

**Bank Austria
Creditanstalt**

Članica skupine HVB Group

Letno poročilo
Bank Austria Creditanstalt
Slovenija

2002

**Bank Austria
Creditanstalt**

A Member of HVB Group

Annual report
Bank Austria Creditanstalt
Slovenija

2002

2002

Bank Austria
Creditanstalt
Slovenija

Contents

Organisation Structure of the Bank	Organisation Structure of the Bank	2
Report by the Chairman of the Management Board	Report by the Chairman of the Management Board	4
Governing Bodies	Governing Bodies	7
Report by the Management Board on the Bank's Operations	2002 Economic Environment	8
	The bank's operation in individual business areas	10
	Corporate Banking	10
	Retail Banking, Brokerage and Asset Management	11
	International Markets	12
	Securities Operations	14
	Custody Services	14
	Risk Management	15
	Information Support to Operations	16
	Human Resources	16
	Presentation of Financial Results	18
	Plans for the Future	19
Report of the Supervisory Board of Bank Austria Creditanstalt d.d. Ljubljana	Report of the Supervisory Board of Bank Austria Creditanstalt d.d. Ljubljana	22
Audited Consolidated Financial Statement According to International Standards of Auditing with Notes to the Financial Statement	Auditor's Report on Consolidated Financial Statements	24
	Notes to Consolidated Financial Statements for the Financial Year ended December 31, 2002	27
	Risk Evaluation	53
	Transactions with Related Parties	61
	Segment Information	62
	Differences between SAS and IFRS	63
	Post Balance Sheet Events	64

Organisational Structure

Bank Austria Creditanstalt Ljubljana d.d.

General Management	Risk Management	International Markets
W. Peter	W. Peter	A. Taul
Public Relations	Risk Assessment	Money Market, Foreign Exchange and Asset Liability Management Department
Legal Office	Loan Administration	Sales Desk
Human Resources Office	Contract and Work-Out	Custody Services
Secretary Office	Balance Sheet Analysis	
Special Projects		

Bank Austria Creditanstalt Ljubljana d.d.

Retail Banking	Bank Operations
K. Priverschek	W. Peter
Asset Management / Brokerage	Funds Transfer
Sales	Information Technology
Product Management	Organization
Investment Center, Private Banking & Freelancers	Technical Support
Financing center	Electronic Banking
Product Management & Marketing	Settlement
<ul style="list-style-type: none"> ▶ Branch Ljubljana Wolfova ▶ Branch Ljubljana BTC ▶ Branch Maribor ▶ Branch Murska Sobota ▶ Branch Koper 	Card Business

Corporate Banking

A. Taul

Key Accounts

Mid - Market

Real Estate & Project
Financing

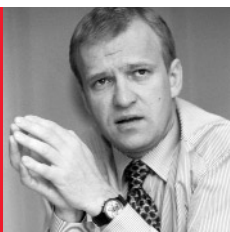
**Accounting and
Controlling**

N. Pukl

Accounting

Controlling

Market Risk



Report by the Chairman of the Management Board

Good Performance Results in Satisfaction and Commitment!

We are very pleased with this year's performance. A significant increase in the market share, rapid growth of operations in all crucial and strategically important fields, and excellent performance are the achievements that undoubtedly mark 2002 as one of the most successful in the Bank's history thus far. Even more encouraging is the fact that these results were achieved under conditions of market by a very harsh international political and economic environment, when numerous banks and companies in Europe and across the globe recorded negative results. Fortunately, these unfavourable international trends did not have a deciding impact on growth and business operations in Slovenia.

It would have been difficult to anticipate such successful performance at the beginning of the year, because the indications - particularly the recession of major global economies and growing competitiveness in the domestic banking sector - were sufficient cause for doubt. Ambitious goals were set. These goals harnessed our capabilities and energy, enabling us to respond rapidly and prepare ourselves for the unfavourable conditions, increased competitiveness, and the demands of our clients. We conducted a detailed analysis of our competitive advantages in client relations and implemented a number of rather radical measures, particularly as regards improvements in internal organisations and cost efficiency. The results reflected our efforts.

Our operations also benefited from the relatively favourable economic trends within the country, particularly in comparison with the more developed parts of Europe and America, and a politically stable and safe environment. "Approximation" to the European Union continues successfully. Slovenia has retained a leading position among candidates according to the criteria for preparedness for entry into the European Union and will become a full Member State in May 2004 in accordance with the accession document. The approximation process undoubtedly accelerated the reorganisation of the economy and the ownership restructuring of firms still owned by the state. This spring witnessed the conclusion of the first phase of the privatisation of the largest Slovene bank, which commands almost 40 per cent of the market share, in which a stake in the bank was acquired by a foreign strategic investor. This changed ownership structure has significantly transformed the profile of Slovene banking over the last two years. The acquisition of a majority or strategic stake in a number of the largest Slovene banks by foreign banks has intensified competition; profit margins in the banking sector have remained at last year's level. The trend of declining profits is expected to increase next year - also because of the Government's forecast of lower inflation and the expectation that inflation will drop to a level comparable to European countries by 2005 - from 7.2 per cent to 3 per cent.

Client Satisfaction is Crucial to Success

In addition to the favourable performance in 2002, which is an expression of well-coordinated operations, we also gave much consideration to our future plans and set the guidelines for the Bank's development in the future. The Bank's strategy is outlined within the context of the broader strategy of our parent bank, whose orientation towards the markets of Central, Eastern and Southern Europe places a strong emphasis on expansion, development and growth of these markets in the future. We have chosen the path of independent growth and expansion on the Slovene market. Our newly formulated strategy defines the target groups of clients and their needs, and outlines the ways to identify the needs of our clients and how to satisfy them. In order to realise this strategy, the Bank intends to considerably strengthen its network of branch offices in all major regional centres in Slovenia. Another important element of the new strategy, in addition to broadening the network, is broadening the range of banking services. To this end, we have already prepared a range of new services intended to complement the existing range of banking services and comprehensively satisfy the needs of the most demanding client. We realise that this expansion, which calls significant new investment, will only result in positive performance through high-quality client service, which can only be provided by a highly-motivated and devoted staff supported by advanced information technology.

The results we have achieved are also a commitment for the future - primarily towards our clients and, of course, to our shareholders as well. Although the environment is becoming increasingly demanding, I remain optimistic about the future. Our work in the past is the foundation of our future, which I believe to be bright. We have a motivated staff, a good reputation among our clients, and the strong support of our shareholders for our future plans. The Management intends to propose to the shareholders that the entire after-tax profits be reinvested, primarily in the expansion of our business network, thus providing potential for future growth, and expects that the proposal, which is embodied in the Bank's medium-term business plan, will be accepted by the shareholders.



*Wolfgang Peter
Chairman of the Management Board*

Governing bodies

Supervisory Board

Chairman of Supervisory board	Anton Knett
Members	Willibald Cernko Heinz Meidlinger Friedrich Racher Josef Duregger Günther Wabnig

Management Board

Chairman of the Management board	Wolfgang Peter
Members	Klaus Priverschek Nataša Pukl Alfred Taul

Report by the Management Board on the Bank's Operations

Economic Environment in 2002

Throughout the year, there was intense activity relating to the fulfilment of EU criteria and requirements, and final negotiations and agreements regarding the most important and demanding areas, including finance, agriculture and regional development, have been concluded. The protocol on the accession of ten central- and eastern-European countries to the European Union was signed in Copenhagen in mid-November 2002. Slovenia is not the most important of these, but certainly the most prepared. Accession to the EU signals the realisation of one of Slovenia's most fundamental strategic goals.

The general state of the Slovene economy in 2002 can be assessed as sound, especially when compared to the far less favourable economic trends in Europe, America and Japan. The estimated GDP growth rate of 3 per cent¹ (the same as in 2001) is more than double that of EU countries (around 0.8 per cent¹). Unemployment (6 per cent) and inflation rates remained at last year's level. Lowering the rate of inflation is one of the primary goals of the Government and central bank for the upcoming years. According to initial estimates, the budgetary deficit grew but remained within the limits of the Maastricht criteria (3% of GDP). Economic growth was driven primarily by the growing exports, achieved in part by the reorientation of Slovene exports from traditional western European markets to eastern and southern markets (CEFTA 14.6 per cent² growth; Former Yugoslavia 11.6 per cent¹ growth; Russian Federation). The

faster growth of exports (5.3 per cent¹) compared to imports (3.2 per cent¹), and the surplus increase in services were the most important contributing factors to the surplus in the balance of payments, amounting to USD 375 million¹, which represents 1.8% of the GDP and is significantly higher than in 2001 (USD 311 million). Favourable trends in the balance of payments were primarily the result of improved foreign exchange conditions resulting from the fall in the value of the US dollar in 2002.

Price and monetary fluctuations were less favourable than planned but remained above the level of the preceding year. Indeed, the average annual inflation rate fell from 8.5 to 7.6 per cent¹, however, it is still too high. The nominal exchange rate for the euro depreciated by 3.8 per cent¹, however, in relation to inflation it effectively appreciated by 2.8 per cent. Forecasts predict a drop in inflation of about 2 per cent (to 5 per cent) in 2003. To this end, the Government has prepared a package of anti-inflationary measures which forecast a temporary freezing of prices in early 2003, followed by moderate and controlled growth, as well as additional measures intended to neutralise the influence of external factors - particularly of oil prices by reducing excise duties - on domestic inflation. The strongest influence on monetary growth was exerted by capital inflow from direct foreign investment, which last year was three times higher than the total for 2000 and 2001.

Two-thirds of this investment was generated by the partial privatisation of Slovenia's largest commercial bank, NLB, and the takeover of the pharmaceutical Lek by Novartis, which

Negotiations for EU Membership Concluded

SOURCE: 1 Denarni pregled, Februar 2003, Mesečne informacije Banke Slovenije, Analitično raziskovalni center
2 Ekonomsko ogledalo, Januar 2003, Tekoče analize, UMAR

represents the largest and most successful takeover in the entire eastern European region.

Total foreign exchange reserves increased dramatically - by 42 per cent to USD 8.152¹ million - primarily due to increased currency inflow resulting from direct foreign investment, to its

highest level to date. However, the external debt increased by 31 per cent during this period - to USD 8.799¹ million or 36% of GDP. The sharp rise in foreign exchange reserves significantly improved foreign debt coverage with foreign exchange as compared to the preceding year - to 93%.

Macroeconomic Indicators for Slovenia in the period from 1998-2002

	1998	1999	2000	2001	2002
GDP growth (in %)	3.8	5.2	4.6	3.0	3.0
Inflation (annual average, in %)	6.5	8.1	8.9	8.5	7.5
Trade (million USD)	-1.060	-1.537	-1.384	-893	-572
Current balance of payments (million USD)	-147	-783	-548	-31	375
Unemployment rate (ILO - in %)	7.9	7.6	7.0	6.4	6.4
Budgetary deficit / GDP (in %)	-0.8	-0.6	-1.4	-1.3	-3.0

Source: Bank of Slovenia, UMAR.

SOURCE: 1 Denarni pregled, Februar 2003, Mesečne informacije Banke Slovenije, Analitično raziskovalni center

The bank's operation in individual business areas

The favourable financial results and above-average growth in operations are the result of successful operations in all of the Bank's primary business areas. Such a favourable development confirms the Bank's established position on the market, the confidence of our clients, and the suitability of our part strategic and development plans.

The Bank's growth in the 2002 financial year was stable and more rapid than that of other Slovene banks. The growth of its balance sheet total, at 37 per cent, significantly surpassed the 17 per cent average for the banking sector. This helped increase its market share from 3.1 to 3.9 per cent.

Market Share Increases as Operations Record Exceptional Growth

A contributing factor to the Bank's success were its international character and the fact the Bank is part of an international banking group with a highly developed branch network on the territory that is of most interest and importance to the Slovene economy. This is an important comparative advantage, which the Bank makes good use of.

Corporate Banking

The high growth in operations and increased profits are to a large degree the result of successful corporate banking. To our great satisfaction, cooperation with our traditional clients is intensifying. In addition, we are acquiring new corporate clients. In 2002, the Bank added a number of new elements to its strategy. In addition to focusing on our traditional target groups, mainly large and medium-sized international companies dealing in telecommunications, energy management, food and beverages, household appliances, and the leading commercial chains, particularly all joint venture companies and international companies in Slovenia, the Bank's decision to expand its business network in the future includes focusing on small companies.

In order to meet the needs of clients and conduct

its operations at a high professional level, we have devoted more attention to specialised banking products, such as project funding and trade finance, and have to this end established a special team of experts. The migration of corporate accounts and the execution of payments transactions to banks were completed in the middle of the year, introducing an entirely new relationship between the Bank and its corporate clients. The Bank provided its clients with several options in order to facilitate the execution of payments - from standard packages to high-tech electronic solutions that enable the quick and effective executions of banking services. The results of the high expenditure associated with information technology support for this part of operations, the so-called comprehensive execution of domestic and foreign payments, as well as significant investments into staff training are gradually emerging: 2002 saw an increase in sight deposits and other corporate deposits, the volume of payments transactions and income from related bank charges, the volume of foreign exchange purchases and sales, etc.

