

kpmg



Annual report for the year  
ended 31 December 2001

## Contents

Report of the President of the Management Board	3
Statement of the Management Board's responsibilities	5
Auditors' report to the shareholders of Dalmatinska banka dd	6
Income statement	7
Balance sheet	8
Statement of changes in equity for the Group	9
Statement of changes in equity for the Bank	10
Statement of cash flows	11
Notes to the financial statements	13
Business network	50
Supervisory board and management board	54
Operational board	56

## Report of the President of the Management Board

2001 has been an active year for the Dalmatinska banka Group. It was the first full year of ownership of Istarska banka. Furthermore, a majority shareholding in Sisacka banka was acquired at the end of 2001. The first quarter of 2002 has seen a continuation of the acquisition strategy with the purchase of a 100% shareholding in Dubrovacka banka.

The consolidated group financial result was a loss of HRK 69.2 million (Dalmatinska banka HRK 44.2 million). The year was one of consolidation and included the following key achievements:

- a growth in deposits in the Group of approximately 44% and assets of 30% compared to 2000;
- a successful introduction of the Euro;
- restructuring the management team and personnel structure to lead the Group in the future;
- development and implementation of an internal domestic payments system; and
- introduction of a range of new retail banking products.

Provisions for bad loans have been increased to reflect a prudent and conservative financial position. These adjustments in provisions mark the end of the restructuring of the Group's Balance Sheet. We are pleased to put the past behind us and have much lower levels of credit risk in respect of current loan portfolio.

We have successfully completed Phase 1 of our strategy, being building market share and a competitive banking network via a well-executed acquisition strategy. We are now entering phase 2, which will transform our Group, via a planned merger of Dalmatinska banka, Istarska banka and Sisacka banka, into a national single entity bank, "Nova Banka". We are confident that Nova Banka will become a strong market name and will provide customers, staff and other stakeholders with strong customer focused identity of which we can all be proud.

Nova Banka will give customers with a larger service offering and access to a wider banking network. The economies of scale will enable us to improve productivity and introduce a superior product range in the combined organisation. For example, we are actively working on Internet Banking products which we will roll out in 2002.

With provisions for the Group's old exposures being set at a realistic level, expected growth of the Group Balance Sheet together with rigorous risk management controls and the flow on benefits of our future merger, we are well placed to improve our profitability in the future.

Zdravko Bubalo  
*President of the Management Board*

22 April 2002



## Statement of the Management Board's responsibilities

Croatian law requires the Management Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and the Group and of their profit and loss for the year. In preparing those financial statements, the Management Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and the Group and which to enable it to ensure that the financial statements comply with Croatian law. It has a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

## Auditors' report to the shareholders of Dalmatinska banka dd

We have audited the financial statements on pages 6 to 48.

### *Respective responsibilities of the Management Board and auditors*

As described on page 4 these financial statements are the responsibility of the Bank's Management Board. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you. The financial statements as of 31 December 2000 were audited by another auditor, whose report dated 16 May 2001, expressed an unqualified opinion on those statements.

### *Basis of opinion*

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. 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 the Management Board, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2001 and of the results of their operations and their cash flows for the year then ended and have been properly prepared in accordance with International Accounting Standards as promulgated by the International Accounting Standards Board and have been properly prepared in accordance with the Croatian Accounting Law.



**KPMG Croatia doo za reviziju**  
Registered auditors  
Centar Kaptol  
Nova Ves 11  
10000 Zagreb  
Croatia

22 April 2002

## Income statement

for the year ended 31 December 2001

		The Group		The Bank	
	Note	2001 HRK'000	2000 HRK'000	2001 HRK'000	2000 HRK'000
Interest and similar income	4	258,291	164,499	156,969	164,161
Interest expense and similar charges	4	(140,662)	(91,394)	(78,261)	(91,931)
<b>Net interest income</b>		<b>117,629</b>	73,105	<b>78,708</b>	72,230
Commission and fee income	5	46,471	26,349	22,887	26,380
Commission and fee expense	5	(16,387)	(10,979)	(8,942)	(10,979)
<b>Net commission and fee income</b>		<b>30,084</b>	15,370	<b>13,945</b>	15,401
Foreign exchange gains, net	6	31,344	14,188	22,364	14,188
Other operating income	7	20,501	14,375	14,456	9,205
<b>Operating income</b>		<b>199,558</b>	117,038	<b>129,473</b>	111,024
Impairment loss and provisions for loans	15(b)	(1,574)	(39,615)	(19,820)	(39,615)
Other impairment losses and provisions	8	(17,113)	869	(26,551)	869
Operating expenses	9	(250,611)	(113,995)	(127,317)	(106,217)
<b>Loss before taxation and exceptional items</b>		<b>(69,740)</b>	(35,703)	<b>(44,215)</b>	(33,939)
Exceptional items	18	-	6,902	-	6,902
Income tax expense	10	(543)	(422)	-	-
<b>Net loss for the year after tax</b>		<b>(70,283)</b>	(29,223)	<b>(44,215)</b>	(27,037)
Minority interest		1,039	-	-	-
<b>Net loss for the year after tax and minority interest</b>		<b>(69,244)</b>	(29,223)	<b>(44,215)</b>	(27,037)

The notes set out on pages 12 to 48 form part of these financial statements.

## Balance sheet

as at 31 December 2001

	Note	The Group		The Bank	
		2001 HRK'000	2000 HRK'000	2001 HRK'000	2000 HRK'000
<b>Assets</b>					
Cash reserves	11	450,490	251,214	192,478	175,325
Balances with the Croatian National Bank	12	1,253,734	550,606	431,109	337,779
Debt securities	13	233,657	300,761	204,546	284,092
Placements with, and loans and advances to, other banks	14	958,378	511,564	655,239	244,698
Loans and advances to customers	15	1,481,009	1,465,949	924,918	1,047,883
Accrued interest and other assets	17	76,525	68,852	42,507	51,517
Replacement bonds	18	353,567	363,340	34,832	34,075
Equity securities	19	79,465	216,035	247,898	220,277
Assets acquired in lieu of uncollected receivables	20	96,710	71,484	72,947	57,628
Fixed assets	21	187,284	157,161	112,497	102,897
Goodwill	22	91,366	84,315	-	-
<b>Total assets</b>		<b>5,262,185</b>	<b>4,041,281</b>	<b>2,918,971</b>	<b>2,556,171</b>
<b>Liabilities and funds employed</b>					
Current accounts and deposits from banks	23	14,106	4,040	448	2,863
Current accounts and deposits from customers	24	4,179,519	2,894,934	2,078,127	1,644,625
Borrowings	25	591,870	578,582	402,237	419,787
Accrued interest and other liabilities	26	85,377	97,394	47,311	59,117
Provisions for liabilities and charges	27	27,937	39,398	9,594	5,254
<b>Total liabilities</b>		<b>4,898,809</b>	<b>3,614,348</b>	<b>2,537,717</b>	<b>2,131,646</b>
Share capital	28	300,000	300,000	300,000	300,000
Share premium		77,027	77,027	77,027	77,027
Treasury shares		(69)	-	(69)	-
Retained earnings		(33,416)	34,815	4,296	47,498
<b>Total shareholders' equity</b>		<b>343,542</b>	<b>411,842</b>	<b>381,254</b>	<b>424,525</b>
Minority interest	29	19,834	15,091	-	-
<b>Total liabilities, minority interest and shareholders' equity</b>		<b>5,262,185</b>	<b>4,041,281</b>	<b>2,918,971</b>	<b>2,556,171</b>

These financial statements were approved by the Management Board on 22 April 2002 and were signed by:

Zdravko Bubalo

President of the Management Board





## Statement of changes in equity for the Group

for the year ended 31 December 2001

	Share capital	Share premium	Treasury shares	Retained earnings	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
As at 1 January 2001	300,000	77,027	-	34,815	411,842
Repurchase of treasury shares	-	-	(69)	-	(69)
Unclaimed dividends	-	-	-	1,013	1,013
Net loss for the year	-	-	-	(69,244)	(69,244)
As at 31 December 2001	<u>300,000</u>	<u>77,027</u>	<u>(69)</u>	<u>(33,416)</u>	<u>343,542</u>
As at 1 January 2000	207,992	25,999	(20,999)	63,797	276,789
Sale of treasury shares	-	5,024	20,999	-	26,023
Increase in share capital	92,008	46,004	-	-	138,012
Unclaimed dividends	-	-	-	241	241
Net loss for the year	-	-	-	(29,223)	(29,223)
As at 31 December 2000	<u>300,000</u>	<u>77,027</u>	<u>-</u>	<u>34,815</u>	<u>411,842</u>

The notes set out on pages 12 to 48 form part of these financial statements.

## Statement of changes in equity for the Bank

for the year ended 31 December 2001

	Share capital	Share premium	Treasury shares	Retained earnings	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
As at 1 January 2001	300,000	77,027	-	47,498	424,525
Repurchase of treasury shares	-	-	(69)	-	(69)
Unclaimed dividends	-	-	-	1,013	1,013
Net loss for the year	-	-	-	(44,215)	(44,215)
As at 31 December 2001	<u>300,000</u>	<u>77,027</u>	<u>(69)</u>	<u>4,296</u>	<u>381,254</u>
As at 1 January 2000	207,992	25,999	(20,999)	74,294	287,286
Sale of treasury shares	-	5,024	20,999	-	26,023
Increase of share capital	92,008	46,004	-	-	138,012
Unclaimed dividends	-	-	-	241	241
Net loss for the year	-	-	-	(27,037)	(27,037)
As at 31 December 2000	<u>300,000</u>	<u>77,027</u>	<u>-</u>	<u>47,498</u>	<u>424,525</u>

The notes set out on pages 12 to 48 form part of these financial statements.

