



Annual report  
Bank Austria Creditanstalt  
Slovenia

# 2003

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# Organisation Scheme

Management Board of Bank Austria Creditanstalt d.d. Ljubljana

**Alfred Taul**

**Klaus Priverschek**

International Markets

Retail Banking

Corporate Banking

Asset Management and Brokerage

Key Accounts

Brokerage

Mid - Market

Asset Management

Real Estate and Project  
Financing

Product Management and Marketing

Custody Services

Sales

Investment Center, Private Banking and  
Freelancers

Financing Center

**Branches**

PE Ljubljana Wolfova

PE Ljubljana BTC

PE Novo Mesto

PE Maribor

PE Murska Sobota

PE Koper

PE Ptuj

**Management Board of Bank Austria Creditanstalt d.d. Ljubljana**

**France Arhar**

**Nataša Pukl**

**Public Relations**

**Legal Office**

**Secretary Office**

**Human Resources**

**Accounting and Controlling**

**Accounting**

**Controlling**

**Risk Management**

**Risk Assessment**

**loan Administration**

**Contract and Work-out**

**Balance Sheet Analysis**

**Bank Operations**

**Funds Transfer**

**Electronic Banking**

**Information Technology**

**Settlement**

**Organisation**

**Card Business**

**Tehnickal Support**

# Governing Bodies

## Supervisory Board

Chairman of the Supervisory Board

**Anton Knett**

Deputy Chairman  
of the Supervisory Board

**Willibald Cernko /  
mag. Wolfgang Helpa\***

Members of the Supervisory Board

**mag. Josef Duregger**

**Heinz Meidlinger / Bernhard Klär\***

**mag. Friedrich Racher**

**mag. Günther Warbing / mag. Martin Klauzer\***

**\*since 18. 06. 2003**

## Management Board

Chairman of the Management Board

**mag. Wolfgang Peter /  
dr. France Arhar\***

Members of the Management Board

**dr. Klaus Priverschek  
Alfred Taul  
Nataša Pukl**

**\*since 01. 06. 2003**



## Dear ladies, gentlemen, and business partners

*We may view the year behind us with a sense of satisfaction and pride. In spite of big changes in domestic and foreign markets and, most of all, despite the slowdown in the economy, the Bank managed to achieve, and even exceed, the results set for 2003. Satisfaction is even greater knowing the sensitivity of this period for the financial intermediation sector, not only in Slovenia but also in various foreign markets, notably in the heart of Europe. The economic slowdown of recent years, more choices in financial asset management of individual products and providers, and rationalisation aimed at cost reduction and better business results, are only some of the general characteristics facing most market participants.*

*Conditions in the Slovene market essentially vary only slightly from international trade conditions. Nevertheless, the following important facts cannot be overlooked:*

- after several years of successful and high economic growth in Slovenia, growth was only 2.3%, with an increase in domestic consumption and imports and at the same time falling exports;*
- cross-border capital flows were very modest compared to 2002 and, for the first time in its brief history, Slovenia was a net exporter of capital, and investments in foreign securities were three times higher than foreign investments in Slovenian securities;*
- new results were recorded in the area of price stability as average inflation fell from 7.5% to 5.6%, and continues to fall. A notable trend is also the slower increase in regulated prices. Despite positive movements in this area, the government still failed to achieve the price level, which Slovenia had at the end of June 1999 before the introduction of VAT, when the annual index was 4.3%. Price stability remains the basic test for more or less successful integration of Slovenia into the European Monetary Union;*
- under these circumstances the effect of the monetary policy on market developments in general, and on the banking sector in particular, was significantly different, and more restrictive. On one hand it was the consequence of reduced cross-border capital flows and on the other hand falling interest rates, both in Slovenia and abroad. And, last but not least, slower depreciation of the tolar, notably against the euro;*
- in February, the European model of free flow of capital was fully implemented in Slovenia also for individuals and not just for companies, which means increased responsibility for the stability of the financial system as a whole;*
- unfortunately, the government, in spite of its efforts, failed to implement all the necessary structural reforms, notably health and tax reforms, which would provide the economy with more stability and long-term competitiveness.*

*In this light, results achieved by the Bank when compared to the Slovene banking sector and to other banks in the HVB-Bank Austria Creditanstalt bank group, are that much better and outstanding, which may be proved by the following facts in particular:*

- while the growth of total assets in the sector as a whole totalled approximately 11%, the Bank managed to increase its total assets by almost 30% and thus increase its market share from 3.9% to 4.6%. The Bank managed to further improve its position with international companies operating in Slovenia and establish a business relationship with many small and medium sized enterprises and individuals, who are becoming an increasingly important factor in domestic and foreign capital markets. As the Slovene economy is an open one, the synergy of domestic partnerships in co-operation with foreign partners, notably in Central and Eastern Europe, is*

*becoming increasingly important for the economy and for the Bank. It is connected via 900 branches of the bank group, to which Bank Austria Creditanstalt d.d. Ljubljana belongs;*

*– profit before tax equalled more than €11 million and was 4% higher than planned, despite the fact that the interest margin in the banking sector fell;*

*– in the structure of achieved results it is encouraging that in spite of decreasing inflation, and the lowering of interest rates and interest margins, net interest income increased by 21% and income from commission and fees by 19%;*

*– an increased volume of operations, particularly with medium-sized companies (39% increase); increased activity of the Bank in mortgage financing in which the Bank increased its market share from 6.5% to 8.4%; and real estate loans, which increased by 62%; contributed to these results;*

*– retail operations increased in acquiring deposits. Tolar and foreign-currency deposits increased by 15% and 4%, respectively;*

*– the Bank managed to expand its branch network to 7 units, while activities for opening 5 new branches in important economic centres of Slovenia are underway. The Bank is aware that the expansion of the branch network is a significant additional cost but at the same time even more significant investment in the future, given the increased competition and awareness that a stable partnership is a guarantee for trust and even better results. With the same goal in mind, the Bank upgraded its information system, which is a guarantee for better synergy between all partners in the Financial Group and increased transparency of co-operation with partners, who are following the events in domestic and foreign money and capital markets.*

*Ladies, gentlemen, and esteemed business partners, without your trust in the Bank, and close co-operation with you, and without your and our ideas and suggestions, we would not be able to achieve these results to our satisfaction. We therefore sincerely thank you for everything. Our Bank, and all of us, are aware of this capital, which cannot be replaced by any other asset. We will therefore continue with our efforts, using our knowledge, a professional and ethical approach, and initiatives from both sides to improve our co-operation, to expand in new ways and with new products, which will bring you and us even better results from this ever increasing competition. A better understanding of each other will bring us an even better and more successful market position, and will strengthen us in the eyes of yours and our competition as a “European partner, European bank”.*

*Finally, we want to thank the members of the Supervisory Board and each of our colleagues for all achieved and also for all their work, efforts and suggestions on how to improve and be more trustworthy. Let us always bear in mind how we can do more for the partnership with our clients and by achieving goals which will satisfy our owners, because it is also in their interest to further strengthen the Bank and the whole Financial Group.*

*President of the Management Board  
dr. France Arhar*

*Ljubljana, 5 February*

# The Economic Environment in 2003

After demanding negotiations, and compliance with the criteria and requirements of the European Union, in 2003 Slovenia successfully passed the last test on its way to achieving its strategic goal: at the end of March the majority of voters in a referendum decided in favour of Slovenia becoming a member of the West European political and economic association, and NATO.