The total deposits of non-bank corporate clients (excluding retail clients) were almost SIT 37 billion. Both sight deposits and total deposits of all clients increased in 2002, with the exception of the sight deposits of non-residents, which were exceptionally high at the end of 2001 (over SIT 10 billion) because of funds intended for direct investment into a major Slovene company. These funds were used for their intended purpose at the beginning of the year, which is why the balance on the accounts of foreign companies is almost SIT 7 billion lower than at the end of 2001. Sight deposits, both in domestic and foreign currency, increased by 10 per cent. Time deposits increased by 27 per cent to SIT 24 billion. The greatest increase was recorded by corporate time deposits in foreign currency.

Despite fierce competition in the Slovene banking sector, particularly following the entry of new foreign banks, we achieved an above-average 43 per cent growth in corporate loans, by almost

SIT 27 billion. The highest increase in loans, by more than SIT 17 billion, was to the public sector and general government, which may be attributed to the fact that the state borrowed on the domestic market. The difference in interest rates resulted in greater interest for foreign currency loans (by SIT 17,219 million) than for tolar loans (by SIT 9,473 million). The structure of the loans changes with respect to maturity: short-term loans with a maturity of one month decreased, whilst the greatest increase was recorded in loans with a maturity of five years, which currently represent one half of all loans.

Guarantee transactions and transactions with derivative instruments also represent an important part of corporate banking. The volume of guarantees, amounting to SIT 33 billion, represents more than one third of the credit portfolio. As a result of the migration of corporate accounts and the transfer of all payments transactions to banks, the size of corporate loans increased by 70 per cent.

By making investments in all prospective sectors of the economy, the Bank managed to spread its risks and secure its investments, which is also reflected in the extremely low percentage of bad loans.

Retail Banking, Brokerage and Asset Management

Retail banking is one of the most important banking segments in any universal banks. From the very beginning, this segment has held an important place at Bank Austria Creditanstalt and differs considerably from retail banking in other Slovene banks. An important difference is in that this segment of the Bank's operations has developed quite successfully, despite the fact that the Bank does not have an extensive network of branch offices, which is a precondition for acquiring clients and increasing the market share. A major difference in the Bank's strategy is in the way it handles its clients. The Bank has always demonstrated a keen sensitivity to the requirements of its clients and the ability to adapt to their needs.

The Bank's good reputation and the confidence of its clients have enabled it to attain an above-average market share in the savings segment of its operations. It was also one of the first banks to offer cash loans and has achieved very good results in granting mortgage loans over the last two years.

New Strategy Anticipates Significant Expansion of the Branch Network

The Bank strives to continually increase its volume of operations. In 2002, the Bank analysed its position in the retail banking sector and assessed its opportunities for the future. Faced with growing competition, the Bank has come to realise that only the improved quality of services, an innovative approach to clients, and a clear understanding of their needs will allow us to adapt our services to their requirements and create opportunities to broaden our operations and acquire new clients. On this basis, a new retail banking strategy was created. The Management has taken an important decision for the future development of the Banks, which anticipates the opening of nine new branch offices over the next eighteen months. At a time when most banks are shutting down branch offices and electronic banking is growing rapidly, changing institutional and economic conditions have led to the need for completely new services which clients are unfamiliar with and which require a proper assessment of the clients needs and options. This serves as the basis for creating the most appropriate products for our clients. Because we believe that we must remain in close contact with our clients, we decided to invest in the construction of new branch offices.

For the purpose of providing service support to our clients, creating and developing new products, both in existing and new branch offices, a special department for retail client support was created in 2002. At the end of the year, a so-called private banking centre was opened at our central office in Ljubljana, the primary of which is to provide consulting services in asset management,

investment and domestic and foreign funds. In order to provide a comprehensive financial service, a cooperation agreement was signed with the Generali insurance company in 2002, thus complementing our regular services with insurance services as well.

The renovation of the Ljubljana and Maribor branches in 2001 was followed by the relocation of the Murska Sobota branch in 2002 to new premises in the city centre. Operations in the new branch office are conducted in accordance with established standards and enable clients to quickly and independently perform the most common and standardised banking transactions without waiting in queues and outside official working hours with the latest automated teller machines. In special cases, clients may utilise the services of personal advisers who handle their cases individually. Each client thus has the possibility of receiving individual treatment.

As regards electronic banking and other modern banking methods, 2002 saw a significant increase in the number of users of electronic banking, the so-called "On-line bank". The system, which has been in use since the end of 2001, is based on the strictest security and reliability standards for Internet data transfer.

Significant growth in operations was recorded in 2002 as well. Retail lending grew by 29 per cent compared to late 2001. There was an above-average increase in real estate loans. Such loans are subject to harsh competition on the market. Interest was greatest for loans linked to the foreign currency clause, which are more favourable price-wise. We expect interest to persist in the future and will contribute to increasing the volume of lending. However, due to declining car sales in Slovenia, the demand for these loans is growing at a slower rate than in previous years.

2002 was marked by a slower growth rate in retail deposits than 2001, which was exceptional due to the conversion of European currencies into the euro, resulting in large deposits in banks. Market dynamics

were not very favourable in 2002, as tolar and foreign exchange rates continued to decline. In the middle of the year, revaluation of short-term deposits linked to inflation was abolished. Nevertheless, deposits by retail clients increased by SIT 4,618 million in 2002, an increase of 11 per cent. In relative terms, the greatest growth was recorded for tolar deposits (27 per cent increase), whilst in absolute terms, the greatest increase was in foreign exchange deposits, by SIT 2,670 million. Such growth dynamics and the proportion of deposits are the consequence of higher interest rates for the tolar and a slower growth of exchange rates than inflation, as well as of strained and uncertain political and economic conditions around the world, resulting in an increase in savings at the expense of investment. Regardless of the latter, foreign currency savings exceeded tolar savings in 2002 and account for 80 per cent of all deposits. This percentage is gradually, but persistently decreasing (the figure for the preceding year was 83 per cent). The majority of the deposits are time deposits; the share of these increased in 2002 and no account for 72 per cent of all retail deposits (70 per cent in the previous year).

International Markets

2002 was a very dynamic and successful year for treasury operations. The Bank strengthened its position on the domestic money market, became a special broker for maintaining liquidity on the treasury bills market, increased the volume of operations on the money market, and strengthened and broadened operations with foreign banks. Our efforts were rewarded with good results.

The domestic forex market was burdened with a foreign currency surplus throughout 2002. Throughout the year, the Bank of Slovenia intervened on the forex market to prevent the decline of exchange rates due to a surplus of foreign currencies.

The Bank was directly involved in the purchase of foreign currencies in all major foreign direct investments. Under the given conditions, the Bank

achieved its best results in forex trading in recent years and significantly exceeded the planned volume of transactions. Foreign currency trading grew by 83 per cent and amounted to SIT 558 million.

Transactions with foreign banks also increased significantly in 2002. Foreign banks participated more actively on the market because of the predictable and stable dynamics of the tolar exchange rate and higher interest rates for the tolar. Foreign banks and institutional investors showed considerable interest for the purchase of debt securities denominated in tolar, acquired primarily on the basis of currency swaps and forward buying. The volume of forex transactions with banks in 2002 doubled in comparison with 2001, whilst the number of deals concluded increased by a third. This was primarily the result of the increased volume of forward buying and swaps. Most of these deals were EUR/SIT transactions concluded with domestic and foreign banks.

The liquidity of the domestic tolar market was favourable throughout 2002 due to the growing pressure of the forex surplus on the money supply. The oversupply of foreign currencies prompted a significant increase in the volume of swap transactions with the Bank of Slovenia, which, on the basis of an agreement on the participation of banks in interventions by the Bank of Slovenia on the foreign currency market, ensured the temporary purchase of foreign and their mandatory repurchase throughout the year. This enabled the banks to finance their long FX positions. Because of the oversupply of foreign currencies and the continuous long positions of banks up to the permitted limits, the Banks of Slovenia supplemented its supply relating to the 270-day treasury bills with the option of a final purchase of the foreign currency after the maturity of the bills. The volume of concluded swap transactions with banks on the domestic market increased by 140 per cent in 2002, whilst the number of transactions increased by 95 per cent. Due to good SIT liquidity in the banking system and the declining interest for tolar loans by the real

sector, the Bank generated liquidity surpluses throughout the year and placed them in short-term, inter-bank deposits and short-term Bank of Slovenia and Republic of Slovenia securities. Investment into these securities, amounting to more than SIT 40 billion, increased three-fold.

Short-term deposits abroad represent the most important segment of transactions with foreign banks. In accordance with regulations governing adequate liquidity, banks are required to maintain a high level of liquid foreign currency assets. At yearend, foreign currency deposits with foreign and domestic banks totalled SIT 14 billion, a 13% increase over 2001. This increase was primarily the result of higher mandatory foreign currency reserves due to an increase in collected funds and changes to the regulations, which brought about a 30% increase of investment in Bank of Slovenia treasury bills issued in foreign currency.

Loans and deposits acquired abroad amounted to 317 million EUR at yearend and more than doubled in comparison to 2001. For the purpose of financing loans to retail clients and legal entities, the Bank substantially increased the volume of deposits acquired from foreign banks, and acquired SIT loans with the foreign currency clause.

In order to further develop the money market, the State Treasury invited banks at the end of 2001 to sign a Framework Agreement on the conditions and methods for fulfilling the commitment to maintain a secondary market of treasury bills. The Bank accepted the invitation to sign the said agreement and was selected as one of six banks to play an active role of specialist broker responsible for maintaining the liquidity of treasury bills. Active trading in treasury bills began in May 2002. The Bank was very successful in this role and executed 27% of all transactions on the secondary market. After completing its treasury bill transactions, the Bank created a treasury bill trading portfolio, whose value at yearend amounted to SIT 4,835 million. Trading in treasury bills in 2002 brought the Bank a profit of 199 million.

Securities Operations

The Bank's major achievement in securities trading in 2002 was the successfully concluded public offering for the purchase of all shares of Lek d.d. by Servipharma AG, a member of the Novartis group. The Lek takeover, valued at 876 million EUR, is the largest transaction of its kind in Slovenia to date and one of the largest transactions in Eastern Europe as a whole. It is also one of the largest takeovers in the international generic drugs sector. The transaction received the flattering title of "Transaction of the Year" from Euromoney and was awarded to the CA IB Company - an investment bank from the Bank Austria Creditanstalt Group, which acted as advisor to Novartis in the Lek takeover. The public offering, conducted in a highly professional manner by Bank Austria Creditanstalt Ljubljana, was undoubtedly an important contribution to winning this prestigious title.

In addition to the above-mentioned transaction, the Bank had already successfully concluded its first public offering for the purchase of shares early in the year on behalf of its client, Lafarge Perlmooser d.o.o., for which it acquired Cementarna Trbovlje d.d. shares. With these two takeovers, the Bank has assumed a leading position in Slovenia in the execution of public offerings for the purchase of shares in accordance with the Takeovers Act.

2002 was also a very successful year in terms of brokerage activities. The Bank's turnover on the Ljubljana Stock Exchange amounted to SIT 45.5 billion, ranking it in 7th place with a 4.73% market share. All of its trading, particularly in stocks, was conducted on the behalf of clients. Consequently, the Bank's volume of transactions on the Stock Exchange more than tripled, whilst its market share more than doubled in comparison to 2001. Among the reasons for such growth are the record volume of transactions on the Ljubljana Stock Exchange in 2002 and the record levels of all three principal indexes. Investment was also attracted by the numerous takeovers of Slovene

companies. However, the principal reasons for such growth are the increased activity of foreign investors, helping the Bank to preserve and strengthen its position as the largest broker for foreign investors in Slovenia, as well as the Bank's increased volume of transactions with domestic clients. The Bank acted as intermediary in trading with unlisted securities, as well as in the purchase and sale of securities on foreign markets. Due to unfavourable trends on foreign capital markets, particularly in comparison with the domestic market, foreign markets as yet do not represent a significant share in the Bank's securities transactions. The Bank also acted as broker in the purchase and sale of units of the investments funds of Capital Invest, an asset management company of the Bank Austria Creditanstalt Group.

Custody Services

The positive trends reflected in increased investments by foreign investors on the Ljubljana Stock Exchange in 2001, encouraged by the lifting of restrictions on foreign investment, continued in 2002. The trading volume of foreign investors on the Ljubljana Stock Exchange quadrupled in comparison with the previous year. In addition to the growing interest for stock by foreign companies, transactions trading in bonds and Republic of Slovenia treasury bills of exchange increased noticeably. Following the sale of the Lek pharmaceutical company to Novartis, the volume of funds on the Bank's custody accounts decreased due to the considerable ownership stakes held by foreign companies in Lek.

In order to provide support to this segment of its operations, the Bank introduced a new support system for custody services. The new information system provides integral support to clearing and custody functions, and automates the work process. The system also ensures that all procedures are compliant with international standards related to custody services (ISO 15022). The implementation of this system demonstrates the Bank's commitment

to quality and the professional performance of custody services in the future. The Bank implemented the changes required by SWIFT ISO 15022 and improved the quality of reporting to its international clients.

According to the Global Custodian Survey of Agents Bank, Bank Austria Creditanstalt d.d. Ljubljana retained its commended status for custody services and is the only Slovene bank to have earned this title. The Bank's ratings confirm its leading position in the custody market and represent a commitment to further improvements and growth in the field of custody services.