## Statement of cash flows

for the year ended 31 December 2001

	Note	The Group		The Bank	
		2001 HRK'000	2000 HRK'000	2001 HRK'000	2000 HRK'000
<b>Operating activities</b>					
Loss after tax		(70,283)	(29,223)	(44,215)	(27,037)
Provision for equity securities		13,844	4,064	4,000	4,064
Provisions for assets acquired in lieu of uncollected receivables		17,709	-	17,709	-
Indexation of replacement bonds		11,681	1,490	1,151	1,490
Depreciation		17,415	7,015	8,037	6,734
Amortisation of goodwill		16,855	-	-	-
Gains less losses from non trading financial instruments		5,666	-	(4,454)	-
Profit on disposal of assets acquired in lieu of uncollected receivables		(2,400)	(75)	(904)	(75)
<b>Cash inflow/(outflow) from operating activities before changes in operating assets and liabilities</b>					
		10,487	(16,729)	(18,676)	(14,824)
Decrease in loans and advances to customers		179,915	188,960	122,965	173,178
(Increase)/decrease in accrued interest and other assets		(1,092)	(11,009)	9,010	(9,557)
Increase in assets acquired in lieu of uncollected receivables		(27,893)	(1,699)	(33,028)	(1,699)
Decrease in current accounts and deposits from banks		(41,768)	(18,438)	(2,415)	(18,438)
Increase in current accounts and deposits from customers		887,961	351,882	433,502	351,882
Decrease in accrued interest and other liabilities		(17,486)	(5,544)	(12,701)	(3,444)
(Decrease)/increase in provisions for liabilities and charges		(14,942)	-	4,340	-
Minority interest		(1,039)	-	-	-
<b>Net cash inflow from operating activities</b>					
		974,143	487,423	502,997	477,098
<b>Investing activities</b>					
Acquisition of subsidiary less cash acquired	31	241,480	362,913	-	-
Sale/(purchase) of debt securities, net		74,396	(83,367)	84,000	(83,367)
Sale/(purchase) of equity securities, net		125,664	27,193	(31,621)	(155,432)
Purchase of fixed assets, net		(16,611)	(32,288)	(16,733)	(32,007)
<b>Cash inflow/(outflow) from investing activities</b>					
		424,929	274,451	35,646	(270,806)

	Note	The Group		The Bank	
		2001 HRK'000	2000 HRK'000	2001 HRK'000	2000 HRK'000
<b>Financing activities</b>					
Issue of shares/reissue of treasury shares		-	143,036	-	143,036
(Purchase)/sale of treasury shares		(69)	20,999	(69)	20,999
Paid dividends		-	(2,586)	-	(2,586)
Decrease in borrowings		(49,785)	(129,928)	(17,550)	(129,928)
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Cash (outflow)/inflow from financing activities</b>		<b>(49,854)</b>	<b>31,521</b>	<b>(17,619)</b>	<b>31,521</b>
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net increase in cash and cash equivalents</b>		<b>1,349,218</b>	<b>793,395</b>	<b>521,024</b>	<b>237,813</b>
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Cash and cash equivalents at the beginning of the year</b>	30	<b>1,313,384</b>	519,989	<b>757,802</b>	519,989
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Cash and cash equivalents at the end of the year</b>	30	<b>2,662,602</b>	1,313,384	<b>1,278,826</b>	757,802
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The notes set out on pages 12 to 48 form part of these financial statements.

## Notes to the financial statements

### 1 Accounting standards and conventions

The principal accounting policies adopted for the preparation of the financial statements are set out below.

#### *Statement of compliance*

These financial statements have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB"), currently applicable interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and the Croatian Accounting Law.

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

#### *Basis of preparation*

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

The accounting policies have been consistently applied by the Group and except for the adoption of IAS 39 are consistent with those used in previous years.

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

#### *Basis of consolidation*

Financial statements are presented for the Bank and the Group. The Group financial statements comprise the consolidated financial statements of the Bank and its subsidiary entities.

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

#### *Audit of the financial statements*

The audit of the financial statements takes place throughout the year with regular contact between the auditors and the Bank's management. There are several visits made during the year with emphasis on the final visit in March 2002.

## 2 Specific accounting policies

### *Interest income and expense*

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

### *Fee and commission income*

Fee and commission income comprises mainly fees receivable from customers for loans, guarantees, letters of credit, foreign currency transactions and other services provided by the Group. Fee and commission income is credited to income when the related service is performed.

### *Foreign currency*

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

### *Net trading income*

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

### *Gains less losses from non-trading financial instruments*

Gains less losses from non-trading financial instruments include gains and losses arising from disposals and changes in the fair value of available for sale assets.

### *Dividend income*

Dividends received on equity securities other than investments in associates are credited to the income statement when the right to receive the dividend is established.

### *Financial instruments*

#### *Classification*

Financial instruments held for trading are those that the Group principally holds for the purpose of short-term profit taking.

Originated loans and receivables are loans and receivables created by the Group providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers, other than purchased loans, as well as bonds purchased at original issuance.

Held to maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Available for sale assets are financial assets that are not held for trading purposes, originated by the Group or held to maturity. Available for sale instruments include certain debt and equity securities.

#### *Recognition*

The Group recognises financial assets held for trading and available for sale assets on the date it commits to purchase the assets.

Held to maturity assets and originated loans and receivables are recognised on the day they are transferred to the Group.

#### *Measurement*

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available for sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot otherwise be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non trading financial liabilities, originated loans and receivables and held to maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

#### *Fair value measurement principles*

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.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate at the balance sheet date for an instrument with similar terms and conditions. Where a pricing model is used, inputs are based on market related measures at the balance sheet date.

#### *Gains and losses on subsequent measurement*

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

#### *Impairment of financial assets*

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

The recoverable amount of originated loans and advances that are classified as held to maturity, is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of impairment provisions for uncollectibility. Specific impairment provisions are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General impairment provisions are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the provision account are recognised in the income statement.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off. If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or provision is reversed through the income statement.

#### *Derecognition*

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available for sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Group commits to sell the assets.

Held to maturity assets and originated loans and receivables are derecognised on the day they are transferred by the Group.



*Specific instruments**Treasury bills*

Treasury bills are classified as originated assets and stated at cost adjusted for the amortisation of premiums or discounts on an effective interest rate basis over the period to maturity. The amortisation of premiums or discounts is included in interest income.

*Investments*

Debt securities classified as originated are stated at amortised cost less any impairment. Any premium or discount on these securities is amortised to interest income over the period to maturity. Other debts securities are classified as available for sale assets and are carried at fair value.

Equity securities are classified as available for sale assets.

*Loans and advances*

Loans and advances originated by the Group are classified as originated loans and receivables. Loans and advances are presented net of impairment provisions to reflect the estimated recoverable amounts. The amortisation of any discounts included within impairment provisions is included in interest income.

*Fixed assets*

All fixed assets are stated at historic cost or valuation, net of accumulated depreciation and, if any, impairment losses.

Depreciation is provided on all assets except land and assets in the course of construction, on a straight line basis so as to write off the cost of the assets over their estimated useful lives at the following annual rates:

	%
Buildings	2.00 - 3.03
Computers	20.00 - 30.00
Furniture and equipment	10.00 - 20.00
Motor vehicles	25.00

Regular maintenance expenditure is directly charged against operating profit. Maintenance expenditure is capitalised in exceptional cases where maintenance results in an enlargement or substantial improvement of the respective assets.

*Taxation*

The Group provides for taxation liabilities in accordance with Croatian law.

*Impairment of non financial assets*

The carrying amounts of the Group's non financial assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of non financial assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

*Share capital and reserves*

Share capital is stated in HRK at nominal value.

*Comparatives*

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures, except as stated below.

The adoption of IAS 39 "Financial Instruments: Recognition and Measurement" has resulted in the Group and the Bank recognising available for sale assets at fair value, while previously these assets were carried at cost less permanent diminution in value. However, the fair value of these assets at 1 January 2001 did not differ materially from cost less permanent diminution in value. Consequently, no adjustments to opening reserves was made as a result of adoption of IAS 39.

**3 Incorporation**

The Bank is a joint stock company incorporated in Croatia.

