



Annual report for the year
ended 31 December 2001

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Report of the President of the Management Board

Dear shareholders,

According to many indicators, the year 2001 has been a year of recovery for Istarska banka dd, but considerable progress is still expected in 2002.

Following the business policy and leading guidelines of the majority shareholder of the Bank, as well as the economic trends in the country, the Bank continued the trend in its operations started at the end of 2000, continuing its recovery after unfavorable events of the past years.

Since the end of 2000, with effects in 2001 and 2002, under the leadership of the new majority shareholder Dalmatinska banka and the Charlemagne Capital Fund, the restructuring of the balance sheet and business operations of the Bank have been continued in order to maintain its existing position in the banking sector.

During 2001, the Bank's business strategy was directed towards the retail sector, offering new retail loan and deposit products. The most evident effect of this business policy was the increase in the Bank's total balance sheet by 26.7%, or HRK 427 million. The Bank's balance sheet totalled to HRK 2,026 million at 31 December 2001. The increase resulted mostly from the growth of retail deposits in the total amount of HRK 428 million.

During the year, a large number of new clients was attracted by the quality of services and high standards of business operations. This refers, in the first place, to the introduction of a new payment system. The Bank is trying to maintain its activities at a high level in a very competitive environment by introducing new products and technical processes in all domains of banking operations.

The loss for 2001, amounting to HRK 8,097 thousand, reflects the loss from indexation of replacement bonds in the amount of HRK 10,530 thousand. The loss was also influenced by the sale of equity investments in Puris dd and Arenaturist dd and redundancies paid to the Bank's employees in the amount of more than HRK 5 million.

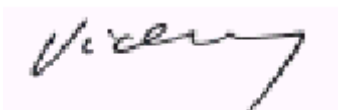
However, regardless of the stated losses, the Bank did not have liquidity problems and especially foreign currency liquidity was at a high level.

During 2002 we expect to complete the merger of the Banks owned by Charlemagne Capital Fund. The new bank, with a large centralised potential, will ensure successful business operations by attentive work and enough cautiousness to increase its competitiveness on the market in a demanding banking sector, bearing in mind the principles of security, liquidity and profitability.

I would like to thank all shareholders for their patience, support and understanding, as well as all employees for their efforts and dedication.

Milenko Vidulin
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 of the results of the Bank for that period. 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 to enable them to ensure that the financial statements comply with Croatian law. They have 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 Istarska banka d.d.

We have audited the accompanying balance sheet of Istarska banka d.d. ("the Bank") as of 31 December 2001 and the related statements of income, changes in equity and cash flows for the year then ended. As described on page 2 the Management Board is responsible for the preparation of the financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

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.

In our opinion the financial statements give a true and fair view of the financial position of the Bank, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards as adopted 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

	<i>Note</i>	2001	2000
		HRK'000	HRK'000
Interest and similar income	4	103,398	107,581
Interest expense and similar charges	4	(63,476)	(96,468)
		<hr/>	<hr/>
Net interest income		39,922	11,113
		<hr/>	<hr/>
Commission and fee income	5	19,534	21,160
Commission and fee expense	5	(7,445)	(9,497)
		<hr/>	<hr/>
Net commission and fee income		12,089	11,663
		<hr/>	<hr/>
Foreign exchange gains, net	6	8,980	5,392
Other operating income	7	6,768	39,002
		<hr/>	<hr/>
Operating income		67,759	67,170
		<hr/>	<hr/>
Impairment losses and provisions for loans	<i>14(b)</i>	18,246	(13,368)
Other impairment losses and provisions	8	9,438	(2,551)
Operating expenses	9	(103,540)	(74,281)
		<hr/>	<hr/>
Loss before tax		(8,097)	(23,030)
		<hr/>	<hr/>
Income tax expense	10	-	-
		<hr/>	<hr/>
Net loss for the year		(8,097)	(23,030)
		<hr/> <hr/>	<hr/> <hr/>

The notes set out on pages 8 to 36 form part of these financial statements.

