3,988,425	1,161,368
Other assets	28,485	-	19,117	19,117	16,760	83,479	65,182
Deferred tax	-	-	-	-	81,555	81,555	-
Originated loans and other receivables	-	-	-	-	20,000	20,000	-
Assets available for sale	114,070	2,844	141,893	1,028,016	71,288	1,358,111	1,247,652
Tangible and intangible assets	-	-	-	-	203,537	203,537	-
Goodwill	-	-	-	-	71,969	71,969	-
Total assets	3,712,896	378,301	718,661	2,536,642	612,415	7,958,915	2,900,171
Liabilities							
Amounts due to other banks	71,938	25,246	30,014	25,000	2,705	154,903	139,719
Amounts due to customers	3,949,863	917,046	1,364,547	168,477	-	6,399,933	4,296,576
Other borrowed funds	106,119	156,576	42,301	392,721	-	697,717	288,790
Provisions	-	-	-	-	42,772	42,772	-
Other liabilities	-	-	-	-	63,384	63,384	-
Total liabilities	4,127,920	1,098,868	1,436,862	586,198	108,861	7,358,709	4,725,085
On-balance-sheet interest rate sensitivity gap	(415,024)	(720,567)	(718,201)	1,950,444	503,554	600,206	(1,824,914)
Off-balance-sheet interest rate sensitivity gap	-	-	-	-	-	-	-

32. INTEREST RATE RISK INTEREST RATE RISK

Interest rate sensitivity of assets, liabilities and off balance sheet items (continued)

	Bank						
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non- interest bearing	Total	Fixed rate
At 31 December 2003	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets							
Cash and balances with Croatian National Bank	762,336	-	-	-	81,523	843,859	-
Amounts due from other banks	598,101	-	249,054	-	-	847,155	96,116
Originated loans and other receivables	1,824,476	35,044	168,513	396,691	-	2,424,724	778,960
Investments held to maturity	28,485	-	19,117	19,117	16,760	83,479	65,182
Other assets	-	-	-	-	68,920	68,920	-
Deferred tax	-	-	-	-	20,000	20,000	-
Assets available for sale	114,070	2,844	29,829	486,495	59,257	692,495	594,067
Investments in subsidiaries	-	-	-	-	240,548	240,548	-
Tangible and intangible assets	-	-	-	-	122,117	122,117	-
Goodwill	-	-	-	-	48,076	48,076	-
Total assets	3,327,468	37,888	466,513	902,303	657,201	5,391,373	1,534,325
Liabilities							
Amounts due to other banks	105,531	25,246	89,357	142,000	2,705	364,839	266,134
Amounts due to customers	2,697,015	545,561	663,229	51,721	-	3,957,526	3,160,551
Other borrowed funds	97,356	48,607	32,901	275,245	-	454,109	222,520
Provisions	-	-	-	-	14,994	14,994	-
Other liabilities	-	-	-	-	36,979	36,979	-
Total liabilities	2,899,902	619,414	785,487	468,966	54,678	4,828,447	3,649,205
On-balance-sheet interest rate sensitivity gap	427,566	(581,526)	(318,974)	433,337	602,523	562,926	(2,114,880)
Off-balance-sheet interest rate sensitivity gap	-	-	-	-	-	-	-

The table below summarises the average effective interest rate at year end for monetary financial instruments.

	Group		Bank	
	31/12/2003	Interest rate	31/12/2003	Interest rate
	HRK'000	%	HRK'000	%
Cash and balances with Croatian National Bank	1,367,209	1.19	843,859	1.10
Amounts due from other banks	784,630	2.16	846,205	2.11
Loans and other financial assets created by the Bank	3,988,425	8.72	2,417,075	8.62
Investments held to maturity	83,479	5.28	81,942	3.55
Assets available for sale	1,358,111	5.00	683,651	5.00
	7,581,854		4,872,732	
Amounts due to other banks	154,903	3.63	364,839	4.08
Amounts due to customers	6,399,933	2.33	3,931,756	1.98
Other borrowed funds	697,717	3.94	450,823	4.77
	7,252,553		4,747,418	