It is expected that by entering the EU circumstances will change considerably for Slovene banks and other financial institutions. The internal market, which has been very small so far, will expand significantly, becoming part of the expanded EU market, undoubtedly resulting in more stringent operating conditions, fiercer competition, lower interest rates on loans and deposits and, consequently, a decrease in the interest rate margin and the joint margin in financial intermediary services.

The general condition of the 2003 Slovenian economy can be seen from these indicators: a 2.3% growth in gross domestic product; 6.7% average annual growth in unemployment (ILO methodology); and a 1.6% budgetary deficit.

Typical of 2003 economic growth is that it was the lowest since Slovenia became independent, and primarily characterised by domestic consumption. In the first 9 months of the year economic growth was somewhat below the expected level, whereas in the last quarter a revival of the economy started. The fall in growth of the Slovenian economy was greatly influenced by less than expected economic revival in the EU member states (as much as 60% of total Slovene exports of goods). This was, in part, balanced by re-routing exports to some other European markets - e.g. Turkey, to which Slovenia exported 30% more, and the USA, where Slovene exports grew by over 50%.

The balance of payments surplus was last year con-

siderably lower than the year before, totalling USD 21 million (in 2002 USD 375 million).

The unemployment rate fluctuated through the year. Using ILO standards it reached 7% in the first quarter, dropped to 6.6%<sup>2</sup> in summer, and the annual average was 6.7%<sup>2</sup>.

In the second half of 2003 inflation plummeted, reaching the lowest average since Slovenia became independent (5.6%, annual average<sup>1</sup>). The downward trend in other price indicators continued (retail prices and industrial product prices).

In 2003 monetary policy strategy did not change. It was aimed at decreasing inflation, managing the money supply, and gradually stabilising the exchange rate, taking into account uncovered interest parity. Conditions for implementing monetary policy were, in 2003, better than the year before. As inflation expectations were lower and other economic policies were harmonised, the Bank of Slovenia reduced nominal interest rates several times and adjusted exchange rate movements accordingly. After a real tolar appreciation in 2000, last year the tolar also appreciated in nominal terms, measured by the effective exchange rate. During 2003, in addition to a slow down in the depreciation of the tolar against the euro, the tolar also strengthened because of the fall in the US dollar. Thus, the average euro exchange rate depreciated by 2.8%, whereas the value of the US dollar against the tolar fell by 14.7%<sup>2</sup>.

Unlike 2002, characterised by direct foreign investments in Slovenia, 2003 was marked by direct domestic investments abroad (totalling EUR 269 million, three times the amount recorded in the comparable period<sup>2</sup>). Net exports of capital, in the form of direct investments, were EUR 109 million<sup>2</sup>. Falling inflation and lower interest rates caused this increase in foreign securities' investments.

At the close of 2003, foreign exchange reserves

were EUR 7,700 million<sup>2</sup>, while gross external debt was 12,995 million<sup>2</sup>, or 54% of GDP. Short-term debt, due within one year, is still quite well covered by foreign exchange reserves, the latter being 74%<sup>2</sup> higher than short-term, overdue, external debt. Year-on-year growth in the banks' total assets after the decrease at the end of the year "thanks to" large banks, was a mere 10.7% nominally, or 6.1% in real terms. Compared to 2002 this is almost 7% less, taking inflation into account. By far the lowest growth (6.2%) last year was recorded by large banks whose market share fell by 2.6% (to 52.2%). Medium-sized banks achieved a 15.6% growth and their market share rose by 1% (30.6%), whereas small banks gained 1.6% in market share (17.2%),

recording a 22.5% growth.

Last year the banks' profits increased 10% on account of lower costs for provisions. According to data, last year's cost of provisions decreased by as much as 20%. Thus, in 2003, the banks established provisions of SIT 35.5 billion, whereas in 2002 the respective amount was 44.5 billion. Thus the share of provisions within the gross income reduced to only 15.5%, the lowest since 1998.

In 2003, banks also recorded a 6.1% growth in operating expenses and as much as an 8.4% increase in labour costs. Depreciation costs rose by nearly 12%<sup>2</sup>.

#### Macroeconomic Indicators for Slovenia in the 1998-2003 period<sup>1</sup>

|                           | 1998  | 1999  | 2000  | 2001 | 2002 | 2003  |
|---------------------------|-------|-------|-------|------|------|-------|
| GDP growth (%)            | 3,8   | 5,2   | 4,6   | 2,9  | 2,9  | 2,3   |
| Inflation (average %)     | 7,9   | 6,1   | 8,9   | 8,4  | 7,5  | 5,6   |
| BoP balance (\$million)   | -1060 | -1537 | -1384 | -895 | -575 | -1084 |
| BoP CA (\$million)        | -118  | -698  | -548  | 31   | 375  | 21    |
| Unemployment Rate ILO (%) | 7,9   | 7,6   | 7     | 6,4  | 6,3  | 6,7   |
| Budget deficit/GDP (in %) | -0,8  | -0,6  | -1,3  | -1,3 | -3,0 | -1,6  |

Source:

<sup>1</sup>Statistical Office of the Republic of Slovenia, First Statistical Publication, no. 165

<sup>2</sup>The Bank of Slovenia, Bulletin, December 2003

<sup>3</sup>The Bank of Slovenia, Bulletin, February 2004

# The Bank's Operation in Separate Business Areas

## Corporate Banking

Good performance of the Bank is largely a result of successful operations in the Corporate banking division. We continued to pursue our strategy of partner

**Strong results of the corporate business are a result of following a clear strategy in spite of a difficult environment.**

co-operation with existing clients and attracting new domestic and foreign clients. The Bank successfully implemented its strategy of focusing on the market segment of medium-sized companies. Activities for selling treasury products and services were intensified. Some major syndicated transactions were efficiently introduced and carried out in the Slovene market.

We wish to thank our clients for their trust in our abilities and to our bank colleagues for their contribution.

### **The main events influencing corporate banking in 2003 were as follows:**

- competition in the Slovene banking sector grew even more fierce. In some cases banks competed to attract clients (especially in corporate crediting) by offering interest rates resulting in inadequate ratios between risk of a transaction and its return. We did not make such transactions since as we established that they would not be beneficial to the Bank.
- a further decrease in business indexed to TOM.
- considerable overall decrease in the interest rates on tolar transactions, and a consequent drop in financial intermediation margins.

### **In view of the above, the operational highlights of the Corporate banking division of Bank Austria Creditanstalt d.d. Ljubljana were the following:**

- In 2003, total (domestic and foreign currency) corporate instant-access deposits increased by 41%,

while the banking sector recorded a 5% growth.

- the Bank achieved a 12% growth in loans to corporate clients and the public sector, which equalled the rise recorded in the banking sector. Our goal in large transactions was structured financing, whereas the competition - mainly aiming to increase total assets - reduced interest rates to unacceptable levels for transactions involving certain risk. The Bank tried to counter this practice by offering an adequate range of products and services for financing small and medium-sized companies. In 2003 the Bank's credit portfolio remained well diversified, with a low default rate<sup>2</sup>.

- We arranged some major transactions for clients in various industries. Some of these transactions were tailor-made and presented new solutions for our corporate clients in the Slovene market.