#### 4 Net interest income

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<b>Interest and similar income</b>				
Cash and short term funds	<b>29,052</b>	13,209	<b>17,387</b>	12,921
Placements with CNB	<b>19,687</b>	24,498	<b>7,766</b>	24,498
Loans and advances to companies	<b>97,546</b>	68,460	<b>68,387</b>	68,460
Loans and advances to individuals	<b>65,009</b>	43,645	<b>42,058</b>	43,645
Debt securities	<b>18,026</b>	12,394	<b>18,026</b>	12,394
Replacement bonds	<b>17,380</b>	1,400	<b>1,756</b>	1,400
Other	<b>11,591</b>	893	<b>1,589</b>	843
	<b>258,291</b>	164,499	<b>156,969</b>	164,161
<b>Interest expense and similar charges</b>				
Current accounts and deposits from individuals	<b>84,895</b>	44,363	<b>43,617</b>	44,363
Current accounts and deposits from companies	<b>25,190</b>	20,008	<b>14,050</b>	20,008
Borrowings and current accounts and deposits from banks	<b>30,577</b>	27,023	<b>20,594</b>	27,560
	<b>140,662</b>	91,394	<b>78,261</b>	91,931

**5 Net commission and fee income**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<b>Commission and fee income</b>				
Companies	<b>15,699</b>	17,536	<b>11,471</b>	17,567
Banks	<b>1,553</b>	1,135	<b>1,457</b>	1,135
Individuals	<b>24,390</b>	6,526	<b>9,180</b>	6,526
Other	<b>4,829</b>	1,152	<b>779</b>	1,152
	<u><b>46,471</b></u>	<u>26,349</u>	<u><b>22,887</b></u>	<u>26,380</u>
<b>Commission and fee expense</b>				
Companies	<b>3,602</b>	4,748	<b>3,602</b>	4,748
Banks	<b>5,500</b>	2,163	<b>2,272</b>	2,163
Other	<b>7,285</b>	4,068	<b>3,068</b>	4,068
	<u><b>16,387</b></u>	<u>10,979</u>	<u><b>8,942</b></u>	<u>10,979</u>

**6 Foreign exchange gains, net**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Foreign exchange trading gain	<b>34,948</b>	17,421	<b>23,127</b>	17,421
Net foreign exchange loss from translation of monetary assets and liabilities	<b>(3,604)</b>	(3,233)	<b>(763)</b>	(3,233)
	<u><b>31,344</b></u>	<u>14,188</u>	<u><b>22,364</b></u>	<u>14,188</u>

**7 Other operating income**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Income from dividends	<b>2,640</b>	-	<b>63</b>	-
Gains less losses from non trading financial instruments	-	-	<b>4,454</b>	-
Net gain on disposal of fixed assets and assets acquired in lieu of uncollected receivables	<b>2,400</b>	75	<b>904</b>	75
Brokerage fees	<b>4,050</b>	3,506	-	-
Indexation of replacement bonds	-	1,490	-	1,490
Other income	<b>11,411</b>	9,304	<b>9,035</b>	7,640
	<b>20,501</b>	14,375	<b>14,456</b>	9,205

The loss on indexation of replacement bonds in 2001 and the loss from non trading financial instruments in 2001 are included in operating expenses (note 9).

**8 Other provisions**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Equity securities	<b>13,844</b>	4,064	<b>4,000</b>	4,064
Provisions for commitments and contingencies	<b>(15,912)</b>	(6,232)	<b>3,370</b>	(6,232)
Assets acquired in lieu of uncollected receivables	<b>17,709</b>	-	<b>17,709</b>	-
Fixed assets	<b>636</b>	-	<b>636</b>	-
Other assets	<b>836</b>	1,299	<b>836</b>	1,299
	<b>17,113</b>	(869)	<b>26,551</b>	(869)

## 9 Operating expenses

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Staff costs	<b>100,617</b>	53,656	<b>57,865</b>	50,158
Professional services and materials	<b>53,435</b>	27,691	<b>30,847</b>	27,183
Marketing expenses	<b>9,259</b>	4,197	<b>7,258</b>	3,806
Administrative expenses	<b>2,639</b>	1,651	<b>1,733</b>	1,651
Depreciation	<b>17,415</b>	7,015	<b>8,037</b>	6,734
Goodwill amortisation	<b>16,855</b>	-	<b>-</b>	-
Savings deposits insurance charge	<b>14,055</b>	4,915	<b>7,852</b>	4,915
Taxes and contributions on income	<b>3,525</b>	1,905	<b>1,661</b>	1,905
Indexation of replacement bonds	<b>11,681</b>	-	<b>1,151</b>	-
Losses less gains from non trading financial instruments	<b>5,666</b>	-	<b>-</b>	-
Other expenses	<b>15,464</b>	12,965	<b>10,913</b>	9,865
	<b>250,611</b>	113,995	<b>127,317</b>	106,217

The gain on indexation of replacement bonds in 2000 and the gain from non trading financial instruments in 2000 are included in other operating income (note 7).

At year end the Group and the Bank had 1,048 and 461 employees respectively (2000: 1,119 and 477).

Group and Bank staff costs include HRK 15,159 thousand (2000: HRK 8,728 thousand) and HRK 9,232 thousand (2000: HRK 7,955 thousand) of defined pension contributions paid into the State pension plan, respectively. Contributions are calculated as a percentage of employees' gross salaries.

## 10 Income tax expense

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Accounting loss	<b>(69,740)</b>	(28,801)	<b>(44,215)</b>	(27,037)
Allowance for capital maintenance	-	(24,602)	-	(24,183)
Disallowable items	<b>33,416</b>	2,096	<b>25,033</b>	1,972
Losses not available for group relief	<b>22,719</b>	52,513	-	-
Consolidation adjustments	<b>16,320</b>	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Taxable profit / (loss)	<b>2,715</b>	1,206	<b>(19,182)</b>	(49,248)
	<hr/>	<hr/>	<hr/>	<hr/>
Tax expense at 20% (2000:35%)	<b>543</b>	422	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2001 the Group and Bank had HRK 192,650 thousand and HRK 68,430 thousand respectively (2000: HRK 228,442 thousand and HRK 49,248 thousand respectively) of tax losses available to be carried forward for relief against the taxable income of future years. The availability to offset losses expires after five years. The current tax rate is 20% (2000: 35%).

The availability of tax losses against future periods, subject to review by the Ministry of Finance, is as follows:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
No more than 5 years	<b>22,719</b>	60,029	<b>19,182</b>	49,248
No more than 4 years	<b>63,682</b>	93,078	<b>49,248</b>	-
No more than 3 years	<b>92,028</b>	7,824	-	-
No more than 2 years	<b>11,707</b>	3,922	-	-
No more than 1 year	<b>2,514</b>	63,589	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total tax losses carried forward	<b>192,650</b>	228,442	<b>68,430</b>	49,248
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Tax losses have not been recognised as a deferred tax asset as it is not probable that future taxable profits will be available to utilise the losses.

**11 Cash reserves**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Cash in hand	<b>328,510</b>	69,880	<b>145,523</b>	29,903
Current account with the Croatian National Bank	<b>55,800</b>	47,688	<b>18,295</b>	36,227
Items in the course of collection	<b>5,841</b>	12,370	<b>3,004</b>	3,201
Current accounts with other banks	<b>61,240</b>	122,204	<b>25,656</b>	105,994
Less: provisions for impairment	<b>(901)</b>	(928)	<b>-</b>	-
	<b>450,490</b>	251,214	<b>192,478</b>	175,325

**12 Balances with the Croatian National Bank**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Obligatory reserve in HRK	<b>275,326</b>	146,497	<b>130,631</b>	79,565
Obligatory reserve in FCY	<b>271,411</b>	226,719	<b>89,502</b>	124,073
Treasury bills in HRK	<b>5,987</b>	44,888	<b>-</b>	44,888
Treasury bills in FCY	<b>701,010</b>	132,502	<b>210,976</b>	89,253
	<b>1,253,734</b>	550,606	<b>431,109</b>	337,779

The HRK obligatory reserve requirement at 31 December 2001 represented 19% of the relevant HRK deposits (2000: 23.5%). At least 40% (2000: 50%) of the total obligatory reserve requirement must be deposited on a special account with the CNB and the remainder may be held in cash and/or on giro accounts. At year end the Group and the Bank held 84% and 85% respectively (2000: 88% and 85%) of the total requirement in a special obligatory reserve deposit account with the CNB. Interest is receivable on a monthly basis. The rate at year end was 2.0% per annum (2000: 4.5%).

The foreign currency obligatory reserve requirement at 31 December 2001 represented 19% (2000: 23.5%) of both foreign currency personal and corporate deposits and foreign currency borrowings. At 31 December 2001 the Group and the Bank held 35% and 40% respectively (2000: 44% and 40%) of this foreign currency obligatory reserve in a special obligatory reserve deposit account with the CNB and the remainder was placed with foreign banks in accordance with CNB selection criteria. At 31 December 2001, 25% (2000: nil) of the total foreign currency obligatory reserve requirement was included in the HRK obligatory reserve and was maintained in HRK in accordance with a new regulation issued in November 2001. Interest is receivable on a monthly basis. The rate at year end was 2.6% per annum (2000: 4.9%).



**13 Debt securities**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<i>Debt securities available for sale</i>				
HZZO (public health care fund) bonds	<b>23,194</b>	23,205	<b>23,194</b>	23,205
DAB bonds	<b>10,537</b>	-	<b>10,537</b>	-
Bonds issued by the Ministry of Finance	<b>44,496</b>	-	<b>44,496</b>	-
Treasury bills issued by the Ministry of Finance	-	78,776	-	78,776
Bills of exchange issued by companies	<b>8,800</b>	26,656	<b>7,598</b>	26,656
<i>Debt securities classified as originated</i>				
Public debt	<b>130,477</b>	155,471	<b>118,721</b>	155,455
Housing bonds	<b>16,153</b>	16,653	-	-
	<b>233,657</b>	300,761	<b>204,546</b>	284,092

DAB bonds are foreign currency denominated bonds issued in July 2000. DAB is the State Agency for Deposit Insurance and Bank Rehabilitation and issued bonds for servicing of insured citizens' savings deposited in Croatian banks which are in receivership. The bonds carry interest of 8% per annum and will fall due on 10 July 2004.

Bonds issued by the Ministry of Finance are foreign currency denominated bonds issued in December 2001. The bonds carry interest of 6.5% per annum and will fall due on 20 December 2008.

The Republic of Croatia issued public debt, payable in 20 equal half yearly instalments with the first instalment being payable on 30 June 1995 and the last instalment maturing on 31 December 2004. Public debt is denominated in EUR (originally DEM) and bears 5% annual interest.

