



Annual report for the year
ended 31 December 2001

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REPORT OF THE PRESIDENT OF THE MANAGEMENT BOARD

Dear shareholders and business partners,

On behalf of the Management Board of Sisačka bank, I would like to present you the realised business results in the previous year.

The financial part of the year was characterised by relatively expansive monetary and business policy and by stronger competition among the banks. All of that set up new, bigger demands in front of the banks. We endeavour to help our clients to get over business difficulties, and to offer safe financial support of the real financial partner.

For the previous two years the main term of reference of the Bank's business policy has been orientation towards finding out of the strategic partner, because we observed the banking enlargement process in time.

The Bank's business activities in 2001 were characterised by courageous and steady step forward, which was result of the need to take a position in financial market, whose basic characteristic is emphasised globalisation trend in the circumstances of intensified competition.

We left behind very hard business year; the year characterised by difficulties that affected our long-time big clients and in that way caused the necessity for additional provisions aiming at decrease of business risk and consolidation of the Bank's balance sheet, so that we could remain the safe and reliable bank.

In spite of all difficulties we succeeded to retain the majority of our customers with intensive work on quality improvements of the existing products and implementation of the new ones, in accordance with the market demands.

Together with the new strategic partner, Charlemagne Capital, we are in the course of the process which will lead to outgrow of Sisačka, Dalmatinska and Istarska bank into Nova bank, with the characteristics of strong national bank with articulated regional affiliation.

During the previous year the results of our efforts became visible, and we noticed significant growth in all kinds of deposits in comparison to 2000, and with strengthening of the deposit base we overcame the first obstruction in reaching our long-term goals.

Retail banking activities have been performed to the satisfaction of the both sides, which is obvious from the data concerning increase of savings of 35% in comparison to the previous year. In return we offered more favourable interest rates and other loan conditions. We also offered new products, easily available through the counters of our business network, such as e.g. credit card EUROCARD/MasterCard, supported by effective functioning of ATM network and EFTPOS terminals.

Among the most important activities directed toward the corporate clients, I would like to distinguish the work on the project of the Payment system. In the beginning of the March 2001 our Bank, as the first one in Croatia, started to conduct the payment

transactions independently, and from 15th October 2001 we have kept the accounts of the corporate clients together with performing payment transaction over those accounts.

Information technology in Sisačka bank has always kept step with the newest technological achievements in banking area. Activities of the IT Sector are directed toward continuous improving of system and innovations.

Thanks to own talents and efforts the new products of IT Sector have been developed – credit card EUROCARD/MasterCard and system application for the Payment System.

We consider that the next business year will reflect our efforts and endeavours in the right light, and bring out the expected positions of the banking market.

Allow me to use this opportunity and thank to all our faithful clients and shareholders for their confidence, to the Supervisory Board for ardent support in the previous year, and to the members of the Management Board and employees for highly professional, constant and devoted work.

President of the Management Board

A handwritten signature in black ink, appearing to read 'Jakir', written in a cursive style.

Davorka Jakir, B.S.Econ.

SUPERVISORY BOARD

REPORT OF THE PRESIDENT OF THE SUPERVISORY BOARD

During 2001 the Supervisory Board held 11 meetings, on which was discussed about material – financial activities of Sisačka banka d.d. in previous period.

All decisions were based upon the law and other by-laws of the Bank. Annual financial report was made in accordance with the business records, and shows correctly proprietary and financial position of the Bank. This conclusion is based upon auditor's report, in which they stated that financial reports presented, in all significant aspects, the financial position of the Bank, the results of its operations and changes in cash flows for the year then ended in accordance with International Accounting Standards. Because of the aforesaid, Supervisory Board suggests to make a Decision about acceptance of basic financial reports, annual financial report, and the decisions about the use of profit.

Because of that Supervisory Board propose to issue an act of release – and to make a decision which approves work to the members of the Management Board.

Regarding to the Decision about the choice of the auditors, the Supervisory Board considers the proposed decision reasonable, because it is the question of the company which has already performed audit for the previous year and has experience with the Bank's operation methods, and reputation of the foreign audit company KPMG d.o.o. abroad is the guarantee to the Bank for the correctness of the reports.

PRESIDENT OF THE SUPERVISORY BOARD:

Dinko Pintarić, B.L.

INTERNAL CONTROL DEPARTMENT

GENERAL ASSEMBLY

**ANNUAL REPORT ON THE INTERNAL CONTROL WORK
FOR THE YEAR 2001**

Sisak, April 2002

Pursuant Article 63 of the Banking Law (Official Gazette no. 161/98), and Article 11 of Sisačka banka d.d. By-laws for Internal Control work, we hereby submit to the Bank Assembly the following

R E P O R T

On Internal Control Department work for the period from the beginning of January until the end of December 2001.

In the period from **01.01.2001** until **31.12.2001** the Internal Control Department accomplished the following tasks:

1. Control of the minutes from the Retail credit and guarantee committee meetings

was performed in period from 05.01.2001 until 08.01.2001. The aim of the control was to find out whether the minutes were in accordance with Rules of Procedure for the Retail credit and guarantee committee work. During the control we noticed smaller procedural irregularities, which were removed after the control by drawing up detailed Conduct Procedures for credit activities in Retail Banking Department.

2. Annual inventory of funds and sources as at 31.12.2000

was performed in period from 13.01.2001 until 15.02.2001 by Central inventory committee for bank's funds and sources of funds. We did not notice any irregularities during the inventory.