- The volume of international payment transactions increased. However, total fees received for these transactions stagnated, due to a decrease in the prices of these services. The situation in domestic payment transactions was better - thanks to the consolidation of clients amongst the largest commercial banks (this business was transferred from the Agency for Payments in 2002). The income increase from domestic payment transactions exceeded the volume of payment transactions.

- The Bank intensified the use of electronic banking software for corporate clients, taking another step towards providing both simple and high-quality banking services to its client base.

The performance of the Corporate banking division was, in the past year very good, despite increasing competition and decreasing margins. The Bank succeeded in keeping its clients' trust and offered the right products and services, at competitive prices.

In 2004 the Bank will focus on meeting the clients' needs in the following target areas:

<sup>2</sup>See the Risk Management Report

- new clients - medium-sized companies - will be attracted by our regional presence, competitive product and service packages, efficient internal processing, and highly motivated staff;
- existing, as well as new key and foreign clients, will be offered high-quality tailored banking services;
- we will offer our knowledge of the local situation, as well as international experience, in the specialised field of real estate and project financing to all types of target clients.

We expect that the banking environment (and the economic environment in general) will become even more competitive. Several factors will greatly, and probably negatively, influence the development of the banking sector – the ever increasing battle for market share in the banking market (regardless of

short-term profitability), banking legislation, which still includes some local peculiarities, a high sensitivity of the country to international influences, and structural changes resulting from Slovenia's accession to the European Union.

In these circumstances Bank Austria Creditanstalt d.d. Ljubljana will ensure its clients greater safety of operations by its stability, international knowledge, and a wide-spread branch network. The primary goal of the Corporate banking division remains the development of long-term business relations with Slovene and international companies.

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**In the future the bank will come even closer to the clients by expanding our product range and increasing our regional presence in Slovenia.**

## Retail Banking, Brokerage and Asset Management

The volume of retail banking grew as in all previous years and confirmed that the Bank's development vision and business decisions were correct.

In 2002 the Investment Centre for Personal Banking was established within the Retail Banking division, as we wanted to offer our most demanding clients comprehensive advice on asset management and alternative savings possibilities, in the form of various securities. Numerous positive responses from our clients more than confirmed that our decision

was correct and indicated that, due to Slovenia's accession to the EU, the demand for this service will increase. The Centre not only achieved plan for the first business year in terms of funds accumulated from clients, but exceeded it by 11%.

The strategy of branch network expansion, adopted in 2002, was last year successfully continued. Two new branches were opened: in Ptuj and Novo mesto. These two branches enable the clients to carry out everyday transactions, without queuing, either through modern banking channels (internet banking - »Online b@nka, Giro box, Kontofon), or in person. This is possible as all the Bank's branches operate without closing during lunch hour. In addition, advisors are at the clients' disposal at Bank branches, offering professional advice about all aspects of personal finance.

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**With traditional personal approach to a comprehensive advice to the most demanding costumers.**

The strategy for expanding the branch network has not yet been fully implemented and continues in 2004. At the end of last year the Bank had seven branches and it plans to open another seven in the first half of 2004. We believe we can make our services even more available to our clients, especially in current conditions, when most Slovene banks are not considering expanding retail operations. On the basis of achieved results we are certain that successful performance in retail banking in 2003 proved the Bank's strategy was correct.

In retail lending the Bank again confirmed that its diverse range of credit products and services meets clients' needs. Compared to the previous year, the volume of loans granted grew 36% in 2003. This is above average in comparison to the Slovene banking sector, which in the same period recorded "merely" 11% growth. Thus, in 2003, the Bank held a 5% market share in crediting Slovene retail clients. Most is accounted for by real estate property purchase loans. In comparison with 2002 these rose by as much as 62%. This significant increase in credit is the result of the Financing Centre's successful performance, where they know how to: first, listen to the clients' needs; second, adjust and introduce additional credit products and ser-

VICES; and third, choose quality contractual partners in the field of real estate and car retail business.

Regarding the increase in retail deposits, interest rates continue to fall. The volume of deposits at the end of 2003 grew, but less than in the previous comparable period. Most deposits are foreign-currency deposits. Last year, however, tolar deposits increased more, the result of higher tolar interest rates, which remain such. The largest growth was recorded in instant-access deposits (30%), whereas the majority of deposits are time deposits. Thus, at the end of 2003 time deposits accounted for 80% of total retail deposits.

What was a great success in 2003 were the number of transaction accounts which rose by a good 50% compared to the previous year (the number of transaction accounts is compared to current accounts at the end of 2002). Since we are aware that it is not always simple to choose the best from the multitude of banking products and services, last year the Bank introduced packages for individual products and services for clients receiving regular income through the Bank. These packages include various types of instant-access accounts (transaction account in several currencies - tolar account, foreign-currency account), savings (the so-called savings account), processing of payment orders, debit and credit cards, and others. Packages can be upgraded to suit the wishes and needs of clients. For instance, with e-banking, domestic and foreign securities trading, investment and financial advising, as well as intermediation in taking out life assurance and other insurance policies. All of these reflect the Bank's success in increasing the number of transaction accounts.

Bank Austria Creditanstalt d.d. Ljubljana continues to foster a personal approach to clients, which is a fundamental advantage over other Slovene banks. Even though the Bank, like other banks, devotes a lot of effort to developing banking products and technologies, it is determined to preserve traditional banking based on personal approach, mutual trust and expert financial advice.

## International Markets

2003 was one of the most successful years in the

Treasury area. The Bank is one of the leading participants in the foreign-currency market and a market-maker in the T-bills market. The Bank has increased its volume of operations on the money market. Co-operation with foreign banks was steadily reinforced.

In 2003, the foreign-currency market was balanced, due to a small surplus in the balance of payments' current account, and a modest net inflow of foreign exchange. The Bank of Slovenia occasionally intervened for a few days for the purpose of directing the market. The Bank was actively involved in purchase and sale of foreign exchange with foreign banks, which particularly invested in the short and long-term debt securities of the Republic of Slovenia in the first half 2003. The volume of foreign-currency transactions doubled in 2003, while the number of concluded deals increased by more than 20%. As regards the purchase and sale of foreign exchange to companies, the Bank's market share totalled 8.44% and was similar to the share in 2002. In 2003, the Bank increased volume and diversified forward transactions concluded with clients.

In 2003, the Bank's average market share in dealing with T-bills totalled 23%. The share decreased in the second half of the year as a result of decreased interest by foreigners for investments in T-bills. Because of the results achieved in 2003, the Bank was chosen as a market maker for T-bills in 2004.

Liquidity in the domestic market was good in 2003. The volume of transactions in the domestic money market remained unchanged compared to the year before. The number of concluded transactions increased by 22%. Co-operation with foreign banks in FX/SIT swap deals was successful throughout the year. The volume of instant-access and time deposits in foreign exchange, held with domestic and foreign banks, increased by 31% mainly due to the fulfilment of foreign-currency reserves.

In 2003, the Bank increased investments in investment securities by 50%. Investments in securities denominated in foreign exchange remained at the 2002 level and were intended exclusively for fulfilment of foreign-currency reserves. Investments in tolar-denominated securities more than doubled.

Investments in Central Bank bills of the Bank of Slovenia more than tripled and, at the end of 2003, represented more than two thirds of all investments in tolar-denominated securities. Investments in tolar-denominated Central Bank bills of the Bank of Slovenia more than tripled in 2003. The share of investments in market securities increased mostly because of the purchase of the Republic of Slovenia bonds.