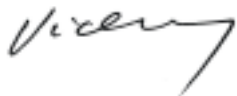
Balance sheet

As at 31 December 2001

	<i>Note</i>	2001	2000
		HRK'000	HRK'000
Assets			
Cash reserves	<i>11</i>	194,745	74,758
Balances with the Croatian National Bank	<i>12</i>	735,036	212,827
Placements with, and loans and advances to, other banks	<i>13</i>	237,737	262,087
Loans and advances to customers	<i>14</i>	378,749	433,848
Accrued interest and other assets	<i>16</i>	24,507	18,306
Government bonds	<i>17</i>	334,888	345,934
Equity securities	<i>18</i>	65,787	184,066
Assets acquired in lieu of uncollected receivables		8,722	13,856
Fixed assets	<i>19</i>	45,410	52,924
Total assets		2,025,581	1,598,606
Liabilities and funds employed			
Current accounts and deposits from banks	<i>20</i>	41,776	1,192
Current accounts and deposits from customers	<i>21</i>	1,704,768	1,250,309
Borrowings	<i>22</i>	126,560	158,795
Accrued interest and other liabilities	<i>23</i>	28,177	36,631
Provisions for liabilities and charges	<i>24</i>	14,862	34,144
Total liabilities		1,916,143	1,481,071
Share capital	<i>25</i>	215,718	215,718
Accumulated losses		(106,280)	(98,183)
Total shareholders' funds		109,438	117,535
Total liabilities and funds employed		2,025,581	1,598,606

These financial statements were approved by the Management Board on 22 April 2001 and were signed by:

Milenko Vidulin
President of the Management Board



Statement of changes in equity

for the year ended 31 December 2001

	Share capital	Treasury shares	Capital reserve	Accumulated losses	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
As at 1 January 2001	215,718	-	-	(98,183)	117,535
Net loss for the year	-	-	-	(8,097)	(8,097)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2001	215,718	-	-	(106,280)	109,438
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 1 January 2000	213,117	(26,307)	9,788	(241,383)	(44,785)
Treasury shares reissued	-	26,307	(24,707)	-	1,600
Redenomination of share capital	(181,149)	-	14,919	166,230	-
Increase of share capital	183,750	-	-	-	183,750
Net loss for the year	-	-	-	(23,030)	(23,030)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2000	215,718	-	-	(98,183)	117,535
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes set out on pages 8 to 36 form part of these financial statements.

Statement of cash flows

for the year ended 31 December 2001

	<i>Note</i>	2001	2000
		HRK'000	HRK'000
Operating activities			
Loss before taxation		(8,097)	(23,030)
Provision for equity securities		9,845	208
Indexation of replacement bonds		10,530	(32,456)
Depreciation		8,743	8,895
Losses less gains from non trading financial instruments		11,636	-
Profit on disposal of assets taken in lieu of uncollected receivables		(1,270)	-
		<hr/>	<hr/>
Cash inflow/(outflow) from operating profits before changes in operating assets and liabilities		31,387	(46,383)
Decrease in loans and advances to customers		55,099	169,153
(Increase)/decrease in accrued interest and other assets		(6,201)	3,222
Decrease in assets in lieu of uncollected receivables		6,404	-
Increase/(decrease) in current accounts and deposits from banks		40,584	(34,201)
Increase/(decrease) in current accounts and deposits from customers		454,459	(104,425)
Decrease in accrued interest and other liabilities		(8,454)	(8,324)
(Decrease)/increase in provisions for liabilities and charges		(19,282)	2,344
		<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities		553,996	(18,614)
		<hr/>	<hr/>
Investing activities			
Decrease of government bonds, net		516	1,061
Sale of equity securities, net		96,798	20,511
Purchase of fixed assets, net		(1,229)	(625)
		<hr/>	<hr/>
Cash inflow from investing activities		96,085	20,947
		<hr/>	<hr/>
Financing activities			
Issue of shares / reissue of treasury shares		-	185,350
Decrease in borrowings		(32,235)	(89,707)
		<hr/>	<hr/>
Cash (outflow)/inflow from financing activities		(32,235)	95,643
		<hr/>	<hr/>
Net increase in cash and cash equivalents		617,846	97,976
Cash and cash equivalents at the beginning of the year	26	549,672	451,696
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	26	1,167,518	549,672
		<hr/> <hr/>	<hr/> <hr/>

The notes set out on pages 8 to 36 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") as adopted 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.