Risk Management

Risk management is of exceptional importance to banking, not only because of the safety of operations of an individual institution, but also because of the sensitivity of financial markets, which respond instantaneously to any negative information resulting from problems in the operations of individual financial institutions.

Bank Austria Creditanstalt follows the highest internationally recognised professional and safety risk management standards. The Bank also follows regulatory requirements prescribed by the Bank of Slovenia in particular and other supervisory institutions in general. In addition, the Bank practises demanding standards, procedures and criteria, which are applicable to the entire Bank Austria Creditanstalt bank group, for the purpose of managing and controlling risks.

Traditionally, the most important risk management activity for a universal bank such as Bank Austria Creditanstalt is credit risk management. The Bank has extensive experience in controlling this type of risk, as well as defined and established procedures for continually monitoring both its overall credit exposure and the individual credit exposures of each client. In accordance with Bank of Slovenia regulations, individual risks are classified into five groups (from A to E). On the basis of internal criteria, credit risks are further

classified into twenty-eight classification groups. Based on these classifications, the Bank creates special provisions for individual bank risks. Statistical data have shown that in the past, losses arising from individual credit risks were relatively small in comparison to the data available for the entire banking system. In the Bank's risk exposure structure, 96 per cent of its exposure falls under the highest credit group, 3 per cent falls under the second group, and approximately one per cent of all outstanding debts fall under being the last three groups (from C to E). To reduce the credit risk of its portfolio, the Bank provides for the diversification of loans to different economic sectors.

With regard to handling and managing market risks, the bank group has defined criteria and limitations for controlling market risks with which the Bank is obliged to comply. The Bank distinguishes between market risk management and supervision of risk management policies. The Bank's market risk management policy is determined by the Bank's asset management committee. The competencies and guidelines on interest rates, forex rates, structure of investments and liabilities according to maturity are clearly defined for of each business sector. The International Markets monitors individual risk types on all levels and controls them with its instruments. The supervision of market risk management policies is within the portfolio of the market risk group created in 2002.

In accordance with the most recent risk management requirements introduced by the new Basel standard, a project group was launched last year as part of a broader project within the entire bank group. The group is responsible for the preparation and application of activities necessary for the prompt implementation of Basel II in the Bank. Given its complexity, magnitude and especially significance of the project for the medium- and long-term operations of the Bank, the project is considered highly important and will require more intensive efforts in future, both in terms of financial and human resources.

Information Technology Support

Following the implementation of an integrated information system, the majority of IT support activities in 2002 were focused on improving and upgrading support applications with additional functions, improving the quality of support, and introducing higher safety standards. Some of the enhancements and novelties are linked to changes in legislation, the most extensive being the abolishment of the revaluation of all short-term assets. Of great assistance in this comprehensive task, which required changes to all modules supporting specific business areas, was the previously installed optional approach, which saved us considerable work and facilitated the change in operating methods without major complications.

Several of the enhancements introduced in 2002 relate to payment transactions. These novelties have enabled the implementation of certain legal changes and requirements, while others contributed to greater automation and safety in the execution of payments and the preparation of information for clients and for the required statutory reports. The greatest changes in the area of payment transactions in the past two years occurred with the transfer of corporate accounts to banks and, consequently, the execution of all payments in banks. This phase was concluded in the middle of 2002. More than half of the companies holding transaction accounts with the Bank make use of one of the electronic payment packages.

A number of activities related to the automation, improved quality and quicker execution of payments are yet to be concluded. The Slovene Bank Association is conducting a project involving the implementation of an inter-bank system for the exchange of data on direct debit and credit payment orders. In the area of card transactions, this system has already been completed.

Currently being implemented on the national level is a new system and register of transaction

accounts for retail clients, which is to be completed by the middle of 2003 and requires several changes in all retail banking support applications.

Due to the rapid growth of operations, the Bank implemented a number of solutions in 2002 enabling the more rational use of available capacities. The safety and efficiency of the information system were improved with the use of Storage Area Network technology. In 2003, the Bank plans to considerably expand and upgrade its computer equipment.

Human Resources

2002 was quite a dynamic year in the area of human resources. The Bank's personnel increased by almost 9%, and the fluctuation of employees in general was quite intensive. 18 employees left the Bank, and 37 new staff were employed. At yearend the Bank had a staff of 246. Most of the new employees - as many as 30 - were assigned to areas directly related to the servicing of clients, and most of them have a two- or four-year university education. Almost 35% of all employees have a full university degree. At the beginning of the year, the Chairman of the Bank was replaced and the Management Board enlarged from three to four members.

As in previous years, the Bank devoted considerable attention in 2002 to professional training and education by giving its employees the opportunity to attend numerous seminars in Slovenia and abroad, as well as internal seminars based on current needs. The Bank takes advantage of the training programmes organised by its parent bank in Vienna, where employees are regularly acquainted with the latest novelties and approaches in the banking industry. Another option available to employees is "on-the-job" training, which has proven to be a particularly valuable method of acquiring knowledge and transferring practical experience and skills directly from a modern European bank to the Slovene

environment. These opportunities undoubtedly represent an important comparative advantage in the performance of banking activities and the servicing of clients. The Bank also devotes special attention and substantial funds to language learning by organising specialised English and German language courses, which are well-attended.

Financial Results

This report presents the consolidated results of the Bank's operations in accordance with International Accounting Standards. The items in the financial statements presented in this report, which primarily relate to the operations of the Bank, are consolidated with the data on the assets and business result of the subsidiary, BACA Storitve d.o.o., which is fully (100%) owned by the Bank and whose operations in 2002 were substantially reduced in comparison to 2001.

The Bank realised an after-tax profit of SIT 2,363 million, which exceeded the 2001 figure by SIT 582 million or 33 per cent. Pre-tax profits were even higher, growing by 37 per cent and amounting to SIT 2,880 million. The increase in profit is the result of the Bank's higher revenues, which increased primarily due to the growth in the volume of operations as well as the reduction of operating expenses, which also decreased slightly in nominal terms, irrespective of the considerable growth of operations.

The total operating income increased by 24% over the previous year. Two-thirds of this income consisted of interest income amounting to SIT 4,718 million, which represents a 15% increase over the 2001 figure. The growth of interest income did not follow the growth of operations, as the relatively lower growth of interest income is primarily the result of decreasing interest margins due to greater competition, a lower inflation rate in 2002, and the transfer to the nominal interest rate system following the cancellation of revaluation interests calculated on short-term loans and liabilities. However, the interest margin also depends on the credit ratings of clients. Given the fact that the Bank's business policy gives priority to clients with the highest credit rating, and that such clients represent 96% of its portfolio, this often means that the Bank lends funds at somewhat lower interest rates. Reduced interest income is partly offset by the lower amount of required provisions. In 2002, the Bank established new

provisions amounting to a total of SIT of 455 million.

In 2002, the growth of non-interest income exceeded the growth of interest income in relative terms. The share of non-interest income in the total income increased by 4 per cent to 35 per cent. The highest increase in income in the past year was achieved by the trading result, which is 107 per cent higher than the 2002 figure. Such high growth is the result of the Bank's new activities in the area of treasury bill trading, as the Bank was selected as a secondary market maker for state treasury bills. The income from trading in treasury bills amounted to SIT 199 million. The trading result also increased due to the substantial increase in the volume of operations with derivative instruments and the increased volume of purchases and sales of foreign currency on the inter-bank market. The Bank is one of the most active market participants in these transactions.

The net fee income increased by 28 per cent and amounted to SIT 1,801 million. The greatest contribution to this growth was made by fees arising from the execution of domestic payments, whose volume increased particularly in the second half of the year with the closing of the Agency for Payments and the transfer of all payment transactions to banks. In comparison with the planned results, the fees and commissions resulting from securities brokerage activities and advisory services in connection with acquisitions were substantially higher. The Ljubljana Stock Exchange registered record trading volumes in 2002, primarily due to the greater interest shown by foreign portfolio investors and foreign direct investors, as well as the increased activity of domestic investors.

The high profits in 2002 were, to a significant extent, achieved through greater cost efficiency. The Management's policy of cutting costs and their effective control, which includes several measures for rationalising the utilisation of funds, has had positive effects on all types of expenses, which were comparatively lower or grew at a slower rate. The Bank's expenses nominally decreased by 2 per cent

or SIT 70 million to SIT 3,918 million in spite of the increased number of employees and volume of operations. The biggest reductions were achieved in depreciation and administrative costs. The costs of the latter decreased by SIT 163 million or 10 per cent. The Bank reduced by one-third its external consulting costs, which were higher in the past primarily due to extensive projects related to the implementation of the IT system. Communications costs were 17% lower, and depreciation was lower by SIT 140 million or 18 per cent. Depreciation was higher in 2001 due to major write-offs of fixed assets after the sale of business premises and the valuation of all fixed assets of the Bank according to their real value, in accordance with applicable standards. On the expense side, labour costs increased by 15 per cent, but lagged behind the growth in the number of employees and the volume of operations. The cost efficiency of operations, expressed as a ratio of operating expenses to operating income, improved to 54% in 2002 (68% in 2001).

The Bank's profit was SIT 2,363 million, which corresponds to a 16.5% return on equity, compared to 14.2% in 2001.

Plans for the Future

In 2002, the Bank reviewed its strategy and set some very ambitious goals for the future. The strategy is based on independent organic growth through the expansion of operations within the scope of its own branch network, which will expand substantially in future. The Bank is committed to preserving the concept of a universal bank and maintaining the constant and stable growth of operations in all fields of business, and shall devote its best efforts to improving the quality and expanding the range of its services following the principles of safety and profitability.

Within the scope of the planned expansion of the branch network (nine more branches will be added to the existing five), five large branches will be located in the major regional centres across

Slovenia and will be engaged in operations with individuals, small and medium-sized companies, and sole traders. To ensure the Bank's presence in all parts of Slovenia and its accessibility to all citizens, four additional branches will be engaged primarily in retail banking operations.

The new strategy places greater emphasis on individual areas of operation and clients that were not among the Bank's priorities in the past. The Bank intends to strengthen its relations with small and medium-sized companies dealing in promising development and export programs in industries at the forefront of future development. In 2003 and subsequent years we intend to significantly increase the volume of operations with this group of clients. In line with the strategy of the bank group, which is one of the leading European banks in the area of project and real-estate financing, we prepared in 2002 an appropriate organisational and staff structure that will serve as a basis for the systematic and professional promotion of such operations and services within the scope of the Bank.

In the area of retail banking, the strategy devotes special attention to the development of integral services for the most demanding clients within the scope of the Centre for Private Banking - from traditional bank deposits to investments in securities and funds, complemented with insurance services.

The Bank undoubtedly views the fact that it is part of a large banking system as an excellent opportunity for further growth and development. Hypo-undVereinsbank and Bank Austria jointly form the third largest bank group in Europe, and the foremost and strongest bank group in Central and Eastern Europe. The Bank's good reputation, backed by the capital and financial strength of a large bank group, ensures greater reliability and security as well as broader support and more intensive cooperation with clients. Membership in a large bank group also offers a multitude of other advantages and synergies, such as the transfer of knowledge and technologies, access to a broad international business network, and easier

acquisition of new business partners, particularly multinational companies.

In 2003, the Bank intends to continue its activities within the scope of numerous projects aimed at increasing the satisfaction of our clients (higher quality of banking services), owners (better results), and employees. These goals will primarily be achieved through the following activities:

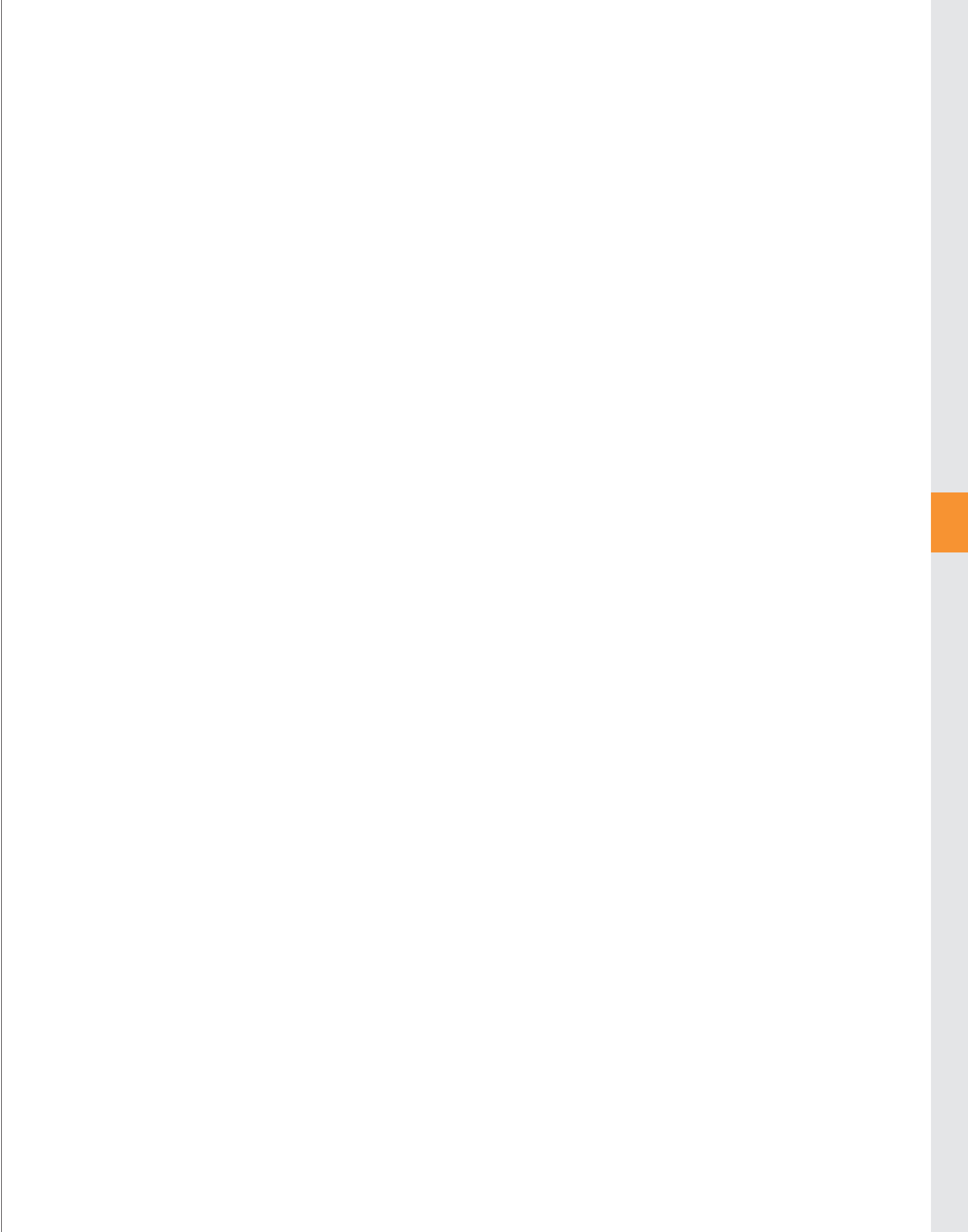
- ▶ increasing our market share through dynamic organic growth and strengthening the Bank's role in servicing clients from specific target groups, particularly in areas where the Bank has an advantage over other market participants,
- ▶ opening new branches and ensuring easier accessibility to services provided by the Bank,
- ▶ creating market-adapted services in the areas of private banking and insurance transactions,
- ▶ further improvements in and development of new services within the scope of modern Internet banking with retail clients,

▶ improving business processes through the upgrading of information technology support with the aim of achieving high-quality, cost-effective and safer operations,

▶ creating a flexible organisational structure and communication with clients, enabling us to quickly recognise the clients' needs, and developing services adapted to clients' desires,

▶ stimulating staff training and the acquisition of professional experience by employees both within the country and abroad in order to ensure professional performance and a high-quality of services for the Bank's clients.

We believe that the above-mentioned activities will improve the profitability of operations and the financial strength of the Bank, further enhance its safety and increase its competitiveness to the satisfaction of our clients, employees and shareholders.



Report of the Supervisory Board of Bank Austria Creditanstalt d.d. Ljubljana

At the Annual General Assembly of Shareholders, the Chairman and a member of the Supervisory Board were relieved of their duties and replaced by new appointments. The Supervisory Board nominated a new Chairman of the Board was nominated.

The Supervisory Board monitored and supervised the operations of the Bank and the performance of the Management, in accordance with the powers granted and tasks assigned to the Supervisory Board under the Banking Act, Companies Act and the Bank's Articles of Association.

In 2002, the Supervisory Board duly monitored the Bank's current operations and financial results. At its first correspondence session held in January 2002, the Supervisory Board relieved the Chairman of the Management Board of his duties, nominated a new Chairman and enlarged the Management Board by appointing an additional member. The Management regularly kept the Supervisory Board informed about all major business events in the Bank, other activities related to the Bank's operations, the economic and political environment, major changes in legal regulations affecting the Bank's operations and on the Bank's financial results with regard to the Bank's financial plan. The Management also kept the Supervisory Board informed about the financial forecasts for the financial year in question and the realisation of the results. Further, the Supervisory Board was kept informed about the activities and findings of the internal audit as well as inspections by external supervisory authorities. The Supervisory Board actively participated in the adoption of measures and activities necessary for the implementation of the corporate business policy of the Bank Austria Creditanstalt group and its holding company, Hypo-undVereinsbank München. The Management presented to the Supervisory Board for examination the Bank's business and financial plans for the upcoming business year. Most decisions were taken by the Supervisory Board at its three regular meetings, however, certain decisions were taken through correspondence sessions, in accordance with legal regulations and the powers vested in it by the Articles of Association of the Bank, in order to effectively respond to the current needs of the Bank.

In addition to regular monitoring by the Supervisory Board, regular monthly monitoring of the operations of all Bank Austria Creditanstalt subsidiaries is carried out by technical services within their respective subsidiaries, with the aim of ensuring a uniform and coordinated business policy. The Supervisory Board is regularly informed about all significant findings by the technical service.

The Management compiled the Annual Report on the Bank's operations in 2002 and submitted it within the statutory term to the Supervisory Board for examination and approval. Also presented to the Supervisory Board was the report of the Bank's auditors, Ernst & Young, on the review of the financial statements for the 2002 business year. The Bank's Management submitted to the Supervisory Board for approval a decision on the allocation of the net profit and a proposal of a decision on the utilisation of the accumulated profit to be decided by the General Assembly of Shareholders.

The Supervisory Board examined the Annual Report and found it to be consistent with the interim reports and information on the Bank's operations in 2002, and with the economic and political environment within which the Bank operates, which were presented to the Supervisory Board during the course of the year. The Supervisory Board compared the Annual Report to the audited financial statements for the 2002 business year and found the disclosures in the Annual Report to be consistent with the Auditors' Report. The findings and recommendations embodied in the reports submitted by the internal audit and external supervisors were given due consideration by the Management and appropriate measures and activities were implemented or initiated. In the opinion of the Supervisory Board, both the Management and the Supervisory Board have complied with all statutory requirements in the 2002 business year. On the basis of its regular monitoring of the Bank's operations and the above-mentioned examinations, the Supervisory Board has approved the Annual Report for the 2002 business year.

The Auditors' Report on the 2002 financial statements, which was presented to the Supervisory Board together with the Annual Report, also includes the opinion of the Bank's auditors. The Bank's auditors expressed their opinion without reservations. The changes to the Bank's accounting policies, as well as the effects of these changes on the financial results of the Bank, were reported to the Supervisory Board during the course of the business year. The Supervisory Board has examined and discussed the Auditors' Report for 2002 and has no remarks in connection therewith.

The Management of the Bank also submitted to the Supervisory Board for approval the Decision on the allocation of the net profit for the 2002 business year and a Proposal for the Decision on the allocation of the accumulated profit for the year 2002. In view of the planned expansion of the Bank's business operations in 2003 and subsequent years, in accordance with the adopted medium-term plans, and in order to maintain the Bank's required capital adequacy, the Management proposes that the net profit of the Bank should not be allocated for distribution to shareholders or others, but should be fully allocated to the Bank's other reserves. The Management proposes that the Supervisory Board and the General Assembly of Shareholders adopt the proposed decisions on the allocation of profit for the 2002 business year. The approval of such a proposal would facilitate further growth. The Supervisory Board has adopted the Decision on the allocation of the net profit for the year 2002 and agrees with the Management's proposal for the utilisation of the accumulated profit for 2002, and recommends that the General Assembly of Shareholders adopts it in the proposed form.

*Chairman of the Supervisory Board
Anton Knett*

Audited Consolidated Financial Statements According to International Standards of Auditing with Notes to the Financial Statements

1. Auditor's Report on Consolidated Financial Statements

We have audited the consolidated balance sheet of Bank Austria Creditanstalt Group, Ljubljana, ("the Bank") as of December 31, 2002 and the related consolidated profit and loss account, shareholders' equity and cash flow for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion the consolidated financial statements give a true and fair view of the financial position of Bank Austria Creditanstalt Group, Ljubljana, as of December 31, 2002, and of the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

March 28th, 2003

Ernst & Young
Donald Mowry



Balance Sheet

	2002 (in 000 SIT)	2001 (in 000 SIT)	2002 (in 000 EUR)	2001 (in 000 EUR)
Cash and balances with Central Bank	4,326,053	10.464.114	18,787	47.261
Trading assets	5,055,681	0	21,955	0
Due from other banks	18,487,910	15.677.258	80,288	70.806
Loans and advances to customers	108,343,282	77,091,446	470,510	348,184
Non trading securities	37,587,241	23,555,990	163,233	106,391
Intangible assets	1,141,842	1,080,314	4,958	4,879
Tangible fixed assets	1,012,423	1,198,583	4,396	5,413
Other assets	340,22	442,669	1,477	1,999
Total assets	176,294,652	129,510,374	765,604	584,933
LIABILITIES				
Due from other banks	73,827,983	33.558.603	320,618	151.568
Trading liabilities	231,577	0	1,005	0
Due to customers	82,749,769	72.872.345	359,363	329.129
Debt evidenced by certificates	0	6.360.523	0	28.727
Other liabilities	1,570,947	1,454,806	6,822	6,570
Provisions	542,208	286,522	2,354	1,294
Subordinated loans	1,873,555	1,841,940	8,136	8,319
Total liabilities	160,796,039	116,374,739	698,298	525,607
SHAREHOLDERS' EQUITY				
Share capital	3,101,378	3.101.378	13,468	14.007
Share premium	263,786	263.786	1,145	1.191
Retained earnings from previous years	4,829,303	3,048,680	20,972	13,769
Revaluation reserves	4,941,167	4,941,168	21,458	22,316
Current year net income	2,362,979	1.780.624	10,261	8.042
Total shareholders' equity	15,498,613	13.135.635	67,304	59.325
Total liabilities and shareholders' equity	176,294,652	129,510,374	765,604	584,933

Nataša Pukl
Member of the Management Board

Mag. Wolfgang Peter
Chairman of the Management Board

Profit and Loss Account

	2002 (in 000 SIT)	2001 (in 000 SIT)	2002 (in 000 EUR)	2001 (in 000 EUR)
Interest and similar income	10,440,331	8.861.952	45.340	40.025
Interest and similar expense	-5.722,156	-4.750.634	-24.850	-21.456
Net interest income	4,718,175	4.111.318	20.490	18.569
Fee and commission income	2,173,137	2.135.853	9.437	9.646
Fee and commission expense	-371,871	-726.892	-1.614	-3.283
Net fee and commission income	1,801,266	1.408.961	7.823	6,363
Net trading income from securities	199,074	60,290	0,864	0,272
Net trading income from exchange	558,137	305,272	2,423	1,378
Net income on trading activities	757,211	365,562	3,287	1,650
General administrative expenses	-3.260,128	-3.189.408	-14.158	-14.405
Depreciation and amortisation of tangible and intangible fixed assets	-657,885	-798.302	-2.857	-3.605
Depreciation on goodwill	0	-1.028	0	-0,004
Bad and doubtful debt expenses	-454,834	262,868	-1,975	1,187
Total operating expense	-3.918,013	-3.988.738	-17,015	-18.010
Other operating income	49,130	119.903	0,213	0,541
Other operating expenses	-72,820	-174.435	-0,316	-0,787
INCOME BEFORE TAXES	2,880,115	2.105.439	12,507	9.512
Income tax expense	-517,136	-324.815	-2,245	-1.467
NET INCOME (PROFIT AFTER TAX)	2,362,979	1.780.624	10,262	8.045

Nataša Pukl
Member of the Management Board

Mag. Wolfgang Peter
Chairman of the Management Board

2. Notes to Consolidated Financial Statements for the Financial Year ended December 31, 2002

2.1 General information

Bank Austria Creditanstalt d.d., Ljubljana is a commercial bank incorporated in Slovenia, servicing enterprises and individual customers. The Group provides private banking, corporate banking, money market and security market, national and international settlements and custody services.

The parent company of the Group is Bank Austria Creditanstalt AG, Vienna which holds 99.98 percent of shares in the Bank Austria Creditanstalt d.d., Ljubljana. The remaining shares are owned by Slovene enterprises and individuals. The ultimate parent company of the group is Bayerische Hypo-undVereinsbank AG, Munich.

At the end of 2002 a total of 246 staff were employed by the Group at the head office in Ljubljana and in the five branch offices in Ljubljana (two offices), Maribor, Murska Sobota and Koper.

2.2 Basis of preparation

The financial statements of the Group at December 31, 2002, and for the year then ended were authorized for issue by the board of directors on January 30th, 2003.

The financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations of the Standing Interpretations Committee.

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and trading and available for sale investment securities. In addition, as discussed below, assets and liabilities that are hedged are carried at fair value to the extent of the risk being hedged.

The Group maintains its accounting records and prepares its statutory accounts in accordance with commercial, banking and fiscal regulations prevailing in Slovenia. The Group's functional currency is the Slovenian Tolar ("SIT"). All balances are presented in thousands of Slovenian Tolars ("TSIT") unless otherwise stated.

Certain accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. In order to present the financial position and results of operations of the Group in accordance with International Financial Reporting Standards ("IFRS"), certain adjustments have been made to the Bank's Slovenian statutory accounts. The principal adjustments are related to revenue and expense recognition, valuation of securities and derivatives, recognition of provisions and deferred taxes. Reconciliation between the two bases of accounting is provided in paragraph 6.