## Securities' Operations

In 2003, the Bank's security transactions totalled 51.4 billion, 12% more than 2002. The Bank's transactions at the Ljubljana Stock Exchange equalled SIT 23.3 billion, making it 11th among members of the Exchange, with a 3.4% market share. The main reason for the almost 50% decrease in the Bank's transactions at the Ljubljana Stock Exchange lies in the overall volume decrease in transactions at the Stock Exchange, of 23.9%, and in significantly lower activities of foreign investors. The Bank nevertheless kept its position as a leading stockbroker for foreign investors and also acquired several new clients, institutional investors as well as companies and individuals.

The Bank had, in 2002, anticipated the decrease of transactions at the Ljubljana Stock Exchange and changed its business model accordingly in 2003. In previous years, the Bank paid most attention to international investors, who bought and sold securities on the Slovene capital market.

In 2003, however, the Bank implemented a more active policy of acquiring domestic clients and, pursuant to its plans, significantly increased the volume of operations with clients in brokerage by the sale and purchase of securities on foreign markets. Thus, in 2003 the Bank's volume of transactions on foreign markets was SIT 12.84 billion, mostly with shares in the German and US markets. Over-the-counter transactions on the domestic market amounted to SIT 15.24 billion. The bulk of these transactions were the purchase of government bonds for clients and the Bank Ministry of Finance auctions in the primary market.

In October, the Bank changed its internal organisa-

tion of securities operations by establishing the new Asset Management Department. In November 2003, the Bank submitted an application to the Bank of Slovenia for issuing a licence for providing a securities management service. The Bank of Slovenia issued the licence on 23rd January 2004. In accordance with its business plan, the Bank will offer its clients expert management of assets in standardised portfolios and individual asset management for more demanding clients. The Bank will form standardised portfolios by taking into account the disposition of an individual client towards risk, by setting the proportion of investments in equity and debt securities. The Bank will market a conservative portfolio with low risk, a traditional portfolio with medium-low risk, a progressive portfolio with medium-high risk, and a dynamic portfolio with high risk.

## Custody Services

In 2003 Custodian Services achieved an important increase of domestic investors using custodian accounts for investments in foreign securities.

The volume and number of foreign portfolio investor transactions with Slovene securities significantly decreased at the end of 2002, after the takeover of the pharmaceutical company Lek by the Swiss company, Novartis. In 2003 there was a gradual, but constant, growth in transactions and volume of investments by foreign investors. Increased demand by foreign investors was mainly for Slovene securities with fixed yield issued on the primary market (T-bills and bonds of the RS), also evident from the structure of the entire net inflow of foreign portfolio investments in Slovenia. Of the registered SIT 52.7 billion of net purchases of Slovene securities by non-residents in 2003, no less than 99% (i.e. SIT 52.2 billion) was for net purchases of securities "over-the-counter".

The interest of domestic investors in foreign securities is increasing each year. The volume of transactions with foreign securities performed through custodian accounts nearly tripled last year. The greatest interest was by investors in German and US securities markets.

In the area of legislation, introduction of the new Investment Trusts and Management Companies Act (ZISDU-1) is significant. The Act, for the first time, specifies and defines custodian services for Slovene investment funds, and defines the functions and conditions to be fulfilled by a custodian bank for performing custodian services. The Bank Austria Creditanstalt d.d. Ljubljana acquired the licence from the Bank of Slovenia for performing custodian services, under the Act, in November 2003.

In 2003, the Bank Austria Creditanstalt d.d. Ljubljana also received various international awards for custodian services. Among other things it reaffirmed its status as a recommended custodian in the opinion of Global Custodian magazine; the only bank in Slovenia to achieve status as the best provider of custodian services.

## Risk Management

Risk management is of exceptional importance in banking operations. Not only because of safe operations in an individual institution, but also in a broader sense, because of the sensitivity of financial markets which respond instantaneously to negative information resulting from inevitable difficulties in the operations of individual financial institutions.

In risk management, Bank Austria Creditanstalt d.d. Ljubljana follows the highest professional safety standards recognized worldwide. The Bank also follows the regulatory requirements prescribed, in particular, by the Bank of Slovenia and other supervisory institutions in connection with risk management. To manage and control risks, the Bank has introduced complex standards, procedures, and criteria applicable for the entire Bank Austria Creditanstalt bank group.

Traditionally, the most important risk management activity for a universal bank, such as Bank Austria Creditanstalt, continues to be credit risk management. The Bank has extensive experience in controlling this type of risk, as well as precisely established procedures for continuous monitoring of both its overall credit exposure and individual credit

exposures of each of its customers. In accordance with the Bank of Slovenia regulations, all individual risks are classified into five groups (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 forms the required "special provisions" for individual bank risks. Statistical data has shown that in the past losses arising from individual credit risks were relatively small in comparison with the data available for the entire banking system. As in previous years the Bank still has a sound and conservative portfolio structure, where more than 95 % of its exposure is in the two best rated credit classes. To reduce the credit risk of its entire portfolio, the Bank provides for the adequate dispersion of loans in various economic activities (portfolio segmentation).

To deal with, and manage market risks, the bank group defines the criteria and limits for controlling market risks with, which the Bank is obliged to comply in its operations. The Bank distinguishes between the market-risk management function, and the supervision of risk management, policy execution. The Bank's market risk management policy is determined by the Bank's Asset Liability Committee. All business sectors have their respective competences and clear guidelines regarding interest rates, foreign currency exchange rates, and the structure of assets and sources of funds, in accordance with their maturities. The Treasury Department monitors, for the entire Bank, individual types of risks and controls them with available instruments. The supervision of implementing market-risk management policy is a task of the market risk group, which was strengthened in 2003.

In accordance with the most recent "risk management requirements" introduced by the so-called new Basel standard, a project group was formed as part of a broader project within the entire Bank group. The project group is responsible for the preparation and execution of activities needed for the timely implementation of Basel II in the Bank. Given its complexity, extent and, in particular, its significance for future medium and long-term business operation of the Bank, the project is of excep-

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**Profound execution/ implementation of all prescribed internal and/or external procedures, models and standards reduces the risk of the bank.**

tional importance and will require even more intensive effort in the future, from both financial and human resources.

## Information Technology Support

In the previous year, the Bank significantly expanded its operations geographically in Slovenia. New branches were opened in Novo mesto (in September), in Ptuj (in December) and, at the end of the year, in Velenje, Celje and a third location in Ljubljana were near completion. In 2004, the Bank plans to open new branches in Kranj, Nova Gorica, Domžale and a fourth location in Ljubljana, which will conclude the Bank's expansion in Slovenia.

In summer the Bank successfully converted to transaction accounts for retail clients. Equally successful was the upgrading of the Central Banking application software to a new version, between September to October (it also introduced some innovations in support of some banking products, e.g. loans to individuals, cash pooling). At the year end the Bank decided to upgrade the AS/400 computer on which the central banking application runs. Operating risk was additionally reduced by purchasing and implementing the additional AS/400 computer for a backup centre in Ljubljana (previously the backup centre was located in Austria).