	Group						
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non- interest bearing	Total	Fixed rate
At 31 December 2002	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets							
Cash and balances with Croatian National Bank	1,013,228	-	-	-	196,640	1,209,868	165,374
Amounts due from other banks	969,954	3,145	3,849	-	118	977,066	751,528
Originated loans and other receivables	1,525,122	302,901	325,811	1,193,094	-	3,346,928	801,352
Investments held to maturity	21,102	-	18,723	56,170	16,311	112,306	93,616
Other assets	-	-	-	-	85,797	85,797	-
Deferred tax	-	-	-	-	-	-	-
Assets available for sale	17,672	9,029	144,093	1,407,866	102,544	1,681,204	1,571,028
Tangible and intangible assets	-	-	-	-	217,887	217,887	-
Goodwill	-	-	-	-	100,958	100,958	-
Total assets	3,547,078	315,075	492,476	2,657,130	720,255	7,732,014	3,382,898
Liabilities							
Amounts due to other banks	73,484	-	-	-	-	73,484	70,226
Amounts due to customers	3,942,955	978,367	1,203,262	308,549	9,020	6,442,153	2,050,658
Other borrowed funds	46,221	15,016	214,330	307,092	-	582,659	282,488
Provisions	-	-	-	-	52,951	52,951	-
Other liabilities	-	-	-	-	84,118	84,118	-
Total liabilities	4,062,660	993,383	1,417,592	615,641	146,089	7,235,365	2,403,372
On-balance-sheet interest rate sensitivity gap	(515,582)	(678,308)	(925,116)	2,041,489	574,166	496,649	979,526
Off-balance-sheet interest rate sensitivity gap	-	-	-	-	-	-	-

32. INTEREST RATE RISK (continued)

Interest rate sensitivity of assets, liabilities and off balance sheet items (continued)

	Bank						
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non- interest bearing	Total	Fixed rate
At 31 December 2002	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets							
Cash and balances with the Croatian National Bank	499,630	-	-	-	115,068	614,698	165,374
Amounts due from other banks	778,622	18,606	74,423	156,288	-	1,027,939	803,381
Originated loans and other receivables	1,317,272	124,825	168,232	287,076	-	1,897,405	534,510
Investments held to maturity	21,035	-	18,656	55,996	16,311	111,998	93,308
Other assets	-	-	-	-	47,779	47,779	-
Deferred tax	-	-	-	-	-	-	-
Assets available for sale	15,297	4,947	41,745	783,491	96,983	942,463	879,800
Investments in subsidiaries	-	-	-	-	225,139	225,139	-
Tangible and intangible assets	-	-	-	-	160,405	160,405	-
Goodwill	-	-	-	-	69,721	69,721	-
Total assets	2,631,856	148,378	303,056	1,282,851	731,406	5,097,547	2,476,373
Liabilities							
Amounts due to other banks	32,805	-	96,000	-	-	128,805	32,805
Amounts due to customers	2,871,286	552,311	488,542	73,945	9,020	3,995,104	1,113,603
Other borrowed funds	66,164	7,576	179,855	170,335	-	423,930	231,034
Provisions	-	-	-	-	13,967	13,967	-
Other liabilities	-	-	-	-	49,373	49,373	-
Total liabilities	2,970,255	559,887	764,397	244,280	72,360	4,611,179	1,377,442
On-balance-sheet interest rate sensitivity gap	(338,399)	(411,509)	(461,341)	1,038,571	659,046	486,368	1,098,931
Off-balance-sheet interest rate sensitivity gap	-	-	-	-	-	-	-

The table below summarises the average effective interest rate at year end for monetary financial instruments.

	Group		Bank	
	31/12/2002 HRK'000	Interest rate %	31/12/2002 HRK'000	Interest rate %
Cash and balances with Croatian National Bank	1,209,868	1.26	614,698	1.46
Amounts due from other banks	974,594	2.06	1,026,885	2.78
Loans and other financial assets created by the Bank	3,338,077	9.96	1,888,909	10.42
Investments held to maturity	109,927	5	109,619	5
Assets available for sale	1,663,532	5.59	931,118	5.12
	7,295,998		4,571,229	
Amounts due to other banks	70,917	3.22	128,805	4.56
Amounts due to customers	6,358,080	3.15	3,967,148	2.60
Other borrowed funds	580,677	4.90	421,948	4.13
	7,009,674		4,517,901	