**14 Placements with, and loans and advances to, other banks**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Placements with other banks	<b>950,073</b>	446,637	<b>644,530</b>	207,700
Loans and advances to other banks	<b>12,075</b>	70,045	<b>10,709</b>	39,533
Less: provision for impairment (Note 15b)	<b>(3,770)</b>	(5,118)	-	(2,535)
	<b>958,378</b>	511,564	<b>655,239</b>	244,698

**15 Loans and advances to customers**

**a) Analysis by product**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Denominated in HRK				
Personal loans	<b>625,698</b>	582,681	<b>378,747</b>	364,101
Business loans	<b>1,097,885</b>	1,033,521	<b>658,955</b>	709,953
Denominated in foreign currency				
Personal loans	<b>89,215</b>	9,638	<b>8,678</b>	8,967
Business loans	<b>199,551</b>	265,835	<b>134,340</b>	202,083
	<u><b>2,012,349</b></u>	<u>1,891,675</u>	<u><b>1,180,720</b></u>	<u>1,285,104</u>
Less impairment allowance				
- specific	<b>(505,172)</b>	(402,349)	<b>(239,493)</b>	(221,888)
- general	<b>(26,168)</b>	(23,377)	<b>(16,309)</b>	(15,333)
	<u><b>1,481,009</b></u>	<u>1,465,949</u>	<u><b>924,918</b></u>	<u>1,047,883</u>

Included within Group kuna loans are amounts of HRK 1,221,762 thousand (2000: HRK 1,250,338 thousand) which have a EUR countervalue and HRK 43,366 thousand (2000: HRK 61,433 thousand) which have a USD countervalue. Included within Bank kuna loans are amounts of HRK 652,051 thousand (2000: HRK 772,420 thousand) which have a EUR countervalue and HRK 28,111 thousand (2000: HRK 45,565 thousand) which have a USD countervalue. Repayments of principal and interest are determined in foreign currency and paid in the Kuna equivalent translated at the rate applicable on the date of payment.

All business lending is to companies domiciled in Croatia.

**b) Movement in impairment allowance for the Group:**

	<b>2001</b> <b>HRK'000</b> <b>Total</b>	<b>2001</b> <b>HRK'000</b> <b>Specific</b> <b>provisions</b>	<b>2001</b> <b>HRK'000</b> <b>General</b> <b>provisions</b>	2000 HRK'000 Total	2000 HRK'000 Specific provisions	2000 HRK'000 General provisions
Balance at 1 January	430,844	407,467	23,377	205,038	190,629	14,409
Acquisition of subsidiary	110,582	107,453	3,129	191,034	182,990	8,044
Net charge to income statement	1,574	1,912	(338)	39,615	38,691	924
Amounts written off	(4,719)	(4,719)	-	-	-	-
Foreign exchange difference	(3,171)	(3,171)	-	(4,843)	(4,843)	-
Balance at 31 December	<u>535,110</u>	<u>508,942</u>	<u>26,168</u>	<u>430,844</u>	<u>407,467</u>	<u>23,377</u>

**Movement in impairment allowance for the Bank:**

	<b>2001</b> <b>HRK'000</b> <b>Total</b>	<b>2001</b> <b>HRK'000</b> <b>Specific</b> <b>provisions</b>	<b>2001</b> <b>HRK'000</b> <b>General</b> <b>provisions</b>	2000 HRK'000 Total	2000 HRK'000 Specific provisions	2000 HRK'000 General provisions
Balance at 1 January	239,756	224,423	15,333	204,984	190,575	14,409
Net charge to income statement	19,820	18,844	976	39,615	38,691	924
Amounts written off	(2,535)	(2,535)	-	-	-	-
Foreign exchange difference	(1,239)	(1,239)	-	(4,843)	(4,843)	-
Balance at 31 December	<u>255,802</u>	<u>239,493</u>	<u>16,309</u>	<u>239,756</u>	<u>224,423</u>	<u>15,333</u>

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
The balance at 31 December consists of provisions against:				
Loans and advances to customers	<b>505,172</b>	402,349	<b>239,493</b>	221,888
Placements with other banks	<b>3,770</b>	5,118	-	2,535
	<u>508,942</u>	<u>407,467</u>	<u>239,493</u>	<u>224,423</u>
	<u>508,942</u>	<u>407,467</u>	<u>239,493</u>	<u>224,423</u>

Non-performing loans and advances for the Group and the Bank amounted to HRK 805,590 thousand (2000: HRK 646,829 thousand) and HRK 440,574 thousand (2000: HRK 428,625 thousand) respectively. The provisions against non-performing loans for the Group and the Bank amounted to HRK 485,679 thousand (2000: HRK 385,429 thousand) and HRK 229,503 thousand (2000: HRK 215,879 thousand) respectively.

## c) Concentration of credit risk by industry

The Group and the Bank has the following portfolio concentration by industry sectors (gross amounts before specific and general provisions):

	The Group		The Bank	
	2001 HRK'000	2000 HRK'000	2001 HRK'000	2000 HRK'000
Agriculture, forestry, and fisheries	79,736	84,055	64,917	72,536
Mining	9,285	6,037	8,279	5,081
Food and drink industry	78,773	93,063	72,870	88,372
Textiles and leather industry	1,950	2,835	517	-
Printing and publishing industry	39,944	36,546	29,649	29,375
Production of non-metal mineral and chemical products	36,001	42,802	26,163	31,229
Metal production	12,895	15,857	11,805	11,420
Other manufacturing	165,537	136,203	110,947	115,415
Energy, gas and water supply	13,474	43,184	7,553	36,716
Construction	88,869	64,086	26,571	48,764
Retail and wholesale trade	489,068	433,929	274,873	282,005
Hotels and restaurants	123,758	160,533	65,235	75,828
Transport and communications	54,523	29,644	25,007	11,179
Financial intermediation	969	5,024	18,602	17,593
Real estate business	54,781	80,346	36,514	65,788
Public administration and defence	11,349	12,106	3,048	3,982
Education, health and social care	7,783	8,091	390	428
Other utilities and social services	25,607	38,885	7,221	10,195
Foreign entities	3,134	6,130	3,134	6,130
<b>Total business loans</b>	<b>1,297,436</b>	1,299,356	<b>793,295</b>	912,036
<b>Personal loans</b>	<b>629,783</b>	524,539	<b>353,075</b>	344,630
Sole traders	85,130	67,780	34,350	28,438
<b>Total personal loans</b>	<b>714,913</b>	592,319	<b>387,425</b>	373,068
<b>Total loans</b>	<b>2,012,349</b>	1,891,675	<b>1,180,720</b>	1,285,104

**16 Concentration of assets and liabilities**

The Group's and the Bank's assets and liabilities are significantly concentrated on amounts due from and to the Republic of Croatia, as follows:

	Note	The Group		The Bank	
		2001 HRK'000	2000 HRK'000	2001 HRK'000	2000 HRK'000
Current account with the Croatian National Bank	11	55,800	47,688	18,295	36,227
Balances with the Croatian National Bank	12	1,253,734	550,606	431,109	337,779
Treasury bills issued by the Ministry of Finance	13	-	78,776	-	78,776
DAB bonds	13	10,537	-	10,537	-
HZZO (public health care fund) bonds	13	23,194	23,205	23,194	23,205
Bonds issued by the Ministry of Finance	13	44,496	-	44,496	-
Public debt due from the Republic of Croatia	13	130,477	155,471	118,721	155,455
Replacement bonds	18	353,567	363,340	34,832	34,075
Housing bonds	13	16,153	16,653	-	-
Accrued interest receivable		14,304	10,953	8,823	8,026
Loans to state institutions		882	6,861	-	-
Borrowings from the Croatian National Bank		-	(22,228)	-	(22,228)
Refinanced borrowings from the Republic of Croatia		(56,283)	(64,076)	(7,285)	(8,069)
Accrued interest payable		(2,923)	(1,807)	(183)	(207)
		<b>1,843,938</b>	<b>1,165,442</b>	<b>682,539</b>	<b>643,039</b>

The above net exposure represents 35% and 23% of the total assets of the Group and the Bank respectively (2000: 29% and 25%). In addition, at 31 December 2001 the Group and the Bank were the beneficiary of outstanding guarantees from the Ministry of Finance totalling HRK 42.1 million and HRK 15.7 million (2000: HRK 38.2 million and 17.1 million), respectively, in respect of loans and guarantees granted by the Group and the Bank to commercial companies.

**17 Accrued interest and other assets**

	The Group		The Bank	
	2001 HRK'000	2000 HRK'000	2001 HRK'000	2000 HRK'000
Accrued interest	37,300	39,668	18,979	30,831
Accrued fees and commissions	233	679	41	182
Accounts receivable and prepayments	35,678	24,390	22,914	19,688
Other	3,314	4,115	573	816
	<b>76,525</b>	<b>68,852</b>	<b>42,507</b>	<b>51,517</b>

**18 Replacement bonds (previously Restructuring bonds)**

Replacement bonds were issued by the Government of Croatia to replace restructuring bonds based on the Decision of the Government of Croatia on 6 April 2000. The Bank realised an exceptional gain of HRK 6.9 million as a result of this Decision. Replacement bonds are index-linked (with reference to the Industrial Price Coefficient) kuna denominated bonds earning interest at 5% per annum, payable semi-annually. The principal is repayable on maturity in 2011. The unrealised gain or loss on the indexation of these bonds, which is determined by the rate of inflation, is included in the income statement. Replacement bonds are classified as originated.

