

Annual report
2003



CROATIAN NATIONAL BANK

**Financial
Statements of the
Croatian National
Bank**

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Deloitte.

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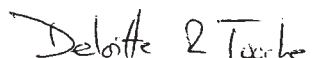
Independent Auditors' Report


To the Governor and Council of the Croatian National Bank, Zagreb

We have audited the accompanying balance sheet of the Croatian National Bank, Zagreb ("the Bank") as of 31 December 2003 and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements set out on pages 162 to 192 are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. Financial statements for 2002 were audited by another auditor who expressed unqualified opinion on 5 May, 2003.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly in all material respects the financial position of the Bank as of 31 December 2003, and of the result of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Deloitte & Touche
Prague, March 25, 2004


Deloitte & Touche
Zagreb, March 25, 2004

Income Statement of the Croatian National Bank

Income Statement of the Croatian National Bank
for the year ended 31 December 2003, in thousand HRK

	Notes	2003	2002
Interest and similar income	3	1,104,593	1,279,297
Interest expense and similar charges	4	(462,649)	(588,426)
Net interest income		641,944	690,871
Fee and commission income		3,196	3,192
Fee and commission expense		(2,850)	(2,971)
Net fee and commission income		346	221
Dividend income		4,420	4,330
Net trading result	5	(66,189)	45,140
Net effect of precious metals revaluation	5	87	(366)
Total		(66,102)	44,774
Net foreign exchange losses	6	(609,737)	(1,240,948)
Other income	7	13,891	7,843
Operating expenditure		(15,238)	(492,909)
Operating expenses	8	(250,641)	(215,660)
(Increase)/decrease in provisions	10	(76,624)	111,299
Operating deficit		(342,503)	(597,270)
Operating deficit covered from general reserves		342,503	597,270

Balance Sheet of the Croatian National Bank

Balance Sheet of the Croatian National Bank
as at 31 December 2003, in thousand HRK

Item	Notes	2003	2002
Assets			
Cash and current accounts with other banks	11	6,944	7,729
Due from other banks	12	25,566,504	28,142,782
Trading securities	13	24,525,534	13,850,038
Loans	14	954,594	34,667
Placements with the International Monetary Fund	15	3,324,568	3,562,714
Equity investments	16	34,047	27,830
Accrued interest and other assets	17	61,270	114,429
Tangible and intangible assets	18	389,829	385,973
Total assets		54,863,290	46,126,162
Liabilities			
Banknotes and coins in circulation		12,256,309	10,895,792
Croatian National Bank bills	19	4,920,178	6,392,307
Due to banks and other financial institutions	20	27,859,248	19,395,535
Due to the State and State institutions	21	1,506,921	599,308
Due to the International Monetary Fund	22	3,318,027	3,545,340
Accrued interest and other liabilities	23	95,568	51,204
Total liabilities		49,956,251	40,879,486
Equity			
Capital	24	2,500,000	2,500,000
Reserves	24	2,407,039	2,746,676
Total equity		4,907,039	5,246,676
Total equity and liabilities		54,863,290	46,126,162

The financial statements set out on pages 162 to 192 were approved on March 25, 2004 by:

Director of Accounting Department:

Ivan Branimir Jurković



Governor:

Dr Željko Rohatinski



Statement of Changes in Equity of the Croatian National Bank

Statement of Changes in Equity of the Croatian National Bank
for the year ended 31 December 2003, in thousand HRK

	Capital	General reserves	Revaluation reserves	Operating surplus (deficit)	Total equity
Balance at 1 January 2002	2,500,000	3,078,966	232,773	–	5,811,739
Operating deficit				(597,270)	(597,270)
Coverage of deficit from general reserves		(597,270)		597,270	–
Real estate revaluation			32,207		32,207
Transfer to general reserves		5,122	(5,122)		–
Balance at 31 December 2002	2,500,000	2,486,817	259,859	–	5,246,676
Real estate revaluation			29,630		29,630
Elimination of real estate			(26,764)		(26,764)
Transfer to general reserves		5,060	(5,060)		–
Operating deficit				(342,503)	(342,503)
Coverage of deficit from general reserves		(342,503)		342,503	–
Balance at 31 December 2003	2,500,000	2,149,374	257,665	–	4,907,039

See Note 24 for further information

Cash Flow Statement

Cash Flow Statement

for the year ended 31 December 2003, in thousand HRK

	2003	2002
Cash flows from operating activities		
Interest received	996,635	1,279,826
Interest paid	(446,958)	(602,629)
Commissions received	3,060	3,161
Commissions paid	(2,487)	(2,053)
Dividends received	4,420	4,330
Other income received	5,323	5,232
Expenses paid	(196,478)	(170,227)
	363,515	517,640
Increase/decrease in operating assets/liabilities		
Decrease/(increase) in deposits with other banks	2,566,553	(2,661,598)
(Increase)/decrease in loans	(937,467)	92,618
Increase in trading securities	(10,683,281)	(964,876)
Net increase/(decrease) in other assets/liabilities	(18,928)	(377,223)
Decrease in amounts due to the IMF	–	(1,010,512)
Increase in currency in circulation	1,360,518	1,849,627
Increase in amounts due to banks and other financial institutions	8,391,557	4,167,249
Increase/(decrease) in amounts due to the State	924,767	(931,068)
	1,603,719	164,217
Net cash from operating activities	1,967,234	681,857
Cash flows from investing activities		
Purchase of property and equipment	(56,004)	(46,284)
Acquisitions of equity investments	(74)	–
Net cash from investing activities	(56,078)	(46,284)
Cash flows from financing activities		
Net issue of CNB bills	(1,312,146)	87,433
Paid to the Republic of Croatia	–	(341,504)
Net cash from financing activities	(1,312,146)	(254,071)
Exchange rate effect	(610,523)	(1,266,495)
Net decrease in cash and cash equivalents	(11,513)	(884,993)
Cash and cash equivalents at the beginning of the year	23,475	908,468
Cash and cash equivalents at the end of the year	11,962	23,475

Accounting Policies and Notes to the Financial Statements

Note 1 – General Information and Accounting Standards

(1.1) General information

The Croatian National Bank is the central bank of the Republic of Croatia, whose status has been defined by law. The Croatian National Bank is fully owned by the Republic of Croatia, which guarantees for its obligations. The Croatian National Bank is headquartered in Zagreb, Trg hrvatskih velikana 3. Its area of competence comprises the responsibility for the stability of the national currency and the general domestic and foreign currency liquidity. The Croatian National Bank enjoys operational autonomy and is responsible to the Croatian Parliament, which has approved its Statute. The Croatian National Bank is represented by the Governor of the Croatian National Bank.

The tasks performed by the Croatian National Bank within the framework of the Constitution and law include the following:

- ❑ establishing and implementing the monetary and foreign exchange policies;
- ❑ holding and managing the international reserves of the Republic of Croatia;
- ❑ issuing banknotes and coins;
- ❑ issuing and revoking licenses for banks and bank supervision;
- ❑ maintaining the accounts of banks, executing payment transactions across these accounts, granting loans to banks and receiving deposits from banks;
- ❑ regulating, improving and supervising the payment system;
- ❑ opening and maintaining the accounts of the Republic of Croatia;
- ❑ performing other operations on behalf of the Republic of Croatia, as provided by law;
- ❑ enacting subordinate legislation on operations within its fields of competence; and
- ❑ performing other operations, as provided by law.