The report was adopted on the Management Board meeting on 26.02.2001, and on 13.04.2001 the Supervisory Board approved the implementation of the provisions of the Decision on entering the results of the funds and sources inventory in the books.

3. Control of the current accounts owned by bank employees and those current accounts on which the bank employees are mandatories

was performed in period from 18.01.2001 until 22.01.2001. Insignificant irregularities were noticed, therefore the Management Board on its meeting held on 19.01.2001 made a decision referring to limited issuance of the cheque blank forms, up to 15 pieces in one month.

4. Control of the corporate debtors' documentation

was performed in period from 20.02.2001 until 29.03.2001. Aim of the control was to check up the completeness of credit maps, and review of the imposed amendments from the previous control. It was noticed that in some maps certain documents were missing, but in most cases they were collected immediately and filed.

5. Control of the official vehicles use

was performed in period from 12.04.2001 do 24.04.2001. Aim of the control was to check up the rational use of the official cars and staff's discipline.

After we had pointed out deficiencies, General operations sector made the Instruction for filling in travelling - working order form.

6. Control of the credit maps for the credits financed from the public debt/frozen savings claims

was effected in period from 18.05.2001 until 31.05.2001. Aim of the control was to eliminate possible mistakes and to supplement the credit maps with missing documentation. In some cases the part of documentation was missing, but they were filed in appropriate maps after the control.

7. Control of all business units of the Bank

was performed in period from 01.06.2001 until 21.09.2001. Aim of the control was to establish whether the valid Procedures, Guidelines, Working procedures and other decisions of the Management Board related to this part of bank's activity are being obeyed.

Report of the control refers to almost all business units of the bank. According to recommendation of the Internal Control Department, and aiming at solution of the detected problems, the following measurements have been undertaken:

Ad 1. IT Sector made a program for monitoring of average balance on current accounts, which is the base for granting an adequate overdraft coefficient to clients, with re-calculation every six months.

Ad 2. Invalid program restrictions were deleted in given term.

Ad 3. The new Implementation guidelines for retail current accounts have been made.

During the control we noticed smaller irregularities in work, which were removed in given terms.

8. Control of deferred payments on account number 8570107194

was performed in period from 08.10.2001 until 09.10.2001. Aim of the control was to establish the circumstances in which the debt on current account number 8570107194 owned by Buzuk Zdravka occurred.

Inspection of available information showed that the client effected deferred payments and one payment without delay by MBCARD/Maestro/Cirrus card and caused unallowed overdraft in amount of 24.725,28 kn.

The program changes have been made immediately to prevent such kinds of card misuse in the future.

Internal Control Department:

Vesnica Glavinić - Cvijanović

Tatjana Balent

Statement of the Management Board's responsibilities

Company law requires the Management Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and of the results of the Bank for that period. In preparing those financial statements, the Management Board is required to:

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

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

Auditors' report to the shareholders of Sisačka banka d.d.

We have audited the accompanying balance sheet of Sisacka banka d.d. ("the Bank") as of 31 December 2001 and the related statements of income, changes in equity and cash flows for the year then ended. As described on page 2 the Management Board is responsible for the preparation of the financial statements. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Bank for the year ended 31 December 2000, prior to the restatements discussed in note 31, were audited by another auditor whose report dated 15 May 2001 expressed a qualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2001, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards as adopted by the International Accounting Standards Board.

Without qualifying our opinion, we draw attention to note 1 to the financial statements "Accounting standards and conventions – Basis of preparation" which states that the financial statements are prepared on a going concern basis in view of the proposed merger with Dalmatinska banka and Istarska banka in June 2002, notwithstanding that the Bank has incurred a net loss of HRK 123 million for the year ended 31 December 2001, and that as of that date the Bank did not meet certain regulatory requirements of the Croatian National Bank ("CNB"), including capital adequacy. The ability of the Bank to continue as a going concern is subject to the continued support of its parent, Dalmatinska banka.



KPMG Croatia d.o.o. za reviziju
Registered auditors

22 April 2002

Centar Kaptol
Nova Ves 11
10000 Zagreb
Croatia

Sisačka banka d.d.
Annual report for the year 2001

Income statement

for the year ended 31 December 2001

	Note	2001 HRK'000	2000 HRK'000
Interest and similar income	4	24,943	40,059
Interest expense and similar charges	4	(13,681)	(15,769)
Net interest income		11,262	24,290
Commission and fee income	5	8,122	8,544
Commission and fee expense	5	(2,569)	(2,986)
Net commission and fee income		5,553	5,558
Foreign exchange gains, net	6	3,362	1,940
Other operating income	7	1,200	816
Operating income		21,377	32,604
Operating expenses	8	(29,213)	(29,140)
(Loss)/profit before impairment losses and other provisions		(7,836)	3,464
Impairment losses on loans and advances	16(b)	(98,399)	(1,191)
Other impairment losses and provisions	10	(17,191)	(447)
(Loss)/profit from operations		(123,426)	1,826
Income tax expense	11	-	-
Net (loss)/profit for the year		(123,426)	1,826

The notes set out on pages 7 to 32 form part of these financial statements.

