



G O D I Š N J E I Z V J E Š Ć E  
A N N U A L R E P O R T  
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## SADRŽAJ

|  |    |
|--|----|
| Izvešće predsjednice Uprave                  | 2  |
| Odgovornosti Uprave                          | 3  |
| Izvešće revizora dioničarima Nove banke d.d. | 4  |
| Račun dobiti i gubitka                       | 5  |
| Bilanca                                      | 6  |
| Izvešće o promjenama u kapitalu i rezervama  | 7  |
| Izvešće o gotovinskom toku                   | 9  |
| Bilješke uz financijska izvješća             | 11 |
| Životopisi članova Nadzornog odbora          | 50 |
| Životopisi članova Uprave                    | 51 |
| Poslovna mreža                               | 52 |

## CONTENTS

|   |     |
|---|-----|
| Report of the President of the Management Board       | 56  |
| Statement of the Management Board's responsibilities  | 57  |
| Auditor's report to the shareholders of Nova banka dd | 58  |
| Income statement                                      | 59  |
| Balance sheet   | 60  |
| Statement of changes in equity                        | 61  |
| Statement of cash flows                               | 63  |
| Notes to the financial statements                     | 65  |
| Supervisory Board                                     | 104 |
| Management Board                                      | 105 |
| Business network                                      | 106 |
| Impressum   | 108 |

## REPORT OF THE PRESIDENT OF THE MANAGEMENT BOARD

2002 has been a year of great change for the Nova banka Group. At the end of June, the merger of Dalmatinska banka, Istarska banka and Sisacka banka took place to create Nova banka. Earlier in the year, the Group completed a key acquisition with the purchase of a 100% shareholding in Dubrovacka banka. In due course, it is the intention that it too will merge with Nova banka.

The consolidated group financial result was a loss of HRK 66.3 million (Nova banka HRK 90.1 million). Whilst these figures are naturally disappointing, they were not unexpected as the year saw one off costs related to the merger and included further prudent increases in provisioning which support the underlying long term strength of the Group. Additionally further charges related to reorganization and right sizing, merging the actual operations of the three former Nova banks, impacted the income statement. However these reorganizations will ensure that the Bank is profitable going forward, so that we may continue offering our banking services to the general public at competitive prices.

### Amongst the highlights were:

- a growth in deposits in the Group of approximately 52% and assets of 47% compared to 2001, including the acquisition of Dubrovacka banka;
- a net increase in shareholders' equity of approximately 37%;
- further restructuring of the management team and personnel structure to support the Group's growth in the future;
- introduction of further new retail banking products and development of loans to citizens.

Provisions for bad loans have again been increased to reflect a prudent and conservative financial position. We are pleased to put the past behind us and have much lower levels of credit risk in respect of the current loan portfolio, having moved towards fulfilling the key strategy of being a retail and SME bank, with a strong regional focus.

Having successfully completed Phase 1 of our strategy, being building market share and a competitive banking network via a well-executed acquisition strategy and moved through Phase 2, the transformation of our Group, via the merger of Dalmatinska banka, Istarska banka and Sisacka banka, into a national single entity bank, "Nova banka", we are confident that Nova banka will continue to be a strong market name and will provide customers, staff and other stakeholders with a strong customer focused identity of which we can all be proud. The addition of the Dubrovacka banka franchise will follow in due course. Phase 3 of the strategy is to redevelop systems and harmonise procedures at each of the business centres forming part of the Group to better serve the long and short term needs of clients.

With provisions for the Group's old exposures being set at a conservative level and new lending exposure flowing through steadily, the expected growth of the Group balance sheet together with rigorous risk management controls and the flow through of benefits from last year's and our future merger, we are well placed to move strongly into profitability in the future.



**Davorka Jakir**

*President of the Management Board*

12 May 2003

## 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 the results of their operations, changes in equity and cash flows for the year. In preparing those financial statements, the Management Board is required to:

- select suitable accounting policies which are in conformity with the International Financial Reporting Standards and Croatian Accounting Law and 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 and the Group 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 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 it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

## AUDITORS' REPORT TO THE SHAREHOLDERS OF NOVA BANKA DD

We have audited the financial statements on pages 59 to 102.

### Respective responsibilities of the Management Board and auditors

As described on page 57 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 the financial statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with International Standards on Auditing issued 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 2002 and of the results of their operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Croatian Accounting Law.



**KPMG Croatia doo za reviziju**

Registered Auditors

Centar Kaptol

Nova Ves 11

10000 Zagreb

Croatia

**12 May 2003**

## INCOME STATEMENT

for the year ended 31 December 2002

|   | Note | The Group        |                              | The Bank         |                              |
|---|------|------------------|------------------------------|------------------|------------------------------|
|   |      | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Interest and similar income   | 4    | 395,892          | 258,291                      | 268,735          | 258,044                      |
| Interest expense and similar charges                                  | 4    | (203,441)        | (140,662)                    | (128,792)        | (140,651)                    |
| <b>Net interest income</b>  |      | <b>192,451</b>   | <b>117,629</b>               | <b>139,943</b>   | <b>117,393</b>               |
| Fee and commission income   | 5    | 92,992           | 46,471                       | 65,322           | 42,421                       |
| Fee and commission expense  | 5    | (41,323)         | (16,387)                     | (27,148)         | (16,387)                     |
| <b>Net fee and commission income</b>                                  |      | <b>51,669</b>    | <b>30,084</b>                | <b>38,174</b>    | <b>26,034</b>                |
| Foreign exchange gains, net   | 6    | 37,860           | 31,344                       | 29,238           | 31,344                       |
| Other operating income  | 7    | 101,496          | 20,501                       | 50,246           | 16,770                       |
| <b>Operating income</b>   |      | <b>383,476</b>   | <b>199,558</b>               | <b>257,601</b>   | <b>191,541</b>               |
| Impairment losses for loans to customers<br>and placements with banks | 15b  | (52,323)         | (1,574)                      | (40,372)         | (1,574)                      |
| Other impairment losses<br>and provisions                             | 8    | (9,520)          | (17,113)                     | (26,197)         | (17,113)                     |
| Operating expenses  | 9    | (385,968)        | (250,611)                    | (281,131)        | (242,512)                    |
| <b>Loss before taxation</b>   |      | <b>(64,335)</b>  | <b>(69,740)</b>              | <b>(90,099)</b>  | <b>(69,658)</b>              |
| Income tax expense  | 10   | (2,000)          | (543)                        | -                | -                            |
| <b>Net loss for the year</b>  |      | <b>(66,335)</b>  | <b>(70,283)</b>              | <b>(90,099)</b>  | <b>(69,658)</b>              |

The notes set out on pages 65 to 102 form part of these financial statements.

**BALANCE SHEET**  
as at 31 December 2002

|  | Note | The Group        |                              | The Bank         |                              |
|--|------|------------------|------------------------------|------------------|------------------------------|
|  |      | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| <b>Assets</b>  |      |                  |                              |                  |                              |
| Cash reserves  | 11   | 290,218          | 450,490                      | 153,492          | 447,761                      |
| Balances with the Croatian National Bank                   | 12   | 1,083,746        | 1,253,734                    | 495,946          | 1,253,734                    |
| Debt securities  | 13   | 1,322,675        | 233,657                      | 591,185          | 233,657                      |
| Placements with, and loans<br>and advances to, other banks | 14   | 975,872          | 958,378                      | 1,027,770        | 955,718                      |
| Loans and advances to customers                            | 15   | 3,162,705        | 1,481,009                    | 1,843,286        | 1,498,642                    |
| Accrued interest and other assets                          | 17   | 117,171          | 76,525                       | 71,053           | 73,479                       |
| Replacement bonds  | 18   | 362,567          | 353,567                      | 362,567          | 353,567                      |
| Investments in subsidiaries                                | 19   | -                | -                            | 225,139          | 5,683                        |
| Other equity securities                                    | 20   | 63,192           | 79,465                       | 61,960           | 74,831                       |
| Assets acquired in lieu of uncollected<br>receivables      | 21   | 35,023           | 96,710                       | 35,023           | 96,710                       |
| Fixed assets   | 22   | 217,887          | 187,284                      | 160,405          | 186,434                      |
| Goodwill   | 23   | 100,958          | 91,366                       | 69,721           | 91,366                       |
| <b>Total assets</b>  |      | <b>7,732,014</b> | <b>5,262,185</b>             | <b>5,097,547</b> | <b>5,271,582</b>             |
| <b>Liabilities and shareholders' equity</b>                |      |                  |                              |                  |                              |
| Current accounts and deposits from banks                   | 24   | 69,512           | 14,106                       | 127,610          | 14,106                       |
| Current accounts and deposits from customers               | 25   | 6,359,485        | 4,179,519                    | 3,968,343        | 4,179,519                    |
| Borrowings   | 26   | 580,677          | 591,870                      | 421,948          | 591,870                      |
| Accrued interest and other liabilities                     | 27   | 172,740          | 85,377                       | 79,311           | 81,466                       |
| Provisions for liabilities and charges                     | 28   | 52,951           | 27,937                       | 13,967           | 27,937                       |
| <b>Total liabilities</b>                                   |      | <b>7,235,365</b> | <b>4,898,809</b>             | <b>4,611,179</b> | <b>4,894,898</b>             |
| Share capital  | 29   | 425,280          | 314,280                      | 425,280          | 314,280                      |
| Capital reserves   |      | 167,327          | 78,527                       | 167,327          | 78,527                       |
| Other reserves   |      | 24,656           | 24,945                       | 24,656           | 24,945                       |
| Treasury shares  |      | (29)             | -                            | (29)             | -                            |
| Accumulated losses   |      | (120,585)        | (54,376)                     | (130,866)        | (41,068)                     |
| <b>Total shareholders' equity</b>                          |      | <b>496,649</b>   | <b>363,376</b>               | <b>486,368</b>   | <b>376,684</b>               |
| <b>Total liabilities and shareholders' equity</b>          |      | <b>7,732,014</b> | <b>5,262,185</b>             | <b>5,097,547</b> | <b>5,271,582</b>             |

These financial statements were approved by the Management Board on 12 May 2003 and were signed by:



**Davorka Jakir**  
President of the Management Board



**Helena Banjad**  
Member of the Management Board

The notes set out on pages 65 to 102 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY FOR THE GROUP**  
*for the year ended 31 December 2002*

|   | Share capital  | Capital reserves | Other reserves | Treasury shares | Retained earnings / (Accumulated losses) | Total          |
|---|----------------|------------------|----------------|-----------------|--|----------------|
|   | HRK '000       | HRK '000         | HRK '000       | HRK '000        | HRK '000                                 | HRK '000       |
| Balance as at 1 January 2002 as previously reported | 300,000        | 72,003           | 24,945         | (69)            | (53,337)                                 | 343,542        |
| Effect of the merger                                | 14,280         | 6,524            | -              | 69              | (1,039)                                  | 19,834         |
| <b>Balance as at 1 January 2002 as restated</b>     | <b>314,280</b> | <b>78,527</b>    | <b>24,945</b>  | <b>-</b>        | <b>(54,376)</b>                          | <b>363,376</b> |
| Issue of shares                                     | 111,000        | 88,800           | -              | -               | -  | 199,800        |
| Other   | -              | -                | (289)          | -               | 126                                      | (163)          |
| Repurchase of treasury shares                       | -              | -                | -              | (29)            | -  | (29)           |
| Net loss for the year                               | -              | -                | -              | -               | (66,335)                                 | (66,335)       |
| <b>Balance as at 31 December 2002</b>               | <b>425,280</b> | <b>167,327</b>   | <b>24,656</b>  | <b>(29)</b>     | <b>(120,585)</b>                         | <b>496,649</b> |
| Balance as at 1 January 2001 as previously reported | 300,000        | 72,003           | 24,945         | -               | 14,894                                   | 411,842        |
| Issue of shares on merger of Istarska banka         | 10,236         | 4,855            | -              | -               | -  | 15,091         |
| <b>Balance as at 1 January 2001 as restated</b>     | <b>310,236</b> | <b>76,858</b>    | <b>24,945</b>  | <b>-</b>        | <b>14,894</b>                            | <b>426,933</b> |
| Repurchase of treasury shares                       | -              | -                | -              | (69)            | -  | (69)           |
| Issue of shares on merger of Sisacka banka          | 4,044          | 1,669            | -              | -               | -  | 5,713          |
| Reissue of treasury shares on merger                | -              | -                | -              | 69              | -  | 69             |
| Unclaimed dividends                                 | -              | -                | -              | -               | 1,013                                    | 1,013          |
| Net loss for the year                               | -              | -                | -              | -               | (70,283)                                 | (70,283)       |
| <b>Balance as at 31 December 2001 as restated</b>   | <b>314,280</b> | <b>78,527</b>    | <b>24,945</b>  | <b>-</b>        | <b>(54,376)</b>                          | <b>363,376</b> |

The notes set out on pages 65 to 102 form part of these financial statements.