In payment transactions the Bank monitored system changes, which were prescribed by the government and European Union (continued implementation of IBAN and MT103+ in early autumn), which means improving services by faster and more efficient processing of Bank clients' orders. In the previous year the number of transactions significantly increased in both domestic (14.7%) and international (8.6%) payment transactions. The Bank was one of the first Slovene banks ready for full production implementation of new payment instruments -direct debit and direct credit - including the Zbirni center.

In December the Bank offered the service of real-time balances for corporate clients (for both E bank and MultiCash systems) and support of data exchange between companies and the Bank (EDI-FACT) was in the last stage of co-ordination, which

will be particularly welcome for the Bank's biggest clients – multinational companies. The usage of e-banking, by companies and retail clients, increased by 58% and 65% respectively.

In card transactions the Bank significantly increased the number of VISA users (by 80%, 71% for companies) and Mastercard users (by 25%). Replacement of debit cards (Maestro) due to the migration to transaction accounts for retail clients, went smoothly. These cards may be also used abroad.

## Human Resources

The decision to expand the sales network in 2003 had a decisive effect on the growth in staff. At the beginning of the year the Bank employed 243 people whereas at the end of the year the respective number was 294. Staff fluctuation was average. 18 people left the Bank and 69 new people joined. Among new employees, 12 were hired to work in new branches and 19 were trainees. There was also a change at the top of the Bank as Wolfgang Peter was replaced by France Arhar as the President of the Management Board, on 1 June 2003.

The educational structure of employees remained favourable in 2003, as more than 35% of employees had at least a university degree and 8% a college degree.

The Bank pays great attention to additional education and training of employees, both in domestic educational institutions and within the educational programme

offered by the parent bank in **Growth in staff** Vienna. In accordance with the sales strategy in retail banking, 4 employees passed the stockbroker exam and 4 the insurance agent exam.

"On-the-job-training" was organised in the biggest operating branch of the Bank for those employees who were preparing for work in new branches.

A good quarter of employees were included in English and German language courses, organised in eight groups and, in accordance with the Bank's needs, prepared and conducted by outside teachers of foreign languages.

A specialised external educational institution suc-

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#### **Additional education and training**

cessfully implemented an internal sales seminar and a workshop for employees included in corporate banking. Sales training will continue in 2004 for employees in the area of corporate and retail banking.

## **Financial Results**

This report presents the financial statements of BACA Ljubljana in accordance with the International Financial Reporting standards (IFRS). The comparison figures for 2002 are a consolidated financial statement, including BACA Storitve d.o.o. which was voluntarily dissolved during 2003. However comparison with 2002 is possible without any restriction.

The Bank's loan portfolio and financial assets, as well as primary funds, steadily grew during 2003. However, high competition on the Slovene market, rapidly decreasing inflation (TOM), and reduced yields on SIT denominated T-bills and bonds, put margins further under pressure in 2003. Therefore the growth of net interest income is relatively lower than the growth in business operations. In accordance with IFRS the negative interest rate result of FX-swaps (mark-to-market-valuation of derivatives) was shifted to the trading result (SIT 839 Mio). The net interest income amounts to SIT 5.687 Mio, which is SIT 969 Mio, or 21% higher, than in 2002. As already pointed out in the risk management section the Bank tries to reduce losses on loans and advances, by using state-of-the-art risk management techniques and a focus on clients with high credit worthiness. In 2003 the Bank was able to reduce its losses on loans and advances, compared with 2002, by SIT 28 Mio to SIT 427 Mio. The risk/earnings ratio is 8% compared to 10% in 2002. The net fee and commission income increased by 19% to SIT 2.134 Mio, in 2003. Within the net fee and commission income it must be highlighted that the net loan origination fees, both for corporate and private customers, significantly rose in 2003 (+28%). Also the net fee and commission income from domestic payment transactions increased greatly by 49%, due to further increased volumes.

Due to the lack of merger & acquisition activities in the Slovene market in 2003, the net fee and commission income from custodian business was 35% lower in 2003.

The net trading result amounts to minus SIT 258 Mio, which is a reduction of SIT 1.016 Mio compared to 2002. As already pointed out this is mainly due to the shift in the negative interest rate result of FX-swaps, from net interest income to the net trading result in 2003. However the operative trading activities contributed positively to the net trading result. The money market trading activities profited from the market making activities in T-bills as well as from decreasing yields, while having appropriate positions. Also within fx-trading the Bank was able to use market movements and volatility in its favour. The Bank is one of the most active market participants in such transactions.

As previously stated, the Bank is undergoing a branch expansion project which is, of course, also reflected in general administrative expenses. The Bank employed 23 more people on average than in 2002 and refurbished and furnished the new branches, which is reflected in higher depreciation. General administrative expenses amount to SIT 4.489 Mio, an increase of SIT 571 Mio or 15%. The cost/income ratio, before risk, amounts to 60% (2002: 54%).

Deferred taxes were not recorded in prior years due to their immaterial nature. However this year it was decided, in accordance with group policy, to record deferred tax in full. The current year deferred tax charge, of SIT 556 Mio, includes SIT 380 Mio which relates to prior years.

In 2003 the Bank made a profit before tax of SIT 2.606 Mio, which is SIT 274 Mio, or 9,5% below the previous year. Adjusted by the one-offs in 2002 from services in connection with acquisitions, the operative result in 2003 is slightly above the previous year's result. Due to the first time recognition of deferred taxes, net income after taxes amounts to SIT 1.623 Mio; SIT 740 Mio below last year's result. The return on equity before taxes amounts to 15.75% (2002: 20.29%).

## Plans for the Future

The strategy adopted by the Bank in 2002 still remains our core policy, in light of Slovenia's approaching membership in the EU, increased competition on the domestic market with regard to financial intermediation, and the European model of free flow of capital. The Bank's operations have, and will continue to be based on, additional organic growth as well as additional synergies with other banks and partners in the HVB-Bank Austria Creditanstalt Financial Group. These two pillars will be a guarantee for the Bank for further stable growth, based on trust in partnership and achieving optimal results, which the Bank will try to achieve by introducing new products and lowering risks in various competitive services, for both retail and corporate clients.

The Bank will put its efforts into successfully concluding expansion of its branch network, which will provide additional possibilities for even closer contact with existing, as well as new, partners. The Common European market, with no borders for Slovenia, has a central role in the Bank's strategy. The know-how of the Bank and its reputation and connections within the Group, are important advantages to be shared with partners having similar ambitions. The Bank is convinced that these are the very qualities to enable it to enter new partnerships in both the domestic and foreign markets. Furthermore, because of the experience gained by the "mother bank" in co-financing various projects with European Structural Funds, we are convinced that, in co-operation with others, the Bank will find additional possibilities known within Europe but not as yet present on the Slovene market. Small and medium sized enterprises, which are "the force of progress" in Europe, will be of particular interest, to assist strengthen their position, not only on the domestic market but also within the top competitors of the European and global market.

Although the Bank is not a formal member of the group included in the National Housing Saving Scheme, it will try to make new offers to this segment, particularly in project and real estate financ-

ing, in accordance with best market terms and conditions where in 2003 the Bank already showed what it can do. We are aware of the worries many have about our uncertain future, particularly related to social security in its broadest sense. In order to ameliorate these worries and reduce risks the Bank will strengthen its activities in managing financial assets entrusted to it by retail or corporate clients, with new products and new connections within the Financial Group. For the same purpose the Bank will strengthen its co-operation with insurance companies, investment funds and pension funds, with an awareness of its advantages as a stable financial institution in itself, as well as together with Bank Austria Creditanstalt and within Hypo Vereinsbank Group. The Financial Group has one of the biggest market shares in Central and Eastern Europe, and the anticipated economic growth of countries in this region are two additional competitive advantages, which will provide the Bank with new opportunities for increased and additional efforts, on the principle: bigger growth for better results.