Basis of preparation

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

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

The accounting policies have been consistently applied by the Bank 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".

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. The final audit fieldwork commenced on 4 March 2002 and ended on 25 March 2002.

Notes *(continued)*

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 Bank. Fees are 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 are credited to the income statement when the right to receive the dividend is established.

Financial instruments

Classification

Trading instruments are those that the Bank principally holds for the purpose of short-term profit taking.

Notes *(continued)*

Originated loans and receivables are loans and receivables created by the Bank 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 Bank 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 Bank or held to maturity. Available for sale instruments include certain debt and equity securities.

Recognition

The Bank 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 Bank.

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.

Notes *(continued)*

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 an 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 Bank 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 Bank commits to sell the assets.

Originated loans and receivables and held to maturity financial assets are derecognised on the day they are transferred by the Bank.

Notes *(continued)*

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 Bank 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	20.0
Furniture and equipment	10.00 – 14.29
Motor vehicles	25.0

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.

Notes *(continued)*

Taxation

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

Impairment of non financial assets

The carrying amounts of the Bank'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.

The adoption of IAS 39 "Financial Instruments: Recognition and Measurement" has resulted in 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.

Notes (continued)

3 Incorporation

The Bank is a joint stock company incorporated in Croatia.

4 Net interest income

	2001 HRK'000	2000 HRK'000
Interest and similar income		
Cash and short term funds	12,721	15,947
Placements with CNB	11,921	7,248
Loans and advances to companies	30,396	41,680
Loans and advances to individuals	22,951	29,364
Replacement bonds	15,624	13,155
Other	9,785	187
	103,398	107,581
	103,398	107,581
Interest expense and similar charges		
Current accounts and deposits from individuals	41,278	48,466
Current accounts and deposits from corporates	11,137	13,566
Borrowings and current accounts and deposits from banks	11,046	34,362
Other	15	74
	63,476	96,468
	63,476	96,468

Notes (continued)

5 Net commission and fee income

	2001 HRK'000	2000 HRK'000
Commission and fee income		
Citizens	15,230	14,549
Companies	4,208	6,488
Banks	96	123
	19,534	21,160
	19,534	21,160
Commission and fee expense		
Banks	3,228	3,953
Other	4,217	5,544
	7,445	9,497
	7,445	9,497

6 Foreign exchange gains, net

	2001 HRK'000	2000 HRK'000
Foreign exchange trading gain	11,821	12,404
Net foreign exchange loss from translation of monetary assets and liabilities	(2,841)	(7,012)
	8,980	5,392
	8,980	5,392

Notes (continued)

7 Other operating income

	2001 HRK'000	2000 HRK'000
Indexation of replacement bonds	-	32,456
Income from dividends	2,462	1,471
Gains less losses from non trading financial instruments	-	2,617
Net gain on disposal of assets acquired in lieu of uncollected receivables	1,270	-
Other income	3,036	2,458
	<u>6,768</u>	<u>39,002</u>

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 impairment losses and provisions

	2001 HRK'000	2000 HRK'000
Equity securities	9,844	208
Provisions for commitments and contingencies	(19,282)	2,343
	<u>(9,438)</u>	<u>2,551</u>

Notes (continued)

9 Operating expenses

	2001 HRK'000	2000 HRK'000
Staff costs	38,315	33,795
Professional services and materials	20,074	18,665
Marketing expenses	1,987	1,766
Administrative expenses	906	969
Depreciation	8,743	8,895
Savings deposits insurance charge	6,203	5,724
Taxes and contributions on income	1,864	337
Indexation of replacement bonds	10,530	-
Losses less gains from non trading financial instruments	11,636	-
Other expenses	3,282	4,130
	<u>103,540</u>	<u>74,281</u>

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 Bank had 397 employees (2000: 451).

Pension costs of HRK 5,151 thousand (2000: HRK 5,304 thousand) included in staff costs represent defined pension contributions paid into the State pension plan. Contributions are calculated as a percentage of employees' gross salaries.