2.3 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set out below:

2.3.1 Consolidation

The consolidated financial statements comprise the financial statements of the Bank and all significant entities it controlled as at 31 December 2002. The Bank and the entities, which it controls, are referred to collectively as the "Group". Control is presumed to exist where the Bank holds, directly or indirectly, more than 50% of the registered capital, where the Bank can exercise more than 50% of the voting rights or where the Bank can appoint or dismiss a majority of the members of the Board of Directors or Supervisory Board. The effects of all material inter-company balances and transactions are eliminated.

The Bank's only subsidiary is the company BACA STORITVE d.o.o. Its share capital is 100 % owned by the Bank.

2.3.2 Related parties

For the purposes of the financial statements, related parties include all the enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the reporting enterprise (this includes parents, subsidiaries and fellow subsidiaries), associated companies, managers and directors of the Group and enterprises in which managers and directors of the Group are able to exercise significant influence (participation in the financial and operating policy decision of an enterprise).

2.3.3 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the Bank of Slovenia's official exchange rates for SIT as of December 31, 2002 and December 31, 2001, respectively. The Bank of Slovenia's official exchange rates as of December 31 are as follows:

Currency	2002 in SIT	2001 in SIT
1 USD	221.0708	250.9458
1 EUR	230.2673	221.4095

Transactions denominated in foreign currencies are recorded at the Bank of Slovenia's official exchange rate on the date of the transaction. Gains and losses from foreign currency (FX) translations are included in the profit and loss account of the respective year in trading income or expense. Margin from FX dealings with non-banking clients is included in the profit and loss account in fee and commission income or expense.

The SIT is a convertible currency outside of Slovenia and official exchange rates are determined daily by the Bank of Slovenia. Market rates may differ from official exchange rates, but differences are maintained by commercial banks within a narrow spread to attract clients on a competitive basis. Market rates are used for measuring and accounting for foreign settlement transactions.

2.3.4 Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, amounts due from the Bank of Slovenia, and amounts due from other banks that mature within three working days of the respective balance sheet date and are free from contractual encumbrances.

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including:

- ▶ cash and balances with central banks,
- ▶ treasury bills and other eligible bills,
- ▶ amounts due from other banks and
- ▶ trading securities.

2.3.5 Derivative financial instruments and hedging

The group enters into derivative instruments in the foreign exchange markets. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealized gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealized gains) are included in trading assets and derivatives with negative market values (unrealized losses) are included in trading liabilities in the balance sheet.

Gains and losses on re-measuring derivative instruments, together with any associated hedging thereof, used in dealing activities are included in net trading income as they arise. Gains and losses on other derivative financial instruments used for hedging purposes are deferred and recognised as income or expense on the same basis as the corresponding expense or income on the hedged position.

The Group closes any open foreign exchange position with domestic counter parties and any currency risk is therefore hedged. The Group's criteria for derivative instruments to be classified as hedged are:

- ▶ The transaction must be reasonably expected to match or eliminate a significant portion of the risk inherent in the position being hedged
- ▶ There is adequate evidence of the intent to hedge at the outset of the transaction
- ▶ The hedge is effective on an ongoing basis.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognized immediately in the statement of income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognized in the statement of income. Where the adjustment relates to a hedged interest-bearing financial instrument, the adjustment is amortized to the statement of income on a systematic basis such that it is fully amortized by maturity.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in equity and the ineffective portion is recognized in the statement of income. The gains or losses on effective cash flow hedges recognized initially in equity are either transferred to the statement of income in the period, in which the hedged transaction impacts the statement of income or included in the initial measurement of the cost of the related asset or liability.

For hedges, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of income for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the net profit and loss for the period.

2.3.6 Trading assets

Trading assets are securities the Group holds with the intention of recognizing short-term profits. They are carried at fair market value represented primarily by quoted bid prices on the Slovene market. All gains and losses realized and unrealized from trading are reported in net trading income in the period in which they arise. Interest earned is reported as interest income. Dividends are taken to other operating income when received.

The Group does not hold securities where the market price is not available as trading securities.

2.3.7 Loans and advances to customers and provisions for loan impairment

Loans and advances originated by the Group are stated at amortised cost less an impairment provision, which is determined as the principal amount outstanding, increased by the amount of interest and other claims due from customers, less any amounts written off and less an allowance for estimated loan losses. Loans and advances are recognised when cash is advanced to borrowers. Short-term loans are loans with the maturity up to one year.

Loans and advances are placed on non-accrual status, where full repayment of principal or interest is doubtful. The carrying values of loans, which are being effectively hedged for changes in fair value, are adjusted to the extent of the changes in fair value being hedged. Resultant gains or losses are recognized in the statement of income. When a loan is placed on non-accrual status, interest accrued but not received is reversed against interest income. Subsequent payments by borrowers are applied first to delinquent interest and then to the principal of the loan at the time of payment. A non-accrual loan may be

restored to accrual status when all principal and interest amounts contractually due are reasonably assured to be repaid within a reasonable period.

The value of the loan portfolio net of provisions for loan impairment represents the fair value of the portfolio. Management measures the fair value of impaired loans as the net present value of payments expected to be received discounted at the loans' effective interest rates or, for loans which are solely dependent on collateral for repayment, the estimated fair value of the collateral.

The allowance for credit losses is a reserve for estimated credit losses from the commercial loans and advances to corporate and individual customers to reduce all impaired loans, advances and balances due from other banks to their expected realizable value. The allowance for loan losses is established as soon as the recovery of an exposure is identified as doubtful and is allocated to individual loans. The allowance also includes estimates covering probable losses on guarantees. Actual credit losses, net of recoveries, are deducted from the allowance.

The allowance is based on the Group's assessment of: the credit portfolios; previous loss experience; known and inherent risks in the credit portfolios; the estimated value of any underlying collateral; adverse situations that may affect a borrower's ability to repay; and current economic conditions.

2.3.8 Non-trading investments

Non-trading investments are classified as follows:

- ▶ Held to maturity
- ▶ Available for sale

All investments are initially recognized at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

Premiums and discounts on investments designated as held to maturity or available for sale are amortized on a systematic basis to maturity using the effective interest method and taken to interest income.

Held to maturity

Investments which have fixed or determinable payments and are intended to be held to maturity are subsequently measured at amortized cost using the effective interest method, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. A reduction in market value is not taken into account unless it is considered to be permanent. Interest earned on held to maturity securities is reported as interest income.

Available for sale

After initial recognition investments which are classified "available for sale" are re-measured at fair value. Unless unrealised gains and losses on re-measurement to fair value are part of an effective hedging relationship, they are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of income for the period.

Any gain or loss arising from a change in fair value of available for sale investments, which are part of an effective hedging relationship, is recognized directly in the statement of income to the extent of the changes in fair value being hedged.

Interest earned whilst holding these securities is reported as interest income. Dividends are taken to other operating income when received.

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognized in the statement of income.

2.3.9 Intangible and tangible fixed assets

All software, property and equipment is stated at cost, less accumulated depreciation. Depreciation is based on the straight-line depreciation method to write-off the cost of each asset to its residual value over the estimated useful life as follows:

Buildings	33 years
Leasehold improvements	10 years
Equipment and cars	4-10 years
Software	5 years

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

Maintenance and repairs are charged to the income statement when incurred. Expenditures that enhance and extend the benefits of property or equipment beyond the original specifications and lives are recognized as capital improvements and added to the original cost.

The carrying amounts are reviewed at the balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount and an impairment loss is recognized in the Group's statement of income. There have been no such instances in 2002, while for 2001 the impairment was posted on the base of assets valuation

2.3.10 Provisions for off-balance commitments and contingencies

In the normal course of business, the Group enters into financial instrument contracts with off-balance sheet risk. Such contracts include the issuance of guarantees and letters of credit, granted but not yet drawn loans, and credit lines. These financial instruments involve, to varying degrees, elements of credit, interest rate and currency risk. Provisions are built for estimated losses on such items based on similar assessments as set out for loans and advances.

2.3.11 Revenue and expense recognition

Interest income and expense are recognized on an accrual basis, as earned or incurred. The same applies in relation to fees and commissions income and expenses, as well as income and expenses from financial activities.

The recognition of income ceases when the payment of the outstanding amount is in doubt. Any income previously accrued but not received is subsequently placed on a non-accrual basis and reversed. Income is recognized thereafter only when it is received in cash. Claims are returned to the accrual basis only when doubt regarding their recovery is removed and when the outstanding arrears are received.

Gains and losses arising from the translation of foreign currency denominated assets and liabilities are included in the accompanying income statement within income or expense they relate to (interest income or expense, fees and commission income or expense etc.).

2.3.12 Social costs

The Group does not contribute to any private pension funds. Contributions to the state pension fund, social insurance, medical insurance, and unemployment funds for the Group's employees are considered as operating expenses as incurred.

The Group accounts for employee holiday benefits on an accrual basis.

2.3.13 Taxation

Taxes are calculated in accordance with the provisions of the relevant legislation of the Republic of Slovenia. In accordance with tax legislation, banks are liable for tax calculated on either of two separate bases, where the higher calculated tax expense applies. The two bases are: 25% of taxable profits or 3% on the balance sheet volume. However, the total amount of tax to be paid may not exceed 50 % of the Bank's total profit.

When calculating tax on the balance sheet volume the following items are deductible:

- ▶ Liabilities to credit institutions in foreign currencies,
- ▶ Liabilities to clients in foreign currencies,
- ▶ SIT loans to customers,
- ▶ Short-term SIT loans to banks,
- ▶ Certain marketable securities,
- ▶ Deferred income,
- ▶ Tax prepayments and tax liabilities,
- ▶ 7% of all deposits with the Bank.

2.3.14 Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from

revaluation of derivatives and certain securities and provisions to loans and advances to customers. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxes were not accounted for in 2002 and 2001 due to the immateriality.

2.3.15 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these financial statements.

2.3.16 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.3.17 Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognized in balance sheet on the settlement date, i.e. the date the asset is delivered to the counter-party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Between trade date and settlement date the transaction is recognized within off-balance sheet items and is revalued using market rates and income or loss recognised in the income statement.

2.3.18 Segmental reporting

Condensed financial statements of subsidiaries, representing segments of business, other than banking services provided in Slovenia are not presented due to their immateriality.

2.3.19 Changes in accounting policies

Previously the Group carried its tangible fixed assets at cost adjusted for an annual inflation revaluation less any impairment provisions. For the year ended December 31, 2002 the Group has changed to measuring its assets at cost less impairment provisions. No adjustment has been made to the carrying value of these assets as a result of this change as the Group has determined that the difference in the carrying value between the two basis is not material.

2.3.20 Reclassification of 2001 balances

Certain 2001 balances have been reclassified on the face of balance sheet, income statement, statement of changes in shareholders' equity and cash flow statement for their comparability with the presentation of 2002 balances. These reclassifications are as follows:

- ▶ Loans and advances to customers, Non-trading investments and Other assets were stated in the 2001 financial statements in gross amounts. Provisions for these items were shown separately on the face of the balance sheet in the 2001 financial statements. In the accompanying 2002 balance sheet these items are shown in net amounts including provisions.
- ▶ Software was shown as part of tangible fixed assets in the 2001 financial statements, while in the accompanying financial statements is shown as intangible fixed assets.
- ▶ The amount of SIT 728,045 thousands have been reclassified from Retained Earnings from previous years to Revaluation Reserves to follow the subsequent change in Slovenian accounting standards in relation to equity revaluation reserves.
- ▶ The accompanying 2002 income statement presents net income on trading activities split into net result from trading with securities and net result from foreign exchange transactions while in the 2001 financial statements the total gross amounts of trading expense and income have been provided.

2. 4 Notes to financial statements

2.4.1 Cash and balances with central bank

	2002	2001
Cash in hand	985,875	1,930,373
Balances with Central Bank	3,340,178	8,533,741
Total	4,326,053	10,464,114

Cash in hand comprises legal tenders (banknotes and coins) in hand at face value. Under Slovene legislation, the Bank is required to maintain certain level of cash reserves (obligatory reserves) in the settlement account with the Bank of Slovenia or in vaults. The amount of obligatory reserve held as balances with central bank at December 31, 2002 and 2001 amounted to SIT 3,893,464 thousand and SIT 2,359,433 thousand, respectively.

The amount of cash reserves required, on an average basis for the month is calculated as 7 percent of demand deposits and time deposits in national currency, issued securities and repurchase agreements with a maturity up to three months and 2 percent of demand deposits and time deposits in national currency, issued securities and repurchase agreements with a maturity over three months and total demand deposits and time deposits in foreign currency.

The Bank maintained sufficient stock of liquid assets to fully comply with the Bank of Slovenia's requirements.

2.4.2 Trading assets

	2002	2001
Trading securities	4,834,694	0
Positive market value of trading derivatives	220,987	0
Total	5,055,681	0

Trading securities earn annual interest of 8.5% at December 31st 2002 and consist primarily of government treasury bills (4,834,694 thousand SIT).

2.4.3 Due from other banks

	2002	2001
Money market placements	17,422,236	13,678,708
Loans and advances	588,669	566,025
Other	477,005	1,432,525
Total	18,487,910	15,677,258

Other balances represent primarily the balances in foreign currency, mostly regular current accounts held abroad and current accounts of foreign banks in the country.