33. LIQUIDITY RISK

The Group and the Bank are exposed to daily calls on their available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. The Group and the Bank do not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below analyses assets and liabilities of the Group and of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	Group					Total
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	
At 31 December 2003	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets						
Cash and balances with Croatian National Bank	1,367,209	-	-	-	-	1,367,209
Amounts due from other banks	491,620	185,525	101,954	-	5,531	784,630
Originated loans and other receivables	905,522	296,915	469,890	973,085	1,343,013	3,988,425
Investments held to maturity	28,485	-	19,117	19,117	16,760	83,479
Other assets	-	-	-	20,000	-	20,000
Deferred tax	81,555	-	-	-	-	81,555
Assets available for sale	147,838	2,844	141,893	312,559	752,977	1,358,111
Tangible and intangible assets	-	-	-	-	203,537	203,537
Goodwill	-	-	-	-	71,969	71,969
Total assets	3,022,229	485,284	732,854	1,324,761	2,393,787	7,958,915
Liabilities						
Amounts due to other banks	10,640	25,246	119,017	-	-	154,903
Amounts due to customers	3,834,710	985,110	1,392,621	108,854	78,638	6,399,933
Other borrowed funds	77,513	156,576	46,541	216,242	200,845	697,717
Provisions	2,097	-	9,857	3,011	27,807	42,772
Other liabilities	44,148	15,506	3,730	-	-	63,384
Total liabilities	3,969,108	1,182,438	1,571,766	328,107	307,290	7,358,709
Net liquidity gap	(946,879)	(697,154)	(838,912)	996,654	2,086,497	600,206
At 31 December 2002						
Total assets	3,283,911	170,215	563,564	1,482,210	2,232,114	7,732,014
Total liabilities	3,928,317	1,105,696	1,370,735	489,105	341,512	7,235,365
Net liquidity gap	(644,406)	(935,481)	(807,171)	993,105	1,890,602	496,649

33. LIQUIDITY RISK (continued)

	Up to 1 month	1 to 3 months	Bank			Total
			3 months to 1 year	1 to 3 years	Over 3 years	
At 31 December 2003	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets						
Cash and balances with Croatian National Bank	843,859	-	-	-	-	843,859
Amounts due from other banks	597,151	-	100,360	137,644	12,000	847,155
Originated loans and other receivables	842,576	58,774	270,272	439,171	813,931	2,424,724
Investments held to maturity	28,485	-	19,117	19,117	16,760	83,479
Other assets	68,920	-	-	-	-	68,920
Deferred tax	-	-	-	20,000	-	20,000
Assets available for sale	147,838	2,844	29,829	57,096	454,888	692,495
Investments in subsidiaries	-	-	-	-	240,548	240,548
Tangible and intangible assets	-	-	-	-	122,117	122,117
Goodwill	-	-	-	-	48,076	48,076
Total assets	2,528,829	61,618	419,578	673,028	1,708,320	5,391,373
Liabilities						
Amounts due to other banks	108,236	25,246	89,357	-	142,000	364,839
Amounts due to customers	2,581,862	613,625	691,303	48,792	21,944	3,957,526
Other borrowed funds	68,750	48,607	37,141	128,348	171,263	454,109
Provisions	-	-	-	-	14,994	14,994
Other liabilities	36,979	-	-	-	-	36,979
Total liabilities	2,795,827	687,478	817,801	177,140	350,201	4,828,447
Net liquidity gap	(266,998)	(625,860)	(398,223)	495,888	1,358,119	562,926
At 31 December 2002						
Total assets	2,131,868	127,676	367,067	687,169	1,783,767	5,097,547
Total liabilities	2,850,041	650,944	654,768	233,818	221,608	4,611,179
Net liquidity gap	(718,173)	(523,268)	(287,701)	453,351	1,562,159	486,368

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

34. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Transactions with related parties are entered into in the normal course of business. These include transactions between all Group companies on commercial conditions and at market rates, except for amounts invoiced by Charlemagne Capital Ltd., which are equal to actual costs incurred.

Under the Shareholders' Agreement between Reginter d.o.o. ("Reginter") and SWR Investment Limited ("SWR"), Charlemagne Capital Ltd., investment management company, may use the controlling rights of SWR and Reginter.