**STATEMENT OF CHANGES IN EQUITY FOR THE BANK**  
for the year ended 31 December 2002

|   | Share capital  | Capital reserves | Other reserves | Treasury shares | Retained earnings / (Accumulated losses) | Total          |
|---|----------------|------------------|----------------|-----------------|--|----------------|
|   | HRK '000       | HRK '000         | HRK '000       | HRK '000        | HRK '000                                 | HRK '000       |
| Balance as at 1 January 2002 as previously reported | 300,000        | 72,003           | 24,945         | (69)            | (15,625)                                 | 381,254        |
| Effect of the merger                                | 14,280         | 6,524            | -              | 69              | (25,443)                                 | (4,570)        |
| <b>Balance as at 1 January 2002 as restated</b>     | <b>314,280</b> | <b>78,527</b>    | <b>24,945</b>  | <b>-</b>        | <b>(41,068)</b>                          | <b>376,684</b> |
| Issue of shares                                     | 111,000        | 88,800           | -              | -               | -  | 199,800        |
| Other   | -              | -                | (289)          | -               | 301                                      | 12             |
| Repurchase of treasury shares                       | -              | -                | -              | (29)            | -  | (29)           |
| Net loss for the year                               | -              | -                | -              | -               | (90,099)                                 | (90,099)       |
| <b>Balance as at 31 December 2002</b>               | <b>425,280</b> | <b>167,327</b>   | <b>24,656</b>  | <b>(29)</b>     | <b>(130,866)</b>                         | <b>486,368</b> |
| Balance as at 1 January 2001 as previously reported | 300,000        | 72,003           | 24,945         | -               | 27,577                                   | 424,525        |
| Issue of shares on merger of Istarska banka         | 10,236         | 4,855            | -              | -               | -  | 15,091         |
| <b>Balance as at 1 January 2001 as restated</b>     | <b>310,236</b> | <b>76,858</b>    | <b>24,945</b>  | <b>-</b>        | <b>27,577</b>                            | <b>439,616</b> |
| Repurchase of treasury shares                       | -              | -                | -              | (69)            | -  | (69)           |
| Issue of shares on merger of Sisacka banka          | 4,044          | 1,669            | -              | -               | -  | 5,713          |
| Reissue of treasury shares on merger                | -              | -                | -              | 69              | -  | 69             |
| Unclaimed dividends                                 | -              | -                | -              | -               | 1,013                                    | 1,013          |
| Net loss for the year                               | -              | -                | -              | -               | (69,658)                                 | (69,658)       |
| <b>Balance as at 31 December 2001 as restated</b>   | <b>314,280</b> | <b>78,527</b>    | <b>24,945</b>  | <b>-</b>        | <b>(41,068)</b>                          | <b>376,684</b> |

The notes set out on pages 65 to 102 form part of these financial statements.

**STATEMENT OF CASH FLOWS**

for the year ended 31 December 2002

|   | The Group        |                              | The Bank         |                              |
|---|------------------|------------------------------|------------------|------------------------------|
|   | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| <b>Operating activities</b>   |                  |                              |                  |                              |
| Loss before taxation  | (66,335)         | (69,740)                     | (90,099)         | (69,658)                     |
| Impairment loss on equity securities  | 7,641            | 13,844                       | 7,486            | 13,844                       |
| Impairment loss on loans to customers<br>and placements with banks  | 52,323           | 1,574                        | 40,372           | 1,574                        |
| Impairment loss on assets acquired<br>in lieu of uncollected receivables                                      | 5,016            | 17,709                       | 5,016            | 17,709                       |
| Impairment loss on other assets   | 22,518           | 1,472                        | 21,997           | 1,472                        |
| Provision for commitments and contingencies   | (25,655)         | (15,912)                     | (8,302)          | (15,912)                     |
| Indexation of replacement bonds   | (8,215)          | 11,681                       | (8,215)          | 11,681                       |
| Depreciation of and impairment losses<br>on fixed assets  | 27,643           | 17,415                       | 21,052           | 16,780                       |
| Amortisation of goodwill  | 27,157           | 16,855                       | 21,645           | 16,855                       |
| Gains less losses from<br>non- trading financial instruments  | (8,246)          | 5,666                        | (8,230)          | 7,182                        |
| Net gain on disposal of fixed assets and<br>assets acquired in lieu<br>of uncollected receivables             | (9,695)          | (2,400)                      | (23,658)         | (2,174)                      |
| Income tax expense  | (2,000)          | (543)                        | -                | -                            |
| <b>Cash inflow/(outflow) from operating activities<br/>before changes in operating assets and liabilities</b> | <b>22,152</b>    | <b>(2,379)</b>               | <b>(20,936)</b>  | <b>(647)</b>                 |
| Increase in placements with, and loans<br>and advances to, other banks  | (3,967)          | -                            | (271,083)        | -                            |
| (Increase)/decrease in loans<br>and advances to customers   | (420,940)        | 178,341                      | (285,740)        | 180,191                      |
| Increase in accrued interest and other assets   | (11,500)         | (3,603)                      | (19,571)         | (2,199)                      |
| (Increase)/decrease in assets acquired<br>in lieu of uncollected receivables                                  | 7,187            | (27,893)                     | 7,187            | (27,893)                     |
| Increase/(decrease) in current accounts<br>and deposits from banks  | 44,976           | (41,768)                     | 113,504          | (41,768)                     |
| Increase/(decrease) in current accounts<br>and deposits from customers  | (232,047)        | 887,961                      | (211,176)        | 887,961                      |
| Decrease in accrued interest<br>and other liabilities   | (6,134)          | (17,486)                     | (2,157)          | (15,817)                     |
| Increase/(decrease) in provisions<br>for liabilities and charges  | (117,729)        | 970                          | (5,668)          | 970                          |
| <b>Net cash inflow/(outflow) from<br/>operating activities before taxation</b>                                | <b>(718,002)</b> | <b>974,143</b>               | <b>(695,640)</b> | <b>980,798</b>               |

The notes set out on pages 65 to 102 form part of these financial statements.

|   | Note | The Group        |                              | The Bank           |                              |
|---|------|------------------|------------------------------|--------------------|------------------------------|
|   |      | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000   | Restated<br>2001<br>HRK '000 |
| Income tax paid   |      | (543)            | -                            | -                  | -                            |
| <b>Net cash inflow/(outflow) from operating activities</b>      |      | <b>(718,545)</b> | <b>974,143</b>               | <b>(695,640)</b>   | <b>980,798</b>               |
| <b>Investing activities</b>                                     |      |                  |                              |                    |                              |
| Acquisition of subsidiary, net of cash acquired                 | 19   | 831,723          | 241,480                      | -                  | -                            |
| Acquisition of subsidiary                                       |      | -                | -                            | (219,456)          | 241,480                      |
| Sale/(purchase) of debt securities, net                         |      | (263,754)        | 74,396                       | (349,298)          | 64,747                       |
| Sale of equity securities, net                                  |      | 8,652            | 125,664                      | 5,385              | 126,762                      |
| Sale/(purchase) of fixed assets, net                            |      | (2,116)          | (16,611)                     | 18,415             | (16,584)                     |
| <b>Cash inflow/(outflow) from investing activities</b>          |      | <b>574,505</b>   | <b>424,929</b>               | <b>(544,954)</b>   | <b>416,405</b>               |
| <b>Financing activities</b>                                     |      |                  |                              |                    |                              |
| Issue of shares   |      | 199,800          | -                            | 199,800            | -                            |
| (Purchase)/sale of treasury shares                              |      | (29)             | (69)                         | (29)               | (69)                         |
| Decrease in borrowings  |      | (372,464)        | (49,785)                     | (169,893)          | (47,395)                     |
| <b>Cash inflow/(outflow) from financing activities</b>          |      | <b>(172,693)</b> | <b>(49,854)</b>              | <b>29,878</b>      | <b>(47,464)</b>              |
| <b>Net increase/(decrease) in cash and cash equivalents</b>     |      | <b>(316,733)</b> | <b>1,349,218</b>             | <b>(1,210,716)</b> | <b>1,349,739</b>             |
| <b>Cash and cash equivalents at the beginning of the period</b> | 31   | <b>2,662,602</b> | <b>1,313,384</b>             | <b>2,657,213</b>   | <b>1,307,474</b>             |
| <b>Cash and cash equivalents at the end of the period</b>       | 31   | <b>2,345,869</b> | <b>2,662,602</b>             | <b>1,446,497</b>   | <b>2,657,213</b>             |

The notes set out on pages 65 to 102 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 Financial Reporting Standards (“IFRS”) 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.

As a part of the reorganisation of the Group at 30 June 2002, the former Dalmatinska banka dd merged with two of its subsidiaries, Istarska banka dd and Sisacka banka dd. Nova banka dd is registered as the legal successor of the former Dalmatinska banka dd. The Group restructuring was accounted using the principles of acquisition accounting. Comparative figures for the Bank have been restated.

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 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”.

The financial statements are prepared on a going concern basis, notwithstanding the fact that at the year end the Bank’s capital adequacy ratio amounted to 9.63%, which is below the legally required minimum of 10%. This issue will be dealt with through recapitalisation of the Bank. Additionally, in a decree issued by the Croatian National Bank (“CNB”) in March 2003, the Bank is required to achieve an increased capital adequacy ratio of 12.5% by 31 December 2003. The Bank is committed to meet this requirement.

#### 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.

The Bank intends to liquidate two of its subsidiaries, Dalbank Vrijednosnice doo and Dalbank Consulting doo in 2003. Discontinuing operations are not material in the context of the financial statements as a whole and have not been disclosed separately on the face of the consolidated income statement.

#### **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 February and March 2003.

## **2 Specific accounting policies**

### **Interest income and expense**

Interest income and expense are recognised in the income statement as they accrue, taking into account the effective yield of the asset or liability, or an applicable floating rate. Interest income and expense include 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, domestic and foreign payment 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 foreign exchange trading and 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. These include certain derivative contracts that are not designated as effective hedging instruments.

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 treasury bills and 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. At year end, the Group did not have financial assets held 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.

The fair value of non-exchange traded derivatives is estimated at the amount the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the creditworthiness of the counterparties.

#### **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 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 general and specific impairment allowance for uncollectibility. Specific impairment allowance is 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 estimated recoverable amounts. General impairment allowance is 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 impairment allowance 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 purchased at original issuance 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 on an effective interest rate basis 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 to customers and placements with banks

Loans and advances to customers and placements with banks originated by the Group are classified as originated loans and receivables. Loans and advances are presented net of impairment allowance to reflect the estimated recoverable amounts. The amortisation of any discounts included within impairment allowance 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 acquired but not brought into use, 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:

|                                | %             |
|--------------------------------|---------------|
| <b>Buildings</b>               | 2.00 - 3.03   |
| <b>Computers</b>               | 20.00 - 30.00 |
| <b>Furniture and equipment</b> | 10.00 - 20.00 |
| <b>Motor vehicles</b>          | 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.

### Goodwill

Goodwill represents the excess of the cost of shares in subsidiaries over the fair value of the underlying identifiable net assets at the date of acquisition. Following the merger with Istarska banka and Sisacka banka, the Bank recognised unamortised goodwill as at 30 June 2002 in its books.

Goodwill is amortised to the Group's and the Bank's income statement over its estimated useful life.



## Taxation

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

Income tax on the profit for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 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. For intangible assets that are not yet available for use, an impairment loss is estimated at each balance sheet date. 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.

Impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in the recoverable amount relates clearly to the reversal of the effect of that specific event.

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.

### 3 Incorporation

The Bank is a joint stock company incorporated in Croatia.