Due from other banks is stated at re-valued amounts using FX rate changes in the case of FX loans and SIT loans with an FX clause. The amounts are reported on gross basis, including accrued interest, which approximates the amortised cost, prior to deduction of provisions for impairment. Accrued interest includes TOM (basic interest rate in Slovenia) in case of long-term SIT loans.

Interest-bearing deposits at domestic banks represent SIT-denominated short-term placements with annual contractual interest rate, at December 31, 2002 and 2001, of 8.25% to 10.0% and 11.7% respectively. Interest-bearing deposits at banks abroad are denominated in EUR and other convertible foreign currencies and have annual contractual interest rates ranging from 0.5% to 7.25% at December 31, 2002 and from 1.75% to 7.25% at December 31, 2001. The stated interest rates do not show exchange rate differences for foreign currencies. At December 31, 2002 the bank also had interest-bearing deposits at banks abroad denominated in SIT with annual contractual interest rate ranging from 5.2% to 8.9%.

2.4.4 Loans and advances to customers

	2002	2001
Loans to corporate	64,054,885	54,146,411
Loans to the public sector	25,171,500	8,047,372
Loans to private clients	20,174,059	15,668,260
Provisions for credit loss for loans to corporate	(822,914)	(565,680)
Provisions for credit loss for loans to private clients	(234,248)	(204,917)
Total	108,343,282	77,091,446

The book value of loans held on a non-accrual basis amounted to SIT 2,392,233 thousand as of 31 December 2002 (SIT 1,137,067 thousand as of 31 December 2001). Provisions for credit losses for those loans amounted to SIT 888,265 thousand as of 31 December 2002 (SIT 634,528 thousand as of 31 December 2001).

The bank's short-term loan portfolio as of December 31, 2002 was granted at an average interest rate of 9.8% (11.2% as of December 31, 2001) for SIT-denominated loans and 4.0% (4.7% as of December 31, 2001) for loans denominated in foreign currencies. The long-term loan portfolio was granted at an average interest rate 10.3% (11.3% as of December 31, 2001) for SIT-denominated loans and 4.2% (4.7% as of December 31, 2001) for loans denominated in foreign currencies. The stated interest rates do not show exchange rates difference for foreign currencies.

As at December 31, 2002 the Group accepted real estate at a fair value of SIT 9,981,134 thousand (2001: SIT 5,032,508 thousand), state securities and guarantees at a fair value of SIT 8,531,979 thousand (2001: SIT 3,355,265 thousand) and cash deposits on the Group's accounts at fair value of SIT 583,189 thousand (2001: SIT 716,255 thousand) as a collateral for loans and advances to customers, which the Bank is permitted to sell or repledge in the absence of default.

Loans to corporate clients by industry (net of provisions)	2002	2001
Industry	20,426,686	22,094,382
Trade	17,508,119	17,850,743
Construction	1,268,991	1,047,318
Insurance, financial services	5,181,251	3,436,158
Other services	16,889,883	7,444,702
Other	1,957,041	1,707,428
Total	63,231,971	53,580,731

Loans and advances to customers are stated at the revalued amount using the FX rate changes in case of FX loans or SIT loans with an FX clause. The amounts are reported on a net basis, including accrued interest, after deduction of provisions. Accrued interest includes TOM (basic interest rate in Slovenia) in case of long-term SIT loans.

Movements in provisions for losses on loans and advances to customers	2002	2001
Provisions at the beginning of the year	(866,689)	(920,055)
Provisions for loan losses	(922,387)	(754,984)
Recoveries of amounts previously provided	614,889	808,351
Provisions at the end of the year	(1,174,187)	(866,689)

Stated provisions include the movement of provisions for on balance sheet lending including amounts stated in other assets (Note 2.4.8.) but not provisions for off balance sheet commitments and contingencies.

2.4.5 Investments

	2002	2001
Treasury bills	32,491,355	18,496,106
Bonds and other fixed income securities	5,007,831	4,955,714
Equity interests	88,055	114,089
Equity adjustment	-	(9,919)
Total	37,587,241	23,555,990
Held to maturity	37,499,186	23,451,820
Available for sale	88,055	104,170
Total	37,587,241	23,555,990

Investments are those, which are intended for use on a continuing basis for the Bank's business activities. They are either held until maturity and included in the Bank's investment book or classified as available for sale.

The market value of held to maturity securities at December 31, 2002 and 2001 was SIT 37,546,703 thousand and SIT 23,355,791 thousand, respectively.

Treasury bills	2002	2001
Short-term in SIT	8,087,552	457,565
Short-term in FX	24,403,803	18,038,541
Total	32,491,355	18,496,106

All treasury bills are Bank of Slovenia securities and government treasury bills of Republic of Slovenia.

At December 31, 2002 SIT-denominated Treasury bills carry an annual interest from 8.3% to 12% whereas EUR and USD Treasury bills carry an annual interest from 2.7% to 3.1% and from 1.2% to 1.7%, respectively. The stated interest rates do not show exchange rates difference for foreign currencies. All treasury bills mature in the year 2003.

At December 31, 2001 SIT-denominated Treasury bills carry an annual interest from 10.56% to 13.5% whereas EUR and USD Treasury bills carry an annual interest from 3.17% to 4.03% and from 1.68% to 3.28%, respectively. The stated interest rates do not show exchange rates difference for foreign currencies.

Bonds and other fixed income securities	2002	2001
Public sector	4,998,200	4,887,807
Banks	9,631	67,907
Total	5,007,831	4,955,714

Bonds and other fixed income securities are long-term bonds. They comprise bonds issued by the Republic of Slovenia, German State bonds ("BRD") and SKB bonds.

SIT-denominated Republic of Slovenia bonds carry an annual interest from 10.3% to 12.0% whereas EUR and USD-denominated Republic of Slovenia bonds carry an annual interest of 3.25 % and 1.83%, respectively and mature from 2003 to 2007. BRD bonds carry an annual interest rate of 6% and mature in 2016. SKB bonds carry an annual interest rate of 7.5% and mature in 2003. The stated interest rates do not show exchange rates difference for foreign currencies.

BRD and certain Republic of Slovenia bonds, in a nominal amount of EURO 5.45 million and SIT 1.7 billion, were purchased above par value and are held as assets that are amortised over the period up to maturity.

Equity interests (investment in equity)	2002	2001
Other companies	88,055	104,170
Total	88,055	104,170

The Bank holds shares of the following Slovene companies: Marles Holding d.d., Maribor (1.68%), Iskra TEL d.d., Kranj (0.42%), Ljubljana Stock Exchange (2.21%), Bankart d.o.o., Ljubljana (2.24%) and Slovenska izvozna družba d.d., Ljubljana (0.01%).

Movements in investment in equities	2002	2001
At the beginning of the year	104,170	106,669
Additions	121	153
Revaluation	(9,919)	(2,652)
Sale	(6,317)	0
At the end of the year	88,055	104,170

The 2002 revaluation relates to the financial expense for the investment in equity of Marles Holding d.d.

The bank sold the investment in Unileasing d.o.o. Ljubljana in 2002 and realised a profit in the amount of SIT 233 thousand.

2.4.6 Intangible fixed assets

Software	2002	2001
Cost	2,726,191	2,239,327
Accumulated depreciation	(1,584,349)	(1,159,013)
Total	1,141,842	1,080,314

Movements in intangible assets	2002	2001
At the beginning of the year	1,080,314	1,255,833
Additions	495,665	315,069
Depreciation	(434,137)	(490,423)
Disposals	0	(165)
At the end of the year	1,141,842	1,080,314

2.4.7 Tangible fixed assets

	2002	2001
Buildings used for banking business	390,845	443,023
Other tangible fixed assets	621,578	755,560
Total	1,012,423	1,198,583

Buildings used for banking business	2002	2001
Cost	516,016	554,302
Accumulated depreciation	(125,171)	(111,279)
Total	390,845	443,023

The amounts represent the Group's investment into office infrastructure.

Movement in buildings used for banking business	2002	2001
At the beginning of the year	443,023	668,911
Additions	59,463	467,760
Depreciation	(47,114)	(52,502)
Disposals	(64,527)	(641,146)
At the end of the year	390,845	443,023

Other tangible fixed assets	2002	2001
Cost	1,387,985	1,387,996
Accumulated depreciation	(766,407)	(632,436)
Total	621,578	755,560

Movements in other tangible fixed assets	2002	2001
At the beginning of the year	755,560	479,001
Additions	136,776	570,873
Depreciation	(176,634)	(255,377)
Disposals	(94,124)	(38,937)
At the end of the year	621,578	755,560

2.4.8 Other assets

	2002	2001
Other receivables	419,361	522,974
Prepaid expenses	37,884	5,866
Allowances for losses	(117,025)	(86,171)
Total	340,220	442,669

Other receivables	2002	2001
Accounts receivable	57,500	83,373
Claims on tax authorities for overpaid taxes	33,655	0
Overdrafts with retail clients for credit cards	94,569	77,788
Interim accounts with other clients	1,272	100,797
Receivables for fees and commissions	42,953	44,144
Overdrafts of current accounts held by private customers	142,298	106,853
Accruals	37,217	46,893
Positive market value of derivatives in the banking book	0	44,005
Other receivables	9,898	19,122
Total	419,361	522,974

2.4.9 Due to other banks

	2002	2001
On demand	853,899	805,542
On time (deposits)	50,263,060	20,562,295
Borrowings	22,017,849	11,897,613
Accrued interests	693,175	293,153
Total	73,827,983	33,558,603

Due to other banks is stated at revalued amounts using FX rate changes in case of FX loans or SIT loans with an FX clause. The amounts reported include accrued interest.

Deposits from other banks represent deposits from various local and foreign banks held with the bank, which bear interest ranging for SIT-denominated business from 6.0% to 8.8% and from 1.8% to 10.4%, for FX clause business from 3.2% to 4.4% and from 3.4% to 4.9% and for business denominated in EUR and USD from 1.8% to 5.7% and from 2.6% to 5.7% at December 31, 2002 and 2001, respectively. The stated interest rates do not show exchange rate differences for foreign currencies.

2.4.10 Trading liabilities

	2002	2001
Negative market value of trading derivatives	231,577	0
Total	231,577	0

2.4.11 Due to customers

	2002	2001
Saving deposits		
Demand deposits	4,906,882	6,679,172
Time deposits	29,474,814	25,759,937
Other amounts owed to customers		
Current/settlement accounts	20,942,661	24,839,081
Time deposits	27,425,412	15,594,155
Total	82,749,769	72,872,345

Amounts owed to customers are stated at their revalued amounts. The amounts are reported including accrued interest.

At December 31, 2002, short-term deposits denominated in SIT bear an annual interest from 2.8% to 10.5%, FX clause short-term business from 0.8% to 2.8% and

short-term deposits denominated in foreign currencies bear an annual interest rate from 0.3% to 5.0%. Long-term deposits denominated in SIT bear an annual interest rate from 5.5% to 12.7%, FX clause long term business from 2.9% to 4.5% and long-term deposits denominated in foreign currencies bear an annual interest from 0.5% to 6.9% as of December 31, 2002. Customer current accounts bear an annual interest rate of 1%. The stated interest rates do not show exchange rate differences for foreign currencies.

At December 31, 2001, short-term deposits denominated in SIT bear an annual interest rate from 0.25% to 10.4%, FX clause short-term business from 0.5% to 4.0% and short-term deposits denominated in foreign currencies bear an annual interest rate from 1.0% to 6.12%. Long-term deposits denominated in SIT bear an annual interest rate from 10.3% to 14,8%, FX clause long-term business from 2.94% to 5.0% and long-term deposits denominated in foreign currencies bear an annual interest from 0.5% to 6.9%. The stated interest rates do not show exchange rate differences for foreign currencies.

2.4.12 Debt evidenced by certificates

	2002	2001
Remaining maturity up to three months	0	6,197,413
Remaining maturity 3 to 12 months	0	163,110
Total	0	6,360,523

This item comprised certificates of deposits at December 31, 2001, which were repaid by the bank in 2002. Debt evidenced by certificates in 2001 bear interest from 1.0% to 3.1%.

2.4.13 Other liabilities

	2002	2001
Other liabilities	969,951	1,104,978
Deferred income and accrued expense	600,996	349,828
Total	1,570,947	1,454,806

Other liabilities	2002	2001
Liabilities for salaries and taxes and contributions for salaries	88,551	69,978
Liabilities for international settlements	55,558	8,312
Liabilities for temporary deposits for the establishment of joint ventures	50,585	44,535
Accounts payables	396,141	577,097
Liabilities for taxes	366,683	262,079
Other	12,433	142,977
Total	969,951	1,104,978

Deferred income and accrued expenses	2002	2001
Liabilities arising from transactions with customers	31,409	31,839
Excluded income for C, D, E credit rated clients	122,589	155,063
Accrued expense	368,204	144,363
Other liabilities (prepaid income)	78,314	18,423
Other deferred income and accrued expense	480	140
Total	600,996	349,828

Accrued expense in 2002 consist of amounts due on deliveries of goods and provision of services as follows:

- ▶ Consultancy services (SIT 179,942 thousand),
- ▶ Taxes and contributions (SIT 93,004 thousand),
- ▶ Accrued personnel expense (SIT 85,158 thousand) and
- ▶ Other (SIT 10,100 thousand).