Notes (continued)

10 Income tax expense

	2001 HRK'000	2000 HRK'000
Accounting loss	(8,097)	(23,030)
Allowance for capital maintenance	-	26,925
Disallowable items	7,825	434
Other tax allowances	-	(3,999)
Utilisation of tax losses brought forward	-	(330)
	<hr/>	<hr/>
Taxable loss	(272)	-
	<hr/>	<hr/>
Tax expense at 20% (2000:35%)	-	-
	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2001 the Bank had HRK 75,635 thousand (2000: HRK 131,416 thousand) 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:

	2001 HRK'000	2000 HRK'000
No more than 5 years	272	-
No more than 4 years	-	75,363
No more than 3 years	75,363	-
No more than 2 years	-	-
No more than 1 year	-	56,053
	<hr/>	<hr/>
Total tax losses carried forward	75,635	131,416
	<hr/> <hr/>	<hr/> <hr/>

Tax losses have not been recognised as a deferred tax asset.

11 Cash reserves

	2001 HRK'000	2000 HRK'000
Cash in hand	142,078	38,845
Giro account	26,135	11,461
Items in the course of collection	2,422	9,169
Current accounts with other banks	25,011	16,211
Less: provisions for impairment	(901)	(928)
	<hr/>	<hr/>
	194,745	74,758
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

12 Balances with the Croatian National Bank

	2001 HRK'000	2000 HRK'000
Obligatory reserve in HRK	118,900	66,932
Obligatory reserve in FCY	158,484	102,646
Treasury bills in FCY	457,652	43,249
	<u>735,036</u>	<u>212,827</u>

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 Bank held 89% (2000: 91%) 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%).

At 31 December 2001 all (2000: 50%) of the foreign currency obligatory reserve was deposited with the CNB in accordance with requirements, while in 2000 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 Placements with, and loans and advances to, other banks

	2001 HRK'000	2000 HRK'000
Placements with other banks	238,855	234,158
Loans and advances to other banks	1,366	30,512
Less: provision for impairment (Note 14 b)	(2,484)	(2,583)
	<u>237,737</u>	<u>262,087</u>

Notes (continued)

14 Loans and advances to customers

a) Analysis by product

	2001 HRK'000	2000 HRK'000
Denominated in HRK		
Personal loans	216,095	226,358
Business loans	263,109	336,137
Denominated in foreign currency		
Personal loans	576	671
Business loans	65,211	59,133
	<u>544,991</u>	<u>622,299</u>
Less impairment allowance		
- specific	(159,512)	(180,407)
- general	(6,730)	(8,044)
	<u>378,749</u>	<u>433,848</u>

Included within Kuna loans are amounts of HRK 393,890 thousand (2000: HRK 477,918 thousand) which have a EUR countervalue and HRK 15,255 thousand (2000: HRK 15,868 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 loans and placements with banks:

	2001 HRK'000 Total	2001 HRK'000 Specific provisions	2001 HRK'000 General provisions	2000 HRK'000 Total	2000 HRK'000 Specific provisions	2000 HRK'000 General provisions
Balance at 1 January	191,034	182,990	8,044	229,022	218,322	10,700
Net (release)/charge to income statement	(18,246)	(16,932)	(1,314)	13,368	16,024	(2,656)
Amounts written off	(2,184)	(2,184)	-	(50,314)	(50,314)	-
Foreign exchange difference	(1,878)	(1,878)	-	(1,042)	(1,042)	-
	<u>168,726</u>	<u>161,996</u>	<u>6,730</u>	<u>191,034</u>	<u>182,990</u>	<u>8,044</u>
Balance at 31 December	<u>168,726</u>	<u>161,996</u>	<u>6,730</u>	<u>191,034</u>	<u>182,990</u>	<u>8,044</u>

Notes (continued)

	2001	2000
	HRK'000	HRK'000
The balance at 31 December consists of provisions against:		
Loans and advances to customers	159,512	180,407
Placements with other banks	2,484	2,583
	<hr/>	<hr/>
	161,996	182,990
	<hr/> <hr/>	<hr/> <hr/>

Non-performing loans and advances amounted to HRK 212,451 thousand at year end (2000: HRK 218,204 thousand). The provision against non-performing loans amounted to HRK 153,078 thousand (2000: HRK 169,550 thousand).