In accordance with the provision referred to in Article 56 of the Croatian National Bank Act, the Croatian National Bank prepares its financial statements for each financial year in accordance with the accounting regulations and International Accounting Standards (that have been incorporated into the International Financial Reporting Standards). Thus, the financial statements of the Croatian National Bank for the year ended 31 December 2003 comprise the following:

- ❑ income statement,
- ❑ balance sheet,
- ❑ statement of changes in equity,

- ❑ cash flow statement,
- ❑ accounting policies and notes to the financial statements.

(1.2) Accounting standards and conventions

These financial statements are prepared under historical cost convention as modified for revaluation of certain assets and liabilities to fair value in accordance with the International Financial Reporting Standards.

The amounts in the financial statements are denominated in Croatian kuna (HRK).

The preparation of financial reports in accordance with the generally accepted accounting standards requires the use of estimates and judgements that influence the amounts of assets and liabilities at the reporting date and the amounts of income and expenditures for the reporting period. Although the estimates are based on the management's best estimate of current events and operations, they may differ from the actual results.

Note 2 – Summary of Significant Accounting Policies

(2.1) Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis by applying the effective yield method on the actual purchase price.

Interest is suspended when it is estimated that loans are being repaid irregularly. Such loans are recorded on the cash basis rather than on the accrual basis and interest on these loans is recognised as income when received. Loans and related interest are accounted for on the accrual basis again, as soon as their collection is no longer estimated as doubtful and when outstanding interest and principal amounts are collected.

Accrued interest on foreign currency receivables and liabilities is translated on a daily basis to Croatian kuna at the midpoint exchange rate of the Croatian National Bank and is included in interest income or interest expense.

(2.2) Fee and commission income

Fee and commission income arises on financial services provided by the Croatian National Bank and is recognised when the corresponding service is provided.

(2.3) Net trading result

Net trading result includes gains and losses on disposals and changes in the fair value of financial assets and liabilities held for trading.

(2.4) Foreign currencies

Foreign exchange gains and losses on exchange rate fluctuations are recorded in the income statement as unrealised gains or losses. Foreign exchange gains and losses arising from trading in foreign currencies are included in realised income or expenditure.

Income and expenditure denominated in foreign currencies are translated to Croatian kuna at the midpoint exchange rate of the Croatian National Bank ruling at the transaction date.

Assets and liabilities denominated in foreign currencies are translated on a daily basis to Croatian kuna at the midpoint exchange rate of the Croatian National Bank ruling at the last day of the accounting period except for Special Drawing Rights (XDR), which are translated to Croatian kuna at the exchange rate provided by the International Monetary Fund.

The exchange rates of major foreign currencies at 31 December 2003 were as follows:

USD 1 = HRK 6.118506 (2002: HRK 7.145744)
 EUR 1 = HRK 7.646909 (2002: HRK 7.442292)
 XDR 1 = HRK 9.091916 (2002: HRK 9.714782).

(2.5) Financial instruments

2.5.1 Classification

Financial assets of the Croatian National Bank are classified into the following categories:

- a) *Financial assets held for trading*
 This category comprises marketable securities in which the Croatian National Bank invests international reserve funds it manages on behalf of the Republic of Croatia, for the purpose of short-term profit taking.
- b) *Loans and receivables originated by the Croatian National Bank*
 This category comprises loans created by the Croatian National Bank providing money to banks and savings banks other than those created with the intention of short-term profit taking.
- c) *Available-for-sale financial assets*
 This category comprises the Croatian National Bank's investments in equity securities.

2.5.2 Recognition

The Croatian National Bank recognises financial assets on settlement date. Any gains and losses arising from changes in fair value of the assets are recognised from that date.

2.5.3 Measurement

Financial instruments are measured initially at cost, which includes transaction costs.

- Subsequent to initial recognition, trading securities are measured at fair value, which corresponds to the quoted market price in an active financial market. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost, which includes transaction costs, less impairment losses.
- Effects of foreign currency exchange rates are applied on monetary financial liabilities denominated in foreign currency. Gains and losses on exchange rate fluctuations are reported under net profit or loss.

2.5.4 Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using discounted cash flow techniques.

In discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions.

2.5.5 Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading instruments are recognised in the income statement.

(2.6) Repurchase and reverse repurchase agreements

The Croatian National Bank enters into a securities purchase/sale agreement by contracting to resell/repurchase the same instrument on a specific future date at a fixed price. Securities purchased under reverse repurchase agreements are not recognised in the balance sheet. Outflows arising from these agreements are recognised as due amounts from banks or other financial institutions. Securities sold under repurchase agreements are still recognised in the balance sheet and reported in accordance with the accounting policy for such financial assets. Inflows from sales of securities are recognised as due to banks or other financial institutions. The difference between sale and repurchase price is treated as interest income or expense and accrued over the life of the agreement.

(2.7) Equity investments

Equity instruments whose fair value cannot be reliably measured because they are not used in financial transactions in active securities markets are measured at cost. Dividend income is recognised in the year when it is earned.

(2.8) Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts and other derivatives (if any), which are initially recognised in the balance sheet at cost, are subsequently measured at fair value.

(2.9) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated.

(2.10) Gold and other precious metals

Gold and other precious metals are held at the market value. Gains and losses arising from a change in the fair value are recognised in the income statement.

(2.11) Tangible and intangible fixed assets

Tangible and intangible fixed assets are carried in the balance sheet at cost or re-valued amount less accumulated depreciation and amortisation. Depreciation and amortisation is provided on a straight line basis at prescribed rates designed to write off the cost or valuation of assets over their estimated useful lives.

The following annual rates are used:

(in %)

	2003	2002
Buildings	2.50	2.50
Furniture	20.0	20.0
Computers	25.0	25.0
Software	25.0	25.0
Motor vehicles	25.0	25.0
Equipment and other assets	5.0 to 25.0	5.0 to 25.0
Banknotes and coins	50.0 and 20.0	50.0 and 20.0

Land is not depreciated. Assets in the course of construction are not depreciated until they are brought into use.

Maintenance and repairs are charged to the income statement when incurred and improvements are capitalised.

Land and buildings are revalued when their fair value materially differs from the book amount. The fair value of land and buildings equals their market value, which is based on the appraisal of qualified valuers.

(2.12) Placements with the International Monetary Fund (IMF)

Placements with the International Monetary Fund are denominated in Special Drawing Rights (XDR) and any unrealised exchange gains or losses are accounted for in accordance with Note 2.4.

(2.13) Banknotes and coins in circulation

The legal tender in the Republic of Croatia is the kuna. Banknotes and coins are carried at face value.

(2.14) Croatian National Bank bills

Croatian National Bank bills include kuna CNB bills and CNB bills denominated in EUR and USD and are carried at face value.