### 4 Net interest income

|  | The Group        |                              | The Bank         |                              |
|--|------------------|------------------------------|------------------|------------------------------|
|  | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| <b>Interest and similar income</b>                         |                  |                              |                  |                              |
| Cash reserves and placements with banks                    | 22,161           | 29,052                       | 24,006           | 29,022                       |
| Balances with the Croatian National Bank                   | 22,017           | 19,687                       | 13,712           | 19,687                       |
| Loans and advances to companies                            | 98,044           | 97,546                       | 71,762           | 97,546                       |
| Loans and advances to individuals                          | 139,894          | 65,009                       | 83,562           | 65,009                       |
| Debt securities  | 95,539           | 18,026                       | 57,476           | 18,026                       |
| Replacement bonds  | 17,822           | 17,380                       | 17,822           | 17,380                       |
| Other  | 415              | 11,591                       | 395              | 11,374                       |
|  | <b>395,892</b>   | <b>258,291</b>               | <b>268,735</b>   | <b>258,044</b>               |
| <b>Interest expense and similar charges</b>                |                  |                              |                  |                              |
| Current accounts and deposits from individuals             | 140,875          | 84,895                       | 84,785           | 84,895                       |
| Current accounts and deposits from companies               | 29,342           | 25,190                       | 18,292           | 25,187                       |
| Borrowings and current accounts<br>and deposits from banks | 31,414           | 30,577                       | 24,982           | 30,569                       |
| Other  | 1,810            | -                            | 733              | -                            |
|  | <b>203,441</b>   | <b>140,662</b>               | <b>128,792</b>   | <b>140,651</b>               |

## 5 Net fee and commission income

|                                   | The Group        |                              | The Bank         |                              |
|-----------------------------------|------------------|------------------------------|------------------|------------------------------|
|                                   | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| <b>Fee and commission income</b>  |                  |                              |                  |                              |
| Companies                         | 33,548           | 15,699                       | 25,886           | 15,699                       |
| Banks                             | 2,979            | 1,553                        | 2,023            | 1,553                        |
| Individuals                       | 52,901           | 24,390                       | 33,849           | 24,390                       |
| Other                             | 3,564            | 4,829                        | 3,564            | 779                          |
|                                   | <b>92,992</b>    | <b>46,471</b>                | <b>65,322</b>    | <b>42,421</b>                |
| <b>Fee and commission expense</b> |                  |                              |                  |                              |
| Companies                         | 13,275           | 3,602                        | 4,480            | 3,602                        |
| Banks                             | 10,327           | 5,500                        | 6,219            | 5,500                        |
| Individuals and other             | 17,721           | 7,285                        | 16,449           | 7,285                        |
|                                   | <b>41,323</b>    | <b>16,387</b>                | <b>27,148</b>    | <b>16,387</b>                |

## 6 Foreign exchange gains, net

|  | The Group        |                              | The Bank         |                              |
|--|------------------|------------------------------|------------------|------------------------------|
|  | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Foreign exchange trading gain  | 46,897           | 34,948                       | 34,189           | 34,948                       |
| Net foreign exchange loss from translation<br>of monetary assets and liabilities | (9,037)          | (3,604)                      | (4,951)          | (3,604)                      |
|  | <b>37,860</b>    | <b>31,344</b>                | <b>29,238</b>    | <b>31,344</b>                |

## 7 Other operating income

|   | The Group        |                              | The Bank         |                              |
|---|------------------|------------------------------|------------------|------------------------------|
|   | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Income from dividends   | 1,044            | 2,640                        | 986              | 2,525                        |
| Gains less losses from<br>non-trading financial instruments                                       | 8,246            | -                            | 8,230            | -                            |
| Net gain on disposal of fixed assets<br>and assets acquired in lieu of<br>uncollected receivables | 9,695            | 2,400                        | 23,658           | 2,174                        |
| Indexation of replacement bonds   | 8,215            | -                            | 8,215            | -                            |
| Other income  | 74,296           | 15,461                       | 9,157            | 12,071                       |
|   | <b>101,496</b>   | <b>20,501</b>                | <b>50,246</b>    | <b>16,770</b>                |

A loss on indexation of replacement bonds and gains less losses from non-trading financial instruments respectively, in 2001 are included in operating expenses (Note 9).

The net gain on disposal of fixed assets and assets acquired in lieu of uncollected receivables for the Bank in 2002 includes a gain of HRK 14,078 thousand arising from sale of the Bank's Zagreb branch building to Dalbank Invest, a subsidiary.

Other income of the Group in 2002 includes a one off gain in the amount of HRK 51,773 thousand realised on conversion of former privatisation investment fund PIF Velebit, managed by the Group, from privatisation to close ended investment fund.

## 8 Other impairment losses and provisions

|   | The Group        |                              | The Bank         |                              |
|---|------------------|------------------------------|------------------|------------------------------|
|   | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Equity securities                                     | 7,641            | 13,844                       | 7,486            | 13,844                       |
| Provisions for commitments and contingencies          | (25,655)         | (15,912)                     | (8,302)          | (15,912)                     |
| Assets acquired in lieu of<br>uncollected receivables | 5,016            | 17,709                       | 5,016            | 17,709                       |
| Other assets  | 22,518           | 1,472                        | 21,997           | 1,472                        |
|   | <b>9,520</b>     | <b>17,113</b>                | <b>26,197</b>    | <b>17,113</b>                |

**9 Operating expenses**

|   | The Group        |                              | The Bank         |                              |
|---|------------------|------------------------------|------------------|------------------------------|
|   | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Staff costs   | 159,962          | 100,617                      | 110,086          | 96,180                       |
| Professional services and materials                         | 90,333           | 53,435                       | 68,574           | 50,921                       |
| Marketing expenses  | 17,953           | 9,259                        | 14,737           | 9,245                        |
| Administrative expenses                                     | 11,982           | 2,639                        | 8,844            | 2,639                        |
| Depreciation  | 25,105           | 17,415                       | 18,514           | 16,780                       |
| Impairment loss on fixed assets                             | 2,538            | -                            | 2,538            | -                            |
| Goodwill amortisation                                       | 27,157           | 16,855                       | 21,645           | 16,855                       |
| Savings deposits insurance charge                           | 24,880           | 14,055                       | 16,999           | 14,055                       |
| Other taxes and contributions                               | 2,046            | 3,525                        | 1,074            | 3,525                        |
| Indexation of replacement bonds                             | -                | 11,681                       | -                | 11,681                       |
| Losses less gains from<br>non-trading financial instruments | -                | 5,666                        | -                | 7,182                        |
| Other expenses  | 24,012           | 15,464                       | 18,120           | 13,449                       |
|   | <b>385,968</b>   | <b>250,611</b>               | <b>281,131</b>   | <b>242,512</b>               |

A gain on indexation of replacement bonds and losses less gains from non-trading financial instruments respectively, in 2002 are included in other operating income (Note 7).

At year end the Group and the Bank had 1,519 and 1,004 employees respectively (2001: 1,048 and 1,035).

In 2002, Group and Bank staff costs include HRK 19,987 thousand and HRK 15,906 thousand respectively of defined pension contributions paid into first pillar state pension plans and second pillar private pension funds. Contributions are calculated as a percentage of employees' gross salaries.

In 2001, Group and Bank staff costs included HRK 15,159 thousand and HRK 9,232 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

|   | The Group        |                              | The Bank         |                              |
|---|------------------|------------------------------|------------------|------------------------------|
|   | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Accounting loss before taxation                           | (64,335)         | (69,740)                     | (90,099)         | (69,658)                     |
| Disallowable / (non-taxable) items                        | 8,968            | 34,470                       | 11,012           | 47,993                       |
| Consolidation adjustments                                 | 2,987            | 16,320                       | -                | -                            |
| <b>Taxable profit / (loss)</b>                            | <b>(52,380)</b>  | <b>(18,950)</b>              | <b>(79,087)</b>  | <b>(21,665)</b>              |
| Tax losses carried forward not available for group relief | 79,856           | 107,504                      | -                | -                            |
| Tax losses of former Sisacka banka -not consolidated      | -                | (85,839)                     | -                | (85,839)                     |
| Utilisation of tax losses brought forward                 | (17,476)         | -                            | -                | -                            |
| <b>Adjusted taxable profit / (loss)</b>                   | <b>10,000</b>    | <b>2,715</b>                 | <b>(79,087)</b>  | <b>(107,504)</b>             |
| Tax expense at 20% (2001: 20%)                            | 2,000            | 543                          | -                | -                            |

Included within the taxable loss of 52,380 thousand are taxable profits of HRK 27,476 thousand, in respect of certain Group companies. In the absence of the group relief, these taxable profits can only be relieved against losses brought forward in these same companies. Accordingly, taxable losses of HRK 17,476 thousand have been used to relieve those taxable profits, leaving taxable HRK 10,000 thousand for which no loss relief is available. Additionally, tax losses incurred by other companies of HRK 79,856 thousand have been carried forward for possible utilisation in future years.

At 31 December 2002 the Group and the Bank had HRK 545,039 thousand and HRK 340,242 thousand respectively (2001: HRK 280,338 thousand and HRK 262,862 thousand respectively) of gross 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% (2001: 20%).

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

|   | The Group        |                              | The Bank         |                              |
|---|------------------|------------------------------|------------------|------------------------------|
|   | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| No more than 5 years                          | 79,856           | 107,504                      | 79,087           | 107,504                      |
| No more than 4 years                          | 107,504          | 60,028                       | 107,504          | 60,028                       |
| No more than 3 years                          | 142,610          | 106,928                      | 60,028           | 89,452                       |
| No more than 2 years                          | 89,452           | 4,171                        | 89,452           | 4,171                        |
| No more than 1 year                           | 125,617          | 1,707                        | 4,171            | 1,707                        |
| <b>Total gross tax losses carried forward</b> | <b>545,039</b>   | <b>280,338</b>               | <b>340,242</b>   | <b>262,862</b>               |

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

|   | The Group        |                              | The Bank         |                              |
|---|------------------|------------------------------|------------------|------------------------------|
|   | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Cash in hand                                    | 124,154          | 328,510                      | 98,437           | 328,503                      |
| Current account with the Croatian National Bank | 65,305           | 55,800                       | 15,975           | 53,078                       |
| Items in the course of collection               | 16,891           | 5,841                        | 9,973            | 5,841                        |
| Current accounts with domestic banks            | 13,717           | 7,117                        | 6,422            | 7,117                        |
| Current accounts with foreign banks             | 71,429           | 54,123                       | 23,570           | 54,123                       |
| Less: provisions for impairment                 | (1,278)          | (901)                        | (885)            | (901)                        |
|   | <b>290,218</b>   | <b>450,490</b>               | <b>153,492</b>   | <b>447,761</b>               |

## 12 Balances with the Croatian National Bank

|  | The Group        |                              | The Bank         |                              |
|--|------------------|------------------------------|------------------|------------------------------|
|  | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Obligatory reserve in HRK              | 461,166          | 275,326                      | 294,997          | 275,326                      |
| Obligatory reserve in foreign currency | 457,206          | 271,411                      | 165,324          | 271,411                      |
| Treasury bills in HRK                  | 129,749          | 5,987                        | -                | 5,987                        |
| Treasury bills in foreign currency     | 35,625           | 701,010                      | 35,625           | 701,010                      |
|  | <b>1,083,746</b> | <b>1,253,734</b>             | <b>495,946</b>   | <b>1,253,734</b>             |

The obligatory reserve represent amounts required to be deposited with the Croatian National Bank ("CNB").

The HRK obligatory reserve requirement at 31 December 2002 represented 19% of the relevant HRK deposits (2001: 19%). At least 40% (2001: 40%) 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 85% and 83% respectively (2001: 84% and 84%) of the total requirement in a special obligatory reserve deposit account with the CNB, including the requirement in respect of part of the foreign currency obligatory reserve - see below. Interest is receivable on a monthly basis.

The foreign currency obligatory reserve requirement at 31 December 2002 represented 19% (2001: 19%) of both foreign currency personal and corporate deposits and foreign currency borrowings. At 31 December 2002 the Group and the Bank held 63% and 40% respectively (2001: 35% and 35%) 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 2002, 25% (2001: 25%) of the total foreign currency obligatory reserve requirement was included in the HRK obligatory reserve and was maintained in HRK in accordance with regulations. Interest is receivable on a monthly basis.