The Bank is well aware of another thing; set goals and better results will be achieved only with professional, ethical and loyal staff, because such people are its greatest asset. Additional attention will be given to their training in Slovenia and within the Financial Group. The Bank will give an opportunity to anyone who has shown by their efforts and results that they are worthy of attention and trust. Accordingly, it should be pointed out that our efforts will be directed to the following goals:

- further increasing the Bank's market share, particularly where the Bank has a competitive edge over other market participants, by an expanded branch network, new products and new partners;
- offer additional possibilities for investments, insurance and risk reduction, in co-operation with insurance companies;
- further intensify activities and efforts towards medium-sized companies and connecting them through the Bank's branch network to different national markets;
- improve work and optimise risk management to achieve the best business results;

- seek new possibilities to expand existing and new business partnerships within the EU, using additional synergies within the Financial Group;
- improve cost efficiency and primarily reduce operating risks by improving information processes, work procedures, and by additional rationalisation;
- increase flexibility of the organisational structure so that it will always, and in the shortest time possible, follow the needs of the Bank's partners and their competitive abilities, in compliance with ethical and professional norms;
- training for and gaining new professional experience is our permanent goal, which we must perform as a whole and as individuals, because staff that are enriched with knowledge and well motivated are the Bank's greatest asset, and at the same a guarantee that all set goals will be achieved.
- We are convinced that by implementing all these activities the Bank will strengthen its potential, reputation, trust, and competitive position; and this will make the Bank the best provider of services to its partners whilst simultaneously giving satisfaction, not only to shareholders, but also to staff.

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

At the General Meeting of Shareholders all members of the Supervisory Board were discharged and new members were appointed. The Supervisory Board members elected Anton Knett as the Chairman, and Wolfgang Help as the Deputy Chairman. The Bank's Supervisory Board followed and monitored the Bank's operations and the work of the Management Board, in accordance with the competence and duties of the Supervisory Board, stipulated in the Banking Act, Companies Act and the Bank's own constitution.

In 2003, the Supervisory Board regularly monitored the Bank's current operations and financial results achieved. At the correspondence session held in May, the Supervisory Board discharged the President of the Management Board and appointed a new one. At the correspondence session held in December, the Supervisory Board discharged two members of the Management Board and appointed two new members and the Deputy President. During the year, the Management Board informed the Supervisory Board members, at regular sessions, of all important business events in the Bank, other activities related to the Bank's operations, the economic and political environment, important changes in legislation which influenced the Bank's operations, and on the financial results achieved by the Bank compared with the adopted operational financial plan of the Bank.

The Management Board regularly informed the Supervisory Board of the financial results forecast for year end and on the results actually achieved. The Supervisory Board was also regularly informed about the implementation of the Internal Audit work plan and its findings, as well as on inspections performed by outside institutions. The Supervisory Board actively co-operated in the adoption of all necessary measures and activities necessary for the

implementation of the common business policy of the entire banking group, Bank Austria Creditanstalt Vienna, and the parent bank HypoVereinsbank Munich. The Management Board proposed the business plan and financial plan for the next business year for discussion with the Supervisory Board.

In addition to regular and active monitoring of the Bank's operations by the Supervisory Board, integrated regular monthly monitoring of operations of all daughter banks is organised within the banking group, Bank Austria Creditanstalt, at the specialist department level. It is performed in accordance with regulations and with the aim of ensuring common and integrated business policy within the entire banking group. The specialist departments inform the Supervisory Board of all important findings.

The Management Board prepared the 2003 Annual Report for Bank Austria Creditanstalt d.d. Ljubljana and submit it within the legal deadline to the Supervisory Board for verification and adoption. The Annual Report submitted to the Supervisory Board was accompanied by the Audit Report on the 2003 financial statements, which was prepared by Deloitte & Touche d.o.o., Ljubljana, for the Supervisory Board. The Management Board submitted a resolution on the allocation of net profit to the Supervisory Board for adoption and a draft resolution on the allocation of Balance Sheet profit, proposing that the Supervisory Board adopts the said resolution and approves the draft resolution on allocating Balance Sheet profit, for the decision which will be taken by the General Meeting of Shareholders.

The Supervisory Board agreed to the Annual Report submitted for discussion by the Management Board and established that it is in accordance with reports and information regarding the Bank's operations in

2003, as well as reports on the economic and political environment in which the Bank operates, presented to the Supervisory Board during the year. The Supervisory Board compared the Annual Report to audited financial statements for 2003, and established that financial results presented in the Annual Report are in accordance with those in the Audit report. The Management Board took into account the reports, findings, and recommendations of internal audit and outside inspectors and, to the greatest possible extent, carried out actions necessary for their implementation, or ensured that all necessary actions are being implemented. In the opinion of the Supervisory Board, the Management and Supervisory Boards fulfilled all legal obligations in 2003. On the basis of regularly monitoring Bank's operations and the aforementioned verifications, the Supervisory Board adopted the 2003 Annual Report.

The Audit report on financial statements for 2003, submitted to the Supervisory Board with the Annual Report, also included the unreserved opinion of the certified auditor. The Supervisory Board was informed of amendments to the accounting policy of the Bank during the year and of the influence of these amendments on the Bank's business results. The Supervisory Board was informed about the 2003 audit report for the Bank and had no objections to it.

The Management Board also submitted to the Supervisory Board for discussion a resolution on the allocation of net profit from 2003, and a draft resolution on the allocation of Balance Sheet profit from 2003. The Management Board proposes that the net profit is not issued as dividends to shareholders, or allocation to other persons, but instead be allocated in full to "other reserves" - because of the planned increase of volume of operations in 2004 and in the following years, in accordance with the adopted medium-term plans of the Bank and in order to fulfil the prescribed capital adequacy of the Bank. The Management Board proposes that the Supervisory Board, and the General Meeting of Shareholders, in accordance with their respective competences, adopt the proposed resolutions on the allocation of profit made in 2003. Accepting

this proposal will enable further growth of the Bank.

The Supervisory Board adopted the resolution on the allocation of net profit made in 2003 and agreed with the proposal of the Management Board on the use of 2003 Balance Sheet profit, and recommended to the General Meeting of Shareholders the adoption of the resolution as proposed.