2.4.14 Provisions

	2002	2001
Specific provisions for off-balance sheet commitments and contingencies	542,208	286,522
Total	542,208	286,522

Movements in provisions for off-balance sheet commitments and contingencies		2002	2001
Provisions at the beginning of the year		286,522	448,258
Additions		1,033,778	272,322
Recoveries of amounts previously provided		(778,092)	(434,058)
Provisions at the end of the year		542,208	286,522

2.4.15 Subordinated loans

	2002	2001
Remaining maturity up to three months	10,576	11,614
Remaining maturity up to 5 years	0	1,830,326
Remaining maturity over 5 years	1,862,979	0
Total	1,873,555	1,841,940

All subordinated loans represent amounts owed to Bank Austria AG, Vienna and are reported gross, including accrued interest. At December 31, 2002, subordinated loans denominated in foreign currencies bear an annual interest from 2.4% to 4.3%. The stated interest rates do not show exchange rate differences for foreign currencies.

2.4.16 Share capital and share premium

Number of shares	Value in SIT		Value in SIT thousand	
	Par value	2002	2001	
13,000	100,000	1,300,000	1,300,000	
58,000	10,000	580,000	580,000	
1,221,378	1,000	1,221,378	1,221,378	
Total ordinary shares		3,101,378	3,101,378	
Share premium		263,786	263,786	
Total		3,365,164	3,365,164	

Shares authorised, issued and fully paid as at December 31:

Bank Austria AG, Vienna, owns 99.98% of the Bank's shares. The remaining 0.02% is owned by Slovene companies and individuals. All shares have voting and dividend rights in accordance with their nominal value. There are no restrictions in relation to distribution of dividends from Retained Earnings from previous years and Net income of the year balances. No dividends have been proposed to be distributed for the years ended December 31, 2002 and 2001.

2.4.17 Revaluation reserves

Revaluation reserves arise from the revaluation of equity because of inflation accounting in the years prior to 2002. The amount is associated with the revaluation of the following equity components as at December 31:

	2002	2001
Share capital	3,840,074	3,840,074
Share premium	267,422	267,422
Reserves	800,691	800,691
Retained earnings	32,981	32,981
Total	4,941,168	4,941,168

With the exception of the amount SIT 32,981 thousand relate to retained earnings the Revaluation reserves can only be used to offset losses and their distribution in the form of dividend is restricted.

2.4.18 Financial instruments with off-balance sheet risk

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest and currency rates. These financial instruments include credit lines, financial guarantees, commercial letters of credit and forward foreign exchange contracts. These instruments involve, to varying degrees, elements of credit and market risk in excess of the amounts recognized in the balance sheet.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss due to any other party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making commitments and conditional obligations as for the balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk represents the possibility that the value of financial instruments will change, either positively or negatively, with changes in market prices, such as interest or foreign currency rates.

The Group requires collateral to support off-balance sheet financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in financial institutions, government securities, other marketable securities, and mortgages.

Credit lines are commitments to extend credit, which generally have fixed expiration dates or other termination requirements. Substantially all of the Group's commitments to extend credit are revocable as they are contingent upon the customers maintaining specific credit standards at the time of loan funding. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as that involved in extending facilities to other customers. The Group applies similar principles as those applied in assessing the required allowance for losses for other credit facilities when assessing the likelihood of loss of the guarantee.

A commercial letter of credit represents an extension of a credit by the Group to its customer where the customer is usually the buyer/importer of goods and the beneficiary is usually the seller/exporter.

The Group's exposure regarding commitments to extend credit lines, guarantees, and commercial letters of credit is as follows:

	2002	2001
Commitments to extend credit	15,672,136	9,186,309
Guarantees	32,969,422	34,069,806
Commercial letters of credit	331,731	287,719
Total	48,973,289	43,543,834

The Group has built provisions for items with off balance sheet risk. The balances as of December 31 were as follows:

	2002	2001
Provisions for off-balance commitments and contingencies	542,208	286,522

Assets pledged are assets of the Group that are pledged as collateral for a loan. The Group does not have assets pledged as at December 31, 2002 and 2001.

The Group utilises currency forwards and swaps for both hedging and non-hedging purposes.

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand determines the extent

to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held as at December 31, 2002 are set out in the following table.

Fair values	Notional amount	Assets	Liabilities
Foreign exchange forwards (including forward leg of swap transaction)	33,996,459	220,987	231,577

At December 31, 2001 the notional amount of foreign exchange forwards was SIT 54,939,063 thousands. The fair value of derivative instruments was not booked due to its immateriality.

2.4.19 Interest and similar income

	2002	2001
Interest income claims to credit institutions	745,080	731,984
Interest income claims to customers	7,942,495	6,768,979
Interest income on investments in securities	1,743,890	1,360,793
Interest income - derivatives	3,403	
Interest income on other assets	5,463	196
Total	10,440,331	8,861,952

2.4.20 Interest and similar expense

	2002	2001
Interest expense for liabilities to credit institutions	2,499,648	1,553,677
Interest expense for liabilities to customers	2,956,172	2,996,763
Interest expense for debt evidenced by certificates	38,988	161,470
Interest expense on investments in securities	18,272	
Other	209,076	38,724
Total	5,722,156	4,750,634

2.4.21 Fee and commission income

	2002	2001
From payment transactions	190,789	79,684
From lending business	660,318	573,223
From securities transactions	343,728	185,995
From FX transactions	948,975	1,275,770
From other services	29,327	21,181
Total	2,173,137	2,135,853

2.4.22 Fee and commission expense

	2002	2001
For payment transactions	61,069	48,491
For lending business	21,011	34,608
For securities transactions	55,220	23,517
For FX transactions	195,816	584,110
For other services	38,755	36,166
Total	371,871	726,892

2.4.23 Net income on trading activities

	2002	2001
Net income from exchange rate changes	422,027	305,272
Net income from valuation of derivatives	136,110	0
Net income from securities	199,074	60,290
Total	757,211	365,562

2.4.24 General administrative expenses

	2002	2001
Staff expenses:	1,785,496	1,551,281
Wages and salaries	1,285,828	1,141,710
Social security costs	311,452	289,075
Other employee benefits	188,216	120,496
Other administrative expenses:	1,474,632	1,638,127
Data processing costs	369,970	366,552
Advertising	96,404	99,208
Rent	301,153	292,904
Communication	168,128	201,218
Consulting	259,927	381,773
Other	279,050	296,472
Total	3,260,128	3,189,408

Other 2002 costs consist of office related expenses (SIT 46,936 thousand), material expenses (SIT 72,296 thousand), travel costs (SIT 28,577 thousand), education expenses (SIT 42,979 thousand), expenses for services (SIT 27,172 thousand) and other expenses as insurance of buildings and equipment, memberships, entertainment and similar expenses.

2.4.25 Other operating income

The major component of other operating income represents income from sale of fixed assets in amount of SIT 26,700 thousand.

2.4.26 Other operating expense

	2002	2001
Loss on the sale of fixed assets	1,631	123,375
Taxes - other than income tax	24,942	8,267
Other operating expenses	46,247	42,793
Total	72,820	174,435

2.4.27 Income tax expense

	2002	2001
Current:		
Corporate income tax	517,136	291,216
Balance sheet tax	0	33,599
Tax expense	517,136	324,815
Profit before tax	2,880,115	2,105,439
Corporate income tax rate	25 %	25 %
Tax calculate at income tax rate	720,029	526,360
Non taxable income	537,018	143,336
Non deductible expenses	131,863	43,241
Difference in income before taxes under SAS and IFRS	(406,414)	(840,479)
Income tax	517,136	324,815
Effective tax rate	18 %	15 %

As at December 31, 2002 an 2001 deferred tax was not booked due to its immateriality.

2.4.28 Earnings per share

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2002	2001
Profit for the year at SIT thousands	2,362,979	1,780,624
Weighted average number of shares outstanding recalculated at par value SIT 1000	3,101,378	3,101,378
Earnings per share (par value SIT 1000) at SIT	762	574

No figure for diluted earnings per share have been presented as the Group has not issued any dilutive instruments.

3. Risk Evaluation

Risk management is fundamental to the banking business and is an essential element of the Group's operations. The major risks faced by the Group are those related to credit exposures, liquidity, capital adequacy, movements in interest rates and foreign exchange rates. These risks are managed in the following manner.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by the borrower or counter party in their obligation to the Group. The Group has strictly defined procedures for the processing of all loan applications. These procedures include a Credit Committee which implements the Group's credit policy and monitors credit risk limits. Lending limits for a given client are determined by the Group's credit risk assessment methodology. Exposure to the client is classified according to its creditworthiness. The Group also limits its exposure to credit risk by obtaining collateral from clients.

Liquidity risk

Liquidity risk arises from mismatches in the cash flows from financial transactions. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. Further, the Group has contingency plans to ensure that, in the event of a liquidity crisis, the Group continues to honor all of its cash outflow obligations. The Group's liquidity management procedures are monitored by the Asset and Liability Committee (ALCO).

Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent that the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. Interest rate risk is managed by increasing or decreasing positions within limits specified by the Group's management and by adapting the interest rates in order to maintain the desired structure of interest bearing assets and liabilities. These measures restrict the potential effect of movements in interest rates on current earnings and on the value interest sensitive assets and liabilities. To monitor interest rate risks the Group also uses interest rate gap analysis produced on a regular basis. The Group's interest rate risk management procedures are monitored by the ALCO.

Foreign currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than liabilities in that currency. The primary purpose of the Group's foreign currency risk minimization activities is to protect against the volatility of foreign currency exchange rates. The Group maintains balanced currency positions to minimize foreign currency losses. Under this approach, the Group increases or decreases its foreign currency denominated financial assets and firm commitments to match increases or decreases of its foreign currency denominated financial liabilities. The Group's foreign currency risk management procedures are monitored by the ALCO.

Operational risk refers generally to the risk of loss resulting from the Group's operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in the Group's operating systems, and inadequacies or breaches in the Group's control processes. To mitigate and control operational risk, the Group has developed and continues to enhance specific policies and procedures that are designed to identify and manage operational risk at appropriate levels. The task of managing operational risks falls to management and staff at all levels. The bank has established a control department in order to further develop procedures of monitoring operational risk. Internal audit as an independent department responsible directly to the Management board is already in place to supervise the Group's operations in order to detect possible areas of increased inherent risk and to monitor implementation as well as to strengthen or even introduce new control procedures.

3.1 Liquidity risk

The maturity of monetary assets and liabilities represents the remaining terms until repayment in accordance with underlying contractual agreements and terms of issuance of the monetary asset or liability at the respective balance sheet date.

The following assumptions and conditions have been adopted in the presentation of the Group's maturity analysis:

Obligatory reserves in accordance with the Bank of Slovenia requirements are considered as current; however, their availability is dependent on the composition and maturity of the Group's liabilities in the form of customer accounts and certain other deposits.

The maturity of amounts due from other banks and commercial loans and advances is based on the contractual maturity date. The actual maturity may differ as loan agreements are often extended or rolled over to update interest rates and facilitate longer term financing for the borrowers.

While trading securities and available for sale securities are shown as demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

Amounts due to other banks and owed to customers are shown as having a remaining maturity based on the nature of the amount, which is typically: demand for loro accounts and the contractual maturity date for term deposits and placements from other banks and customers. Maturity for current accounts is calculated based on statistical assumptions of cash outflow from current accounts made by the Group from its prior experience of working with such accounts.