(2.15) Taxation

The Croatian National Bank is not subject to Croatian profit tax.

(2.16) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances of cash, and current accounts with foreign banks and the International Monetary Fund.

By applying the direct method, the cash flow statement provides data on cash inflows and outflows in the reporting period, classified into operating, investing and financing activities.

(2.17) Appropriations

In accordance with Article 53 of the Croatian National Bank Act, the surplus of income over expenditures is transferred to general reserves, in the amount determined by the Council of the Croatian National Bank. This amount should neither exceed 20% of the surplus of income over expenditures nor fall below net profit from value adjustment of balance sheet items to changes in the exchange rate and market prices. The remaining surplus of income over expenditures, after the transfer to general reserves, is extraordinary revenue to the State budget.

The Croatian National Bank covers any shortfall between income and expenditures from general reserves. Should these reserves prove insufficient, the shortfall is covered from the State budget.

(2.18) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Note 3 – Interest and Similar Income

in thousand HRK

Item	2003	2002
Deposits	447,477	785,778
Trading securities	568,016	480,890
International Monetary Fund	61	16,186
Loans to banks	11,109	9,098
Other interest income	5,051	7,360
Net foreign exchange gain/(loss) on foreign currency interest income	72,879	(20,015)
Total	1,104,593	1,279,297

Interest income from foreign currency denominated financial assets

Realised interest income on time deposits was lower than in 2002 owing to a decrease in the interest rates of the Federal Reserve Bank (Fed) and the European Central Bank (ECB). The benchmark Fed rate on overnight loans fell from 1.25% to 1.00%, whereas the ECB rate on two-week loans fell from 2.75% to 2.00%.

Special Drawing Rights with the International Monetary Fund (IMF) also recorded a significant interest decline as a result of maintaining XDRs during the year on the level lower than that in the previous year, which decreased the interest calculation base.

In 2003 interest on securities increased compared to the previous year because of an increased share of securities in the total international reserve placement structure.

Interest income from kuna denominated financial assets

Interest income from kuna loans granted in 2003 amounts to HRK 11,109 thousand, or 22.1% more than the corresponding income earned in 2002.

The largest share in interest income from loans refers to interest on Lombard loans, which amounted to HRK 7,871 thousand (over 50% of total interest income). Lombard loans were granted on several occasions to meet temporary sys-

tem liquidity shortfall, mainly from August 2003 to the year-end. Most of the Lombard loans were extended to major banks, which, due to a higher deposit base, experienced more problems in complying with the new reserve requirement regulation.

The most significant item within other interest income is interest earned from the fee for incorrectly calculated and subscribed compulsory CNB bills, which amounted to HRK 1,583 thousand.

Note 4 – Interest Expense and Similar Charges

in thousand HRK

Item	2003	2002
Kuna reserve requirements	192,969	185,206
Foreign currency reserve requirements	124,361	170,818
Kuna CNB bills	52,015	130,990
Mandatory kuna CNB bills	258	–
Foreign currency CNB bills	42,475	54,840
International Monetary Fund arrangements	2,395	24,794
Repurchase arrangements	28,683	25,711
Other interest expense	23,277	2,550
Net foreign exchange loss on foreign currency interest expense	(3,784)	(6,483)
Total	462,649	588,426

Interest expense for foreign currency denominated financial liabilities

A fall in the money market interest rates contributed to a decline in expense for interest paid on foreign currency reserve requirements and foreign currency CNB bills.

Interest on the International Monetary Fund arrangements represents expense for unused funds under the stand-by arrangement approved in February 2003.

Interest expense for kuna financial liabilities

The year 2003 was marked by restrictive monetary policy aimed at slowing down the growth in monetary aggregates. In this context, the interest expense for financial liabilities denominated in kuna exceeded kuna interest income, as it was the case in 2002.

Despite a 53.9% increase in allocated kuna reserve requirements, interest expense for the kuna component of reserve requirement rose by merely 4.2%, which was the result of the cut in the remuneration rate from 1.75% to 1.5% in January and then again to 1.25% in November.

Interest expense for kuna CNB bills in the amount of HRK 52,015 thousand accounts for 39.7% of these expenses in 2002. This was the result of a constant de-

crease in CNB bills balance during the year, although the interest rate rose from 2.08% in January to 2.55% in September.

The most significant item within other interest expense is written-off interest in the amount of HRK 21,728 thousand on due liquidity loan granted to Cibala banka d.d. undergoing bankruptcy proceedings. The written-off accrued interest refers to the period from 20 October 2000 (date of bankruptcy proceedings initiation) to 31 August 2003.

Note 5 – Net Trading Result and Revaluation of Precious Metals

in thousand HRK

Item	2003	2002
Gains on sale and changes in fair value of trading securities	377,446	219,681
Losses on sale and changes in fair value of trading securities	(443,635)	(174,541)
Net trading result	(66,189)	45,140
Gains arising from value adjustment of gold and precious metals to changes in market prices	128	20
Losses arising from value adjustment of gold and precious metals to changes in market prices	(41)	(386)
Net effect of revaluation of precious metals	87	(366)
Total	(66,102)	44,774

Note 6 – Net Foreign Exchange Losses

Global foreign currency markets were marked by significant cross-currency changes in 2003, which largely affected the performance of the Croatian National Bank. The effects of these cross-currency changes are unrealised foreign currency translation losses in the amount of HRK 9,800,590 thousand and unrealised foreign currency translation gains in the amount of HRK 9,179,518 thousand, with a negative net effect of HRK 621,072 thousand. The unrealised exchange differences were mostly affected by the depreciation of the US dollar against the Croatian kuna, the US dollar accounting for 29.65% of total international reserves as at 31 December 2003.

Since exchange differences are recorded under income and expense in accordance with the Croatian National Bank Act and the International Financial Reporting Standards, this resulted in an unrealised operating deficit recorded in the income statement.