Balance sheet

As at 31 December 2001

	Note	2001 HRK'000	2000 HRK'000
Assets			
Cash reserves	12	60,560	26,236
Balances with the Croatian National Bank	13	87,589	52,366
Placements with other banks	14	142,672	41,548
Debt securities	15	12,958	15,941
Loans and advances to customers	16	194,975	312,195
Equity securities	18	2,938	3,355
Foreclosed assets	19	15,041	27,431
Property and equipment	20	28,527	30,507
Other assets	21	6,581	15,416
Total assets		551,841	524,995
Liabilities and shareholders' equity			
Current accounts and deposits from banks	22	51,834	13,154
Current accounts and deposits from customers	23	396,624	308,365
Borrowings	24	63,073	73,724
Provisions for liabilities and charges	25	3,481	1,570
Other liabilities	26	5,616	5,328
Total liabilities		520,628	402,141
Share capital	27	64,166	93,136
Reserves		85,840	23,440
(Accumulated loss)/retained earnings		(118,793)	6,278
Total shareholders' equity		31,213	122,854
Total liabilities and shareholders' equity		551,841	524,995

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

Davorka Jakir
President of the Management Board



The notes set out on pages 7 to 32 form part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2001

	Note	Share capital HRK'000	Reserves HRK'000	(Accumulated losses)/retained earnings HRK'000	Total HRK'000
As at 1 January 2001		93,136	23,440	6,278	122,854
Dividend for 2000		-	-	(994)	(994)
Reduction of share capital	27	(62,400)	62,400	-	-
New share issue	27	35,000	-	-	35,000
Acquisition of treasury shares		(1,570)	-	(651)	(2,221)
Net loss for the year		-	-	(123,426)	(123,426)
As at 31 December 2001		<u>64,166</u>	<u>85,840</u>	<u>(118,793)</u>	<u>31,213</u>
As at 1 January 2000		93,136	23,440	5,446	122,022
Dividend for 1999		-	-	(994)	(994)
Net profit for the year		-	-	1,826	1,826
As at 31 December 2000		<u>93,136</u>	<u>23,440</u>	<u>6,278</u>	<u>122,854</u>

The notes set out on pages 7 to 32 form part of these financial statements.

Statement of cash flows

for the year ended 31 December 2001

	Note	2001 HRK'000	2000 HRK'000
Operating activities			
(Loss)/profit before tax		(123,426)	1,826
Gain from non-trading financial instruments		(158)	-
Impairment losses from equity securities		542	3
Share of loss in subsidiary		35	47
Impairment of foreclosed assets		12,734	-
Impairment losses for other assets		711	-
Depreciation		3,036	2,923
Impairment loss for loans and advances		98,399	1,191
Provisions for liabilities and charges		1,911	480
Profit on disposal of fixed assets		(52)	(55)
		<hr/>	<hr/>
Cash inflow from operating profits before changes in operating assets and liabilities		(6,268)	6,415
Increase in placements with banks with a maturity exceeding 90 days		(524)	-
Net decrease/(increase) in loans and advances to customers		17,665	(1,128)
Decrease/(increase) in other assets		8,124	(7,426)
Sale of foreclosed assets		810	-
Increase in deposits		126,939	19,050
Increase/(decrease) in other liabilities		288	(3,999)
		<hr/>	<hr/>
Net cash inflow from operating activities		147,034	12,912
		<hr/>	<hr/>
Cash flows from investment activities			
Purchase of fixed assets		(1,085)	(2,591)
Proceeds from sale of fixed assets		81	42
Sale of investment debt securities with maturity exceeding 90 days		2,983	3,749
Sale of equity investments		-	27
		<hr/>	<hr/>
Net cash flows from investments activities		1,979	1,227
		<hr/>	<hr/>
Cash flow from financing activities			
Issue of ordinary shares		35,000	-
Acquisition of treasury shares		(2,221)	-
Dividends		(994)	(994)
Decrease in borrowings		(10,651)	(4,585)
		<hr/>	<hr/>
Cash inflow/(outflow) from financing activities		21,134	(5,579)
		<hr/>	<hr/>
Net increase in cash and cash equivalents		170,147	8,560
		<hr/>	<hr/>
Cash and cash equivalents at the beginning of the year	28	120,150	111,590
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	28	290,297	120,150
		<hr/>	<hr/>

The notes set out on pages 7 to 32 form part of these financial statements.

Notes to the financial statements

1 Accounting standards and conventions

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

Statement of compliance

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

Basis of preparation

The financial statements have been prepared on a going concern basis, notwithstanding the net loss of HRK 123 million reported in 2001, the continuous excess of current liabilities over current assets during the year, and the inability of the Bank to meet certain criteria required by the Croatian National Bank ("CNB") at year end, in particular the shortfall in the Bank's tier one capital below the minimum amount of HRK 60 million required for performing international operations under the Croatian Banking Act. The financial statements have been prepared on a going concern basis in view of the proposed merger with Dalmatinska banka and Istarska banka in June 2002, and on the assumption, as it has indicated, that the Bank's parent, Dalmatinska banka, will continue to support the Bank.

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

The financial statements are prepared on a fair value basis for financial assets and liabilities 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 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".

Group accounts

Group accounts have not been prepared on the ground that the results, assets and liabilities of the bank's subsidiary, Savia, are not significant in the comparison to those of the Bank. Accordingly, the investment in the subsidiary is accounted for under the equity method of accounting.

Audit of the financial statements

The audit of the financial statements takes place throughout the year with regular contact between the auditors and the Bank's management. There are several visits made during the year with emphasis on the final visit in March. The final audit fieldwork commenced on 4 March 2002 and ended on 25 March 2002.

2 Specific accounting policies

Interest income and expense

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

Fee and commission income

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

Foreign currency

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

Net trading income

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

Gains less losses from non-trading financial instruments

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

Dividend income

Dividends received on equity securities are credited to the income statement when the right to receive the dividend is established.