*Chairman of the Supervisory Board*

Anton Knett

Audited Financial Statements  
according to International  
Standards of Auditing with Notes  
to the Financial Statements

# Independent Auditor's Report

To the shareholders of  
Bank Austria Creditanstalt d.d. Ljubljana

We have audited the accompanying Balance Sheet of Bank Austria Creditanstalt d.d. Ljubljana (the "Bank") on 31 December 2003, and the related Statements of Income, changes in shareholders' Equity and Cash Flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Bank on 31 December 2002, were audited by another auditor whose report dated 28 March 2003 expressed an unqualified opinion.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the

financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank Austria Creditanstalt d.d. Ljubljana on 31 December 2003, the results of its operations, changes in shareholders' equity and its Cash Flows, for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche  
26 January 2004

## Balance Sheet

|  | Notes | 2003<br>SIT'000    | 2002<br>SIT'000    |
|--|-------|--------------------|--------------------|
| Cash and Balances with the Central Bank          | 3     | 4.000.050          | 4.326.053          |
| Trading assets                                   | 4     | 7.056.357          | 5.055.681          |
| Loans and advances to, and placements with banks | 5     | 32.198.254         | 18.487.910         |
| Loans and advances to customers                  | 6     | 127.487.098        | 108.343.282        |
| Investments                                      | 7     | 56.266.170         | 37.587.241         |
| Property and equipment                           | 8     | 2.217.014          | 2.154.265          |
| Other assets                                     | 9     | 456.200            | 340.220            |
| <b>ASSETS</b>                                    |       | <b>229.681.143</b> | <b>176.294.652</b> |
| Amounts owed to banks                            | 10    | 114.768.436        | 73.827.983         |
| Amounts owed to customers                        | 11    | 91.865.177         | 82.749.769         |
| Provisions                                       | 12    | 478.842            | 542.208            |
| Other liabilities                                | 13    | 2.365.636          | 1.802.524          |
| Subordinated debt                                | 14    | 3.033.917          | 1.873.555          |
| Shareholders' equity                             | 15    | 117.169.135        | 15.498.613         |
| <b>LIABILITIES</b>                               |       | <b>229.681.143</b> | <b>176.294.652</b> |

The accompanying accounting policies and notes are an integral part of these financial statements.

dr. France Arhar  
Chairman of the Management Board

## Statement of Income

|   | Notes | 2003<br>SIT'000  | 2002<br>SIT'000  |
|---|-------|------------------|------------------|
| Interest income   | 16    | 11.337.683       | 10.440.331       |
| Interest expense  | 17    | (5.650.271)      | (5.722.156)      |
| <b>Net interest income</b>  |       | <b>5.687.412</b> | <b>4.718.175</b> |
| Losses on loans and advances  | 18    | (426.525)        | (454.834)        |
| <b>Net interest income after losses on loans and advances</b>       |       | <b>5.260.887</b> | <b>4.263.341</b> |
| Fee and commission income   | 19    | 2.392.862        | 2.173.137        |
| Fee and commission expense  | 20    | (258.609)        | (371.871)        |
| <b>Net fee and commission income</b>                                |       | <b>2.134.253</b> | <b>1.801.266</b> |
| Net trading result  | 21    | (258.243)        | 757.211          |
| General administrative expenses                                     | 22    | (4.489.297)      | (3.918.013)      |
| Balance of other operating income and expenses                      | 23    | (41.375)         | (23.690)         |
| <b>PROFIT from ordinary activities/<br/>Net income before taxes</b> |       | <b>2.606.225</b> | <b>2.880.115</b> |
| Taxes on income   | 24    | (983.568)        | (517.136)        |
| <b>NET INCOME</b>   |       | <b>1.622.657</b> | <b>2.362.979</b> |

The accompanying accounting policies and notes are an integral part of these financial statements.

## Statement of Changes in Shareholder's Equity

|   | Share Capital<br>SIT '000 | Share premium<br>SIT '000 | Retained earnings<br>SIT '000 | Total<br>SIT '000 |
|---|---------------------------|---------------------------|-------------------------------|-------------------|
| <b>Balance on 1 January 2002</b>                            | <b>3.101.378</b>          | <b>263.786</b>            | <b>9.770.470</b>              | <b>13.135.634</b> |
| Net income for the year                                     | -                         | -                         | 2.362.979                     | 2.362.979         |
| <b>Balance on 31 December 2002</b>                          | <b>3.101.378</b>          | <b>263.786</b>            | <b>12.133.449</b>             | <b>15.498.613</b> |
| Increase in fair value of<br>available-for-sale investments | -                         | -                         | 47.865                        | 47.865            |
| Net income for the year                                     | -                         | -                         | 1.622.657                     | 1.622.657         |
| <b>Balance on 31 December 2003</b>                          | <b>3.101.378</b>          | <b>263.786</b>            | <b>13.803.971</b>             | <b>17.169.135</b> |

The accompanying accounting policies and notes are an integral part of these financial statements.

## Statement of Cash Flows

|   | 2003<br>SIT'000     | 2002<br>SIT'000     |
|---|---------------------|---------------------|
| <b>NETO INCOME</b>  | <b>1.622.657</b>    | <b>2.362.979</b>    |
| Non-cash items included in net income, and adjustments to reconcile net income to cash flows from operating activities: |                     |                     |
| Depreciation and amortisation, losses on loans and advances, and changes in fair values                                 | 956.307             | 532.659             |
| Increase in provisions  | (63.366)            | 255.686             |
| Gains/losses on disposals of intangible assets, property and equipment, and investments                                 | 5.946               | (25.069)            |
| <b>Operating income before changes in operating assets and liabilities</b>  | <b>2.521.544</b>    | <b>3.126.255</b>    |
| Increase/decrease in operating assets and liabilities after adjustment for non-cash components                          |                     |                     |
| Trading assets  | (1.829.004)         | (4.834.694)         |
| Loans and advances  | (19.456.883)        | (29.847.316)        |
| Other assets  | (151.721)           | 71.595              |
| Amounts owed to banks and customers   | 50.055.861          | 50.146.804          |
| Other liabilities   | 692.183             | (5.781.228)         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   | <b>31.831.980</b>   | <b>(12.881.416)</b> |
| Proceeds from disposals of:   |                     |                     |
| Investments   | -                   | 6.317               |
| Property and equipment  | 6.638               | 183.720             |
| Payments for purchases of:  |                     |                     |
| Investments   | (18.647.019)        | (14.047.487)        |
| Property and equipment  | (827.663)           | 691.905             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   | <b>(19.468.044)</b> | <b>(14.549.355)</b> |
| Subordinated liabilities and other financing activities   | 1,160,362           | 31,615              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   | <b>1,160,362</b>    | <b>31,615</b>       |
| <b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>   | <b>13,524,298</b>   | <b>(1,636,324)</b>  |
| <b>CASH AND CASH EQUIVALENTS ON 1 JANUARY</b>   | <b>17,812,665</b>   | <b>19,448,989</b>   |
| <b>CASH AND CASH EQUIVALENTS ON 31 DECEMBER</b>   | <b>31,336,963</b>   | <b>17,812,665</b>   |

## Payments for Taxes, Interest and Dividends

|                    | 2003<br>SIT'000 | 2002<br>SIT'000 |
|--------------------|-----------------|-----------------|
| Income taxes paid  | 699,958         | 404,002         |
| Interest received  | 10,815,244      | 9,913,912       |
| Interest paid      | 5,560,549       | 5,274,872       |
| Dividends received | 21,580          | 12,775          |

The accompanying accounting policies and notes are an integral part of these financial statements.

# Bank Austria Creditanstalt d.d. Ljubljana

## Notes to the Financial Statement

### 1. Principal Activities

Bank Austria Creditanstalt d.d. Ljubljana (the "Bank") is a commercial bank incorporated in Slovenia, and provides a wide variety of financial services to corporate and individual customers. The Bank was registered as a joint-stock company on 24 January 1991. The Bank's legal address is Smartinska 140, Ljubljana, Slovenia. On 31 December 2003, the Bank was operating a total of seven branches throughout Slovenia. The ultimate parent company of the Bank is Bayerische Hypo-und Vereinsbank AG, Munich.