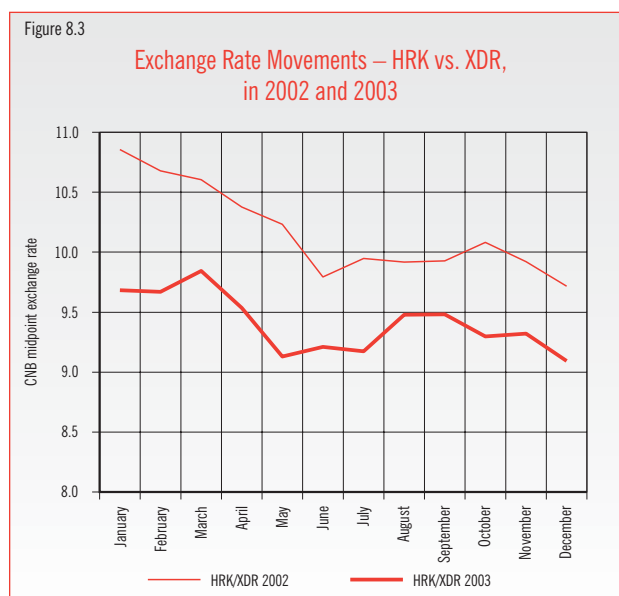
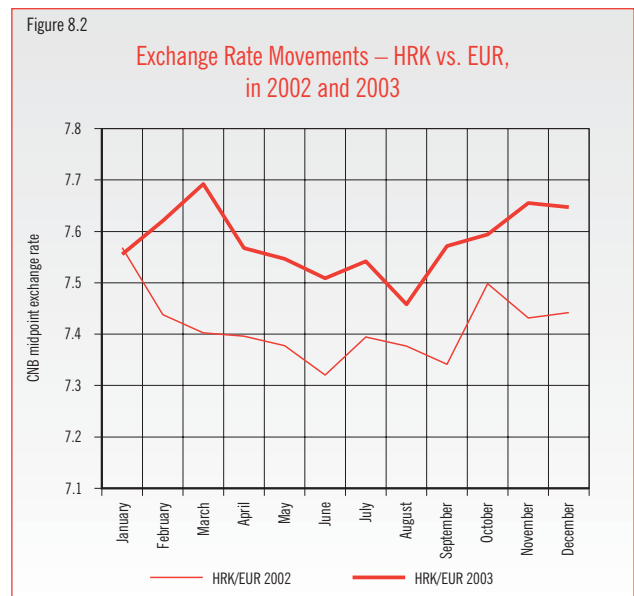
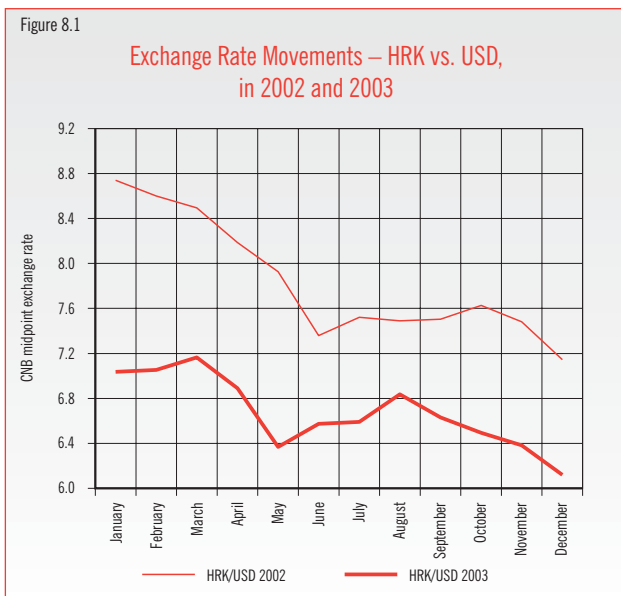
If the effect of the unrealised exchange differences were excluded, the operating surplus of the Croatian National Bank would amount to HRK 278,569 thousand. As opposed to unrealised exchange differences, which are merely an accounting category, the realised exchange differences are confirmed in the market (purchase or sale).

The currency structure of international reserves of the Croatian National Bank is adjusted to the planned currency structure of the external debt of the Republic of

Croatia for the year ahead, and to the currency structure of imports of goods and services in the previous year. This currency structure safeguards the external obligations of the Republic of Croatia against cross-currency changes, i.e. preserves the purchasing power of the reserves. However, this also results in substantial fluctuations in the income statement (kuna). In the income statement, the component of currency risk is more important than interest rate risk. One should also bear in mind that in international reserves management, safety and liquidity of invested funds always take precedence over speculative investments aimed at earning higher yields.

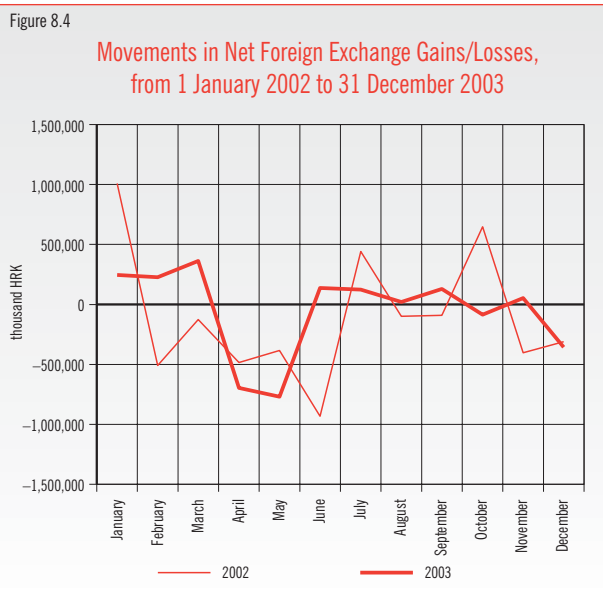
The three figures below show movements in the exchange rate of major currencies in the currency structure (USD, EUR, XDR) against the kuna in 2002 and 2003.

The table and figure below show movements in net foreign exchange gains/losses in 2002 and 2003, with a final net negative effect which resulted in operating deficit recorded in the income statement of the Croatian National Bank for 2003.



Net foreign exchange gains/losses in 2003 and 2002
in thousand HRK

2003		2002	
Month	Net foreign exchange gains/losses	Month	Net foreign exchange gains/losses
January	246,821	January	1,009,743
February	226,567	February	(508,623)
March	361,962	March	(126,096)
April	(695,876)	April	(485,395)
May	(770,479)	May	(385,473)
June	137,293	June	(932,071)
July	123,917	July	441,531
August	21,594	August	(99,002)
September	128,824	September	(89,643)
October	(86,018)	October	647,241
November	53,939	November	(401,967)
December	(358,281)	December	(311,193)
Total	(609,737)	Total	(1,240,948)



Movements in net gains (losses) arising from value adjustment of balance sheet items to changes in the exchange rate in the past six years:

in thousand HRK

Year	Gains	Losses
1998	497,826	–
1999	1,278,344	–
2000	288,416	–
2001	–	261,309
2002	–	1,240,948
2003	–	609,737

Note 7 – Other Income

in thousand HRK

Item	2003	2002
Gains on sales of numismatics	1,253	986
Other income	12,638	6,857
Total	13,891	7,843

Extraordinary income from closing of the payment operations account of the Croatian National Bank with the Fina, amounting to HRK 6,981 thousand, accounted for the largest portion of other income.

Note 8 – Operating Expenses

in thousand HRK

Item	2003	2002
Staff costs (Note 9)	145,727	120,624
Materials, services and administrative expenses	52,249	51,943
Depreciation and amortisation	52,665	43,093
Total	250,641	215,660

The largest item within materials, services and administrative expenses were costs of external services in the amount of HRK 15,082 thousand, with security services (HRK 4,025 thousand) accounting for the largest individual subitem.

The second largest item within the total materials, services and administrative expenses were costs of fixed assets repair and maintenance in the amount of HRK 11,155 thousand, followed by expenses for professional services in the amount of HRK 7,420 thousand, which mostly refer to expenses for Reuters, Bloomberg and other information services totalling HRK 2,694 thousand.