**19 Equity securities**

	The Group		The Bank	
	2001 HRK'000	2000 HRK'000	2001 HRK'000	2000 HRK'000
Investments in subsidiaries	-	-	241,792	195,445
Equity securities held for sale	79,465	216,035	6,106	24,832
	<u>79,465</u>	<u>216,035</u>	<u>247,898</u>	<u>220,277</u>
	=====	=====	=====	=====
Equity securities held for sale				
Unlisted securities	40,323	158,930	4,060	24,476
Listed or quoted securities	39,142	57,105	2,046	356
	<u>79,465</u>	<u>216,035</u>	<u>6,106</u>	<u>24,832</u>
	=====	=====	=====	=====

a) **Investments in subsidiaries**

Name	Nature of business	Effective holding	
		31 December 2001	31 December 2000
Istarska banka dd	Banking	87.16%	87.16%
Sisacka banka dd	Banking	81.48%	-
Dalbank Vrijednosnice doo	Brokerage house	100.00%	100.00%
Dalbank Invest doo	Management company of privatisation investment fund	100.00%	100.00%
Dalbank Consulting doo	Consulting	100.00%	100.00%
Dalbank Nekretnine doo	Real estate	100.00%	100.00%

b) **Investments available for sale**

Significant investments available for sale are as follows:

Name	Nature of business	Effective holding	
		31 December 2001	31 December 2000
Brodmerkur dd, Split	Retail	26.12%	26.12%
Jadranka dd, Mali Losinj	Tourism	6.16%	6.16%
Koncar Zagreb	Electronics	7.89%	4.51%
Uljanik dd, Pula	Shipbuilding	0.63%	0.63%
Istra dd, Pula	Retail	1.95%	1.95%
Marimirna Rovinj	Fishing	3.57%	3.57%
Hrvatska stambena stedionica	Banking	6.25%	6.25%
Naprijed dd, Split	Publishing	37.70%	37.70%
Tekstilna industrija Zadar	Textiles	25.66%	25.66%
Hotel Imperijal Rab	Tourism	5.80%	-
Dubrovkinja Nuova	Trade	23.27%	-
Turisthotel – Crvena Luka	Tourism	-	45.62%
Turisthotel – Bozava	Tourism	-	23.00%
Puris dd, Pazin	Meat production	-	58.61%
Arenaturist dd, Pula	Tourism	-	14.84%
Tehnomont dd	Shipbuilding and nautical tourism	-	45.49%
DTR Zagreb	Textile	-	44.14%
Jadran-turist dd, Rovinj	Tourism	-	0.09%
Riviera holding dd, Porec	Tourism	-	0.02%
Istraturist dd, Umag	Tourism	-	0.02%

Equity securities available for sale were generally obtained in lieu of bad receivables.



**20 Assets acquired in lieu of uncollected receivables**

	<b>The Group 2001 HRK'000</b>	<b>The Bank 2001 HRK'000</b>
As at 1 January	71,484	57,628
Purchase of subsidiary	15,041	-
Increases during the year	35,458	35,458
Sales during the year	(7,564)	(2,430)
Net charge to income statement	(17,709)	(17,709)
	<hr/>	<hr/>
As at 31 December	<b>96,710</b>	<b>72,947</b>
	<hr/> <hr/>	<hr/> <hr/>

**21 Fixed assets**

	<b>The Group</b>						
	<b>Land and buildings HRK'000</b>	<b>Computers HRK'000</b>	<b>Furniture and equipment HRK'000</b>	<b>Motor vehicles HRK'000</b>	<b>Other</b>	<b>Assets in the course of construction HRK'000</b>	<b>Total HRK'000</b>
<i>Cost:</i>							
As at 1 January 2001	79,755	69,230	48,674	7,270	524	85,739	291,192
Purchase of subsidiary	42,695	9,640	8,929	607	178	1,184	63,233
Additions	20	147	435	147	58	22,003	22,810
Transfers	70,812	3,868	14,554	1,416	-	(90,650)	-
Disposals	(761)	(4,108)	(1,784)	(2,382)	(54)	(1,384)	(10,473)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>As at 31 December 2001</b>	<b>192,521</b>	<b>78,777</b>	<b>70,808</b>	<b>7,058</b>	<b>706</b>	<b>16,892</b>	<b>366,762</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Depreciation:</i>							
As at 1 January 2001	38,347	51,839	38,401	5,426	18	-	134,031
Purchase of subsidiary	18,697	9,023	7,293	607	145	-	35,765
Charge for the year	4,041	8,152	4,240	950	32	-	17,415
Disposals	(168)	(4,026)	(1,619)	(1,866)	(54)	-	(7,733)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>As at 31 December 2001</b>	<b>60,917</b>	<b>64,988</b>	<b>48,315</b>	<b>5,117</b>	<b>141</b>	<b>-</b>	<b>179,478</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Net book value:</i>							
<b>As at 31 December 2001</b>	<b>131,604</b>	<b>13,789</b>	<b>22,493</b>	<b>1,941</b>	<b>565</b>	<b>16,892</b>	<b>187,284</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 1 January 2001	41,408	17,391	10,273	1,844	506	85,739	157,161
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Fixed assets**

	<b>The Bank</b>					<b>Assets in the course of construction HRK'000</b>	<b>Total HRK'000</b>
	<b>Land and buildings HRK'000</b>	<b>Computers and software HRK'000</b>	<b>Furniture and equipment HRK'000</b>	<b>Motor vehicles HRK'000</b>	<b>Other HRK'000</b>		
<i>Cost:</i>							
As at 1 January 2001	49,204	33,951	28,319	4,545	440	75,531	191,990
Additions	20	98	339	-	23	18,147	18,627
Transfers	68,765	2,444	12,246	1,071	-	(84,526)	-
Disposals	-	(2,634)	(600)	(1,384)	-	(636)	(5,254)
<b>As at 31 December 2001</b>	<b>117,989</b>	<b>33,859</b>	<b>40,304</b>	<b>4,232</b>	<b>463</b>	<b>8,516</b>	<b>205,363</b>
<i>Depreciation:</i>							
As at 1 January 2001	29,276	31,214	25,101	3,484	18	-	89,093
Charge for the year	3,128	2,029	2,374	498	8	-	8,037
Disposals	-	(2,634)	(581)	(1,049)	-	-	(4,264)
<b>As at 31 December 2001</b>	<b>32,404</b>	<b>30,609</b>	<b>26,894</b>	<b>2,933</b>	<b>26</b>	<b>-</b>	<b>92,866</b>
<i>Net book value:</i>							
<b>As at 31 December 2001</b>	<b>85,585</b>	<b>3,250</b>	<b>13,410</b>	<b>1,299</b>	<b>437</b>	<b>8,516</b>	<b>112,497</b>
As at 1 January 2001	19,928	2,737	3,218	1,061	422	75,531	102,897

## 22 Goodwill

Goodwill represents goodwill arising on consolidation of Istarska banka dd Pula and Sisacka banka dd Sisak. The amortisation of goodwill is included in the income statement within "Operating expenses".

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000
As at 1 January	<b>84,315</b>	-
Amortisation (Note 9)	<b>(16,855)</b>	-
Acquisition (Note 31)	<b>23,906</b>	84,315
	<hr/>	<hr/>
As at 31 December	<b>91,366</b>	84,315
	<hr/> <hr/>	<hr/> <hr/>

## 23 Current accounts and deposits from banks

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Demand deposits				
Denominated in HRK	<b>593</b>	165	-	-
Denominated in foreign currency	<b>798</b>	3,553	<b>448</b>	2,863
Time deposits				
Denominated in HRK	<b>5,000</b>	-	-	-
Denominated in foreign currency	<b>7,715</b>	322	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>14,106</b>	4,040	<b>448</b>	2,863
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**24 Current accounts and deposits from customers**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<b>Individuals</b>				
Demand deposits				
Denominated in HRK	<b>330,874</b>	197,039	<b>102,212</b>	73,236
Denominated in foreign currency	<b>1,239,914</b>	719,361	<b>523,736</b>	333,385
Time deposits				
Denominated in HRK	<b>76,449</b>	48,583	<b>23,500</b>	15,131
Denominated in foreign currency	<b>1,645,403</b>	1,041,075	<b>958,643</b>	610,545
Frozen deposits	<b>110,196</b>	142,109	<b>87,092</b>	137,019
<b>Companies</b>				
Demand deposits				
Denominated in HRK	<b>427,068</b>	367,536	<b>180,224</b>	235,842
Denominated in foreign currency	<b>102,308</b>	108,056	<b>67,054</b>	75,108
Time deposits				
Denominated in HRK	<b>186,092</b>	191,884	<b>119,165</b>	142,895
Denominated in foreign currency	<b>61,215</b>	79,291	<b>16,501</b>	21,464
	<b>4,179,519</b>	2,894,934	<b>2,078,127</b>	1,644,625

Frozen deposits relate to amounts deposited by individuals with commercial banks prior to 27 April 1991, which have been frozen in accordance with Government regulations.