Financial instruments

Classification

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

Notes (continued)

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

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

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

Recognition

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

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

Measurement

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

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

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

Fair value measurement principles

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

Notes (continued)

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

Gains and losses on subsequent measurement

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

Impairment of financial assets

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

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

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

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

Derecognition

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

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

Originated loans and receivables are derecognised on the day they are transferred by the Bank.

Notes (continued)

Specific instruments

Treasury bills

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

Investments

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

Equity securities include investment in subsidiaries. Equity securities, except for investments in subsidiaries, are classified as available for sale assets.

Loans and advances

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

Property and equipment

Property and equipment are stated at historic cost, net of accumulated depreciation and, if any, impairment losses.

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

	%
Buildings	2.5
Computers	25.0
Furniture and equipment	20.0
Motor vehicles	25.0
Other	10.0

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

Notes (continued)

Taxation

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

Impairment of non financial assets

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

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

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

Share capital and reserves

Share capital is stated in HRK at nominal value.

Comparatives

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

The adoption of IAS 39 "Financial Instruments: Recognition and Measurement" has resulted in the Bank recognising available for sale assets and assets held for trading at fair value, while previously these assets were carried at cost. No adjustment was made to the opening balance of retained earnings due to immateriality. The comparatives have not been restated.

Notes (continued)

3 Incorporation

The Bank is a joint stock company incorporated in Croatia.

4 Net interest income

	2001 HRK'000	2000 HRK'000
Interest and similar income		
Current accounts and placements with banks	3,206	639
Placements with the Croatian National Bank	2,738	3,176
Loans and advances to companies	5,946	22,109
Loans and advances to individuals	12,402	13,244
Debt securities	651	891
	<u>24,943</u>	<u>40,059</u>
Interest expense and similar charges		
Current accounts and deposits from individuals	7,451	8,676
Current accounts and deposits from companies	711	484
Borrowings, current accounts and deposits from banks	4,629	5,781
Current accounts and deposits from public sector	890	828
	<u>13,681</u>	<u>15,769</u>

Notes (continued)

5 Net commission and fee income

	2001 HRK'000	2000 HRK'000
Commission and fee income		
Companies	1,473	3,479
Banks	643	397
Individuals	5,974	4,566
Other	32	102
	<u>8,122</u>	<u>8,544</u>
Commission and fee expense		
Commissions and fees paid to HT	241	316
Commissions and fees paid to ZAP	1,539	1,707
Fees paid to banks	153	235
Other commission and fee expense	636	728
	<u>2,569</u>	<u>2,986</u>

6 Foreign exchange gains, net

	2001 HRK'000	2000 HRK'000
Foreign exchange trading gain	4,498	3,723
Net foreign exchange loss from translation of monetary assets and liabilities	(1,136)	(1,783)
	<u>3,362</u>	<u>1,940</u>

7 Other operating income

	2001 HRK'000	2000 HRK'000
Gains from non trading financial instruments	158	-
Net gain on disposal of foreclosed assets	82	5
Rental income	610	269
Other income	350	542
	<u>1,200</u>	<u>816</u>

Notes (continued)

8 Operating expenses

	2001 HRK'000	2000 HRK'000
Staff costs	14,899	16,201
Professional services and materials	4,034	2,158
Marketing expenses	521	722
Administrative expenses	3,989	3,743
Depreciation	3,036	2,923
Deposits insurance expenses	1,138	1,002
Other expenses	1,596	2,391
	<u>29,213</u>	<u>29,140</u>

9 Staff costs

	2001 HRK'000	2000 HRK'000
Salaries	8,329	8,450
Health insurance	1,944	2,063
Pension cost	2,370	2,506
Taxes and surtaxes	1,474	1,688
Other staff related expenses	782	1,494
	<u>14,899</u>	<u>16,201</u>

At year end the Bank had 177 employees (2000: 179).

Pension costs represent defined pension contributions paid into the State pension plan. Contributions are calculated as a percentage of employees' gross salaries.

Notes (continued)

10 Other impairment losses and provisions

	2001 HRK'000	2000 HRK'000
Equity securities	542	3
Foreclosed assets	12,734	-
Guarantees and letter of credit	3,204	444
Other assets	711	-
	<u>17,191</u>	<u>447</u>

11 Income tax expense

At 31 December 2001 the Bank had HRK 117,444 thousand (2000: HRK 31,109 thousand) of tax losses available to be carried forward for relief against the taxable income of future years. The availability to offset losses expires after five years. The current tax rate is 20% (2000: 35%).

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

	2001 HRK'000	2000 HRK'000
No more than 5 years	86,335	10,781
No more than 4 years	10,781	14,450
No more than 3 years	14,450	4,171
No more than 2 years	4,171	1,707
No more than 1 year	1,707	-
	<u>117,444</u>	<u>31,109</u>

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

12 Cash reserves

	2001 HRK'000	2000 HRK'000
Cash in hand	40,902	9,659
Giro account	8,648	8,847
Items in the course of collection	415	460
Current accounts with domestic banks	2,608	550
Current accounts with foreign banks	7,987	6,720
	<u>60,560</u>	<u>26,236</u>

Notes (continued)

13 Balances with the Croatian National Bank

	2001 HRK'000	2000 HRK'000
Obligatory reserve in HRK	23,425	22,569
Obligatory reserve in foreign currency	25,795	20,516
Treasury bills in HRK	5,987	3,995
Treasury bills in foreign currency	32,382	5,286
	<u>87,589</u>	<u>52,366</u>

The HRK obligatory reserve requirement at 31 December 2001 represented 19% of the relevant HRK deposits (2000: 23.5%). At least 40% (2000: 50%) of the total obligatory reserve requirement must be deposited on a special account with the CNB and the remainder may be held in cash and/or on giro accounts. At year end the Bank held 65% (2000: 80%) of the total requirement in a special obligatory reserve deposit account with the CNB. Interest is receivable on a monthly basis. The rate at year end was 2.0% per annum (2000: 4.5%).