**13 Debt securities**

|  | The Group        |                              | The Bank         |                              |
|--|------------------|------------------------------|------------------|------------------------------|
|  | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| <b>Debt securities available for sale</b>        |                  |                              |                  |                              |
| HZZO bonds                                       | 23,912           | 23,194                       | 23,912           | 23,194                       |
| DAB bonds  | 11,172           | 10,537                       | 11,172           | 10,537                       |
| DAB - Dubrovacka banka rehabilitation bonds      | 890,387          | -                            | 164,638          | -                            |
| Bonds issued by the Ministry of Finance          | 130,735          | 44,496                       | 130,735          | 44,496                       |
| Bonds issued by companies                        | 9,485            | -                            | 9,485            | -                            |
| HBOR bonds                                       | 22,327           | -                            | 22,327           | -                            |
| Foreign government bonds                         | 90,942           | -                            | 90,942           | -                            |
| Bills of exchange issued by companies            | 19,769           | 8,800                        | 18,357           | 8,800                        |
| Investment funds                                 | 4,021            | -                            | -                | -                            |
| <b>Debt securities classified as originated</b>  |                  |                              |                  |                              |
| Public debt                                      | 93,616           | 130,477                      | 93,308           | 130,477                      |
| Housing bonds                                    | 16,311           | 16,153                       | 16,311           | 16,153                       |
| Treasury bills issued by the Ministry of Finance | 9,998            | -                            | 9,998            | -                            |
|  | <b>1,322,675</b> | <b>233,657</b>               | <b>591,185</b>   | <b>233,657</b>               |

HZZO bonds were issued by the National Public Health Care Fund. DAB bonds were issued by the State Agency for Deposit Insurance and Bank Rehabilitation. HBOR bonds were issued by the Croatian Bank for Reconstruction and Development. These securities were issued with a Government guarantee.

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

|                                   | The Group       |                             | The Bank         |                             |
|-----------------------------------|-----------------|-----------------------------|------------------|-----------------------------|
|                                   | 2002<br>HRK'000 | Restated<br>2001<br>HRK'000 | 2002<br>HRK'000  | Restated<br>2001<br>HRK'000 |
| Placements with other banks       | 957,679         | 950,073                     | 748,435          | 947,413                     |
| Loans and advances to other banks | 29,368          | 12,075                      | 1,368            | 12,075                      |
| Placements with subsidiaries      | -               | -                           | 286,528          | -                           |
| Less: impairment allowance        | (11,175)        | (3,770)                     | (8,561)          | (3,770)                     |
|                                   | <b>975,872</b>  | <b>958,378</b>              | <b>1,027,770</b> | <b>955,718</b>              |

## 15 Loans and advances to customers

### a) Analysis by product

|                                    | The Group        |                              | The Bank         |                              |
|------------------------------------|------------------|------------------------------|------------------|------------------------------|
|                                    | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Denominated in HRK                 |                  |                              |                  |                              |
| Individuals                        | 1,879,838        | 625,698                      | 1,009,572        | 625,698                      |
| Companies                          | 1,748,806        | 1,074,987                    | 1,081,520        | 1,074,987                    |
| Denominated in foreign currency    |                  |                              |                  |                              |
| Individuals                        | 19,120           | 89,215                       | 10,099           | 89,215                       |
| Companies                          | 271,930          | 199,551                      | 257,369          | 199,551                      |
| Loans and advances to subsidiaries | -                | -                            | 19,055           | 17,633                       |
|                                    | <b>3,919,694</b> | <b>1,989,451</b>             | <b>2,377,615</b> | <b>2,007,084</b>             |
| Less: impairment allowance         | (756,989)        | (508,442)                    | (534,329)        | (508,442)                    |
|                                    | <b>3,162,705</b> | <b>1,481,009</b>             | <b>1,843,286</b> | <b>1,498,642</b>             |

### b) Movement in impairment allowance for loans to customers and placements with banks

|  | The Group      |  | The Bank       |  |
|--|----------------|--|----------------|--|
|  | HRK'000        |  | HRK'000        |  |
| Balance at 1 January 2002, as restated | 512,212        |  | 512,212        |  |
| On acquisition of subsidiary           | 248,515        |  | -              |  |
| Net charge to income statement         | 52,323         |  | 40,372         |  |
| Amounts written off                    | (50,589)       |  | (17,366)       |  |
| Foreign exchange difference            | 5,703          |  | 7,672          |  |
| <b>Balance at 31 December 2002</b>     | <b>768,164</b> |  | <b>542,890</b> |  |

|  | The Group        |                              | The Bank         |                              |
|--|------------------|------------------------------|------------------|------------------------------|
|  | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| The balance at 31 December consists of impairment allowance against: |                  |                              |                  |                              |
| Loans and advances to customers                                      | (756,989)        | (508,442)                    | (534,329)        | (508,442)                    |
| Placements with, and loans and advances to, other banks              | (11,175)         | (3,770)                      | (8,561)          | (3,770)                      |
|  | <b>(768,164)</b> | <b>(512,212)</b>             | <b>(542,890)</b> | <b>(512,212)</b>             |

c) Concentration of credit risk by industry

The Group and the Bank have the following portfolio concentration by industry sector (gross amounts before specific and general impairment allowance):

|  | The Group        |  | The Bank         |  |
|--|------------------|--|------------------|--|
|  | 2002<br>HRK'000  |  | 2002<br>HRK'000  |  |
| Agriculture, forestry, and fisheries                     | 145,353          |  | 99,340           |  |
| Mining   | 8,730            |  | 8,730            |  |
| Food and drink industry                                  | 102,860          |  | 96,465           |  |
| Textiles and leather industry                            | 6,460            |  | 972              |  |
| Printing and publishing industry                         | 16,818           |  | 14,763           |  |
| Production of non-metal mineral<br>and chemical products | 13,953           |  | 13,953           |  |
| Metal production   | 17,236           |  | 15,982           |  |
| Other manufacturing                                      | 195,065          |  | 168,400          |  |
| Energy, gas and water supply                             | 29,118           |  | 28,661           |  |
| Construction   | 151,519          |  | 135,453          |  |
| Retail and wholesale trade                               | 627,113          |  | 521,730          |  |
| Hotels and restaurants                                   | 109,459          |  | 54,790           |  |
| Transport and communications                             | 108,825          |  | 67,921           |  |
| Financial intermediation                                 | 295,021          |  | 19,290           |  |
| Real estate business                                     | 82,426           |  | 55,366           |  |
| Public administration and defence                        | 20,168           |  | 20,139           |  |
| Education, health and social care                        | 7,373            |  | 6,713            |  |
| Other utilities and social services                      | 59,358           |  | 29,267           |  |
| Foreign entities   | 23,881           |  | 9                |  |
| <b>Total companies</b>                                   | <b>2,020,736</b> |  | <b>1,357,944</b> |  |
| Personal loans   | 1,753,016        |  | 906,241          |  |
| Sole traders   | 145,942          |  | 113,430          |  |
| <b>Total individuals</b>                                 | <b>1,898,958</b> |  | <b>1,019,671</b> |  |
| <b>Total loans</b>                                       | <b>3,919,694</b> |  | <b>2,377,615</b> |  |

## 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         |                              |
|--|------|------------------|------------------------------|------------------|------------------------------|
|  |      | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| <b>Direct exposure</b>                             |      |                  |                              |                  |                              |
| Current account with the Croatian National Bank    | 11   | 65,305           | 55,800                       | 15,975           | 53,078                       |
| Balances with the Croatian National Bank           | 12   | 1,083,746        | 1,253,734                    | 495,946          | 1,253,734                    |
| Treasury bills issued by the Ministry of Finance   | 13   | 9,998            | -                            | 9,998            | -                            |
| DAB bonds  | 13   | 11,172           | 10,537                       | 11,172           | 10,537                       |
| DAB - Dubrovacka banka rehabilitation bonds        | 13   | 890,387          | -                            | 164,638          | -                            |
| Bonds issued by the Ministry of Finance            | 13   | 130,735          | 44,496                       | 130,735          | 44,496                       |
| Public debt  | 13   | 93,616           | 130,477                      | 93,308           | 130,477                      |
| Replacement bonds                                  | 18   | 362,567          | 353,567                      | 362,567          | 353,567                      |
| Housing bonds                                      | 13   | 16,311           | 16,153                       | 16,311           | 16,153                       |
| Accrued interest receivable                        |      | 30,849           | 13,859                       | 15,232           | 13,859                       |
| Loans to state institutions                        |      | 288,539          | 882                          | 754              | 882                          |
| Refinanced borrowings from the Republic of Croatia |      | (66,769)         | (74,950)                     | (57,131)         | (74,950)                     |
| Other borrowings from the Republic of Croatia      |      | (2,120)          | -                            | -                | -                            |
| Accrued interest payable                           |      | (11,099)         | (2,923)                      | (4,183)          | (2,923)                      |
|  |      | <b>2,903,237</b> | <b>1,801,632</b>             | <b>1,255,322</b> | <b>1,798,910</b>             |
| <b>Indirect exposure</b>                           |      |                  |                              |                  |                              |
| HZZO bonds   | 13   | 23,912           | 23,194                       | 23,912           | 23,194                       |
| HBOR bonds   | 13   | 22,327           | -                            | 22,327           | -                            |
| Accrued interest receivable                        |      | 1,074            | 445                          | 1,074            | 445                          |
| HBOR borrowings                                    |      | (289,107)        | (280,688)                    | (215,477)        | (280,688)                    |
| Accrued interest payable                           |      | (463)            | (812)                        | (463)            | (812)                        |
|  |      | <b>(242,257)</b> | <b>(257,861)</b>             | <b>(168,627)</b> | <b>(257,861)</b>             |

The above direct net exposure represents 38% and 25% of the total assets of the Group and the Bank respectively (2001: 34% and 34%). The above indirect net exposure is negative and represents 3% of the total assets of the Group and the Bank (2001: 5%). In addition, at 31 December 2002 the Group and the Bank were the beneficiary of outstanding guarantees from the Ministry of Finance totalling HRK 37.1 million and HRK 37.1 million (2001: HRK 42.1 million and 42.1 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         |                              |
|-------------------------------------|------------------|------------------------------|------------------|------------------------------|
|                                     | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Accrued interest                    | 61,947           | 37,300                       | 38,739           | 37,830                       |
| Accrued fees and commissions        | 4,329            | 233                          | 820              | 244                          |
| Accounts receivable and prepayments | 37,708           | 35,678                       | 30,107           | 34,578                       |
| Other                               | 13,187           | 3,314                        | 1,387            | 827                          |
|                                     | <b>117,171</b>   | <b>76,525</b>                | <b>71,053</b>    | <b>73,479</b>                |

**18 Replacement 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.

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 by the Bank.

**19 Investments in subsidiaries**

The Bank's operating subsidiaries consolidated in the Group financial statements are as follows:

| Name                      | Nature of business                       | Effective holding   |                     |
|---------------------------|--|---------------------|---------------------|
|                           |  | 31 December<br>2002 | 31 December<br>2001 |
| Dubrovacka banka dd       | Banking                                  | 100%                | -                   |
| Dalbank Vrijednosnice doo | Brokerage house                          | 100%                | 100%                |
| Dalbank Invest doo        | Management company<br>of investment fund | 100%                | 100%                |
| Dalbank Consulting doo    | Consulting                               | 100%                | 100%                |
| Dalbank Nekretnine doo    | Real estate                              | 100%                | 100%                |

In March 2002, the Bank acquired 100% of the equity of Dubrovacka banka dd, Dubrovnik for HRK 182.5 million, paid in cash and further recapitalised that bank in the amount of HRK 37 million.

The acquisition in 2001 relates to acquisition of Sisacka banka in December 2001.