Notes (continued)

c) Concentration of credit risk by industry

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

	2001 HRK'000	2000 HRK'000
Agriculture, forestry, and fisheries	9,127	11,519
Mining	1,006	956
Food and drink industry	4,181	4,691
Textiles and leather industry	1,397	2,835
Printing and publishing industry	8,948	7,171
Production of non-metal mineral products	8,838	11,573
Metal production	1,090	4,437
Other manufacturing	22,391	20,788
Energy, gas and water supply	5,278	6,468
Construction	18,041	15,322
Retail and wholesale trade	134,308	147,305
Hotels and restaurants	55,842	84,705
Transport and communications	14,981	18,465
Real estate business	15,936	14,558
Public administration and defence	1,606	8,124
Education, health and social care	7,336	7,663
Other utilities and social services	18,014	28,690
	<hr/>	<hr/>
Total business loans	328,320	395,270
	<hr/>	<hr/>
Personal loans	175,533	187,687
Sole traders	41,138	39,342
	<hr/>	<hr/>
Total personal loans	216,671	227,029
	<hr/>	<hr/>
Total loans	544,991	622,299
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

15 Concentration of assets and liabilities

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

	<i>Note</i>	2001 HRK'000	2000 HRK'000
Balances with the Croatian National Bank	<i>12</i>	735,036	212,827
Replacement bonds	<i>17</i>	318,735	329,265
Housing bonds	<i>17</i>	16,153	16,653
Public debt due from the Republic of Croatia	<i>17</i>	-	16
Accrued interest receivable		5,172	2,927
Loans to state institutions		882	6,861
Refinanced borrowings from the Republic of Croatia	<i>22</i>	(48,998)	(56,007)
Accrued interest payable		(2,371)	(1,600)
		<hr/> 1,024,609 <hr/>	<hr/> 510,942 <hr/>

The above net exposure represents 50.6% of the total assets of the Bank (2000: 32%). In addition, at 31 December 2001 the Bank was the beneficiary of outstanding guarantees from the Ministry of Finance totalling HRK 26.4 million (2000: HRK 22.5 million) in respect of loans and guarantees granted by the Bank to commercial companies.

16 Accrued interest and other assets

	2001 HRK'000	2000 HRK'000
Accrued interest	17,682	12,849
Accrued fees and commissions	198	497
Accounts receivable and prepayments	6,455	4,702
Stationery	172	258
	<hr/> 24,507 <hr/>	<hr/> 18,306 <hr/>

Notes (continued)

17 Government bonds

	2001 HRK'000	2000 HRK'000
Replacement bonds	318,735	329,265
Housing bonds	16,153	16,653
Public debt due from the Republic of Croatia	-	16
	<u>334,888</u>	<u>345,934</u>

Government bonds are classified as originated.

Replacement bonds (previously Restructuring bonds)

Replacement bonds were issued by the Government of Croatia to replace restructuring bonds. 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.

Notes (continued)

18 Equity securities

	2001	2000
	HRK'000	HRK'000
Equity securities available for sale	65,787	184,066
	<hr/>	<hr/>
Unlisted securities	33,325	130,852
Listed or quoted securities	32,462	53,214
	<hr/>	<hr/>
	65,787	184,066
	<hr/>	<hr/>

a) Equity securities available for sale

Name	Nature of business	Effective holding	
		31 December 2001	31 December 2000
Brodomerkur d.d. Split	Retail	26.12%	26.12%
Jadranka d.d. Mali Losinj	Tourism	6.16%	6.16%
Koncar Zagreb	Electronics	7.89%	4.51%
Uljanik d.d. Pula	Shipbuilding	0.63%	0.63%
Istra d.d. Pula	Retail	1.95%	1.95%
Marimirna Rovinj	Fishing	3.57%	3.57%
Hotel Imperijal Rab	Tourism	5.80%	-
Dubrovkinja Nuova	Tourism	23.27%	-
Puris d.d., Pazin	Meat production	-	58.61%
Arenaturist d.d., Pula	Tourism	-	14.84%
Tehnomont d.d.	Shipbuilding and nautical tourism	-	45.49%
DTR Zagreb	Textile	-	44.14%
Jadran-turist d.d. Rovinj	Tourism	-	0.09%
Riviera holding d.d. Porec	Tourism	-	0.02%
Istraturist d.d. Umag	Tourism	-	0.02%

Equity securities available for sale were generally obtained in lieu of bad receivables. The Bank intends to hold these shares for sale.