Depreciation and amortisation charge for 2003 amounted to HRK 52,665 thousand, i.e. it increased by HRK 9,572 thousand compared to the previous year. This significant increase is primarily a result of higher amortisation of intangible assets, i.e. banknotes and coins purchases in 2003. Amortisation of intangible assets thus grew from HRK 25,770 thousand in 2002 to HRK 36,963 thousand in 2003.

Note 9 – Staff Costs

in thousand HRK

Item	2003	2002
Net salaries	52,705	51,125
Contributions from and on salaries	31,338	31,371
Taxes and local taxes	15,334	15,801
Other staff costs	46,350	22,327
Total	145,727	120,624

The average number of employees during the year was 571 (2002: 581).

Staff costs for 2003 stood at HRK 145,727 thousand, and included salaries, allowances and other benefits, along with the corresponding taxes and contributions. In 2003, this expense item was largely affected by the enactment of the Foreign Exchange Act, which abolished the Foreign Trade Transactions Control Department, so that a certain number of staff became redundant. The gross cost of severance pay for the redundant staff amounted to HRK 24,563 thousand.

Note 10 – Increase/Decrease in Provisions

in thousand HRK

Item	2003	2002
Loans		
New impairment provisions made	27,322	–
Amounts collected	(9,777)	(92,603)
Accrued interest		
New impairment provisions made	–	17
Amounts collected	(2,028)	(18,723)
Total loans and interest	15,517	(111,309)
Impairment of receivables – FINA	51,402	–
Total loans, interest and receivables	66,919	(111,309)
Provisions for risks and charges		
New provisions made	9,705	680
Provisions cancelled	–	(670)
Total	76,624	(111,299)

The new loan impairment provision in the amount of HRK 27,322 thousand refers to previously approved liquidity loan to Cibalae banka d.d. undergoing bankruptcy.

The 2003 income from doubtful loans collected from banks and savings banks undergoing bankruptcy amounts to HRK 11,805 thousand and consists of collected due principal and interest payments on loans, and penalties for a failure to maintain and allocate kuna and foreign currency reserve funds.

Impairment of receivables in the amount of HRK 51,402 thousand that are charged to expenses were made in respect of receivables of the Croatian National Bank from the Financial Agency (FINA) for payment operations performed until 31 March 2002.

New litigation provisions made amounted to HRK 200 thousand.

Provisions for short-term and long-term employee benefits in the amount of HRK 9,505 thousand to be disbursed in the future represent a significant item within the provisions. HRK 3,195 (non-discounted) thousand out of this amount accounts for short-term provisions for employee benefits payable within twelve months from the end of the accounting period. The remaining HRK 6,310 (discounted amount) thousand refers to long-term provisions for employee benefits to be disbursed on a long-term basis at certain intervals and falling due at different dates for individual staff members.

Note 11 – Cash and Current Accounts with Other Banks

in thousand HRK

Item	2003	2002
Cash on hand	5,443	5,692
Current accounts with foreign banks	1,501	2,037
Total	6,944	7,729

Note 12 – Due from Other Banks

in thousand HRK

Item	2003	2002
Foreign central banks	368,946	628,111
Foreign commercial banks	25,183,667	27,497,538
Domestic commercial banks	13,891	17,133
Total	25,566,504	28,142,782

Time deposits with correspondent foreign central and commercial banks account for the major share in investments of total international reserves of the Republic of Croatia that are managed by the Croatian National Bank.

In 2003, the composition of total international reserves of the Republic of Croatia changed: the share of time deposits decreased whereas investment in securities increased. A more intense decline in the share of time deposits in total international reserves during the year was prevented by a significant increase in the funds collected from the sale of foreign currency CNB bills issued in the second half of 2003, which are placed with commercial banks.

Note 13 – Trading Securities

in thousand HRK

Item	2003	2002
Bonds denominated in EUR	16,995,979	7,890,787
Bonds denominated in USD	7,262,573	4,396,141
Certificates of deposit	266,982	1,563,110
Total	24,525,534	13,850,038

The bond portfolio mainly comprises government bonds of the Federal Republic of Germany, the United States of America, France, the Netherlands, Austria, Belgium, Ireland and Finland. The remaining bonds are issued by reputable European financial and government institutions, the World Bank and the International Bank for Reconstruction and Development (IBRD).

On the basis of the Decision issued by the Croatian National Bank Council in March 2003 to extend duration of EUR and USD portfolio of the CNB to ten months, the structure of placements changed, so that investments in securities now represent almost 50% of the international reserve investments. The longest maturity of an individual bond may not exceed five years.

Note 14 – Loans

a) type of loan

in thousand HRK

Item	2003	2002
Loans to domestic banks		
– Lombard	954,431	–
– Intervention	65,417	75,194
– Liquidity	27,322	34,500
Other loans	840	844
Gross loans and advances	1,048,010	110,538
Less: provision for loan impairment	(93,416)	(75,871)
Total	954,594	34,667

b) movements in allowances for loan impairment

in thousand HRK

Item	2003	2002
Balance at 1 January	75,871	194,474
New impairment allowances made	27,322	–
Amounts collected	(9,777)	(92,603)
Write-offs	–	(26,000)
Balance at 31 December	93,416	75,871

In the second half of 2003 several banks were using Lombard loans due to low liquidity. The total Lombard loan funds placed in 2003 amounted to HRK 8.6 billion and are higher 3.6 times than Lombard loans granted in 2002.

Despite occasional liquidity shortfalls in 2003, there was no need for repo auctions or liquidity loans.

The loan impairment allowance refers to previous loans granted to banks and savings banks undergoing bankruptcy or liquidation.

At 31 December 2003, the aggregate amount of loans in arrears against which provisions were made was HRK 93,416 thousand (2002: HRK 75,871 thousand).

Note 15 – Placements with the International Monetary Fund

in thousand HRK

Item	2003	2002
Membership quota	3,319,550	3,546,968
Special Drawing Rights (XDR) and deposits	5,018	15,746
Total	3,324,568	3,562,714

Placements with the International Monetary Fund (IMF) include the membership quota of the Republic of Croatia with the IMF and Special Drawing Rights (XDR) which relate to the amounts with the IMF that are available for day-to-day operations of the Croatian National Bank. Compared to 2002, the 2003 level of XDRs was very low. (The liabilities, i.e. principal and interest under the International Monetary Fund arrangements are fully settled, so that there is no need to keep significant amounts in XDR). The International Monetary Fund pays an interest rate on XDR funds at an approximate rate of 1.57% per annum (2002: 1.98%).

Note 16 – Equity Investments

in thousand HRK

Item	2003	2002
Membership in other international institutions	25,993	19,776
Domestic enterprises	8,054	8,054
Total	34,047	27,830

The membership in other international institutions relates to the shares of the Bank for International Settlements, Basle, and the shares of SWIFT (Society for Worldwide Interbank Financial Telecommunication).

Since June 2003, XDR has been introduced as a new unit of account instead of the gold franc, in accordance to the Amendments to the BIS Statute. As a result, the shares have been recorded and presented in the new unit of account – XDR. The change in the amount of investments was also a result of purchase of additional five shares of SWIFT.