The volumes of related party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows

	31/12/2003	31/12/2002
	HRK'ooo	HRK'ooo
Receivables:		
Dubrovačka banka d.d.	333,171	287,390
Dalbank Invest d.o.o.	14,980	19,061
Dalbank Nekretnine d.o.o.	-	214
Dalbank Consulting d.o.o.	-	19
	348,151	306,684
Liabilities:		
Dubrovačka banka d.d.	(222,415)	(125,201)
Dalbank Invest d.o.o.	(2,003)	(26,297)
Dalbank Nekretnine d.o.o.	(137)	(120)
Dalbank Vrijednosnice d.o.o.	-	(354)
	(224,555)	(151,972)
	123,596	154,712
Total income	11,653	7,431
Total expenditure	8,145	(3,894)

In the opinion of the Bank's management, preparation of comparative information is not practicable because of the merger.

The balances outstanding at year-end, as well as income and expenditure from transactions between the Bank and the company Charlemagne Capital Ltd. were as follows:

	31/12/2003	31/12/2002
	HRK'ooo	HRK'ooo
Total management charges and other costs	2,421	17,568
Liabilities outstanding at year-end	-	2,624

At year-end the Bank sold a building with a net book value of HRK 7,008 thousand to its subsidiary Dalbank Invest for HRK 9,000 thousand. Gains on this sale in the amount of HRK 1,992 thousand were eliminated on consolidation.

Included in the Bank's dividend income for 2003 are dividends received from Dalbank Invest in the amount of HRK 7,475 thousand (Note 7).

In addition, the Bank sold to Dalbank Invest a part of its investment in Brodomerkur in the same year. The Bank's gains arisen on this transaction amount to HRK 36 thousand.



35. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Group manages significant funds on behalf of third parties, placed mainly as loans between enterprises through the Group as agent. These assets are accounted for separately from those of the Group and no liability falls on the Group in connection with these transactions. The Group charges a fee for these services.

At 31 December 2003, funds managed by the Bank on behalf of third parties amounted to HRK 33.9 million (2002: HRK 47.9 million).

At 31 December 2003, funds managed by the Group on behalf of third parties amounted to HRK 54.8 million (2002: HRK 67.9 million).

36. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms length basis.

Except for the public debt and bonds of the Republic of Croatia, financial assets and liabilities are contracted at variable rates.

Impaired loans and advances are stated net of provision based on discounted future cash flows expected to be received.

The fair value of loans and advances represents an estimate based on the discounted amount of estimated future principal and interest cash flows. The assumption is that loans will be repaid in accordance with contractual maturities. Expected cash flows are estimated on the basis of risk considerations and possible impairment. Estimated fair values reflect the changes in the credit status from the extension of the loan and changes in interest rates for fixed rate loans. In the opinion of the management, the carrying amounts of these instruments do differ significantly from their fair values.

Investments held to maturity contain interest at rates not significantly different from market interest rates.

The fair value of debt securities for which no quoted market price is available (Agency bonds for the restructuring of Dubrovačka banka, Replacement bonds of the Croatian Ministry of Finance) is estimated on the basis of present value of future cash flows, discounted at rates effective on the balance sheet date.

Fair values of demand deposits and deposits with undefined maturities are determined as amounts payable at call at the balance sheet date. Estimated fair values of deposits with fixed maturities are based on cash flows discounted using the effective rates for similar periods outstanding until maturity. In determining the fair value, the duration of the relationship with the depositors is not taken into account. Since most of the deposits are at fixed rates, which represent market rates, there are no significant differences between the fair value of deposits and their carrying amounts.

As verifiable market prices for long-term loan debt of the Bank do not exist, its fair value is estimated on the basis of the present value of future cash flows discounted using the effective rates at the balance sheet date for new debts with similar remaining maturity. Since interest on long-term borrowings is accrued at variable rates, the carrying amount of the long-term debt does not differ significantly from its fair value.



■ SUPERVISORY BOARD

Hans van Griethuysen, CEO of SWC Ltd. and President of Nova banka Supervisory Board, joined Charlemagne Capital in 2001. Hans has been active in International Banking for 22 years with Rabobank and ABN Amro. As Executive Vice President of Rabobank's International Head Office, he was responsible for international strategy and privatisation issues, having previously been the head of the Bank's Irish, French and Indonesian operations. Hans is a Harvard Business School Alumnus (AMP 156) and holds an MBA from the Delft/Erasmus University in Holland. Hans has overall responsibility for the management of the investee banks in the private equity programme. He primarily works with management at each bank to develop and implement business development plans, implement mergers and prepare the banks for possible future sale.