Notes (continued)

19 Fixed assets

	Land and buildings HRK'000	Computers HRK'000	Furniture and equipment HRK'000	Motor vehicles HRK'000	Assets in the course of construction HRK'000	Total HRK'000
<i>Cost:</i>						
As at 1 January 2001	30,551	34,628	19,668	1,765	10,208	96,820
Additions	-	-	-	-	2,771	2,771
Transfers	2,047	827	1,414	345	(4,633)	-
Disposals	(698)	(1,058)	(700)	(458)	(748)	(3,662)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2001	31,900	34,397	20,382	1,652	7,598	95,929
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Depreciation:</i>						
As at 1 January 2001	9,071	20,389	12,979	1,457	-	43,896
Charge for the year	913	5,885	1,696	249	-	8,743
Disposals	(134)	(976)	(560)	(450)	-	(2,120)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2001	9,850	25,298	14,115	1,256	-	50,519
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Net book value:</i>						
As at 31 December 2001	22,050	9,099	6,267	396	7,598	45,410
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 31 December 2000	21,480	14,239	6,689	308	10,208	52,924
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

20 Current accounts and deposits from banks

	2001 HRK'000	2000 HRK'000
Demand deposits		
Denominated in HRK	40,714	166
Denominated in foreign currency	751	705
Time deposits		
Denominated in foreign currency	311	321
	<hr/>	<hr/>
	41,776	1,192
	<hr/> <hr/>	<hr/> <hr/>

21 Current accounts and deposits from customers

	2001 HRK'000	2000 HRK'000
Individuals		
Demand deposits		
Denominated in HRK	178,856	123,803
Denominated in foreign currency	586,282	382,571
Time deposits		
Denominated in HRK	46,840	33,452
Denominated in foreign currency	588,094	430,530
Frozen deposits	12,150	13,445
Companies		
Demand deposits		
Denominated in HRK	162,348	131,694
Denominated in foreign currency	28,541	27,997
Time deposits		
Denominated in HRK	59,633	48,990
Denominated in foreign currency	42,024	57,827
	<hr/>	<hr/>
	1,704,768	1,250,309
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

22 Borrowings

	2001	2000
	HRK'000	HRK'000
Borrowings denominated in foreign currency		
Amounts due to the Ministry of Finance in respect of refinanced borrowings	48,998	56,007
Amounts due in respect of refinanced Paris Club borrowings	18,226	19,492
Other borrowings denominated in foreign currency	1,999	11,654
 Borrowings denominated in HRK		
HBOR	44,337	71,642
Other borrowings denominated in HRK	13,000	-
	<hr/>	<hr/>
	126,560	158,795
	<hr/> <hr/>	<hr/> <hr/>

23 Accrued interest and other liabilities

	2001	2000
	HRK'000	HRK'000
Creditors	4,027	5,066
Salaries and payroll deductions	100	358
Accrued interest and fees	16,117	22,240
Other liabilities	7,933	8,967
	<hr/>	<hr/>
	28,177	36,631
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

24 Provisions for liabilities and charges

a) Provisions

	2001 HRK'000	2000 HRK'000
Specific provision for off balance sheet items	10,512	25,444
Provision for litigation	4,350	8,700
	14,862	34,144
	14,862	34,144

b) Movement in provisions for liabilities and charges

	2001 HRK'000	2000 HRK'000
Balance at 1 January	34,144	31,801
Increase/(decrease) (Note 8)	(19,282)	2,343
	14,862	34,144
	14,862	34,144

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 the member of the Group in 2001. The State Directory for Commodity Reserves has appealed to 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 plaintiff bank from Croatia. The Commercial Court in Rijeka has ruled in favor of the plaintiff 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.