**25 Borrowings**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<b>Borrowings denominated in foreign currency</b>				
Amounts due to the Ministry of Finance in respect of refinanced borrowings	<b>56,283</b>	64,076	<b>7,285</b>	8,069
Amounts due in respect of refinanced Paris Club borrowings	<b>18,667</b>	19,944	<b>441</b>	452
DEG	<b>37,682</b>	38,850	<b>37,682</b>	38,850
EBRD	<b>34,839</b>	62,768	<b>34,839</b>	62,768
World Bank	<b>42,709</b>	20,857	<b>42,709</b>	20,857
Other borrowings denominated in foreign currency	<b>55,422</b>	112,754	<b>51,539</b>	101,100
<b>Borrowings denominated in HRK</b>				
HBOR	<b>280,688</b>	239,105	<b>175,162</b>	167,463
Borrowings denominated in HRK	<b>65,580</b>	20,228	<b>52,580</b>	20,228
	<b>591,870</b>	578,582	<b>402,237</b>	419,787

**26 Accrued interest and other liabilities**

	The Group		The Bank	
	2001 HRK'000	2000 HRK'000	2001 HRK'000	2000 HRK'000
Accrued interest and fees	43,160	59,386	25,971	31,025
Creditors	14,513	8,434	7,168	3,368
Salaries and payroll deductions	5,894	4,778	4,247	4,393
Other liabilities	21,810	24,796	9,925	20,331
	<u>85,377</u>	<u>97,394</u>	<u>47,311</u>	<u>59,117</u>

**27 Provisions for liabilities and charges****a) Provisions**

	The Group		The Bank	
	2001 HRK'000	2000 HRK'000	2001 HRK'000	2000 HRK'000
Specific provision for off balance sheet items	17,140	30,698	3,147	5,254
Provision for litigation	10,797	8,700	6,447	-
	<u>27,937</u>	<u>39,398</u>	<u>9,594</u>	<u>5,254</u>

**b) Movement in provisions for liabilities and charges**

	The Group		The Bank	
	2001 HRK'000	2000 HRK'000	2001 HRK'000	2000 HRK'000
Balance at 1 January	39,398	11,486	5,254	11,486
Purchased subsidiary	3,481	34,144	-	-
Net (charge)/release to income statement (note 8)	(15,912)	(6,232)	3,370	(6,232)
Foreign currency difference	970	-	970	-
	<u>27,937</u>	<u>39,398</u>	<u>9,594</u>	<u>5,254</u>

**c) Legal proceedings**

The State Directory for Commodity Reserves started legal proceeding against Istarska banka and required payment in the amount of HRK 6,058 thousand plus penalty interest from 30 September 1998 and another payment in the amount of HRK 8,979 thousand plus penalty interest from 30 November 1998. These legal claims are related to two letters of intent issued by Istarska banka for Diona dd in favor of the State Directory for Commodity Reserves. The Commercial Court in Rijeka ruled in favor of Istarska banka in 2001. The State Directory for Commodity Reserves has appealed to the High Commercial Court in Zagreb. This proceeding is in process. In the opinion of the Bank, based on legal advice, these appeal claims have no legal base. The Management Board is confident that the Bank's case will prevail. No provision against this exposure is included in the financial statements.

A bank from Croatia has instituted legal proceedings against Istarska banka dd and required payment in the amount of DEM 2,000 thousand plus interest rate on that bank's retail demand deposits from 23 June 1999 and another payment of HRK 139 thousand plus penalty interest from 8 October 1998. These legal claims are related to a letter of intent issued by Istarska banka dd to a bank from Bosnia and Herzegovina in favor of the bank from Croatia. The Commercial Court in Rijeka has ruled in favor of the bank from Croatia in 2000. However, Istarska banka dd appealed to the High Commercial Court, which overturned the ruling of the first court and returned the case to be reheard at first court because of insufficient evidence of the facts in the first ruling. Due to the uncertain outcome Istarska banka dd provided 50% against the claim in the financial statements.

Two companies have made legal claims against the Bank and required payments in amount of HRK 2,482 thousand increased for penalty interest from 1 January 2000 and HRK 2,000 thousand increased for 2.2% interest per month from 1 February 1999 respectively. Legal claims are related to agency activities of the Bank. First instance courts in both legal claims ruled against the Bank. The Bank appealed to the higher court. Provision of 75% has been made against those two legal claims.

**d) Capital commitments**

As at 31 December 2001 the Bank and the Group had no capital commitments.

**28 Share capital**

	Number of authorised and issued shares	Nominal value of shares	Total HRK'000
At 1 January 2001	1,500,000	HRK 200	300,000
	=====	=====	=====
<b>At 31 December 2001</b>	<b>1,500,000</b>	<b>HRK 200</b>	<b>300,000</b>
	=====	=====	=====

The following shareholders have a holding in excess of 5%:

	<b>Effective holding</b>	
	<b>31 December 2001</b>	31 December 2000
Reginter doo	<b>90.49%</b>	57.74%
Becerra Stephanie Ann	-	6.93%
Bubalo Nick	-	6.93%
Bubalo Steve and Bubalo Luise Ester	-	6.93%
SWR Investment Limited	<b>6.87%</b>	6.87%

## 29 Minority interest

	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000
At the beginning of the year	<b>15,091</b>	-
Interest in loss for the year	<b>(1,039)</b>	-
Acquisition (Note 31)	<b>5,782</b>	15,091
	<hr/>	<hr/>
At the end of the year	<b>19,834</b>	15,091
	<hr/> <hr/>	<hr/> <hr/>

## 30 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Cash and balances with the Croatian National Bank	<b>450,490</b>	251,214	<b>192,478</b>	175,325
Balances with Croatian National Bank	<b>1,253,734</b>	550,606	<b>431,109</b>	337,779
Placements with, and loans and advances to, other banks	<b>958,378</b>	511,564	<b>655,239</b>	244,698
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>2,662,602</b>	1,313,384	<b>1,278,826</b>	757,802
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**31 Acquisition**

In December 2001, the Group acquired a holding of 81.48% of the share capital of Sisacka banka dd, Sisak. Accordingly Sisacka banka has been consolidated as of 31 December 2001.

The acquisition of Sisacka banka in year 2001 had the following effect on Group assets and liabilities:

	<b>2001</b>
	<b>HRK'000</b>
Cash reserves	<b>60,560</b>
Balances with the Croatian National Bank	<b>87,589</b>
Debt securities	<b>12,958</b>
Placements with, and loans and advances to, other banks	<b>142,672</b>
Loans and advances to customers	<b>194,975</b>
Accrued interest and other assets	<b>6,581</b>
Equity securities	<b>2,938</b>
Assets acquired in lieu of uncollected receivables	<b>15,041</b>
Fixed assets	<b>28,527</b>
Current accounts and deposits from banks	<b>(51,834)</b>
Current accounts and deposits from customers	<b>(396,624)</b>
Borrowings	<b>(63,073)</b>
Accrued interest and other liabilities	<b>(5,613)</b>
Provisions for liabilities and charges	<b>(3,480)</b>
Minority interest	<b>(5,782)</b>
	<hr/>
Net identifiable assets and liabilities	<b>25,435</b>
Goodwill on acquisition (Note 22)	<b>23,906</b>
	<hr/>
Consideration paid	<b>49,341</b>
Less cash and cash equivalents in acquired subsidiary	<b>(290,821)</b>
	<hr/>
Acquisition of subsidiary, net of cash acquired	<b>(241,480)</b>
	<hr/> <hr/>



**32 Contingent liabilities and commitments**

The following table indicates the contractual amounts of the Group's and Bank's off balance sheet financial instruments:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>
Finance guarantees				
in HRK	<b>53,381</b>	83,435	<b>35,940</b>	59,926
in foreign currency	<b>90,495</b>	172,544	<b>25,149</b>	56,249
Performance guarantees				
in HRK	<b>25,001</b>	37,567	<b>15,336</b>	19,196
in foreign currency	<b>18,289</b>	23,966	<b>415</b>	3,821
Letters of credit	<b>89,584</b>	107,482	<b>59,970</b>	105,596
Commitments for loans	<b>112,703</b>	89,640	<b>88,970</b>	89,640
	<hr/>	<hr/>	<hr/>	<hr/>
Provisions	<b>389,453</b>	514,634	<b>225,780</b>	334,428
	<b>(17,140)</b>	(30,698)	<b>(3,147)</b>	(5,254)
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>372,313</b>	483,936	<b>222,633</b>	329,174
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**33 Related party transactions**

Transactions are entered into with related parties in the normal course of business. These transactions are carried out between all members of the Group on commercial terms and conditions and at market rates.

**34 Maturity analysis**

The remaining contractual maturity of the Group's and the Bank's assets and liabilities as at 31 December 2001 is presented in the tables below.

	<b>The Group</b>					<b>Total</b> <b>HRK'000</b>
	<b>Up to 1</b> <b>month</b> <b>HRK'000</b>	<b>1 month to</b> <b>3 months</b> <b>HRK'000</b>	<b>3 months</b> <b>to 1 year</b> <b>HRK'000</b>	<b>1 year to</b> <b>3 years</b> <b>HRK'000</b>	<b>Over</b> <b>3 years</b> <b>HRK'000</b>	
<b>Assets</b>						
Cash reserves	450,490	-	-	-	-	450,490
Balances with the Croatian National Bank	1,253,734	-	-	-	-	1,253,734
Debt securities	105,667	-	18,640	74,557	34,793	233,657
Placements with, and loans and advances to, other banks	939,121	17,978	1,279	-	-	958,378
Loans and advances to customers	514,665	51,020	214,421	276,803	424,100	1,481,009
Accrued interest and other assets	64,490	532	6,044	3,447	2,012	76,525
Replacement bonds	-	-	-	-	353,567	353,567
Equity securities	-	-	-	-	79,465	79,465
Assets acquired in lieu of uncollected receivables	-	-	-	-	96,710	96,710
Fixed assets	-	-	-	-	187,284	187,284
Goodwill	-	-	-	-	91,366	91,366
<b>Total assets</b>	<b>3,328,167</b>	<b>69,530</b>	<b>240,384</b>	<b>354,807</b>	<b>1,269,297</b>	<b>5,262,185</b>
<b>Liabilities and funds employed</b>						
Current accounts and deposits from banks	8,086	6,020	-	-	-	14,106
Current accounts and deposits from customers	2,699,407	710,597	543,670	133,316	92,529	4,179,519
Borrowings	52,409	90,612	62,673	129,205	256,971	591,870
Accrued interest and other liabilities	83,130	110	664	1,473	-	85,377
Provisions for liabilities and charges	-	-	-	-	27,937	27,937
Share capital and reserves	-	-	-	-	343,542	343,542
Minority interest	-	-	-	-	19,834	19,834
<b>Total liabilities, minority interest and share capital and reserves</b>	<b>2,843,032</b>	<b>807,339</b>	<b>607,007</b>	<b>263,994</b>	<b>740,813</b>	<b>5,262,185</b>
<b>Maturity gap</b>	<b>485,135</b>	<b>(737,809)</b>	<b>(366,623)</b>	<b>90,813</b>	<b>528,484</b>	<b>-</b>