The foreign currency obligatory reserve requirement at 31 December 2001 represented 19% (2000: 23.5%) of both foreign currency personal and corporate deposits and foreign currency borrowings. At 31 December 2001 100% (2000: 50%) of this foreign currency obligatory reserve was deposited with the CNB in accordance with requirements and the remainder was placed with foreign banks in accordance with CNB selection criteria. 25% of the total foreign currency obligatory reserve requirement is included in the HRK obligatory reserve and is maintained in HRK in accordance with the new regulation issued in November 2001. Interest is receivable on a monthly basis. The rate at year end was 2.6% per annum (2000: 4.9%).

14 Placements with other banks

	2001 HRK'000	2000 HRK'000
Placements with other banks	143,958	41,548
Less: impairment allowance (Note 16 b)	(1,286)	-
	<u>142,672</u>	<u>41,548</u>

Notes (continued)

15 Debt securities

	2001 HRK'000	2000 HRK'000
<i>Debt securities available for sale</i>		
Bills of exchange issued by companies	1,202	-
<i>Debt securities classified as originated</i>		
Public debt	11,756	15,941
	<u>12,958</u>	<u>15,941</u>

16 Loans and advances to customers

a) Analysis by product

	2001 HRK'000	2000 HRK'000
Denominated in HRK		
Individuals	30,856	38,348
Companies	62,763	89,155
Denominated in HRK with foreign currency clause		
Individuals	79,961	83,930
Companies	130,691	140,913
	<u>304,271</u>	<u>352,346</u>
Impairment allowance		
- specific	(106,167)	(36,565)
- general	(3,129)	(3,586)
	<u>194,975</u>	<u>312,195</u>
Total impairment allowance as a percentage of gross lending to customers		
	<u>35.92%</u>	<u>11.40%</u>

The total of loans and advances to customers, which are considered non-performing, is as follows:

	2001 HRK'000	2000 HRK'000
Gross loans and advances to customers	152,565	53,191
Impairment allowance	(103,098)	(22,975)
	<u>49,467</u>	<u>30,216</u>

Notes (continued)

b) Impairment allowance for uncollectability of loans and advances:

The impairment loss on loans and advances disclosed in the income statement arise from the following movements in impairment allowance for uncollectability of loans and advances to customers and placements with, and loans and advances to, other banks:

	2001 HRK'000 Total	2001 HRK'000 Specific	2001 HRK'000 General	2000 HRK'000 Total	2000 HRK'000 Specific	2000 HRK'000 General
Balance at 1 January	40,151	36,565	3,586	38,964	35,602	3,362
Net charge/(release) to income statement	98,399	98,856	(457)	1,191	967	224
Amounts written off	(27,941)	(27,941)	-	(4)	(4)	-
Foreign exchange difference	(27)	(27)	-	-	-	-
Balance at 31 December	110,582	107,453	3,129	40,151	36,565	3,586

The balance at 31 December consists of provisions against:

	2001 HRK'000	2000 HRK'000
Loans and advances to customers	106,167	36,565
Placements with other banks	1,286	-
	107,453	36,565

Notes (continued)

c) Concentration of credit risk by industry

Commercial lending is concentrated on companies domiciled in Croatia. The Bank has a diversified portfolio covering all sectors of the economy.

The Bank's loan portfolio, at 31 December 2001, net of specific impairment allowance, is analysed by industry in the table below:

	2001 HRK'000	2000 HRK'000
Agriculture, forestry, and fisheries	2,318	3,471
Food and drink industry	1,472	2,504
Printing and publishing industry	1,032	377
Other manufacturing	25,984	32,206
Construction	27,814	41,274
Retail and wholesale trade	25,604	88,330
Hotels and restaurants	733	2,120
Transport and communications	5,438	11,393
Financial intermediation	-	3,252
Real estate	2,038	12,593
Public administration	6,695	6,464
Other utilities and social services	1,659	1,071
	<hr/>	<hr/>
Loans to companies	100,787	205,055
Loans to individuals	97,317	110,726
	<hr/>	<hr/>
Total loans and advances to customers	198,104	315,781
General impairment allowance	(3,129)	(3,586)
	<hr/>	<hr/>
Total loans and advances to customers	194,975	312,195
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

17 Concentration of assets and liabilities

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

	<i>Note</i>	2001 HRK'000	2000 HRK'000
Balances with the Croatian National Bank	<i>13</i>	87,589	52,366
Public debt due from the Republic of Croatia	<i>15</i>	11,756	15,941
Accrued interest receivable		309	399
Borrowing from the Croatian National Bank	<i>24</i>	-	(5,281)
		99,654	63,425

The above net exposure represents 17.9% of the total assets of the Bank (2000: 12.0%).