The Croatian National Bank is the co-founder of the Croatian Monetary Institute (CMI) (a contract of 26 April 1993) and holds 42.6% of its equity. The CNB's stake in the CMI is carried at cost, which amounts to HRK 8,054 thousand.

Note 17 – Accrued Interest and Other Assets

in thousand HRK

Item	2003	2002
Accrued interest	59,260	108,522
Numismatics	11,273	11,854
Gold and other precious metals	1,753	1,579
Other assets	66,984	21,173
Total	139,270	143,128
Less: – interest impairment	(26,598)	(28,699)
– impairment of receivables – FINA	(51,402)	–
Total	61,270	114,429

Item	2003	2002
Movements in impairment provisions		
Balance at 1 January	28,699	75,281
New impairment provision made	–	17
Amounts collected	(2,028)	(18,723)
Write-offs	(73)	(27,876)
Balance at 31 December	26,598	28,699

The most important item in accrued interest, amounting to HRK 28,090 thousand, was interest on foreign exchange deposits with non-resident correspondent banks, reaching HRK 59,260 thousand.

The two most significant items among other assets refer to HRK 51,402 thousand and HRK 9,625 thousand of the Croatian National Bank's receivables from the Financial Agency (FINA) for payment operations performed until 31 March 2002.

Note 18 – Tangible and Intangible Assets

in thousand HRK

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Banknotes and coins	Investments in the course of construction	Software and licenses	Total
Balance at 31 December 2001									
Cost or revaluation	301,087	34,945	24,175	6,485	2,718	114,718	11,739	3,946	499,813
Accumulated depreciation	(18,077)	(26,745)	(19,381)	(5,750)	–	(42,030)	–	(1,857)	(113,840)
Net book amount	283,010	8,200	4,794	735	2,718	72,688	11,739	2,089	385,973
Year ended 31 December 2003									
Opening net book amount	283,010	8,200	4,794	735	2,718	72,688	11,739	2,089	385,973
Additions	–	–	–	–	122	19,440	34,331	–	53,893
Assets brought into use	5,015	8,924	2,345	496	–	7,203	(24,766)	782	–
Revaluation	29,630	–	–	–	–	–	–	–	29,630
Net write-offs	(26,763)	(38)	(200)	–	–	–	–	–	(27,002)
Depreciation charge	(5,804)	(7,207)	(2,419)	(272)	–	(36,112)	–	(851)	(52,665)
Closing net book amount	285,088	9,879	4,520	959	2,840	63,219	21,304	2,020	389,829
Balance at 31 December 2003									
Cost or revaluation	303,388	41,799	24,906	6,196	2,840	141,362	21,304	4,728	546,523
Accumulated depreciation	(18,300)	(31,920)	(20,386)	(5,237)	–	(78,143)	–	(2,708)	(156,694)
Net book amount	285,088	9,879	4,520	959	2,840	63,219	21,304	2,020	389,829

Tangible and intangible assets of the Croatian National Bank were HRK 389,829 thousand as at 31 December 2003, an increase of 1.01% compared to 2002. Land and buildings represent the most significant item in the total assets of the CNB, accounting for 73% of these assets in 2003.

The Croatian National Bank reviewed net book amount of buildings in 2003 and revalued buildings whose net value was significantly below the market value. According to the appraisal made by qualified independent valuers as at 30 October 2003, buildings of the CNB in its former branches in Dubrovnik, Osijek and Umag were included in the revalued net amount of HRK 29,630 thousand.

The tangible fixed assets of the Croatian National Bank are neither subject to a mortgage nor to a fiduciary relationship.

Note 19 – Croatian National Bank Bills

in thousand HRK

Item	2003	2002
Foreign currency CNB bills	4,920,178	1,226,289
Kuna CNB bills	–	5,166,018
Total	4,920,178	6,392,307

Foreign currency CNB bills are denominated in euro (EUR) and US dollars (USD) and have a maturity of up to 63 days. A significant increase in subscribed foreign currency CNB bills was recorded in the second half of 2003.

In 2003, the Croatian National Bank held regular weekly auctions of kuna CNB bills with 35-day maturity. The stock of CNB bills was decreasing throughout the year. Thus, the average stock fell from HRK 5.4 billion in January to only HRK 24.5 billion in October 2003. The last subscription of CNB bills was recorded at the auction held on 10 September, whereas no kuna CNB bills were subscribed from 15 October.

Note 20 – Due To Banks And Other Financial Institutions

in thousand HRK

Item	2003	2002
Kuna reserve requirements	12,600,722	8,187,046
Foreign currency reserve requirements	6,680,221	7,033,545
Other deposits of domestic banks	5,667,711	3,981,249
Foreign banks and other financial institutions	2,796,266	172,654
Court-mandated deposits	4,906	21,041
Mandatory kuna CNB bills	109,422	–
Total	27,859,248	19,395,535

Allocated reserve requirements of banks are accounted for as the Croatian National Bank's liabilities to commercial banks. Foreign currency reserve requirements are denominated in EUR and USD. Deposits received on the basis of repurchase agreements accounted for HRK 2,776,691 thousand of liabilities to foreign banks.

As a result of restrictive monetary policy, aimed at slowing down the growth in monetary aggregates, i.e. bank loans, the percentage of foreign currency component of reserve requirements allocated in kuna increased. This is also the key reason for the growth in kuna reserve requirements. Foreign currency reserve requirements allocated in kuna increased from 25% to 35% on 8 September and then again to 40% and 42% on 10 November and 8 December, respectively.

Other deposits received from domestic banks refer to settlement accounts, cash and limit accounts in the National Clearing System.

Mandatory CNB bills were subscribed on three occasions in the average amount of HRK 55.4 million and with a maturity of 3 months.

Note 21 – Due to the State and State Institutions

in thousand HRK

Item	2003	2002
Due to the State and State institutions	556,650	599,308
Foreign currency account balances of the Republic of Croatia	950,271	–
Total	1,506,921	599,308

The deposits of the Republic of Croatia are recorded as a liability in the Croatian National Bank's balance sheet, in the total amount of HRK 556,650 thousand. The deposit accounts of the Republic of Croatia held with the CNB relate to the account of the State budget of the Republic of Croatia, accounts of joint revenues, special purpose accounts that form a part of the State budget and court-mandated deposits.

The Croatian National Bank pays interest on deposits of the State budget of the Republic of Croatia at rates determined in accordance with the market conditions depending on the movements in interest rates that banks in the Republic of Croatia pay on kuna deposits in giro accounts of companies, which is in compliance with Article 32 of the Croatian National Bank Act.

The foreign currency account of the Ministry of Finance of the Republic of Croatia was opened in 2003, as a foreign currency transaction account used by the Croatian National Bank for foreign currency payment transactions on behalf of the Ministry of Finance.

Note 22 – Due to the International Monetary Fund

in thousand HRK

Item	2003	2002
Bills of exchange denominated in HRK	3,309,708	3,536,451
Other IMF's accounts	8,319	8,889
Total	3,318,027	3,545,340

The bills of exchange denominated in kuna relate to the membership of the Republic of Croatia in the International Monetary Fund.