	<b>The Bank</b>					<b>Total</b> <b>HRK'000</b>
	<b>Up to 1</b> <b>month</b> <b>HRK'000</b>	<b>1 month to</b> <b>3 months</b> <b>HRK'000</b>	<b>3 months</b> <b>to 1 year</b> <b>HRK'000</b>	<b>1 year to</b> <b>3 years</b> <b>HRK'000</b>	<b>Over</b> <b>3 years</b> <b>HRK'000</b>	
<b>Assets</b>						
Cash reserves	192,478	-	-	-	-	192,478
Balances with the Croatian National Bank	431,109	-	-	-	-	431,109
Debt securities	102,785	-	16,960	67,841	16,960	204,546
Placements with, and loans and advances to, other banks	650,667	4,572	-	-	-	655,239
Loans and advances to customers	414,046	34,523	146,394	152,366	177,589	924,918
Accrued interest and other assets	39,013	-	543	2,533	418	42,507
Replacement bonds	-	-	-	-	34,832	34,832
Equity securities	-	-	-	-	247,898	247,898
Assets acquired in lieu of uncollected receivables	-	-	-	-	72,947	72,947
Fixed assets	-	-	-	-	112,497	112,497
<b>Total assets</b>	<b>1,830,098</b>	<b>39,095</b>	<b>163,897</b>	<b>222,740</b>	<b>663,141</b>	<b>2,918,971</b>
<b>Liabilities and funds employed</b>						
Current accounts and deposits from banks	448	-	-	-	-	448
Current accounts and deposits from customers	1,215,912	411,498	348,328	69,377	33,012	2,078,127
Borrowings	31,866	86,294	37,438	83,344	163,295	402,237
Accrued interest and other liabilities	47,311	-	-	-	-	47,311
Provisions for liabilities and charges	-	-	-	-	9,594	9,594
Share capital and reserves	-	-	-	-	381,254	381,254
<b>Total liabilities and share capital and reserves</b>	<b>1,295,537</b>	<b>497,792</b>	<b>385,766</b>	<b>152,721</b>	<b>587,155</b>	<b>2,918,971</b>
<b>Maturity gap</b>	<b>534,561</b>	<b>(458,697)</b>	<b>(221,869)</b>	<b>70,019</b>	<b>75,986</b>	<b>-</b>

**35 Interest rate repricing, gap analysis and amounts subject to fixed interest rates**

The Bank is exposed to various risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following tables are management's estimate of the interest rate risk of the Group and the Bank as at 31 December 2001 and are not necessarily indicative of the position at other times. The table illustrates the sensitivity of the Group's and the Bank's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities. The major part of liabilities and interest earning assets are denominated in foreign currency.

	<b>The Group</b>						
	<b>Up to 1 month HRK'000</b>	<b>1 month to 3 months HRK'000</b>	<b>3 months to 1 year HRK'000</b>	<b>Over 1 year HRK'000</b>	<b>Non interest bearing HRK'000</b>	<b>Total HRK'000</b>	<b>Fixed interest rates HRK'000</b>
<b>Assets</b>							
Cash reserves	64,979	-	-	-	385,511	450,490	-
Balances with the Croatian National Bank	727,238	526,496	-	-	-	1,253,734	594,088
Debt securities	105,667	-	18,639	93,198	16,153	233,657	217,504
Placements with, and loans and advances to, other banks	939,087	17,978	1,279	-	34	958,378	954,406
Loans and advances to customers	1,090,470	21,693	91,958	276,697	191	1,481,009	392,798
Accrued interest and other assets	-	-	-	-	76,525	76,525	-
Replacement bonds	-	-	-	353,567	-	353,567	353,567
Equity securities	-	-	-	-	79,465	79,465	-
Assets acquired in lieu of uncollected receivables	-	-	-	-	96,710	96,710	-
Fixed assets	-	-	-	-	187,284	187,284	-
Goodwill	-	-	-	-	91,366	91,366	-
<b>Total assets</b>	<b>2,927,441</b>	<b>566,167</b>	<b>111,876</b>	<b>723,462</b>	<b>933,239</b>	<b>5,262,185</b>	<b>2,512,363</b>
<b>Liabilities and funds employed</b>							
Current accounts and deposits from banks	12,382	-	-	-	1,724	14,106	3,695
Current accounts and deposits from customers	2,997,487	507,575	480,421	139,796	54,240	4,179,519	1,464,214
Borrowings	120,244	112,928	36,843	321,855	-	591,870	298,879
Accrued interest and other liabilities	-	-	-	-	85,377	85,377	-
Provisions for liabilities and charges	-	-	-	-	27,937	27,937	-
Share capital and reserves	-	-	-	-	343,542	343,542	-
Minority interest	-	-	-	-	19,834	19,834	-
<b>Total liabilities, minority interest and share capital and reserves</b>	<b>3,130,113</b>	<b>620,503</b>	<b>517,264</b>	<b>461,651</b>	<b>532,654</b>	<b>5,262,185</b>	<b>1,766,788</b>
<b>Interest rate gap</b>	<b>(202,672)</b>	<b>(54,336)</b>	<b>(405,388)</b>	<b>261,811</b>	<b>400,585</b>	<b>-</b>	<b>745,575</b>

	<b>The Bank</b>						<b>Fixed interest rates</b>
	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 months to 1 year</b>	<b>Over 1 year</b>	<b>Non interest bearing</b>	<b>Total</b>	
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>
<b>Assets</b>							
Cash reserves	43,121	-	-	-	149,357	192,478	-
Balances with the Croatian National Bank	333,042	98,067	-	-	-	431,109	98,067
Debt securities	102,785	-	16,960	84,801	-	204,546	204,546
Placements with, and loans and advances to, other banks	650,667	4,572	-	-	-	655,239	655,239
Loans and advances to customers	666,438	18,652	76,362	163,466	-	924,918	258,480
Accrued interest and other assets	-	-	-	-	42,507	42,507	-
Replacement bonds	-	-	-	34,832	-	34,832	34,832
Equity securities	-	-	-	-	247,898	247,898	-
Assets acquired in lieu of uncollected receivables	-	-	-	-	72,947	72,947	-
Fixed assets	-	-	-	-	112,497	112,497	-
<b>Total assets</b>	<b>1,796,053</b>	<b>121,291</b>	<b>93,322</b>	<b>283,099</b>	<b>625,206</b>	<b>2,918,971</b>	<b>1,251,164</b>
<b>Liabilities and funds employed</b>							
Current accounts and deposits from banks	-	-	-	-	448	448	-
Current accounts and deposits from customers	1,222,883	414,148	330,236	101,866	8,994	2,078,127	1,053,486
Borrowings	38,984	108,610	18,884	235,759	-	402,237	176,124
Accrued interest and other liabilities	-	-	-	-	47,311	47,311	-
Provisions for liabilities and charges	-	-	-	-	9,594	9,594	-
Share capital and reserves	-	-	-	-	381,254	381,254	-
<b>Total liabilities and share capital and reserves</b>	<b>1,261,867</b>	<b>522,758</b>	<b>349,120</b>	<b>337,625</b>	<b>447,601</b>	<b>2,918,971</b>	<b>1,229,610</b>
<b>Interest rate gap</b>	<b>534,186</b>	<b>(401,467)</b>	<b>(255,798)</b>	<b>(54,526)</b>	<b>177,605</b>	<b>-</b>	<b>21,554</b>

### 36 Average effective interest rates

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

	<b>The Group</b>		<b>The Bank</b>	
	2001	Interest rate	2001	Interest rate
	HRK'000	%	HRK'000	%
Cash reserves	450,490	0.7	192,478	1.5
Balances with the Croatian National Bank	1,253,734	2.3	431,109	2.3
Debt securities	233,657	5.5	204,546	5.5
Placements with, and loans and advances to, other banks	958,378	2.6	655,239	2.5
Loans and advances to customers	1,481,009	11.2	924,918	10.1
Replacement bonds	353,567	5.0	34,832	5.0
	<hr/>		<hr/>	
	4,730,835		2,443,122	
	<hr/> <hr/>		<hr/> <hr/>	
Current accounts and deposits from banks	14,106	3.3	448	-
Current accounts and deposits from customers	4,179,519	2.7	2,078,127	2.7
Borrowings	591,870	5.6	402,237	5.8
	<hr/>		<hr/>	
	4,785,495		2,480,812	
	<hr/> <hr/>		<hr/> <hr/>	

## 37 Foreign exchange positions

The Group and the Bank had the following foreign exchange positions as at 31 December 2001.