These acquisitions had the following effect on the Group assets and liabilities:

|   | 2002        | 2001      |
|---|-------------|-----------|
|   | HRK'000     | HRK'000   |
| Cash reserves   | 138,880     | 60,560    |
| Balances with the Croatian National Bank                | 453,809     | 87,589    |
| Debt securities   | 817,018     | 12,958    |
| Placements with, and loans and advances to, other banks | 458,490     | 142,672   |
| Loans and advances to customers                         | 1,254,321   | 194,975   |
| Accrued interest and other assets                       | 51,759      | 6,581     |
| Other equity securities                                 | 20          | 2,938     |
| Assets acquired in lieu of uncollected receivables      | -           | 15,041    |
| Fixed assets  | 56,560      | 28,527    |
| Current accounts and deposits from banks                | (12,430)    | (51,834)  |
| Current accounts and deposits from customers            | (2,412,013) | (396,624) |
| Borrowings  | (361,271)   | (63,073)  |
| Accrued interest and other liabilities                  | (93,495)    | (5,613)   |
| Provisions for liabilities and charges                  | (168,941)   | (3,480)   |
| Minority interest                                       | -           | (5,782)   |
| Net identifiable assets and liabilities                 | 182,707     | 25,435    |
| Goodwill on acquisition                                 | 36,749      | 23,906    |
| Consideration paid                                      | (219,456)   | (49,341)  |
| Cash and cash equivalents acquired                      | 1,051,179   | 290,821   |
| Acquisition of subsidiary, net of cash acquired         | 831,723     | 241,480   |

**20 Other equity securities**

|   | The Group        |                              | The Bank         |                              |
|---|------------------|------------------------------|------------------|------------------------------|
|   | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| <b>Equity securities available for sale</b> |                  |                              |                  |                              |
| Unlisted securities                         | 11,539           | 9,053                        | 10,922           | 8,892                        |
| Listed or quoted securities                 | 51,653           | 70,412                       | 51,038           | 65,939                       |
|   | <b>63,192</b>    | <b>79,465</b>                | <b>61,960</b>    | <b>74,831</b>                |

Significant investments available for sale are as follows:

| Name                         | Nature of business | Effective holding |                  |
|------------------------------|--------------------|-------------------|------------------|
|                              |                    | 31 December 2002  | 31 December 2001 |
| Brodmerkur dd, Split         | Retail             | 26.12%            | 26.12%           |
| Jadranka dd, Mali Losinj     | Tourism            | 5.36%             | 6.16%            |
| Koncar Zagreb                | Electronics        | 7.89%             | 7.89%            |
| Uljanik dd, Pula             | Shipbuilding       | 0.63%             | 0.63%            |
| Istra dd, Pula               | Retail             | 1.95%             | 1.95%            |
| Marimirna Rovinj             | Fishing            | -                 | 3.57%            |
| Hrvatska stambena stedionica | Banking            | -                 | 6.25%            |
| Naprijed dd, Split           | Publishing         | 37.70%            | 37.70%           |
| Tekstilna industrija Zadar   | Textiles           | 25.61%            | 25.66%           |
| Hotel Imperijal Rab          | Tourism            | 5.80%             | 5.80%            |
| Dubrovkinja Nuova            | Trade              | 23.27%            | 23.27%           |

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

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

|                                | The Group       | The Bank        |
|--------------------------------|-----------------|-----------------|
|                                | 2002<br>HRK'000 | 2002<br>HRK'000 |
| As at 1 January                | 96,710          | 96,710          |
| Purchase of subsidiary         | -               | -               |
| Increases during the year      | 8,659           | 8,659           |
| Sales during the year          | (65,330)        | (65,330)        |
| Net charge to income statement | (5,016)         | (5,016)         |
| <b>As at 31 December</b>       | <b>35,023</b>   | <b>35,023</b>   |

## 22 Fixed assets

### The Group

|                               | Land and       | Furniture      | Motor         | Other        | Assets       | Total         |                |
|-------------------------------|----------------|----------------|---------------|--------------|--------------|---------------|----------------|
|                               | buildings      | and            | vehicles      |              | acquired     |               |                |
|                               | Computers      | equipment      |               | but not      | brought      |               |                |
|                               | HRK'000        | HRK'000        | HRK'000       | HRK'000      | HRK'000      | HRK'000       |                |
| <b>Cost:</b>                  |                |                |               |              |              |               |                |
| As at 1 January 2002          | 192,521        | 78,777         | 70,808        | 7,058        | 706          | 16,892        | 366,762        |
| Purchase of subsidiary        | 54,163         | 36,462         | 23,296        | 1,848        | 249          | 27            | 116,045        |
| Additions                     | 8,499          | 267            | 520           | 3            | 206          | 4,631         | 14,126         |
| Transfers                     | 283            | 1,539          | 3,129         | 129          | 216          | (5,296)       | -              |
| Transfers to other assets     | (2,546)        | (358)          | (511)         | (225)        | (4)          | -             | (3,644)        |
| Disposals and write offs      | (16,805)       | (1,259)        | (2,667)       | (1,242)      | (88)         | (2,011)       | (24,072)       |
| <b>As at 31 December 2002</b> | <b>236,115</b> | <b>115,428</b> | <b>94,575</b> | <b>7,571</b> | <b>1,285</b> | <b>14,243</b> | <b>469,217</b> |
| <b>Depreciation:</b>          |                |                |               |              |              |               |                |
| As at 1 January 2002          | 60,917         | 64,988         | 48,315        | 5,117        | 141          | -             | 179,478        |
| Purchase of subsidiary        | 11,623         | 28,434         | 17,806        | 1,622        | -            | -             | 59,485         |
| Charge for the year           | 5,485          | 11,470         | 7,222         | 820          | 108          | -             | 25,105         |
| Transfers to other assets     | -              | (354)          | (283)         | (137)        | -            | -             | (774)          |
| Disposals and write offs      | (10,098)       | (1,217)        | (2,140)       | (959)        | (88)         | -             | (14,502)       |
| Impairment loss               | -              | -              | -             | -            | -            | 2,538         | 2,538          |
| <b>As at 31 December 2002</b> | <b>67,927</b>  | <b>103,321</b> | <b>70,920</b> | <b>6,463</b> | <b>161</b>   | <b>2,538</b>  | <b>251,330</b> |
| <b>Carrying amount:</b>       |                |                |               |              |              |               |                |
| As at 1 January 2002          | 131,604        | 13,789         | 22,493        | 1,941        | 565          | 16,892        | 187,284        |
| <b>As at 31 December 2002</b> | <b>168,188</b> | <b>12,107</b>  | <b>23,655</b> | <b>1,108</b> | <b>1,124</b> | <b>11,705</b> | <b>217,887</b> |



## Fixed assets

|                               | The Bank              |               |                               |                   |            |               | Assets<br>acquired<br>but not<br>brought<br>into use | Total |
|-------------------------------|-----------------------|---------------|-------------------------------|-------------------|------------|---------------|--|-------|
|                               | Land and<br>buildings | Computers     | Furniture<br>and<br>equipment | Motor<br>vehicles | Other      |               |  |       |
|                               | HRK'000               | HRK'000       | HRK'000                       | HRK'000           | HRK'000    | HRK'000       |  |       |
| <b>Cost:</b>                  |                       |               |                               |                   |            |               |  |       |
| As at 1 January 2002          | 192,521               | 78,201        | 70,192                        | 6,461             | 587        | 16,892        | 364,854  |       |
| Additions                     | -                     | 184           | 520                           | -                 | -          | 3,756         | 4,460  |       |
| Transfers                     | 179                   | 1,076         | 2,950                         | -                 | 216        | (4,421)       | -  |       |
| Disposals                     | (16,805)              | (403)         | (2,229)                       | (800)             | (88)       | (1,984)       | (22,309)   |       |
| <b>As at 31 December 2002</b> | <b>175,895</b>        | <b>79,058</b> | <b>71,433</b>                 | <b>5,661</b>      | <b>715</b> | <b>14,243</b> | <b>347,005</b>                                       |       |
| <b>Depreciation:</b>          |                       |               |                               |                   |            |               |  |       |
| As at 1 January 2002          | 60,917                | 64,638        | 47,985                        | 4,766             | 114        | -             | 178,420  |       |
| Charge for the year           | 4,524                 | 8,138         | 5,178                         | 613               | 61         | -             | 18,514   |       |
| Disposals                     | (10,098)              | (367)         | (1,744)                       | (575)             | (88)       | -             | (12,872)   |       |
| Impairment loss               | -                     | -             | -                             | -                 | -          | 2,538         | 2,538  |       |
| <b>As at 31 December 2002</b> | <b>55,343</b>         | <b>72,409</b> | <b>51,419</b>                 | <b>4,804</b>      | <b>87</b>  | <b>2,538</b>  | <b>186,600</b>                                       |       |
| <b>Carrying amount:</b>       |                       |               |                               |                   |            |               |  |       |
| As at 1 January 2002          | 131,604               | 13,563        | 22,207                        | 1,695             | 473        | 16,892        | 186,434  |       |
| <b>As at 31 December 2002</b> | <b>120,552</b>        | <b>6,649</b>  | <b>20,014</b>                 | <b>857</b>        | <b>628</b> | <b>11,705</b> | <b>160,405</b>                                       |       |

### 23 Goodwill

Goodwill in the Bank's balance sheet represents goodwill arising on acquisition of Istarska banka dd Pula and Sisacka banka dd Sisak, transferred to the Bank's books following its merger with those subsidiary banks as of 30 June 2002. Goodwill in the Group's balance sheet additionally represents goodwill arising on consolidation of Dubrovacka banka dd. The amortisation of goodwill is included in the income statement within "Operating expenses".

|                          | The Group        |                  | The Bank         |                  |
|--------------------------|------------------|------------------|------------------|------------------|
|                          | 2002<br>HRK '000 | 2001<br>HRK '000 | 2002<br>HRK '000 | 2001<br>HRK '000 |
| As at 1 January          | 91,366           | 108,221          | 91,366           | 108,221          |
| Amortisation (Note 9)    | (27,157)         | (16,855)         | (21,645)         | (16,855)         |
| Acquisition (Note 19)    | 36,749           | -                | -                | -                |
| <b>As at 31 December</b> | <b>100,958</b>   | <b>91,366</b>    | <b>69,721</b>    | <b>91,366</b>    |

### 24 Current accounts and deposits from banks

|                                 | The Group        |                              | The Bank         |                              |
|---------------------------------|------------------|------------------------------|------------------|------------------------------|
|                                 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Demand deposits                 |                  |                              |                  |                              |
| Denominated in HRK              | 1,050            | 593                          | 1,050            | 593                          |
| Denominated in foreign currency | 3,157            | 798                          | 2,258            | 798                          |
| Time deposits                   |                  |                              |                  |                              |
| Denominated in HRK              | -                | 5,000                        | -                | 5,000                        |
| Denominated in foreign currency | 65,305           | 7,715                        | 28,092           | 7,715                        |
| Deposits from subsidiaries      | -                | -                            | 96,210           | -                            |
|                                 | <b>69,512</b>    | <b>14,106</b>                | <b>127,610</b>   | <b>14,106</b>                |

**25 Current accounts and deposits from customers**

|   | The Group        |                              | The Bank         |                              |
|---|------------------|------------------------------|------------------|------------------------------|
|   | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| <b>Individuals</b>                              |                  |                              |                  |                              |
| Demand deposits                                 |                  |                              |                  |                              |
| Denominated in HRK                              | 480,412          | 330,874                      | 342,912          | 330,874                      |
| Denominated in foreign currency                 | 1,568,226        | 1,239,914                    | 1,085,722        | 1,239,914                    |
| Time deposits                                   |                  |                              |                  |                              |
| Denominated in HRK                              | 207,314          | 76,449                       | 124,580          | 76,449                       |
| Denominated in foreign currency                 | 2,945,736        | 1,645,403                    | 1,569,069        | 1,645,403                    |
| Frozen deposits                                 | 37,767           | 110,196                      | 37,767           | 110,196                      |
| <b>Companies</b>                                |                  |                              |                  |                              |
| Demand deposits                                 |                  |                              |                  |                              |
| Denominated in HRK                              | 590,484          | 427,068                      | 442,255          | 427,068                      |
| Denominated in foreign currency                 | 94,894           | 102,308                      | 69,303           | 102,308                      |
| Time deposits                                   |                  |                              |                  |                              |
| Denominated in HRK                              | 332,508          | 186,092                      | 226,875          | 186,092                      |
| Denominated in foreign currency                 | 102,144          | 61,215                       | 43,252           | 61,215                       |
| Current accounts and deposits from subsidiaries | -                | -                            | 26,608           | -                            |
|   | <b>6,359,485</b> | <b>4,179,519</b>             | <b>3,968,343</b> | <b>4,179,519</b>             |

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.

## 26 Borrowings

|                              | The Group        |                              | The Bank         |                              |
|------------------------------|------------------|------------------------------|------------------|------------------------------|
|                              | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Ministry of Finance          | 68,889           | 74,950                       | 57,131           | 74,950                       |
| Other domestic sources       | 310,236          | 347,744                      | 231,525          | 347,744                      |
| Foreign banks                | 201,552          | 169,176                      | 105,292          | 169,176                      |
| Borrowings from subsidiaries | -                | -                            | 28,000           | -                            |
|                              | <b>580,677</b>   | <b>591,870</b>               | <b>421,948</b>   | <b>591,870</b>               |

## 27 Accrued interest and other liabilities

|                                 | The Group        |                              | The Bank         |                              |
|---------------------------------|------------------|------------------------------|------------------|------------------------------|
|                                 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Accrued interest and fees       | 94,958           | 43,160                       | 32,218           | 43,173                       |
| Creditors                       | 20,187           | 14,513                       | 10,214           | 11,854                       |
| Salaries and payroll deductions | 16,776           | 5,894                        | 11,251           | 5,505                        |
| Other liabilities               | 38,819           | 21,267                       | 25,628           | 20,934                       |
| Corporate income tax liability  | 2,000            | 543                          | -                | -                            |
|                                 | <b>172,740</b>   | <b>85,377</b>                | <b>79,311</b>    | <b>81,466</b>                |

## 28 Provisions for liabilities and charges

### a) Provisions

|  | The Group        |                              | The Bank         |                              |
|--|------------------|------------------------------|------------------|------------------------------|
|  | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Specific provision for off balance sheet items | 30,663           | 17,140                       | 3,617            | 17,140                       |
| Provision for litigation                       | 19,254           | 10,797                       | 10,292           | 10,797                       |
| Provision for redundancy                       | 3,034            | -                            | 58               | -                            |
|  | <b>52,951</b>    | <b>27,937</b>                | <b>13,967</b>    | <b>27,937</b>                |

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

|  | The Group        |                              | The Bank         |                              |
|--|------------------|------------------------------|------------------|------------------------------|
|  | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Balance at 1 January                     | 27,937           | 42,879                       | 27,937           | 42,879                       |
| Purchased subsidiary                     | 168,941          | -                            | -                | -                            |
| Net release to income statement (note 8) | (25,655)         | (15,912)                     | (8,302)          | (15,912)                     |
| Amounts written off                      | (120,797)        | -                            | (5,668)          | -                            |
| Foreign currency difference              | 2,525            | 970                          | -                | 970                          |
| <b>Balance at 31 December</b>            | <b>52,951</b>    | <b>27,937</b>                | <b>13,967</b>    | <b>27,937</b>                |

## c) Litigation

### Registration

The merger of Istarska banka and Sisacka banka into Dalmatinska banka and subsequent registration of Dalmatinska banka (now renamed Nova banka) has been disputed in Court by a small number of shareholders of the former Istarska banka. The Bank's management is of the opinion that the Court will rule in favour of the Bank.