Note 23 – Accrued Interest And Other Liabilities

in thousand HRK

Item	2003	2002
Accrued interest	25,820	27,610
Accrued interest on mandatory kuna CNB bills	117	–
Due to employees	4,475	4,690
Taxes and contributions	4,048	4,159
Due to the Ministry of Finance	6,624	7,395
Amounts due to suppliers	3,447	3,415
Other liabilities	51,037	3,935
Amounts on clearing accounts:		
Liabilities to the FINA	20,156,435	20,156,435
Banknotes and coins issued through the FINA	(9,086,206)	(9,086,206)
Assets with the FINA	(11,070,229)	(11,070,229)
Total	95,568	51,204

Out of total interest payable in kuna, the most significant item of HRK 16,861 thousand relates to remuneration on allocated and maintained kuna reserve requirements, which was calculated in December 2003 and was due in January 2004.

The most significant individual item among other liabilities in the amount of HRK 38,126 thousand relates to the liabilities of the Croatian National Bank to the Ministry of Finance in respect of payment operations up to and including 31 March 2002, which should be interpreted in the context of receivables presented in Note 17 "Accrued interest and other assets".

Other liabilities also include litigation provisions in the amount of HRK 2,447 thousand (2002: HRK 2,247 thousand) and provisions for employee benefits in the amount of HRK 9,505 thousand (2002: nil).

Note 24 – Capital and Reserves

The Croatian National Bank Act determined the CNB's capital to be HRK 2,500,000 thousand. The CNB's capital is held by the Republic of Croatia. The capital is non-transferable and cannot be encumbered by any guarantees.

The HRK 29,630 thousand increase in the CNB's reserves resulted from the increase in revaluation reserves based on the revaluation of tangible fixed assets (CNB buildings in Osijek, Dubrovnik and Umag), out of which HRK 26,764 thousand refers to the revaluation of the building in Osijek the title to which was transferred to the Ministry of Finance at the end of the year. The revaluation reserves were reduced by depreciation of the revalued portion of tangible fixed assets (buildings) in the amount of HRK 5,060 thousand.

The HRK 342,503 thousand decrease in the Croatian National Bank's reserves resulted from the coverage of the 2003 operating deficit. Before that, general reserves stood at HRK 2,491,877 thousand. After being debited for the coverage of operating deficit of HRK 342,503 thousand, general reserves amounted to HRK 2,149,374 thousand as at 31 December 2003.

Note 25 – Contingencies and Commitments and Treasury Inventory System

Legal claims: As at 31 December 2003, there were several pending litigations. In the opinion of the management and internal legal advisors of the Croatian National Bank, there is a possibility that the CNB will lose certain cases, and, consequently, provisions for potential losses on such cases were made by the CNB in the amount of HRK 2,447 thousand as at 31 December 2003 (2002: HRK 2,247 thousand).

Capital commitments: As at 31 December 2003, the Croatian National Bank had no capital commitments (2002: nil).

Credit related commitments: As at 31 December 2003, the Croatian National Bank had no credit related commitments (2002: nil).

Treasury inventory system: As at the balance sheet date, the Croatian National Bank had the following balances in the Treasury inventory system:

in thousand HRK

Item	2003	2002
Non-issued banknotes and coins	84,540,444	87,061,744
Stamp duties and bills of exchange	166,518	149,158
Total	84,706,962	87,210,902

Note 26 – Cash and Cash Equivalents

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

in thousand HRK

Item	2003	2002
Cash on hand	5,443	5,692
Current accounts with foreign banks	1,501	2,037
Special Drawing Rights (XDR) and deposits with the IMF	5,018	15,746
Total	11,962	23,475

Note 27 – Appropriations

In accordance with Article 53 of the Croatian National Bank Act, the surplus of income over expenditures is transferred to general reserves, in the amount determined by the Council of the Croatian National Bank. This amount should neither exceed 20% of the surplus of income over expenditures nor fall below net profit from value adjustment of balance sheet items to changes in the exchange rate and market prices. The remaining surplus of income over expenditures, after the transfer to general reserves, is extraordinary revenue to the State budget.

The Croatian National Bank covers any shortfall between income and expenditures from general reserves. Should these reserves prove insufficient, the shortfall is covered from the State budget.

in thousand HRK

Item	2003	2002
Surplus of income over expenditure	–	–
Shortfall between income and expenditure	(342,503)	(597,270)
Transfer of surplus to general reserves	–	–
Coverage of shortfall from general reserves	342,503	597,270
Transfer of surplus to the State budget	–	–

Note 28 – Related Party Transactions

Under the International Financial Reporting Standards, entities under majority state control are not required to disclose their related party transactions. As related party transactions are based on the state control of the Croatian National Bank and entities under majority state control, these financial statements do not include information on transactions between the CNB and such entities.

Note 29 – Risk Management Disclosure

The Croatian National Bank maintains active trading positions in money market and capital market instruments that are appropriate for central banks. Investments are exclusively made in fixed income instruments, while investments in equity securities and derivative financial instruments are not allowed. The Croatian National Bank pays special attention to the monitoring of credit, foreign exchange and interest rate risks, as well as other types of risks. The CNB's investment gain corresponds to assumed risks and reflects its basic investment principles – safety and liquidity.

Note 30 – Credit Risk

The Croatian National Bank is subject to credit risk that may arise as a result of counterparties' default on their obligations to the CNB. Therefore, the risk that counterparties might default on their obligations is monitored on an ongoing basis.

The Croatian National Bank has three levels of protection against credit risk:

- 1) it deals only with counterparties of the highest credit standing. Its assessment of counterparties' creditworthiness is closely based on ratings of internationally recognised rating agencies;
- 2) deals with an individual counterparty or country are subject to limits, which diversifies credit risk;
- 3) a large portion of deals is subject to collateral, which means that the placements of the Croatian National Bank with an individual financial institution are backed by government bonds (reverse REPO) whose value equals or exceeds the market value of its placements.

Geographical concentration of assets and liabilities:

in thousand HRK

	Total assets	Total liabilities
Balance at 31 December 2003		
Croatia	4,750,529	46,859,644
OECD countries	47,342,899	2,778,518
USA	2,769,819	3,318,089
Other countries	43	–
Total	54,863,290	49,956,251

in thousand HRK

	Total assets	Total liabilities
Balance at 31 December 2002		
Croatia	526,460	37,158,260
OECD countries	39,651,362	160,481
USA	5,948,330	3,560,745
Other countries	10	–
Total	46,126,162	40,879,486

Note 31 – Foreign Exchange Risk

The majority of the Croatian National Bank's assets is held in foreign currencies (international reserves), while its liabilities are predominantly held in kuna. As a result, the CNB's exposure to foreign exchange risk is large. At the end of 2003, the US dollar accounted for 29.65% and the euro accounted for 70.34% of the CNB's net international reserves. Due to substantial exchange rate fluctuations, primarily of the US dollar against the kuna, the Croatian National Bank has been recording large realised and unrealised gains (losses) on its currency positions for a number of years. Gains (losses) arising from currency positions are recognised in the income statement.