	The Group						
	EURO currencies HRK'000	EURO currencies linked HRK'000	EURO currencies Total HRK'000	USD HRK'000	HRK HRK'000	Other currencies HRK'000	Total HRK'000
<b>Assets</b>							
Cash reserves	285,556	35,656	321,212	24,131	81,362	23,785	450,490
Balances with the Croatian National Bank	476,446	-	476,446	498,344	278,944	-	1,253,734
Debt securities	16,153	209,906	226,059	6,902	696	-	233,657
Placements with, and loans and advances to, other banks	548,192	7,814	556,006	314,340	11,893	76,139	958,378
Loans and advances to customers	254,413	902,179	1,156,592	54,353	266,653	3,411	1,481,009
Accrued interest and other assets	3,372	3,862	7,234	2,676	66,598	17	76,525
Replacement bonds	-	-	-	-	353,567	-	353,567
Equity securities	-	-	-	-	79,465	-	79,465
Assets acquired in lieu of uncollected receivables	-	-	-	-	96,710	-	96,710
Fixed assets	-	-	-	-	187,284	-	187,284
Goodwill	-	-	-	-	91,366	-	91,366
<b>Total assets</b>	<b>1,584,132</b>	<b>1,159,417</b>	<b>2,743,549</b>	<b>900,746</b>	<b>1,514,538</b>	<b>103,352</b>	<b>5,262,185</b>
<b>Liabilities and funds employed</b>							
Current accounts and deposits from banks	4,528	3,806	8,334	191	5,192	389	14,106
Current accounts and deposits from customers	2,012,020	313,709	2,325,729	841,230	902,233	110,327	4,179,519
Borrowings	170,535	195,985	366,520	63,766	150,016	11,568	591,870
Accrued interest and other liabilities	4,712	83	4,795	123	78,157	2,302	85,377
Provisions for liabilities and charges	-	-	-	-	27,937	-	27,937
Share capital and reserves	-	-	-	-	343,542	-	343,542
Minority interest	-	-	-	-	19,834	-	19,834
<b>Total liabilities, minority interest and share capital and reserves</b>	<b>2,191,795</b>	<b>513,583</b>	<b>2,705,378</b>	<b>905,310</b>	<b>1,526,911</b>	<b>124,586</b>	<b>5,262,185</b>
<b>Net foreign exchange position</b>	<b>(607,663)</b>	<b>645,834</b>	<b>38,171</b>	<b>(4,564)</b>	<b>(12,373)</b>	<b>(21,234)</b>	<b>-</b>

Included within loans and advances denominated in USD are 42,670 thousand of HRK loans with foreign currency clause.

	<b>The Bank</b>						
	<b>EURO currencies HRK'000</b>	<b>EURO currencies linked HRK'000</b>	<b>EURO currencies Total HRK'000</b>	<b>USD HRK'000</b>	<b>HRK HRK'000</b>	<b>Other currencies HRK'000</b>	<b>Total HRK'000</b>
<b>Assets</b>							
Cash reserves	139,530	-	139,530	11,643	30,301	11,004	192,478
Balances with the Croatian National Bank	133,608	-	133,608	166,870	130,631	-	431,109
Debt securities	-	196,948	196,948	6,902	696	-	204,546
Placements with, and loans and advances to, other banks	367,059	-	367,059	234,805	10,709	42,666	655,239
Loans and advances to customers	91,636	596,709	688,345	38,455	197,085	1,033	924,918
Accrued interest and other assets	908	1,499	2,407	2,386	37,705	9	42,507
Replacement bonds	-	-	-	-	34,832	-	34,832
Equity securities	-	-	-	-	247,898	-	247,898
Assets acquired in lieu of uncollected receivables	-	-	-	-	72,947	-	72,947
Fixed assets	-	-	-	-	112,497	-	112,497
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<b>Total assets</b>	<b>732,741</b>	<b>795,156</b>	<b>1,527,897</b>	<b>461,061</b>	<b>875,301</b>	<b>54,712</b>	<b>2,918,971</b>
	-----	-----	-----	-----	-----	-----	-----
<b>Liabilities and funds employed</b>							
Current accounts and deposits from banks	321	-	321	98	-	29	448
Current accounts and deposits from customers	1,151,414	92,690	1,244,104	452,382	326,698	54,943	2,078,127
Borrowings	167,175	151,648	318,823	7,587	75,827	-	402,237
Accrued interest and other liabilities	3,782	60	3,842	123	43,337	9	47,311
Provisions for liabilities and charges	-	-	-	-	9,594	-	9,594
Share capital and reserves	-	-	-	-	381,254	-	381,254
	-----	-----	-----	-----	-----	-----	-----
<b>Total liabilities and share capital and reserves</b>	<b>1,322,692</b>	<b>244,398</b>	<b>1,567,090</b>	<b>460,190</b>	<b>836,710</b>	<b>54,981</b>	<b>2,918,971</b>
	-----	-----	-----	-----	-----	-----	-----
<b>Net foreign exchange position</b>	<b>(589,951)</b>	<b>550,758</b>	<b>(39,193)</b>	<b>871</b>	<b>38,591</b>	<b>(269)</b>	<b>-</b>
	-----	-----	-----	-----	-----	-----	-----

Included within loans and advances denominated in USD are 27,415 thousand of HRK loans with foreign currency clause.



**38 Fair values of financial assets and liabilities**

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

**39 Post balance sheet events**

In March 2002, the Bank issued new 555,000 shares with a nominal value of HRK 200 each to SEEF Holdings (493,000 shares) and Reginter (62,000 shares) at a premium of HRK 160 per share.

In March 2002 the Bank acquired a 100% equity share in Dubrovacka banka dd for consideration of EUR 24 million from DAB (the State Agency for Bank Rehabilitation and Deposit Insurance). Following the purchase the Bank further increased the share capital of Dubrovacka banka dd by EUR 5 million.

**40 Managed funds for and on behalf of third parties**

The Bank manages significant amounts of assets on behalf of third parties which are mainly in the form of loans given by one company to other company through the Bank as an agent. Managed funds are accounted for separately from those of the Bank. Income and expenses of these funds are for the account of the respective fund and in the normal course of business no liability falls on the Bank in connection with these transactions. The Bank is compensated for its service by fees chargeable for services provided. At 31 December 2001 managed funds for and on behalf of third parties amounted to HRK 20.8 million (2000: HRK 62.8 million).

Group managed funds at 31 December 2001 amounted to HRK 41.9 million (2000: HRK 67.1 million).

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## **SUPERVISORY BOARD AND MANAGEMENT BOARD**

### **SUPERVISORY BOARD**

#### **Stjepan Meštrović, chairman**

Stjepan Meštrović was born in 1955, residence in Split. He graduated from the Faculty of Law in Split. He has been the member of the Supervisory Board since 1996. He has a long working experience in economy, particularly as private entrepreneur, a founder and a co-owner of several private companies, which he established together with business partners from the United States and where he performed the managing positions. He is employed with the company BUMES d.d. Split as a managing director.

#### **Robert-Hans van Griethuysen, deputy chairman**

Robert-Hans van Griethuysen chief executive of SWR Ltd—a CCL banking section, built a successful career working for 22 years for Rabobank and ABN Amro bank. As the executive vice president of the international office in Rabobank, he was responsible for the international strategy and privatisation. He also worked as a manager of banking operations in Ireland, France and Indonesia. At the moment, he is working with the management of three Croatian banks on the merger and realisation of business development plans.

#### **David Curl, member**

David Curl Executive Director, aged 30, is Canadian. He is the Chief Investment Officer of Charlemagne Capital Limited ("the Group"). He holds a degree in Economics from the University of Richmond USA, and an MBA from L'Institut Supérieur de Gestion in Paris. He joined Charlemagne Capital Limited in 1994, specialising in equity investments in the republics of the former Soviet Union and in Eastern Europe. He travels extensively within the Eastern European region and is responsible for the Group's private equity and direct investment programme.

#### **Ronald Olivier Drake, member**

Ronald Olivier Drake graduated from Cornell University and has a Master's Degree in Business and Administration from New York University. He is the Director of Strategic Investments at Soros Fund Management LLC. Prior to joining Soros, he was a Group Senior Vice President at ABN Amro Group and a Managing Director at Merrill Lynch.

**Veljko Mašina, member**

Veljko Mašina was born in 1931, residence in Preko near Zadar. He graduated from the high school in Zadar in 1952 and he studied at the Law School in Zagreb. In 1956 he emigrated for political reasons and went to Italy. In 1963 he moved to United States, where he stayed until his retirement in 1994. He was very active in political and cultural life among other emigrants; he gained a very long working experience in several American companies and in a meantime he graduated from the "International Correspondence School" Civil Engineering.

**MANAGEMENT BOARD****Zdravko Bubalo, chairman of the Management Board**

Zdravko Bubalo was born in 1951, residence in Split, graduated from the Faculty of Economics in Zagreb. He was appointed chairman of the Management Board in 1997, until then he was the chairman of the Supervisory Board of the Bank. He has a long working experience in the economy, particularly as a private entrepreneur, a founder and a co-owner of several companies, which he established with business partners from the United States and where he performed managing positions.

**Zorislav Vidović, member of the Management Board**

Zorislav Vidović graduated at the Faculty of Economy in Zagreb, in the department of finances, banking and insurance, and at the moment he is about to finish his post graduate course at the same faculty. In 1992 he obtained a licence for brokerage operations and passed the exam for commercial bank management board members. From the total of 13 years of service, he spent 7 years in managerial positions. He has been with Dalmatinska banka since 1990, and for the last five years he has been working as the Head of Treasury. As of 1 April 2002 he has also been a member of the Management Board of the Bank. He has been a member of the Supervisory Boards of the Dalmatinska banka subsidiary companies for several years.

**Helena Banjad, member of the Management Board**

Helena Banjad graduated at the Faculty of Economy in Zagreb as the best student of her generation. She gained experience in investment project activities in the development department of Pliva, Zagreb, and in 1990 she joined Dalmatinska banka. Her first job with the Bank was as the dealing room and treasury 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 leading.



## **OPERATIONAL BOARD**

**1. Marija Piasevoli**

Head of Information Technology

**2. Damira Burčul**

Head of Human Resources Management

**3. Gerard Hichey**

Head of Retail Banking

**4. Zorislav Vidović**

Head of Treasury

**5. Zlatko Pešušić**

Head of Legal

**6. Helena Banjad**

Head of Risk Management

**7. Chris Gwilliam**

Head of Corporate Banking