Notes (continued)

Capital commitments

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

25 Share capital

	Number of authorised and issued shares	Nominal value of shares	Ordinary shares HRK'000	Preference shares HRK'000	Total HRK'000
At 1 January 2001	719,058	HRK 300	215,674	44	215,718
	=====	=====	=====	=====	=====
At 31 December 2001	719,058	HRK 300	215,674	44	215,718
	=====	=====	=====	=====	=====

As of 31 December 2001 Dalmatinska banka d.d. held 87.16% of ordinary shares and 96.62% of preference shares of the Bank. No other individual shareholder held more than 2.00% of the total equity of the Bank.

26 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:

	2001 HRK'000	2000 HRK'000
Cash reserves	194,745	74,758
Balances with the Croatian National Bank	735,036	212,827
Placements with, and loans and advances to, other banks	237,737	262,087
	=====	=====
	1,167,518	549,672
	=====	=====

Notes (continued)

27 Contingent liabilities and commitments

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

	2001 HRK'000	2000 HRK'000
Finance guarantees		
in HRK	11,445	23,509
in foreign currency	63,608	116,295
Performance guarantees		
in HRK	5,677	18,371
in foreign currency	17,874	20,145
Letters of credit	28,910	1,886
	<hr/>	<hr/>
Provisions	127,514 (10,512)	180,206 (25,444)
	<hr/>	<hr/>
	117,002	154,762
	<hr/> <hr/>	<hr/> <hr/>

Forward Foreign Exchange Contract

At 31 December 2001 the Bank had one foreign forward exchange contract open with Sisacka banka with a nominal amount of HRK 7,418 thousand. As the Bank entered into the contract at the end of the year the fair value of the forward contract at 31 December 2001 was insignificant.

28 Related party transactions

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

Related parties as at 31 December 2001 included Dalmatinska and Sisacka banka dd. Receivables from Sisacka banka dd as of 31 December 2001 amounted to HRK 39,475 thousand and obligations to Sisacka banka amounted to HRK 40,547 thousand. There were no outstanding balances with Dalmatinska bank at year end. Additionally, the Bank had a forward exchange contract with Sisacka banka dd, as noted in note 27.

Notes (continued)

29 Maturity analysis

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

	Up to 1 month HRK'000	1 month to 3 months HRK'000	3 months to 1 year HRK'000	1 year to 5 years HRK'000	Over 5 years HRK'000	Total HRK'000
Assets						
Cash reserves	194,745	-	-	-	-	194,745
Balances with the Croatian National Bank	335,942	399,094	-	-	-	735,036
Placements with, and loans and advances to, other banks	236,982	-	755	-	-	237,737
Loans and advances to customers	70,192	6,645	37,299	189,829	74,784	378,749
Accrued interest and other assets	15,966	532	5,501	914	1,594	24,507
Government bonds	-	-	-	-	334,888	334,888
Equity securities	-	-	-	-	65,787	65,787
Assets acquired in lieu of uncollected receivables	-	-	-	8,722	-	8,722
Fixed assets	-	-	-	-	45,410	45,410
Total assets	853,827	406,271	43,555	199,465	522,463	2,025,581
Liabilities and funds employed						
Current accounts and deposits from banks	41,465	311	-	-	-	41,776
Current accounts and deposits from customers	1,183,645	265,701	161,908	81,357	12,157	1,704,768
Borrowings	20,172	2,574	15,893	71,619	16,302	126,560
Accrued interest and other liabilities	26,667	-	130	1,380	-	28,177
Provisions for liabilities and charges	-	-	-	-	14,862	14,862
Share capital and reserves	-	-	-	-	109,438	109,438
Total liabilities	1,271,949	268,586	177,931	154,356	152,759	2,025,581
Maturity gap	(418,122)	137,685	(134,376)	45,109	369,704	-

Notes (continued)

30 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 table is management's estimate of the interest rate risk of the Bank as at 31 December 2001 and is not necessarily indicative of the position at other times. The table illustrates the sensitivity of 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.