18 Equity securities

	2001 HRK'000	2000 HRK'000
Investments in subsidiaries	339	374
<i>Equity securities available for sale (a)</i>		
Listed or quoted securities	438	278
Unlisted securities	2,161	2,703
	2,938	3,355

Investments in subsidiaries relates to Savia, a real-estate company. As at 31 December 2001 the Bank held 100% (2000: 100%) of the share capital of Savia.

a) Investments available for sale

Name	Nature of business	Effective holding	
		31 December 2001	31 December 2000
Slatinska banka d.d.	Banking	2.2%	2.2%
Hrvatska stambena stedionica	Building society	3.3%	3.3%

Notes (continued)

19 Foreclosed assets

	2001 HRK'000	2000 HRK'000
As at 1 January	27,431	-
Increases during the year	1,154	27,431
Sales during the year	(810)	-
Impairment losses	(12,734)	-
	<u>15,041</u>	<u>27,431</u>
As at 31 December	<u>15,041</u>	<u>27,431</u>

20 Property and equipment

	Land and buildings HRK'000	Computers HRK'000	Furniture and equipment HRK'000	Motor vehicles HRK'000	Other	Assets in the course of construction HRK'000	Total HRK'000
<i>Cost:</i>							
As at 1 January							
2001	42,695	9,640	8,929	607	178	1,184	63,233
Additions	-	-	-	-	-	1,085	1,085
Transfers	-	597	894	-	-	(1,491)	-
Disposals	(63)	(292)	(317)	(30)	(54)	-	(756)
	<u>42,632</u>	<u>9,945</u>	<u>9,506</u>	<u>577</u>	<u>124</u>	<u>778</u>	<u>63,562</u>
As at 31 December 2001	42,632	9,945	9,506	577	124	778	63,562
	■	■	■	■	■	■	■
<i>Depreciation:</i>							
As at 1 January							
2001	17,637	7,905	6,468	589	127	-	32,726
Charge for the year	1,060	1,118	825	18	15	-	3,036
Disposals	(34)	(292)	(317)	(30)	(54)	-	(727)
	<u>18,663</u>	<u>8,731</u>	<u>6,976</u>	<u>577</u>	<u>88</u>	<u>-</u>	<u>35,035</u>
As at 31 December 2001	18,663	8,731	6,976	577	88	-	35,035
	■	■	■	■	■	■	■
<i>Carrying amount:</i>							
As at 31							
December 2001	23,969	1,214	2,530	-	36	778	28,527
	<u>23,969</u>	<u>1,214</u>	<u>2,530</u>	<u>-</u>	<u>36</u>	<u>778</u>	<u>28,527</u>
As at 31 December 2000	25,058	1,735	2,461	18	51	1,184	30,507
	<u>25,058</u>	<u>1,735</u>	<u>2,461</u>	<u>18</u>	<u>51</u>	<u>1,184</u>	<u>30,507</u>

Notes (continued)

21 Other assets

	2001 HRK'000	2000 HRK'000
Accrued interest – not due	585	1,773
Accrued interest – due	676	7,549
Accrued fees and commissions	5	20
Other assets	5,315	6,074
	<u>6,581</u>	<u>15,416</u>

22 Current accounts and deposits from banks

	2001 HRK'000	2000 HRK'000
Time deposits		
Denominated in HRK	5,000	4,000
Denominated in foreign currency	46,834	9,154
	<u>51,834</u>	<u>13,154</u>

23 Current accounts and deposits from customers

	2001 HRK'000	2000 HRK'000
Individuals		
Demand deposits		
Denominated in HRK	49,806	39,146
Denominated in foreign currency	129,896	75,523
Time deposits		
Denominated in HRK	6,109	4,921
Denominated in foreign currency	109,620	100,704
Companies		
Demand deposits		
Denominated in HRK	84,496	69,212
Denominated in foreign currency	6,713	3,701
Time deposits		
Denominated in HRK	7,294	13,746
Denominated in foreign currency	2,690	1,412
	<u>396,624</u>	<u>308,365</u>

Notes (continued)

24 Borrowings

	2001 HRK'000	2000 HRK'000
Borrowings denominated in HRK		
Croatian National Bank	-	5,281
Hrvatska banka za obnovu i razvitak	61,189	64,558
Borrowings denominated in foreign currency	1,884	3,885
	<u>63,073</u>	<u>73,724</u>

25 Provisions for liabilities and charges

	2001 HRK'000	2000 HRK'000
Balance at 1 January	1,570	1,134
Net charge to income statement	3,204	444
Write off	(1,269)	-
Foreign exchange difference	(24)	(8)
	<u>3,481</u>	<u>1,570</u>

Provisions for liabilities and charges consist of provisions for off balance sheet exposures, being mainly guarantees and letters of credit.

26 Other liabilities

	2001 HRK'000	2000 HRK'000
Creditors	659	919
Salaries and payroll deductions	1,158	1,364
Interest payable	1,177	1,572
Other liabilities	2,622	1,473
	<u>5,616</u>	<u>5,328</u>

Notes (continued)

27 Share capital

	Total 2001 HRK'000	Ordinary shares 2001 HRK'000	Preference shares 2001 HRK'000	Total 2000 HRK'000	Ordinary shares 2000 HRK'000	Preference shares 2000 HRK'000
Share capital at 1 January	93,136	83,200	9,936	93,136	83,200	9,936
Reduction of share capital	(62,400)	(62,400)	-	-	-	-
New share issue	35,000	35,000	-	-	-	-
Treasury shares acquired	(1,570)	(1,570)	-	-	-	-
Share capital at 31 December, net of treasury shares	64,166	54,230	9,936	93,136	83,200	9,936
Nominal value before reduction	-	400	400	-	400	400
Nominal value after reduction	-	100	400	-	400	400
Shares in issue at 31 December	-	542,300	24,840	-	208,000	24,840

At an extraordinary meeting in September 2001 the shareholders passed a resolution to reduce the nominal value of ordinary shares from HRK 400 to HRK 100 and the difference was transferred to reserves. At the same meeting shareholders also passed a resolution to increase share capital by HRK 35 million. The Bank issued 350,000 shares with nominal value of HRK 100 per share to Dalmatinska banka d.d. Zadar.