### Other litigation

The State Directory for Commodity Reserves started legal proceeding against Nova 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 Nova banka to Diona dd in favour of the State Directory for Commodity Reserves. The Commercial Court in Rijeka ruled in favour of Nova banka in 2001. The State Directory for Commodity Reserves has appealed to the High Commercial Court in Zagreb. The High Commercial Court returned the case to the Court in Pula, which reconfirmed the ruling of the Court in Rijeka. The claimant appealed to Municipal Court. 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 Nova banka and required payment in the amount of DEM 2,000 thousand plus interest calculated at the rate on the 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 Nova banka to a bank from Bosnia and Herzegovina in favour of the bank from Croatia. The Commercial Court in Rijeka has ruled in favour of the bank from Croatia in 2000. However, Nova banka appealed to the High Commercial Court, which overturned the ruling of the first court and returned the case to be reheard at the first court because of insufficient evidence of the facts in the first ruling. Due to the uncertain outcome Nova banka provided 50% against the claim in the financial statements.

A company has made legal claim against the Bank and required payment in the amount of HRK 2,482 thousand increased for penalty interest from 1 January 2000. In January 2003 the Bank concluded an out of court settlement with the claimant in the amount of HRK 3,605 thousand. The related amount is fully provided in the financial statements.

### d) Capital commitments

As at 31 December 2002 the Bank and the Group had no capital commitments.

**29 Share capital**

|   | Number of<br>authorised<br>and issued<br>ordinary<br>shares | Nominal<br>value of<br>ordinary<br>shares | Number of<br>authorised<br>and issued<br>preference<br>shares | Nominal<br>value of<br>preference<br>shares | Total<br>HRK '000 |
|---|---|---|---|---|-------------------|
| At 1 January 2002 as<br>previously reported | 1,500,000   | HRK 200                                   | -   | -   | 300,000           |
| Issue of shares on merger                   | 71,393  | HRK 200                                   | 5   | HRK 200                                     | 14,280            |
| At 1 January 2002 as restated               | 1,571,393   | HRK 200                                   | 5   | HRK 200                                     | 314,280           |
| Issue of shares during 2002                 | 555,000   | HRK 200                                   | -   | -   | 111,000           |
| At 31 December 2002                         | 2,126,393   | HRK 200                                   | 5   | HRK 200                                     | 425,280           |

Issue of shares on merger represents shares issued to minority shareholders of Istarska banka and Sisacka banka. Issue of shares during 2002 represents new shares issued to SEEF Holdings and Reginter.

The following shareholders of the Bank have a holding in excess of 3%:

|                        | Effective holding |                  |
|------------------------|-------------------|------------------|
|                        | 31 December 2002  | 31 December 2001 |
| Reginter doo           | 66.75%            | 90.49%           |
| SEEF Holdings Limited  | 23.18%            | -                |
| SWR Investment Limited | 4.84%             | 6.87%            |

**30 Minority interest**

|   | 2002<br>HRK'000 |
|---|-----------------|
| At the beginning of the year as previously reported | 19,834          |
| Effect of the merger                                | (19,834)        |
| At the beginning of the year as restated            | -               |
| Changes during the year                             | -               |
| At the end of the year                              | -               |

### 31 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:

|   | The Group        |                              | The Bank         |                              |
|---|------------------|------------------------------|------------------|------------------------------|
|   | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Cash reserves   | 290,218          | 450,490                      | 153,492          | 447,761                      |
| Balances with the Croatian National Bank                | 1,083,746        | 1,253,734                    | 495,946          | 1,253,734                    |
| Placements with, and loans and advances to, other banks | 971,905          | 958,378                      | 797,059          | 955,718                      |
|   | <b>2,345,869</b> | <b>2,662,602</b>             | <b>1,446,497</b> | <b>2,657,213</b>             |

### 32 Contingent liabilities and commitments

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

|                        | The Group        |                              | The Bank         |                              |
|------------------------|------------------|------------------------------|------------------|------------------------------|
|                        | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 | 2002<br>HRK '000 | Restated<br>2001<br>HRK '000 |
| Finance guarantees     | 153,956          | 143,876                      | 108,317          | 143,876                      |
| Performance guarantees | 58,836           | 43,290                       | 40,172           | 43,290                       |
| Letters of credit      | 45,686           | 89,584                       | 36,429           | 89,584                       |
| Commitments for loans  | 276,071          | 112,703                      | 204,790          | 112,703                      |
| Other                  | 1,878            | -                            | -                | -                            |
|                        | 536,427          | 389,453                      | 389,708          | 389,453                      |
| Less: Provision        | (30,663)         | (17,140)                     | (3,617)          | (17,140)                     |
|                        | <b>505,764</b>   | <b>372,313</b>               | <b>386,091</b>   | <b>372,313</b>               |

#### Loans granted to employees for the purchase of Dubrovacka banka's ('DB') shares

In 1995 DB sold 3,095 shares to employees and funded the sale by providing loans to employees in the amount of HRK 23 million repayable in six annual instalments. The shares were pledged to DB as collateral for the loans and any dividends entitlements were to be used for repayment of the loans. The loans were never serviced by the employees and were fully provided for in the year 2000.

In April 2003 the Management and Supervisory Boards of DB, based on independent legal advice, established that the whole transaction, including the loan agreement, is legally void. Accordingly the loans were derecognised in DB's and the Group's books as at 31 December 2002, and DB and the Bank are of the opinion that this will not result in any personal income tax and social security liabilities. No provision has been raised in the financial statements in this respect.



### 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, except for recharges from Charlemagne Capital Ltd., which are based on the cost incurred, excluding any mark-up.

In accordance with shareholders' agreement between Reginter doo ("Reginter") and SWR Investment Limited ("SWR"), Charlemagne Capital Ltd., a management company, can exercise management rights over SWR and Reginter.

At year end, and during the year, the Bank had the following balances or transactions with its subsidiaries:

|                           | 2002<br>HRK'ooo |
|---------------------------|-----------------|
| <b>Receivables from:</b>  |                 |
| Dubrovacka banka dd       | 287,390         |
| Dalbank Invest doo        | 19,061          |
| Dalbank Nekretnine doo    | 214             |
| Dalbank Consulting doo    | 19              |
|                           | 306,684         |
| <b>Payables to:</b>       |                 |
| Dubrovacka banka dd       | (125,201)       |
| Dalbank Invest doo        | (26,297)        |
| Dalbank Nekretnine doo    | (120)           |
| Dalbank Vrijednosnice doo | (354)           |
|                           | (151,972)       |
|                           | 154,712         |
| <b>Total income</b>       | <b>7,431</b>    |
| <b>Total expenses</b>     | <b>(3,894)</b>  |

The management of the Bank is of the opinion that the preparation of comparable information is not practical due to the merger.

At year end and during the year, the Bank had the following balances or transactions with Charlemagne Capital Ltd.:

|   | 2002<br>HRK'ooo |
|---|-----------------|
| <b>Total management and similar charges</b> | <b>17,568</b>   |
| <b>Payables at year end</b>                 | <b>2,624</b>    |

At year end the Bank disposed of a building with a net book value of HRK 4,977 thousand to its subsidiary Dalbank Invest for HRK 19,055 thousand. The related gain on disposal of the building of HRK 14,078 thousand was reversed on consolidation.

At year end the Bank had also disposed of one of the buildings acquired in lieu of uncollected receivables with a net book value of HRK 2,400 thousand to its subsidiary Dalbank Vrijednosnice at HRK 2,400 thousand.

Derecognition of loans to employees in Dubrovacka banka is further discussed in Note 32.

### 34 Maturity analysis

The remaining contractual maturity of the Group's and the Bank's assets and liabilities as at 31 December 2002 is presented in the tables below.

| The Group  |                  |                        |                       |                      |                  |                  |
|--|------------------|------------------------|-----------------------|----------------------|------------------|------------------|
|  | Up to 1<br>month | 1 month to<br>3 months | 3 months<br>to 1 year | 1 year to<br>3 years | Over<br>3 years  | Total            |
|  | HRK'000          | HRK'000                | HRK'000               | HRK'000              | HRK'000          | HRK'000          |
| <b>Assets</b>  |                  |                        |                       |                      |                  |                  |
| Cash reserves  | 290,218          | -                      | -                     | -                    | -                | 290,218          |
| Balances with<br>the Croatian National Bank                | 1,069,548        | 14,198                 | -                     | -                    | -                | 1,083,746        |
| Debt securities  | 57,204           | 878                    | 163,124               | 526,456              | 575,013          | 1,322,675        |
| Placements with, and loans<br>and advances to, other banks | 968,760          | 3,145                  | 3,849                 | -                    | 118              | 975,872          |
| Loans and advances<br>to customers                         | 802,647          | 142,452                | 384,492               | 892,566              | 940,548          | 3,162,705        |
| Accrued interest<br>and other assets                       | 94,919           | 9,542                  | 11,482                | 1,228                | -                | 117,171          |
| Replacement bonds  | -                | -                      | -                     | -                    | 362,567          | 362,567          |
| Other equity securities                                    | 615              | -                      | 617                   | 61,960               | -                | 63,192           |
| Assets acquired in lieu of<br>uncollected receivables      | -                | -                      | -                     | -                    | 35,023           | 35,023           |
| Fixed assets   | -                | -                      | -                     | -                    | 217,887          | 217,887          |
| Goodwill   | -                | -                      | -                     | -                    | 100,958          | 100,958          |
| <b>Total assets</b>  | <b>3,283,911</b> | <b>170,215</b>         | <b>563,564</b>        | <b>1,482,210</b>     | <b>2,232,114</b> | <b>7,732,014</b> |
| <b>Liabilities and<br/>shareholders' equity</b>            |                  |                        |                       |                      |                  |                  |
| Current accounts and<br>deposits from banks                | 69,512           | -                      | -                     | -                    | -                | 69,512           |
| Current accounts and deposits<br>from customers            | 3,702,059        | 1,063,430              | 1,249,509             | 228,514              | 115,973          | 6,359,485        |
| Borrowings   | 32,880           | 21,010                 | 80,454                | 247,583              | 198,750          | 580,677          |
| Accrued interest and<br>other liabilities                  | 123,797          | 20,488                 | 28,455                | -                    | -                | 172,740          |
| Provisions for liabilities<br>and charges                  | 69               | 768                    | 12,317                | 13,008               | 26,789           | 52,951           |
| Share capital and reserves                                 | -                | -                      | -                     | -                    | 496,649          | 496,649          |
| <b>Total liabilities and<br/>shareholders' equity</b>      | <b>3,928,317</b> | <b>1,105,696</b>       | <b>1,370,735</b>      | <b>489,105</b>       | <b>838,161</b>   | <b>7,732,014</b> |
| <b>Maturity gap</b>  | <b>(644,406)</b> | <b>(935,481)</b>       | <b>(807,171)</b>      | <b>993,105</b>       | <b>1,393,953</b> | <b>-</b>         |