Marijan Kostrenčić, the vice - Chair of the Nova banka Supervisory Board, graduated from University of Zagreb Law School in 1983, after which he spent some time in various seminars on International Commercial Law. Upon graduating he started working as a clerk at the Zagreb County Court, and continued his career as a legal advisor of the Croatian Assembly of Electro energetic Organizations - Ingra, INA - Tours, Association of Small Entrepreneurs and Private Businesses of Croatia. Shortly he also held a position as a Chief of Cabinet for the Ministry of Foreign Affairs, and in 1992 he became the General Manager and majority shareholder of one of the oldest consultancies INTEL d.o.o. Zagreb. From 1993 to 1996 he was a member of the Croatian Chamber of Commerce Legal Council, and from 1997 to 2000 he performed the duties of a vice-Chair for Organization and Legal Affairs. He is a legal advisor of the Croatian Privatization Fund, a consulting editor for a number of books, and has published over 20 expert papers during his career.

David Curl, Executive Director and the Investment Director of CCL, holds a degree in Economics from the University of Richmond USA, and an MBA from L'Institut Superieur de Gestion in Paris. He joined Charlemagne Capital in 1994, specialising in equity investments in Emerging Europe. Since then David has been involved in the management of Charlemagne Capital's Russian and Emerging European regional funds. In May 2000, he was appointed Investment Director of Charlemagne Capital and is also responsible for the group's private equity and direct investment programme.

David McMahon, Executive Director of CCL, joined Charlemagne Capital in February 1998. David was previously Finance Director and General Manager of Templeton Life Assurance Limited in 1990. He later became Chief Financial Officer of Templeton's European businesses. David is responsible for budgeting and tax planning for Charlemagne Capital just as for financial due diligence on the private equity acquisitions. David is a Fellow of the Institute of Chartered Accountants in England & Wales.

Ronald Drake, Chairman of Soros Investment Capital Management LLC. He gained experience in investment and financial sector working in a number of leading positions in some of the largest institutions in this field. Before joining Soros ICM he worked as a Managing Director in Merrill Lynch, one of the world's leading financial management and advisory companies and in ABN AMRO Bank, a prominent global banking group.



SUPERVISORY BOARD

■ MANAGEMENT BOARD

Damir Odak, president of the Management Board of Nova banka, was born in 1964 in Split. He graduated at the Faculty of Economics and started his career as junior researcher at the Institute of Economics in Zagreb. He was the Chairman of the Management Board of Trgovačka banka (now part of Erste group) from 1990 to 1997.

From 1997 until 2003 he was the Director of Corporate Banking Sector and a member of Management Board in Zagrebačka banka.

Zorislav Vidović, a member of Nova banka Management Board, graduated from the Faculty of Economy at the University of Zagreb, earning a B.S. in Finance, Banking and Insurance. In 1992 he is granted a broker license and soon after he passes the test for a member of a management board of a commercial bank. From 1988 to 1990 he worked for a financial service of the company Kepol Zadar. He transfers to Dalmatinska banka in 1990 and from 1997 to 2002 works as the Head of the Treasury Department. From April 1, 2002 he is a member of the Management Board, currently in charge of the Treasury and Finances. He has been a member of Supervisory Boards of daughter companies of Dalmatinska banka for a number of years.

Helena Banjad, member of Nova banka Management Board, graduated at the Faculty of Economics in Zagreb as the best student in the generation. She gained experience in investment project activities in the Development Department of Pliva pharmaceutical company in Zagreb. She joined Dalmatinska banka in 1990. Her first position with the Bank was that of FX Treasury and Dealing Room Manager. From 1993 to 1995 she worked in a private firm dealing with trade finance and trade in securities. In 1995 she re-joined the Bank as the assistant director in the International Division. She took an active part in establishing the Risk Management Division that she is presently heading.