In 2001, Dalmatinska banka acquired the majority of the Bank's share capital and as of 31 December 2001, held 80.84% of the ordinary shares and 85.15% of the preference shares of the Bank. No other individual shareholder held more than 2% of the equity.

The cumulative preference shares are not voting and carry the right to a 10% dividend per annum.

Notes (continued)

28 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:

	<i>Note</i>	2001 HRK'000	2000 HRK'000
Cash reserves	12	60,560	26,236
Balances with the Croatian National Bank	13	87,589	52,366
Placements with other banks		142,148	41,548
		<hr/>	<hr/>
		290,297	120,150
		<hr/> <hr/>	<hr/> <hr/>

29 Contingent liabilities and commitments

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

	2001 HRK'000	2000 HRK'000
Finance guarantees in HRK	5,996	9,990
in foreign currency	1,738	2,053
Performance guarantees in HRK	3,988	3,713
Letters of credit	704	561
Unused loan facilities	23,733	23,385
	<hr/>	<hr/>
	36,159	39,702
Impairment allowance	(3,481)	(1,570)
	<hr/>	<hr/>
	32,678	38,132
	<hr/> <hr/>	<hr/> <hr/>

Forward foreign exchange contract

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

30 Managed funds for and on behalf of third parties

The Bank manages significant amounts of assets of third parties and individuals, which are mainly in the form of long term loans given by local government and the Croatian Bank for Restructuring and Development to enterprises and citizens through the Bank as an agent. Managed funds are accounted for separately from those of the Bank. Income and expenses of these funds are for the account of the respective fund and in the normal course of business no liability falls on the Bank in connection with these transactions. The Bank is compensated for its service by fees chargeable for services provided.

At 31 December 2001 managed funds for and on behalf of third parties amounted to HRK 20,665 thousands (2000: HRK 20,961 thousands).

Notes (continued)

31 Fundamental error

The Bank has recognised impairment losses in 2001 relating to prior periods, as described below. In accordance with the allowed alternative treatment under International Accounting Standard 8, "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies", no adjustments to restate opening reserves at 1 January 2000 and 2001, and the consequent effects on the income statement for 2000 and 2001 and the balance sheet at 31 December 2000, have been made. The estimated effect on the income statement for 2000 and 31 December 2001 and reserves at 1 January 2000, 31 December 2000 and 31 December 2001, if a prior year adjustment had been made in accordance with the benchmark treatment under IAS 8, is set out in the pro forma information below.

During 2001 the Bank made impairment losses on loans and other impairments of HRK 66 million which relate to periods prior to 2001.

	2001	2000	Pro forma 2001	2000
	HRK'000	HRK'000	HRK'000 (restated)	HRK'000 (restated)
Opening retained earnings as previously reported	6,278	5,446	6,278	5,446
Under-provisioning in prior periods	-	-	(66,000)	(20,000)
	<u>6,278</u>	<u>5,446</u>	<u>(66,000)</u>	<u>(20,000)</u>
Opening retained earning/(losses) as restated	6,278	5,446	(59,722)	(14,554)
Dividends	(994)	(994)	(994)	(994)
Treasury shares acquired	(651)	-	(651)	-
Net (loss)/profit	<u>(123,426)</u>	<u>1,826</u>	<u>(57,426)</u>	<u>(44,174)</u>
Closing (accumulated losses)/retained earnings	<u>(118,793)</u>	<u>6,278</u>	<u>(118,793)</u>	<u>(59,722)</u>

	2001	2000	Pro forma 2001	2000
	HRK'000	HRK'000	HRK'000 (restated)	HRK'000 (restated)
(Loss)/profit before impairment losses and provisions	(7,836)	3,464	(7,836)	3,464
Impairment losses on loans and advances and other impairment	(115,590)	(1,638)	(49,590)	(47,638)
	<u>(123,426)</u>	<u>1,826</u>	<u>(57,426)</u>	<u>(44,174)</u>
(Loss)/profit before tax	(123,426)	1,826	(57,426)	(44,174)
Income tax expense	-	-	-	-
Net (loss)/profit	<u>(123,426)</u>	<u>1,826</u>	<u>(57,426)</u>	<u>(44,174)</u>

Notes (continued)

32 Related party transactions

Related parties as at 31 December 2001 included Dalmatinska banka dd and Istarska banka dd. At year end the Bank had no balances with Dalmatinska banka dd. Receivables from Istarska banka dd as of 31 December 2001 amounted to HRK 40,500 thousand and obligations to Istarska banka amounted to HRK 39,430 thousand. Additionally, the Bank had a forward exchange contract with Istarska banka dd, as noted in note 29.

Transactions are entered into with related parties in the normal course of business. These transactions are carried out on an arm's length basis.