## The Bank

|  | Up to 1<br>month | 1 month to<br>3 months | 3 months<br>to 1 year | 1 year to<br>3 years | Over<br>3 years  | Total            |
|--|------------------|------------------------|-----------------------|----------------------|------------------|------------------|
|  | HRK'000          | HRK'000                | HRK'000               | HRK'000              | HRK'000          | HRK'000          |
| <b>Assets</b>  |                  |                        |                       |                      |                  |                  |
| Cash reserves  | 153,492          | -                      | -                     | -                    | -                | 153,492          |
| Balances with<br>the Croatian National Bank                | 481,748          | 14,198                 | -                     | -                    | -                | 495,946          |
| Debt securities  | 53,117           | 747                    | 60,401                | 174,868              | 302,052          | 591,185          |
| Placements with, and loans<br>and advances to, other banks | 778,453          | 18,606                 | 74,423                | 156,288              | -                | 1,027,770        |
| Loans and advances<br>to customers                         | 595,152          | 94,125                 | 226,913               | 294,053              | 633,043          | 1,843,286        |
| Accrued interest<br>and other assets                       | 69,906           | -                      | 1,147                 | -                    | -                | 71,053           |
| Replacement bonds  | -                | -                      | -                     | -                    | 362,567          | 362,567          |
| Investments in subsidiaries                                | -                | -                      | 4,183                 | -                    | 220,956          | 225,139          |
| Other equity securities                                    | -                | -                      | -                     | 61,960               | -                | 61,960           |
| Assets acquired in lieu of<br>uncollected receivables      | -                | -                      | -                     | -                    | 35,023           | 35,023           |
| Fixed assets   | -                | -                      | -                     | -                    | 160,405          | 160,405          |
| Goodwill   | -                | -                      | -                     | -                    | 69,721           | 69,721           |
| <b>Total assets</b>  | <b>2,131,868</b> | <b>127,676</b>         | <b>367,067</b>        | <b>687,169</b>       | <b>1,783,767</b> | <b>5,097,547</b> |
| <b>Liabilities and<br/>shareholders' equity</b>            |                  |                        |                       |                      |                  |                  |
| Current accounts and<br>deposits from banks                | 31,610           | -                      | 74,000                | 22,000               | -                | 127,610          |
| Current accounts and<br>deposits from customers            | 2,686,297        | 637,374                | 534,789               | 71,210               | 38,673           | 3,968,343        |
| Borrowings   | 52,823           | 13,570                 | 45,979                | 140,608              | 168,968          | 421,948          |
| Accrued interest and<br>other liabilities                  | 79,311           | -                      | -                     | -                    | -                | 79,311           |
| Provisions for liabilities<br>and charges                  | -                | -                      | -                     | -                    | 13,967           | 13,967           |
| Share capital and reserves                                 | -                | -                      | -                     | -                    | 486,368          | 486,368          |
| <b>Total liabilities and<br/>shareholders' equity</b>      | <b>2,850,041</b> | <b>650,944</b>         | <b>654,768</b>        | <b>233,818</b>       | <b>707,976</b>   | <b>5,097,547</b> |
| <b>Maturity gap</b>  | <b>(718,173)</b> | <b>(523,268)</b>       | <b>(287,701)</b>      | <b>453,351</b>       | <b>1,075,791</b> | <b>-</b>         |

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

The Bank and the Group are 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 2002 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.

#### The Group

|   | Up to            | 1 month          | 3 months         | Over 1           | Non            | Total            | Fixed            |
|---|------------------|------------------|------------------|------------------|----------------|------------------|------------------|
|   | 1 month          | to 3             | to 1             | year             | interest       |                  |                  |
|   | HRK'000          | HRK'000          | HRK'000          | HRK'000          | HRK'000        | HRK'000          | HRK'000          |
| <b>Assets</b>                               |                  |                  |                  |                  |                |                  |                  |
| Cash reserves                               | 93,578           | -                | -                | -                | 196,640        | 290,218          | -                |
| Balances with the                           |                  |                  |                  |                  |                |                  |                  |
| Croatian National Bank                      | 1,069,548        | 14,198           | -                | -                | -              | 1,083,746        | 165,374          |
| Debt securities                             | 36,872           | 878              | 162,816          | 1,101,469        | 20,640         | 1,322,675        | 1,302,077        |
| Placements with, and loans                  |                  |                  |                  |                  |                |                  |                  |
| and advances to, other banks                | 968,760          | 3,145            | 3,849            | -                | 118            | 975,872          | 751,528          |
| Loans and advances to customers             | 1,516,271        | 127,529          | 325,811          | 1,193,094        | -              | 3,162,705        | 801,352          |
| Accrued interest and other assets           | -                | -                | -                | -                | 117,171        | 117,171          | -                |
| Replacement bonds                           | -                | -                | -                | 362,567          | -              | 362,567          | 362,567          |
| Other equity securities                     | -                | -                | -                | -                | 63,192         | 63,192           | -                |
| Assets acquired in lieu of                  |                  |                  |                  |                  |                |                  |                  |
| uncollected receivables                     | -                | -                | -                | -                | 35,023         | 35,023           | -                |
| Fixed assets                                | -                | -                | -                | -                | 217,887        | 217,887          | -                |
| Goodwill                                    | -                | -                | -                | -                | 100,958        | 100,958          | -                |
| <b>Total assets</b>                         | <b>3,685,029</b> | <b>145,750</b>   | <b>492,476</b>   | <b>2,657,130</b> | <b>751,629</b> | <b>7,732,014</b> | <b>3,382,898</b> |
| <b>Liabilities and shareholders' equity</b> |                  |                  |                  |                  |                |                  |                  |
| Current accounts and deposits               |                  |                  |                  |                  |                |                  |                  |
| from banks                                  | 69,512           | -                | -                | -                | -              | 69,512           | 68,821           |
| Current accounts and deposits               |                  |                  |                  |                  |                |                  |                  |
| from customers                              | 3,860,287        | 978,367          | 1,203,262        | 308,549          | 9,020          | 6,359,485        | 2,052,063        |
| Borrowings                                  | 44,239           | 15,016           | 214,330          | 307,092          | -              | 580,677          | 282,488          |
| Accrued interest and other liabilities      | -                | -                | -                | -                | 172,740        | 172,740          | -                |
| Provisions for liabilities and charges      | -                | -                | -                | -                | 52,951         | 52,951           | -                |
| Share capital and reserves                  | -                | -                | -                | -                | 496,649        | 496,649          | -                |
| <b>Total liabilities and</b>                |                  |                  |                  |                  |                |                  |                  |
| <b>shareholders' equity</b>                 | <b>3,974,038</b> | <b>993,383</b>   | <b>1,417,592</b> | <b>615,641</b>   | <b>731,360</b> | <b>7,732,014</b> | <b>2,403,372</b> |
| <b>Interest rate gap</b>                    | <b>(289,009)</b> | <b>(847,633)</b> | <b>(925,116)</b> | <b>2,041,489</b> | <b>20,269</b>  | <b>-</b>         | <b>979,526</b>   |

The Bank

|  | Up to<br>1 month | 1 month<br>to 3<br>months | 3 months<br>to 1<br>year | Over 1<br>year   | Non<br>interest<br>bearing | Total            | Fixed<br>interest<br>rates |
|--|------------------|---------------------------|--------------------------|------------------|----------------------------|------------------|----------------------------|
|  | HRK'000          | HRK'000                   | HRK'000                  | HRK'000          | HRK'000                    | HRK'000          | HRK'000                    |
| <b>Assets</b>  |                  |                           |                          |                  |                            |                  |                            |
| Cash reserves  | 38,424           | -                         | -                        | -                | 115,068                    | 153,492          | -                          |
| Balances with the<br>Croatian National Bank                | 481,748          | 14,198                    | -                        | -                | -                          | 495,946          | 35,625                     |
| Debt securities  | 36,806           | 747                       | 60,401                   | 476,920          | 16,311                     | 591,185          | 574,916                    |
| Placements with, and loans<br>and advances to, other banks | 778,453          | 18,606                    | 74,423                   | 156,288          | -                          | 1,027,770        | 803,381                    |
| Loans and advances to<br>customers                         | 1,308,776        | 79,202                    | 168,232                  | 287,076          | -                          | 1,843,286        | 534,510                    |
| Accrued interest and<br>other assets                       | -                | -                         | -                        | -                | 71,053                     | 71,053           | -                          |
| Replacement bonds  | -                | -                         | -                        | 362,567          | -                          | 362,567          | 362,567                    |
| Investments in subsidiaries                                | -                | -                         | -                        | -                | 225,139                    | 225,139          | -                          |
| Other equity securities                                    | -                | -                         | -                        | -                | 61,960                     | 61,960           | -                          |
| Assets acquired in lieu of<br>uncollected receivables      | -                | -                         | -                        | -                | 35,023                     | 35,023           | -                          |
| Fixed assets   | -                | -                         | -                        | -                | 160,405                    | 160,405          | -                          |
| Goodwill   | -                | -                         | -                        | -                | 69,721                     | 69,721           | -                          |
| <b>Total assets</b>  | <b>2,644,207</b> | <b>112,753</b>            | <b>303,056</b>           | <b>1,282,851</b> | <b>754,680</b>             | <b>5,097,547</b> | <b>2,310,999</b>           |
| <b>Liabilities and shareholders' equity</b>                |                  |                           |                          |                  |                            |                  |                            |
| Current accounts and deposits<br>from banks                | 31,610           | -                         | 96,000                   | -                | -                          | 127,610          | 31,610                     |
| Current accounts and<br>deposits from customers            | 2,844,525        | 552,311                   | 488,542                  | 73,945           | 9,020                      | 3,968,343        | 1,114,798                  |
| Borrowings   | 64,182           | 7,576                     | 179,855                  | 170,335          | -                          | 421,948          | 231,034                    |
| Accrued interest and other liabilities                     | -                | -                         | -                        | -                | 79,311                     | 79,311           | -                          |
| Provisions for liabilities and charges                     | -                | -                         | -                        | -                | 13,967                     | 13,967           | -                          |
| Share capital and reserves                                 | -                | -                         | -                        | -                | 486,368                    | 486,368          | -                          |
| <b>Total liabilities and<br/>shareholders' equity</b>      | <b>2,940,317</b> | <b>559,887</b>            | <b>764,397</b>           | <b>244,280</b>   | <b>588,666</b>             | <b>5,097,547</b> | <b>1,377,442</b>           |
| <b>Interest rate gap</b>                                   | <b>(296,110)</b> | <b>(447,134)</b>          | <b>(461,341)</b>         | <b>1,038,571</b> | <b>166,014</b>             | <b>-</b>         | <b>933,557</b>             |

### 36 Average effective interest rates

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

|  | The Group        |                       | The Bank         |                       |
|--|------------------|-----------------------|------------------|-----------------------|
|  | 2002<br>HRK '000 | Interest<br>rate<br>% | 2002<br>HRK '000 | Interest<br>rate<br>% |
| Cash reserves  | 290,218          | 0.34                  | 153,492          | 0.48                  |
| Balances with the Croatian National Bank                   | 1,083,746        | 1.84                  | 495,946          | 1.95                  |
| Debt securities  | 1,322,675        | 6.19                  | 591,185          | 5.23                  |
| Placements with, and loans and advances to,<br>other banks | 975,872          | 2.06                  | 1,027,770        | 2.78                  |
| Loans and advances to customers                            | 3,162,705        | 9.96                  | 1,843,286        | 10.42                 |
| Replacement bonds  | 362,567          | 5.00                  | 362,567          | 5.00                  |
|  | <b>7,197,783</b> |                       | <b>4,474,246</b> |                       |
| Current accounts and deposits from banks                   | 69,512           | 3.22                  | 127,610          | 4.56                  |
| Current accounts and deposits from customers               | 6,359,485        | 3.15                  | 3,968,343        | 2.60                  |
| Borrowings   | 580,677          | 4.90                  | 421,948          | 4.13                  |
|  | <b>7,009,674</b> |                       | <b>4,517,901</b> |                       |

**37 Foreign exchange positions**

The Group and the Bank had the following foreign exchange positions as at 31 December 2002.