	Up to 1 month HRK'000	1 month to 3 months HRK'000	3 months to 1 year HRK'000	Over 1 year HRK'000	Non interest bearing HRK'000	Total HRK'000	Fixed interest rates HRK'000
Assets							
Cash reserves	7,350	-	-	-	187,395	194,745	-
Balances with the Croatian National Bank	335,942	399,094	-	-	-	735,036	457,652
Placements with, and loans and advances to, other banks	236,975	-	755	-	7	237,737	236,975
Loans and advances to customers	377,083	-	737	738	191	378,749	1,666
Accrued interest and other assets	-	-	-	-	24,507	24,507	-
Government bonds	-	-	-	318,735	16,153	334,888	318,735
Equity securities	-	-	-	-	65,787	65,787	-
Assets acquired in lieu of uncollected receivables	-	-	-	-	8,722	8,722	-
Fixed assets	-	-	-	-	45,410	45,410	-
Total assets	957,350	399,094	1,492	319,473	348,172	2,025,581	1,015,028
Liabilities and funds employed							
Current accounts and deposits from banks	40,500	-	-	-	1,276	41,776	-
Current accounts and deposits from customers	1,454,127	77,696	126,404	12,452	34,089	1,704,768	342,684
Borrowings	78,382	2,574	11,125	34,479	-	126,560	61,566
Accrued interest and other liabilities	-	-	-	-	28,177	28,177	-
Provisions for liabilities and charges	-	-	-	-	14,862	14,862	-
Share capital and reserves	-	-	-	-	109,438	109,438	-
Total liabilities and share capital	1,573,009	80,270	137,529	46,931	187,842	2,025,581	404,250
Interest rate gap	(615,659)	318,824	(136,037)	272,542	160,330	-	610,778

Notes (continued)

31 Average effective interest rates

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

	2001	Interest
	HRK'000	rate
		%
Assets		
Cash reserves	194,745	0.06
Balances with the Croatian National Bank	735,036	2.31
Placements with, and loans and advances to, other banks	237,737	2.72
Loans and advances to customers	378,749	12.8
Accrued interest and other assets	24,507	-
Government bonds	334,888	5.00
Equity securities	65,787	-
Assets acquired in lieu of uncollected receivables	8,722	-
Fixed assets	45,410	-
	<hr/>	
Total assets	2,025,581	
	<hr/> <hr/>	
Liabilities and funds employed		
Current accounts and deposits from banks	41,776	3.39
Current accounts and deposits from customers	1,704,768	2.65
Borrowings	126,560	5.56
Accrued interest and other liabilities	28,177	-
Provisions for liabilities and charges	14,862	-
Share capital and reserves	109,438	-
	<hr/>	
Total liabilities	2,025,581	
	<hr/> <hr/>	

Notes (continued)

32 Foreign exchange positions

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

	EURO currencies	EURO currencies linked	EURO currencies Total	USD	HRK	Other currencies	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets							
Cash reserves	140,408	-	140,408	9,631	36,191	8,515	194,745
Balances with the Croatian National Bank	285,497	-	285,497	330,639	118,900	-	735,036
Placements with, and loans and advances to, other banks	146,031	-	146,031	68,937	87	22,682	237,737
Loans and advances to customers	6,333	323,103	329,436	15,255	31,680	2,378	378,749
Accrued interest and other assets	1,533	2,928	4,461	203	19,843	-	24,507
Government bonds	16,153	-	16,153	-	318,735	-	334,888
Equity securities	-	-	-	-	65,787	-	65,787
Assets acquired in lieu of uncollected receivables	-	-	-	-	8,722	-	8,722
Fixed assets	-	-	-	-	45,410	-	45,410
Total assets	595,955	326,031	921,986	424,665	645,355	33,575	2,025,581
Liabilities and funds employed							
Current accounts and deposits from banks	609	-	609	93	40,714	360	41,776
Current accounts and deposits from customers	848,912	10,315	859,227	376,337	427,829	41,375	1,704,768
Borrowings	1,476	44,337	45,813	56,179	13,000	11,568	126,560
Accrued interest and other liabilities	990	23	1,013	-	24,871	2,293	28,177
Provisions for liabilities and charges	-	-	-	-	14,862	-	14,862
Share capital and reserves	-	-	-	-	109,438	-	109,438
Total liabilities	851,987	54,675	906,662	432,609	630,714	55,596	2,025,581
Net foreign exchange position	(256,032)	271,356	15,324	(7,944)	14,641	(22,021)	-

Notes (*continued*)

33 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.

34 Managed funds for and on behalf of third parties

The Bank manages amounts of assets 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 0.5 million (2000: HRK 4.3 million).