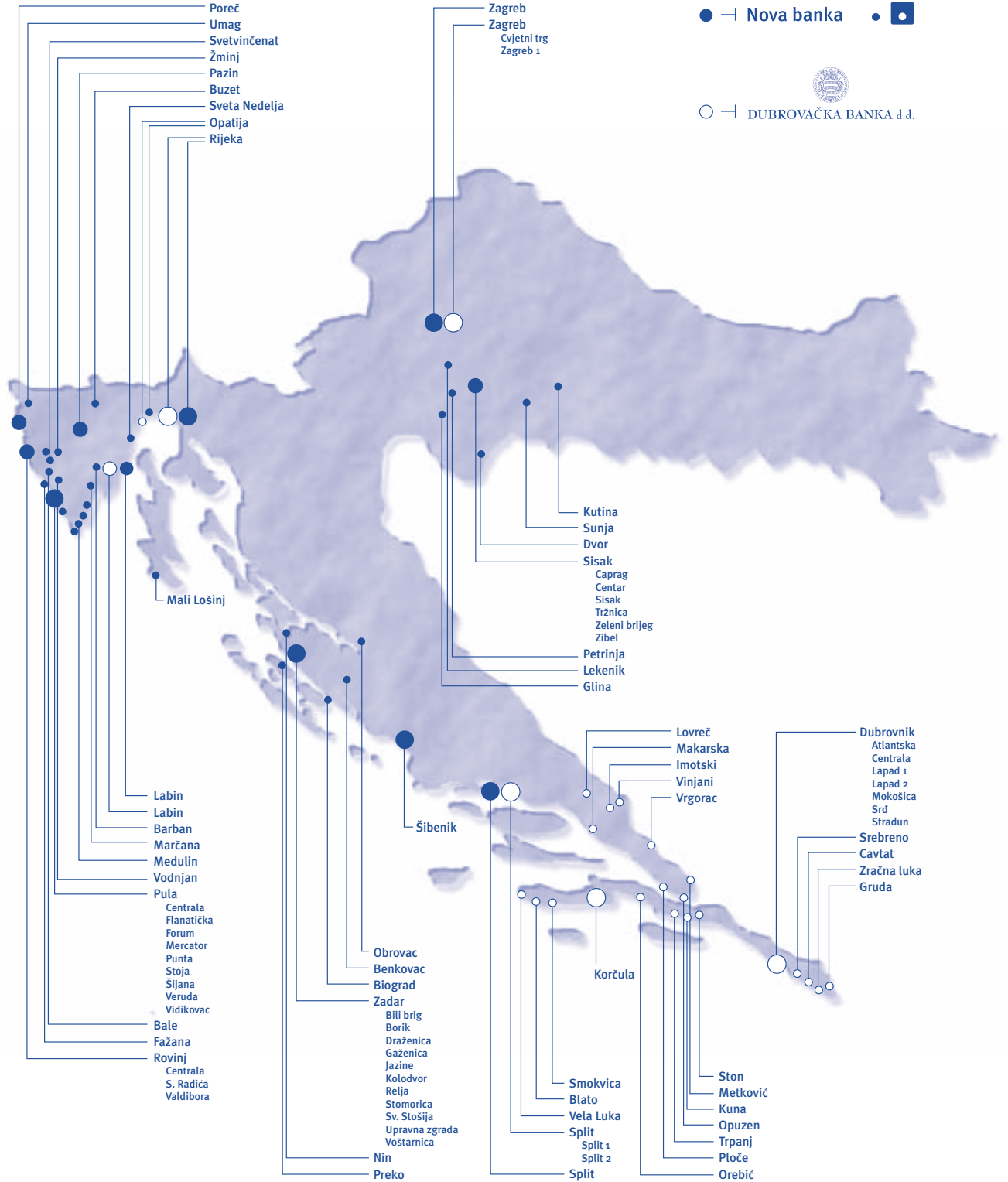
Sanja Martinko, member of the Management Board of Nova banka, was born in 1965 in Zagreb. After graduating from University of Zagreb, Faculty of Economy (B.A. in Finances, Banking and Insurance) she starts her career in Privredna banka in 1990, and later transfers to Trgovačka banka where she was the Head of the Department for Foreign-Exchange Business and a member of the Management Board. In 1997, she comes to Zagrebačka banka to the position of the Head of the Department for Network Management, and from 1999 to 2001 she is a member of the Management Board of Prva stambena štedionica. Before coming to Nova banka she was also a Head of the Department for Product Management regarding business clients of Zagrebačka banka. In October 2003 she becomes a consultant for the Nova banka Management Board, and from February 2004 is a member of the Management Board.



■ BUSINESS NETWORK



BUSINESS NETWORK



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