|   | The Group          |                   |                  |                  |                  |                       |                  |
|---|--------------------|-------------------|------------------|------------------|------------------|-----------------------|------------------|
|   | EUR                | EUR               | Total EUR        | USD              | HRK              | Other                 | Total            |
|   | HRK'000            | linked<br>HRK'000 | HRK'000          | HRK'000          | HRK'000          | currencies<br>HRK'000 | HRK'000          |
| <b>Assets</b>   |                    |                   |                  |                  |                  |                       |                  |
| Cash reserves   | 62,660             | -                 | 62,660           | 56,199           | 134,587          | 36,772                | 290,218          |
| Balances with the Croatian National Bank                | 74,423             | -                 | 74,423           | 418,408          | 590,915          | -                     | 1,083,746        |
| Debt securities   | 129,745            | 1,043,800         | 1,173,545        | 115,872          | 33,258           | -                     | 1,322,675        |
| Placements with, and loans and advances to, other banks | 212,110            | 118               | 212,228          | 600,521          | 80               | 163,043               | 975,872          |
| Loans and advances to customers                         | 182,122            | 2,487,800         | 2,669,922        | 114,041          | 376,946          | 1,796                 | 3,162,705        |
| Accrued interest and other assets                       | 5,496              | 20,700            | 26,196           | 5,494            | 84,860           | 621                   | 117,171          |
| Replacement bonds                                       | -                  | -                 | -                | -                | 362,567          | -                     | 362,567          |
| Other equity securities                                 | -                  | -                 | -                | -                | 63,192           | -                     | 63,192           |
| Assets acquired in lieu of uncollected receivables      | -                  | -                 | -                | -                | 35,023           | -                     | 35,023           |
| Fixed assets  | -                  | -                 | -                | -                | 217,887          | -                     | 217,887          |
| Goodwill  | -                  | -                 | -                | -                | 100,958          | -                     | 100,958          |
| <b>Total assets</b>                                     | <b>666,556</b>     | <b>3,552,418</b>  | <b>4,218,974</b> | <b>1,310,535</b> | <b>2,000,273</b> | <b>202,232</b>        | <b>7,732,014</b> |
| <b>Liabilities and shareholders' equity</b>             |                    |                   |                  |                  |                  |                       |                  |
| Current accounts and deposits from banks                | 67,091             | -                 | 67,091           | 907              | 1,260            | 254                   | 69,512           |
| Current accounts and deposits from customers            | 3,308,222          | 254,710           | 3,562,932        | 1,225,998        | 1,382,034        | 188,521               | 6,359,485        |
| Borrowings  | 206,104            | 263,399           | 469,503          | 58,595           | 44,508           | 8,071                 | 580,677          |
| Accrued interest and other liabilities                  | 11,798             | 53,942            | 65,740           | 2,065            | 104,507          | 428                   | 172,740          |
| Provisions for liabilities and charges                  | 10,955             | 3,800             | 14,755           | 13,339           | 24,857           | -                     | 52,951           |
| Share capital and reserves                              | -                  | -                 | -                | -                | 496,649          | -                     | 496,649          |
| <b>Total liabilities and shareholders' equity</b>       | <b>3,604,170</b>   | <b>575,851</b>    | <b>4,180,021</b> | <b>1,300,904</b> | <b>2,053,815</b> | <b>197,274</b>        | <b>7,732,014</b> |
| <b>Net foreign exchange position</b>                    | <b>(2,937,614)</b> | <b>2,976,567</b>  | <b>38,953</b>    | <b>9,631</b>     | <b>(53,542)</b>  | <b>4,958</b>          | <b>-</b>         |

The Bank

|   | EUR                |                  | USD              | Other          |                  | Total          |                  |
|---|--------------------|------------------|------------------|----------------|------------------|----------------|------------------|
|   | EUR                | linked           |                  | HRK            | currencies       |                |                  |
|   | HRK'000            | HRK'000          | HRK'000          | HRK'000        | HRK'000          | HRK'000        |                  |
| <b>Assets</b>   |                    |                  |                  |                |                  |                |                  |
| Cash reserves   | 37,722             | -                | 37,722           | 18,848         | 71,939           | 24,983         | 153,492          |
| Balances with the Croatian National Bank                | 74,423             | -                | 74,423           | 126,526        | 294,997          | -              | 495,946          |
| Debt securities   | 129,745            | 317,743          | 447,488          | 115,872        | 27,825           | -              | 591,185          |
| Placements with, and loans and advances to, other banks | 491,163            | -                | 491,163          | 450,223        | 80               | 86,304         | 1,027,770        |
| Loans and advances to customers                         | 143,584            | 1,305,763        | 1,449,347        | 30,815         | 361,328          | 1,796          | 1,843,286        |
| Accrued interest and other assets                       | 4,563              | 2,498            | 7,061            | 3,098          | 60,649           | 245            | 71,053           |
| Replacement bonds                                       | -                  | -                | -                | -              | 362,567          | -              | 362,567          |
| Investments in subsidiaries                             | -                  | -                | -                | -              | 225,139          | -              | 225,139          |
| Other equity securities                                 | -                  | -                | -                | -              | 61,960           | -              | 61,960           |
| Assets acquired in lieu of uncollected receivables      | -                  | -                | -                | -              | 35,023           | -              | 35,023           |
| Fixed assets  | -                  | -                | -                | -              | 160,405          | -              | 160,405          |
| Goodwill  | -                  | -                | -                | -              | 69,721           | -              | 69,721           |
| <b>Total assets</b>                                     | <b>881,200</b>     | <b>1,626,004</b> | <b>2,507,204</b> | <b>745,382</b> | <b>1,731,633</b> | <b>113,328</b> | <b>5,097,547</b> |
| <b>Liabilities and shareholders' equity</b>             |                    |                  |                  |                |                  |                |                  |
| Current accounts and deposits from banks                | 29,854             | -                | 29,854           | 297            | 97,260           | 199            | 127,610          |
| Current accounts and deposits from customers            | 2,007,061          | 149,805          | 2,156,866        | 699,530        | 1,013,461        | 98,486         | 3,968,343        |
| Borrowings  | 109,844            | 191,693          | 301,537          | 45,983         | 66,357           | 8,071          | 421,948          |
| Accrued interest and other liabilities                  | 4,943              | 66               | 5,009            | 1,673          | 72,355           | 274            | 79,311           |
| Provisions for liabilities and charges                  | -                  | -                | -                | -              | 13,967           | -              | 13,967           |
| Share capital and reserves                              | -                  | -                | -                | -              | 486,368          | -              | 486,368          |
| <b>Total liabilities and shareholders' equity</b>       | <b>2,151,702</b>   | <b>341,564</b>   | <b>2,493,266</b> | <b>747,483</b> | <b>1,749,768</b> | <b>107,030</b> | <b>5,097,547</b> |
| <b>Net foreign exchange position</b>                    | <b>(1,270,502)</b> | <b>1,284,440</b> | <b>13,938</b>    | <b>(2,101)</b> | <b>(18,135)</b>  | <b>6,298</b>   | <b>-</b>         |



### **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 Group and 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 Managed funds for and on behalf of third parties**

The Group manages significant amounts of assets on behalf of third parties which are mainly in the form of loans given by one company to another company through banks within the Group as an agent. Managed funds are accounted for separately from those of the Group. 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 Group in connection with these transactions. The Group is compensated for its service by fees chargeable for services provided.

At 31 December 2002 managed funds for and on behalf of third parties amounted to HRK 47.9 million (2001: HRK 41.9 million) for the Bank.

Group managed funds at 31 December 2002 amounted to HRK 67.9 million (2001: HRK 41.9 million).



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

**Len Steffen, Vice President of Nova banka Supervisory Board**, joined the Charlemagne Capital team in November 2001 as an independent consultant, after which he became the chairman of the Merger Steering Committee (responsible for the merging of Dalmatinska, Istarska and Sisačka banka). Before joining Charlemagne Capital he was a MB member in Rabobank's International responsible for Operations and Finance in the Netherlands. Until 1996 he was a MB member of ABN AMRO Bank's Asian headquarters in Singapore responsible for Operations and Finance.

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

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

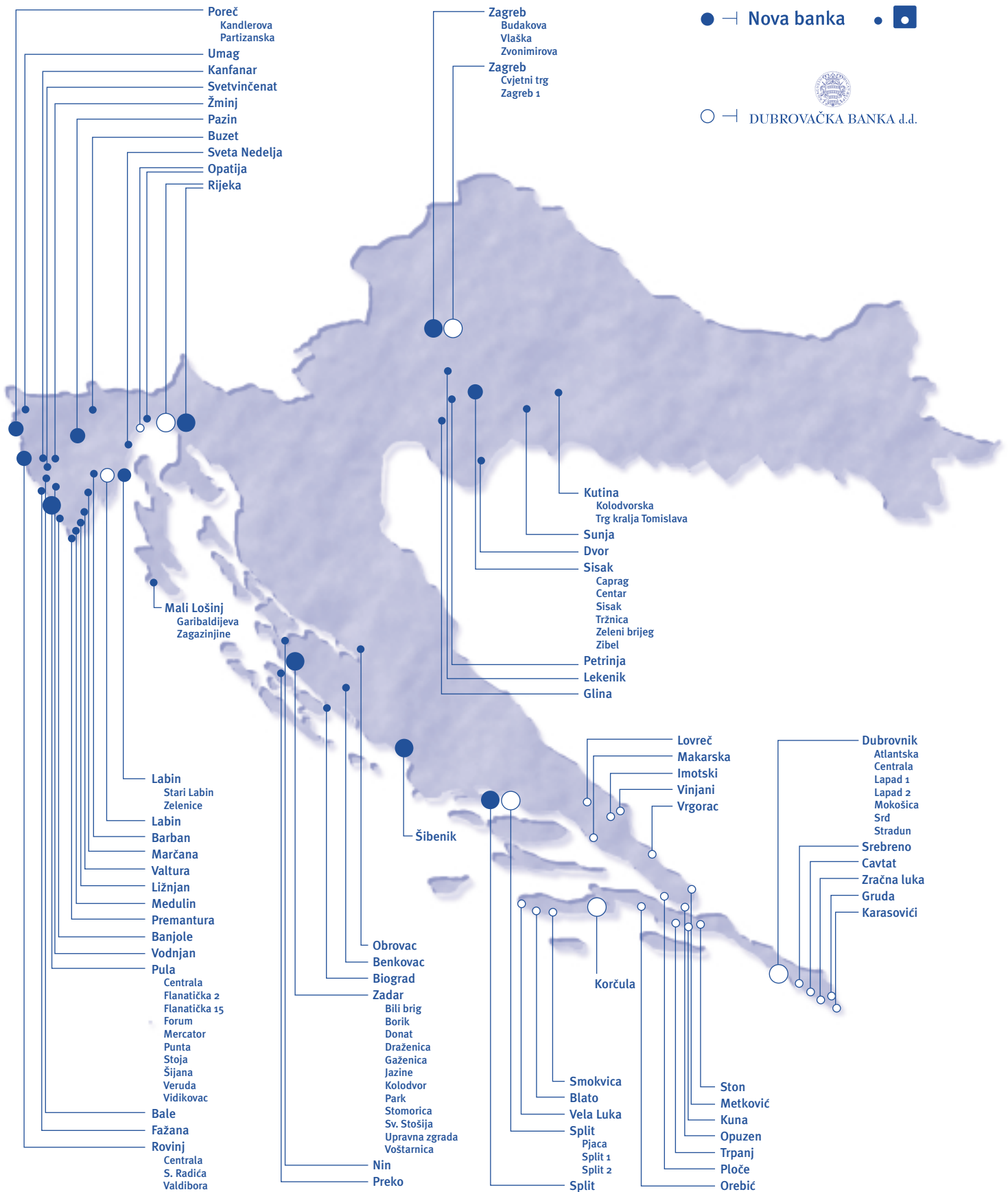
**Ronald Drake, Chairman of Soros Investment Capital Management LLC**. He gained experience in investment and financial sector working in a number of leading positions in some of the largest institutions in this field. Before joining Soros ICM he worked as a Managing Director in Merrill Lynch, one of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

**Davorka Jakir, President of Nova banka Management Board**, graduated at the Faculty of Economics in Zagreb, at the Trade Department. In 1978 she joined Sisačka osnovna banka (the former name of Sisačka banka) to work as a loan officer in the Corporate Banking Division. Soon she was promoted to the position of assistant - specialist within the Division, and in 1992 she became the Division Manager. She specialised in the area of investment project assessment, and she has been intensively working in this area since then. In 1995 she became the director of Sisačka banka, being the first woman at the position of the President of the Management Board. In 2000 she started her second term of office and in the summer of 2002 she was appointed for the President of Nova banka Management Board.

**Zorislav Vidović, member of Nova banka Management Board**, graduated at the Faculty of Economics in Zagreb, at Finance, Banking and Insurance Department, and he is about to finish his post graduate study at the same faculty. In 1992 he obtained a licence for brokerage operations and passed the exam for commercial bank management board members. During the 13 years of employment, he spent 7 years in various 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 Department. On 1 April 2002 he became a member of the Management Board of the Bank. He has been a Supervisory Board member of the former Dalmatinska banka's daughter companies for several years.

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

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