The Croatian National Bank had the following significant currency positions:

in thousand HRK

	EUR	USD	XDR	Other foreign currencies	HRK	Total
Balance at 31 December 2003						
Assets						
Cash and current accounts with other banks	4,107	2,322	–	485	30	6,944
Due from other banks	18,004,831	7,547,782	–	–	13,891	25,566,504
Trading securities	17,262,961	7,262,573	–	–	–	24,525,534
Loans	–	–	–	–	954,594	954,594
Placements with the IMF	–	–	3,324,568	–	–	3,324,568
Equity investments	81	–	25,912	–	8,054	34,047
Accrued interest and other assets	23,516	4,579	1	–	33,174	61,270
Tangible and intangible assets	–	–	–	–	389,829	389,829
Total assets	35,295,496	14,817,256	3,350,480	485	1,399,572	54,863,290
Liabilities						
Banknotes and coins in circulation	–	–	–	–	12,256,309	12,256,309
CNB bills	3,106,895	1,813,283	–	–	–	4,920,178
Due to banks and other financial institutions	5,528,164	3,937,900	–	–	18,393,184	27,859,248
Due to the State and State institutions	5	950,233	–	34	556,650	1,506,921
Due to the IMF	–	–	3,318,027	–	–	3,318,027
Accrued interest and other liabilities	5,946	2,962	–	19	86,640	95,568
Total liabilities	8,641,010	6,704,378	3,318,027	53	31,292,783	49,956,251
Net balance sheet position	26,654,486	8,112,878	32,453	432	(29,893,211)	4,907,039
Balance at 31 December 2002						
Total assets	30,126,453	11,933,719	3,564,409	561	501,020	46,126,162
Total liabilities	4,978,724	3,460,213	3,545,340	223	28,894,986	40,879,486
Net balance sheet position	25,147,729	8,473,506	19,069	338	(28,393,966)	5,246,676

Note 32 – Interest Rate Risk

The Croatian National Bank is exposed to the effects of market interest rates fluctuations on its financial position and cash flow. As a result of the application of clearly set guidelines, the CNB's exposure to interest rate risk is low and in compliance with its basic principle of international reserves investment – safety and liquidity.

in thousand HRK

	Up to 1 month	1 to 3 months	3 months to 12 months	1 to 5 years	Non-interest bearing	Total
Balance at 31 December 2003						
Assets						
Cash and current accounts with other banks	–	–	–	–	6,944	6,944
Due from other banks	19,462,810	6,089,803	–	–	13,891	25,566,504
Trading securities	24,525,534	–	–	–	–	24,525,534
Loans	954,594	–	–	–	–	954,594
Placements with the IMF	298	–	–	–	3,324,270	3,324,568
Equity investments	–	–	–	–	34,047	34,047
Accrued interest and other assets	–	–	–	–	61,270	61,270
Tangible and intangible assets	–	–	–	–	389,829	389,829
Total assets	44,943,236	6,089,803	–	–	3,830,251	54,863,290
Liabilities						
Banknotes and coins in circulation	–	–	–	–	12,256,309	12,256,309
CNB bills	2,719,587	2,200,591	–	–	–	4,920,178
Due to banks and other financial institutions	22,167,056	–	–	–	5,692,192	27,859,248
Due to the State and State institutions	224,191	–	–	–	1,282,730	1,506,921
Due to the IMF	–	–	–	–	3,318,027	3,318,027
Accrued interest and other liabilities	–	–	–	–	95,568	95,568
Total liabilities	25,110,834	2,200,591	–	–	22,644,826	49,956,251
Net balance sheet position	19,832,402	3,889,212	–	–	(18,814,575)	4,907,039
Balance at 31 December 2002						
Total assets	36,235,440	5,774,268	11,348	–	4,105,106	46,126,162
Total liabilities	21,711,902	196,522	11,987	–	18,959,075	40,879,486
Net balance sheet position	14,523,538	5,577,746	(639)	–	(14,853,969)	5,246,676

The table below summarises the effective interest rate by major currencies for monetary financial instruments at 31 December 2003:

in %

Balance at 31 December 2003	EUR	USD	XDR	HRK
Assets				
Current accounts with other banks	1.00	0.94		
Special Drawing Rights (XDR)			1.57	
Due from other banks	2.053	0.998		
Trading securities	2.294	1.358		
Loans				9.5
Liabilities				
CNB bills	1.980	1.001		
Due to domestic banks	1.975	0.995		1.25
Due to the IMF				
Due to foreign banks	1.98	0.80		

in %

Balance at 31 December 2002	EUR	USD	XDR	HRK
Assets				
Current accounts with other banks	2.25	1.09		
Special Drawing Rights (XDR)			1.98	
Due from other banks	3.32	1.76		
Trading securities	2.69	1.34		
Loans				9.5
Liabilities				
CNB bills	3.21	1.71		2.05
Due to domestic banks	3.23	1.66		1.75
Due to the IMF			2.62	
Due to foreign banks	3.11	1.57		

Note 33 – Liquidity Risk

Liquidity risk arises in the general funding of the activities of the Croatian National Bank and its management of positions. It includes both the risk of being unable to fund the assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Croatian National Bank holds a portfolio of liquid assets as a part of its liquidity risk management strategy.

The following table provides an analysis of the financial assets and liabilities of the Croatian National Bank into relevant maturity groupings based on the remaining period to repayment.

in thousand HRK

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Balance at 31 December 2003						
Assets						
Cash and current accounts with other banks	6,944	–	–	–	–	6,944
Due from other banks	19,462,810	6,089,803	–	–	13,891	25,566,504
Trading securities	24,525,534	–	–	–	–	24,525,534
Loans	954,435	–	–	–	159	954,594
Placements with the IMF	298	–	–	–	3,324,270	3,324,568
Equity investments	–	–	–	–	34,047	34,047
Accrued interest and other assets	26,909	5,753	–	–	28,608	61,270
Tangible and intangible assets	–	–	–	–	389,829	389,829
Total assets	44,976,930	6,095,556	–	–	3,790,804	54,863,290
Liabilities						
Banknotes and coins in circulation	–	–	–	–	12,256,309	12,256,309
CNB bills	2,719,587	2,200,591	–	–	–	4,920,178
Due to banks and other financial institutions	27,839,673	–	–	–	19,575	27,859,248
Due to the State and State institutions	1,506,921	–	–	–	–	1,506,921
Due to the IMF	–	–	–	–	3,318,027	3,318,027
Accrued interest and other liabilities	45,489	2,447	41,321	–	6,311	95,568
Total liabilities	32,111,670	2,203,038	41,321	–	15,600,222	49,956,251
Net liquidity gap	12,865,260	3,892,518	(41,321)	–	(11,809,418)	4,907,039
Balance at 31 December 2002						
Total assets	36,308,289	5,788,526	11,629	–	4,017,718	46,126,162
Total liabilities	26,214,439	199,343	11,987	–	14,453,717	40,879,486
Net liquidity gap	10,093,850	5,589,183	(358)	–	(10,435,999)	5,246,676

Note 34 – Subsequent Events

Clearing accounts presented in Note 23 “Accrued interest and other liabilities” were closed in February 2004.