33 Maturity analysis

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

	Up to 1 Month HRK'000	1 month to 3 months HRK'000	3 months to 1 year HRK'000	1 year to 3 years HRK'000	Over 3 years HRK'000	Total HRK'000
Assets						
Cash reserves	60,560	-	-	-	-	60,560
Balances with the Croatian National Bank	58,254	29,335	-	-	-	87,589
Placements with other banks	128,742	13,406	524	-	-	142,672
Debt securities	1,202	1,680	1,680	6,718	1,678	12,958
Loans and advances to customers	26,791	10,228	31,324	38,419	88,213	194,975
Equity securities	-	-	-	-	2,938	2,938
Foreclosed assets	-	-	-	-	15,041	15,041
Property and equipment	-	-	-	-	28,527	28,527
Other assets	6,581	-	-	-	-	6,581
Total assets	282,130	54,649	33,528	45,137	136,397	551,841
Liabilities and shareholders' equity						
Current accounts and deposits from banks	46,125	5,709	-	-	-	51,834
Current accounts and deposits from customers	299,850	33,398	33,434	18,339	11,603	396,624
Borrowings	371	1,744	9,342	19,280	32,336	63,073
Provisions for liabilities and charges	4	150	2,248	1,075	4	3,481
Other liabilities	5,413	110	-	93	-	5,616
Share capital and reserves	-	-	-	-	31,213	31,213
Total liabilities and shareholders' equity	351,763	41,111	45,024	38,787	75,156	551,841
Maturity gap	(69,633)	13,538	(11,496)	6,350	61,241	-

Notes (continued)

34 Interest rate reprising, gap analysis and amounts subject to fixed interest rates

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

	Up to 1 month HRK'000	1 month to 3 months HRK'000	3 months to 1 year HRK'000	1 year to 3 years HRK'000	Over 3 year HRK'000	Non interest bearing HRK'000	Total HRK'000	Fixed interest rates HRK'000
Assets								
Cash reserves	11,786	-	-	-	-	48,774	60,560	-
Balances with the Croatian National Bank	58,254	29,335	-	-	-	-	87,589	38,369
Placements with other banks	128,715	13,406	524	-	-	27	142,672	142,121
Debt securities	2,882	-	1,679	6,719	1,678	-	12,958	12,958
Loans and advances to customers	64,582	3,041	14,859	29,189	83,304	-	194,975	132,652
Equity securities	-	-	-	-	-	2,938	2,938	-
Foreclosed assets	-	-	-	-	-	15,041	15,041	-
Property and equipment	-	-	-	-	-	28,527	28,527	-
Other assets	-	-	-	-	-	6,581	6,581	-
Total assets	266,219	45,782	17,062	35,908	84,982	101,888	551,841	326,100
Liabilities and shareholders' equity								
Current accounts and deposits from banks	51,834	-	-	-	-	-	51,834	43,125
Current accounts and deposits from customers	320,477	15,731	23,781	15,666	9,812	11,157	396,624	68,044
Borrowings	2,878	1,744	6,834	19,280	32,337	-	63,073	61,189
Provisions for liabilities and charges	-	-	-	-	-	3,481	3,481	-
Other liabilities	-	-	-	-	-	5,616	5,616	-
Share capital and reserves	-	-	-	-	-	31,213	31,213	-
Total liabilities and shareholders' equity	375,189	17,475	30,615	34,946	42,149	51,467	551,841	172,358
Interest rate gap	(108,970)	28,307	(13,553)	962	42,833	50,421	-	153,742

Notes (continued)

35 Average effective interest rates

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

	2001	Interest rate
	HRK'000	%
Assets		
Cash reserves	60,560	0.30
Balances with the Croatian National Bank	87,589	2.91
Placements with other banks	142,672	2.85
Debt securities	12,958	6.21
Loans and advances to customers	194,975	13.15
Equity securities	2,938	-
Foreclosed assets	15,041	-
Property and equipment	28,527	-
Other assets	6,581	-
	<hr/>	
Total assets	551,841	
	<hr/> <hr/>	
Liabilities and shareholders' equity		
Current accounts and deposits from banks	51,834	3.33
Current accounts and deposits from customers	396,624	2.46
Borrowings	63,073	3.92
Provisions for liabilities and charges	3,481	-
Other liabilities	5,616	-
Share capital and reserves	31,213	-
	<hr/>	
Total liabilities and shareholders' equity	551,841	
	<hr/> <hr/>	

Notes (continued)

36 Foreign exchange positions

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

	EURO currencies HRK'000	EURO currencies linked HRK'000	EURO currencies Total HRK'000	USD HRK'000	HRK HRK'000	Other currencies HRK'000	Total HRK'000
Assets							
Cash reserves	5,640	35,656	41,296	2,857	12,141	4,266	60,560
Balances with the Croatian National Bank	57,341	-	57,341	835	29,413	-	87,589
Placements with other banks	75,602	7,814	83,416	7,938	40,527	10,791	142,672
Debt securities	-	12,958	12,958	-	-	-	12,958
Loans and advances to customers	156,444	-	156,444	643	37,888	-	194,975
Equity securities	-	-	-	-	2,938	-	2,938
Foreclosed assets	-	-	-	-	15,041	-	15,041
Property and equipment	-	-	-	-	28,527	-	28,527
Other assets	993	8	1,001	87	5,485	8	6,581
Total assets	296,020	56,436	352,456	12,360	171,960	15,065	551,841
Liabilities and shareholders' equity							
Current accounts and deposits from banks	43,028	3,806	46,834	-	5,000	-	51,834
Current accounts and deposits from customers	11,694	210,704	222,398	12,511	147,706	14,009	396,624
Borrowings	1,884	-	1,884	-	61,189	-	63,073
Provisions for liabilities and charges	-	-	-	-	3,481	-	3,481
Other liabilities	-	-	-	-	5,616	-	5,616
Share capital and reserves	-	-	-	-	31,213	-	31,213
Total liabilities and shareholders' equity	56,606	214,510	271,116	12,511	254,205	14,009	551,841
Net foreign exchange position	239,414	(158,074)	81,340	(151)	(82,245)	1,056	-

37 Fair values of financial assets and liabilities

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