At December 31, 2002 and 2001 the maturities of monetary assets and liabilities were as follows:

2002	Total	Demand deposits	Up to 1 month	From 1 month to 1 year	From 1 year to 5 years	Over 5 years
ASSETS						
Cash, balances with Central Bank	4,326,053	4,326,053	0	0	0	0
Trading assets	5,055,681	0	5,055,681	0	0	0
Due from other banks	18,487,910	477,005	13,832,004	3,555,966	622,935	0
Loans and advances to customers	108,343,282	867,570	7,808,270	34,873,979	56,484,097	8,309,366
Non trading investments	37,587,241	0	5,315,096	27,825,576	2,912,591	1,533,978
Other assets	340,220	0	246,598	73,173	20,449	0
Total financial assets	174,140,387	5,670,628	32,257,649	66,328,694	60,040,072	9,843,344
LIABILITIES						
Due to other banks	73,827,983	853,899	6,705,987	22,472,092	37,654,616	6,141,389
Trading liabilities	231,577	0	231,577	0	0	0
Due to customers	82,749,769	25,855,160	32,684,325	23,379,664	827,094	3,526
Other liabilities	1,570,947	0	1,061,849	447,822	61,276	0
Subordinated loans	1,873,555	0	8,044	2,532	0	1,862,979
Total financial liabilities	160,253,831	26,709,059	40,691,782	46,302,110	38,542,986	8,007,894
DIFFERENCE	13,886,556	-21,038,431	-8,434,133	20,026,584	21,497,086	1,835,450
CUMMULATIVE DIFFERENCE		-21,038,431	-29,472,564	-9,445,980	12,051,106	13,886,556

2001	Total	Demand deposits	Up to 1 month	From 1 month to 1 year	From 1 year to 5 years	Over 5 years
ASSETS						
Cash and balances with Central Bank	10,464,114	10,464,114	0	0	0	0
Due from other banks	15,677,258	1,432,525	7,354,545	6,283,630	606,558	0
Loans and advances to customers	77,091,446	431,778	13,788,438	26,635,599	31,825,138	4,410,494
Non-trading investments	23,555,990	0	9,897,532	10,705,137	1,283,710	1,669,611
Other assets	442,669	0	406,162	36,507	0	0
Total assets	127,231,477	12,328,417	31,446,677	43,660,873	33,715,406	6,080,105
LIABILITIES						
Due to other banks	33,558,603	805,543	2,207,664	12,013,497	16,114,486	2,417,413
Due to customers	72,872,345	31,518,252	21,664,520	19,022,360	663,808	3,405
Debt evidenced by certificates	6,360,523	0	4,101,100	2,259,423	0	0
Other liabilities	1,454,806	0	1,202,156	252,65	0	0
Subordinated loans	1,841,940	0	8,316	3,297	1,830,327	0
Total liabilities	116,088,217	32,323,795	29,183,756	33,551,227	18,608,621	2,420,818
DIFFERENCE	11,143,260	-19,995,378	2,262,921	10,109,646	15,106,785	3,659,287
CUMMULATIVE DIFFERENCE		-19,995,378	-17,732,457	-7,622,811	7,483,974	11,143,260

3.2 Exposure to foreign exchange risk

The following table presents the SIT-equivalent amounts of assets and liabilities denominated in different currencies as at December 31, 2002 and 2001:

2002	Total	FX and SIT with FX clause		USD	OTHER
		SIT	EUR		
ASSETS					
Cash, balances with Central Bank	4,326,053	3,806,369	376,676	84,336	58,672
Trading assets	5,055,681	5,055,681	0	0	0
Due from other banks	18,487,910	3,805,185	8,645,479	4,696,000	1,341,246
Loans and advances to customers	108,343,282	44,744,030	63,217,761	265,316	116,175
Non trading investments	37,587,241	10,933,775	23,166,495	3,486,971	0
Other assets	340,220	277,729	48,649	11,926	1,916
Total assets	174,140,387	68,622,769	95,455,060	8,544,549	1,518,009
LIABILITIES					
Due to other banks	73,827,983	8,572,406	64,272,257	983,320	0
Trading liabilities	231,577	231,577			
Due to customers	82,749,769	32,793,016	42,288,077	6,295,299	1,373,377
Other liabilities	1,570,947	984,020	576,547	8,989	1,391
Subordinated loans	1,873,555	0	737,994	1,135,561	0
Total liabilities	160,253,831	42,581,019	107,874,875	8,423,169	1,374,768
DIFFERENCE	13,886,556	26,041,750	-12,419,815	121,380	143,241

2001	Total	SIT	FX and SIT with FX clause EUR	USD	OTHER
ASSETS					
Cash and balances with Central Bank	10,464,114	8,855,550	1,489,830	75,474	43,260
Due from other banks	15,677,258	2,678,979	7,897,393	3,402,170	1,698,716
Loans and advances to customers	77,091,446	35,915,066	39,695,724	1,356,607	124,049
Non-trading investments	23,555,990	3,108,672	16,284,137	4,163,181	0
Other assets	442,669	307,437	109,960	21,186	4,086
Total assets	127,231,477	50,865,704	65,477,044	9,018,618	1,870,111
LIABILITIES					
Due to other banks	33,558,603	3,963,333	28,482,318	1,109,786	3,166
Due to customers	72,872,345	32,225,205	33,424,803	5,855,161	1,367,176
Debt evidenced by certificates	6,360,523	0	5,184,377	710,369	465,777
Other liabilities	1,454,806	834,007	491,862	8,199	120,738
Subordinated loans	1,841,940	0	710,187	1,131,753	0
Total liabilities	116,088,217	37,022,545	68,293,547	8,815,268	1,956,857
DIFFERENCE	11,143,260	13,843,159	-2,816,503	203,350	-86,746

3.3 Interest rate risk

Set out below is an analysis of the interest rate sensitivity gap positions for the Group as at December 31, 2002 and 2001. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

2002	Total	Up to 1 month	From 1 month to 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing
ASSETS							
Cash and balances with Central Bank	4,326,053	3,340,178	0	0	0	0	985,875
Trading assets	5,055,681	5,055,681	0	0	0	0	0
Due from other banks	18,487,910	15,721,436	1,105,354	1,500,000	34,266	0	126,854
Loans and advances to customers	108,343,282	52,389,703	31,695,248	21,647,626	848,791	715,408	1,046,506
Non-trading investments	37,587,241	5,966,515	14,151,333	15,935,415	0	1,445,923	88,055
Other assets	340,220	0	0	0	0	0	340,220
Total assets	174,140,387	82,473,513	46,951,935	39,083,041	883,057	2,161,331	2,587,510
LIABILITIES							
Due to other banks	73,827,983	15,198,008	44,565,329	13,198,817	293,769	572,060	0
Trading liabilities	231,577	0	0	0	0	0	231,577
Due to customers	82,749,769	54,106,199	11,881,650	15,951,605	806,789	3,526	0
Other liabilities	1,570,947	0	0	0	0	0	1,570,947
Subordinated loans	1,873,555	737,994	1,135,561	0	0	0	0
Total liabilities	160,253,831	70,042,201	57,582,540	29,150,422	1,100,558	575,586	1,802,524
DIFFERENCE	13,886,556	12,431,312	-10,630,605	9,932,619	-217,501	1,585,745	784,986
CUMMULATIVE DIFFERENCE		12,431,312	1,800,707	11,733,326	11,515,825	13,101,570	13,886,556

2001	Total	Up to 1 month	From 1 to 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing
ASSETS							
Cash and balances with Central Bank	10,464,114	8,533,740	0	0	0	0	1,930,374
Due from other banks	15,677,258	9,387,336	1,956,972	4,332,950	0	0	0
Loans and advances to customers	77,091,446	51,648,479	10,848,329	13,306,534	363,752	924,352	0
Non-trading investments	23,555,990	9,983,743	8,869,639	3,243,067	11,902	1,343,468	104,171
Other assets	442,669	0	0	0	0	0	442,669
Total assets	127,231,477	79,553,298	21,674,940	20,882,551	375,654	2,267,820	2,477,214
LIABILITIES							
Due to other banks	33,558,603	7,473,107	16,126,753	8,968,246	990,497	0	0
Due to customers	72,872,345	53,043,042	10,560,977	8,605,511	659,410	3,405	0
Debt evidenced by certificates	6,360,523	4,103,989	2,093,065	163,469	0	0	0
Other liabilities	1,454,806	0	0	0	0	0	1,454,806
Subordinated loans	1,841,940	706,323	1,135,617	0	0	0	0
Total liabilities	116,088,217	65,326,461	29,916,412	17,737,226	1,649,907	3,405	1,454,806
DIFFERENCE	11,143,260	14,226,837	-8,241,472	3,145,325	-1,274,253	2,264,415	1,022,408
CUMMULATIVE DIFFERENCE		14,226,837	5,985,365	9,130,690	7,856,437	10,120,852	11,143,260

3.4 Fair value of financial instruments

Substantially all the Bank's monetary assets and liabilities are carried at their fair values as of December 31, 2002. The Bank has not changed the carrying value of certain monetary assets and liabilities as their estimated fair value is subject to interest rate fluctuations, a risk managed by the Bank in the normal course of its operations.

Underlying the definition of fair value is the presumption that the bank is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms.

The carrying amount of these balances approximate their fair value, as they are short term placements at market interest rates.

Balances due to and from other banks

Loans and advances to customers are carried net of specific and loan losses. The estimated fair value of these loans equates to the amount of estimated future cash flows expected to be received, discounted at market rates. It is not practicable from the viewpoint of time constraints and cost to determine precisely the fair value, but as the majority of loans are repriced quarterly, the carrying value is estimated to approximate the fair value.

Loans and advances to customers

Trading securities and available for sale investments are carried at their market value. Bonds and other investments held to maturity are carried at amortised cost as these instruments are in majority of a short term nature and are at market rates their fair value equates to their carrying values.

Investments

The estimated fair value of deposits on demand is their carrying value. Due to the short-term maturity of fixed interest bearing deposits, the carrying value approximates the fair value.

Due to customers

The carrying amounts of other financial assets and liabilities (such as interest receivable and interest payable) approximate their fair values.

Other financial assets and liabilities

The carrying amounts of subordinated loans approximate their fair value.

Subordinated loans

All derivatives are carried at their fair value. Fair values of trading derivative financial instruments, such as forward foreign exchange are derived international money and capital market price quotations.

Derivative financial instruments

4. Transactions with Related Parties

The Group enters into transactions with related parties in the normal course of business including loans and deposits which are carried out on normal commercial terms and conditions and at market rates. All the loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

Banks from BA – HVB Group	2002	2001
ASSETS		
Due from other banks	13,654,029	9,429,650
Interest income	456,890	394,339
LIABILITIES		
Due to other banks	66,404,087	30,813,022
Other liabilities	490,533	584,850
Subordinated loans	1,873,555	1,841,940
Interest expense from amounts due to other banks	1,732,777	1,205,095

Management	2002	2001
ASSETS		
Loans and advances to customers	9,061	9,331
Interest income	653	802
LIABILITIES		
Amounts owed to customers	33,141	22,924
Interest expense	2,581	639

5. Segment Information

The Group's operations are highly integrated and constitute a single industry segment for the purposes of IAS No. 14 "Reporting Financial Information by Segment". The Group's assets are concentrated primarily in Slovenia, and the majority of the Group's revenues and net income (loss) is derived from operations on, and connected with, the Slovenian market.

6. Differences between SAS and IFRS

Reconciliation of the Group's shareholders' equity under SAS and IFRS is shown under schedule below:

	2002	2001
Shareholders' equity per SAS Financial Statements	13,875,986	11,772,778
Reclassification of provisions for A rated clients	1,520,238	1,291,473
Valuation of non-trading securities	183,043	112,462
Trading - foreign exchange on non-trading securities valuation	24,148	19,418
Valuation of trading securities	0	0
Valuation of derivatives	2,704	44,005
Other	1,574	1,574
Consolidation of BACA Soritve d.o.o.	(109,080)	(106,075)
Shareholders' equity per IFRS Financial Statements	15,498,613	13,135,635

Reconciliation of the Group's net income under SAS and IFRS is shown under schedule below:

	2002	2001
Income before taxes under SAS	2,473,701	1,264,960
Reclassification of provisions for A rated clients	228,765	313,681
Valuation of non-trading securities	74,925	711
Trading - foreign exchange on non-trading securities valuation	4,730	6,091
Valuation of trading securities	1,079	0
Valuation of derivatives	99,920	(102,565)
Cancellation of revaluation of equity		728,636
Consolidation of BACA Soritve d.o.o.	(3,005)	(106,075)
Income before income taxes under IFRS	2,880,115	2,105,439
Less income tax / tax on balance sheet volume	(517,136)	(324,815)
Net income per IFRS Financial Statements	2,362,979	1,780,624

Difference in allowance for loan losses includes primarily the reversal of provisions for A rated claims in IFRS financial statements.

Revaluation of derivatives includes the exclusion of positive valuation of forwards from previous years (SIT 44,005 thousand) that has already been accrued in the 1 opening balance, and the inclusion of positive valuation of forwards in the year 2002 (SIT 141,221 thousand).

7. Post Balance Sheet Events

No significant events occurred after the balance sheet date, which require disclosure.

Note

The enclosed financial statements of the Group for the year 2001 and 2002 have been completed in accordance with International Accounting Standards. The differences between the business results presented according to International and Slovene Accounting Standards are disclosed in paragraph 6.

In addition to a brief presentation of the Bank's business operation based on the audited report completed in accordance with International Accounting Standards, the Bank also prepared annual report for the year 2002 according to Slovene Accounting Standards and in conformity with the Law on Commercial Companies, the law on Banking and relevant implementing regulations for discussion and adoption by the Supervisory board of the bank. This report is available also on the Internet address of the bank.

Office Network in Slovenia

Bank Austria Creditanstalt d.d. Ljubljana

Head Office, Šmartinska 140, SI-1000 Ljubljana

Tel.: (+386 1) 5876 600

Fax: (+386 1) 5876 684

Ljubljana Branch, Wolfova 1

Tel.: (+386 1) 5876 600

Fax: (+386 1) 5876 487

Ljubljana BTC Branch, Šmartinska 140

Tel.: (+386 1) 5876 600

Fax: (+386 1) 5876 552

Koper Branch, Ferrarska 5a

Tel.: (+386 5) 6101 055

Fax: (+385 5) 6101 060

Maribor Branch, Svetozarevska 6

Tel.: (+386 2) 2285 321

Fax: (+386 2) 2526 386

Murska Sobota Branch, Trg zmage 5

Tel.: (+386 2) 5341 440

Fax: (+386 2) 5231 423

Telex: 39153 BACXLJ SI

e-mail: info@si.bacai.com

<http://www.ba-ca.si>

Publisher:

Bank Austria Creditanstalt Ljubljana d.d.

SI - 1000 Ljubljana

Šmartinska 140

Tel: (+386) 1 5876 600, fax: (+386) 1 5876 684

e-mail: info@si.bacai.com

Print:

Tiskarna Schwartz

Editing:

Nataša Pukl, Polona Vagaja