The Bank's main areas of operation are as follows:

- a) accepting deposits from the public and placing of deposits;
- b) providing current and term deposit accounts;
- c) granting short and long-term loans and guarantees to the State Treasury, local municipalities, corporate customers, private individuals, and other credit institutions dealing with finance, lease, and foreign exchange transactions;
- d) treasury operations in the interbank market;
- e) trust management and investment banking services;
- f) performing local and international payments;
- g) providing retail banking services through its branch network in the Slovenia.

The financial statements for the year ended 31 December 2002 included the Bank's wholly owned subsidiary BACA Storitve d.o.o. During the year the management decided that the company no longer served any useful purpose and it was voluntarily dissolved.

### 2. Summary of Significant Accounting Policies

#### 2.1 Basis of presentation

These financial statements are prepared in accor-

dance with International Financial Reporting Standards ("IFRS"), and under the historical cost convention, as modified by the revaluation of appropriate financial assets and liabilities at fair value.

The financial statements are stated in thousands of Slovenian Tolars ("SIT") unless otherwise noted.

The preparation of financial statements, in conformity with IFRS, requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, on the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available at the date of the financial statements, and actual results could differ from those estimates.

The Bank maintains its accounts books and prepares financial statements for regulatory purposes, in accordance with Slovenian accounting principles. The accompanying financial statements are based on the accounting records of the Bank, together with appropriate adjustments and reclassifications necessary for fair presentation, in accordance with IFRS.

#### 2.2 Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Bank of Slovenia, and current accounts with other banks, including the compulsory minimum reserve with the Bank of Slovenia.

The compulsory minimum reserve with the Bank of Slovenia is a required reserve to be held by all commercial banks licensed in Slovenia.

#### 2.3 Securities

In accordance with IAS 39, the Bank classifies its securities based on intent at the time of acquisition as: 'securities held for trading'; 'securities available-

for-sale' and 'held to maturity'. The principal difference among the classifications relates to the measurement of securities and the recognition of their fair values in the financial statements. All securities held by the Bank are recognised using settlement date accounting and initially measured at their cost, including transaction costs.

#### **a) Securities Held for Trading**

Securities held for trading include equity and debt securities acquired by the Bank for the purpose of generating a profit from short-term fluctuations in prices. Subsequent to the initial recognition these securities are accounted for and stated at fair value, which approximates the price quoted on recognised stock exchanges or acceptable valuation models. The Bank includes unrealised gains and losses in 'Net profit / (loss) on financial operations.' Interest earned on trading securities is accrued on a daily basis and reported as 'Trading income' in the Income Statement. Dividends on trading securities are recorded when declared and included as a receivable in the Balance Sheet line 'Other assets' and in 'Net profit / (loss) on financial operations' in the Income Statement.

All purchases and sales of securities held for trading that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised as spot transactions. Transactions that do not meet the 'regular way' settlement criterion are treated as financial derivatives.

#### **b) Investments Held to Maturity**

Investments held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity. This portfolio comprises treasury bills and debt securities. Held to maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

The Bank assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its

estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of assets is identified, the Bank makes an allowance to reduce the investment to its realisable value, which is recognised in the Income Statement.

#### **c) Available for Sale Securities**

Available-for-sale securities are those financial assets that are not classified as trading or held to maturity. This portfolio includes both equity and debt securities. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value, based on quoted prices. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios, refined to reflect specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are reported in equity until the financial asset is sold, at which time the realised gain or loss is reported as net profit or loss.

Where the impairment of securities available for sale associated with credit risk is other than temporary, the carrying amount of the security is immediately written down to its recoverable value. This write-down is included in the Income Statement line "Impairment losses on securities." Interest earned whilst holding available-for-sale securities is accrued on a daily basis and reported as "Interest income" in the Income Statement.

Dividends on securities available for sale are recorded as declared and included as a receivable in the Balance Sheet line 'Other assets' and in 'Net profit/(loss) on financial operations' in the Income Statement.

## 2.4 Derivative Financial Instruments

Derivative financial instruments are initially recognised in the Balance Sheet at cost (including transaction costs) and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivatives are reported in the line "Net profit on financial operations".

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as financial instruments held for trading with fair value gains and losses, reported in the Income Statement line 'Net profit from financial operations'.

The fair value of derivative instruments held for trading is disclosed in Note 4 and 13.

## 2.5 Loans and Advances to Customers

Loans, where the Bank provides money directly to a borrower, are categorised as loans originated by the Bank and are carried at amortised cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognised when cash is advanced to borrowers.

Loans and advances to customers and financial institutions are stated net of losses on loans and advances. A provision for losses is made if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted by the original effective interest rates of the loans. Specific losses on loans and advances are assessed with reference to the credit standing and performance of the borrower, and take into account the value of any collateral or third party guarantees.

When a loan is irretrievable it is written off against provision for losses on loans and advances; subsequent recoveries are credited to the losses on loans and advances line, in the Income Statement.

A loss on loans and advances is established to cover losses that are judged, by the management of the Bank, to be present in the loan portfolio on the Balance Sheet date, but which have not been allocated to specific or individual exposures.

The Bank stops accruing interest on loans that are classified as a loss due to bankruptcy of a customer or default of a loan agreement. The carrying amount of non-accruing loans represents the amount of the receivable decreased by an allowance for expected losses. The allowance is determined usually as 100% of the receivable value decreased by the amount that the Bank expects to recover from bankruptcy proceedings.

## 2.6 Property and Equipment

Property and equipment are stated at historical cost, less accumulated depreciation. Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. Land and assets in the course of construction are not depreciated.

The estimated economic useful lives are set out below:

|  | 2003       | 2002       |
|--|------------|------------|
| Leasehold improvement                  | 10 years   | 10 years   |
| Hardware, furniture and motor vehicles | 4-10 years | 5-10 years |
| Intangible assets – software           | 5 years    | 5 years    |

The accompanying accounting policies and notes are an integral part of these financial statements.

Leasehold improvements are capitalised and depreciated over the lesser of their useful life, and the remaining lease term on a straight-line basis.

The Bank periodically examines its property and equipment for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposal of assets are determined by reference to their carrying amount and are taken into account in determining operating income. Repairs and renewals are charged to the Income Statement when the expenditure is incurred. Reversals of impairment losses are recognised as income immediately in the Income Statement due to changes in the estimates used to determine the recoverable amount since the last impairment loss was recognised.

## 2.7 Interest Income and Expense

Interest income and expense are recognised in the Income Statement on a time proportion basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and accrued discount and premium on treasury bills and other discounted instruments. Penalty interest is accounted for on an accrual basis.

When doubt exists about loans being collected in accordance with the contractual terms, they are written down to their recoverable amounts and interest income thereafter is recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

## 2.8 Fee and Commission, Income and Expense

Loan establishment fees, for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

Commission and fees arising from negotiation, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of business, are recognized on completion of the underlying transaction. Service fees are recognized based on applicable service contracts.

## 2.9 Taxation

Taxes are calculated in accordance with the provisions of the relevant legislation of Slovenia, based on the profit or loss recognised in the Income Statement prepared pursuant to Slovenian accounting standards. Income tax is applied at the rate of 25% on taxable income generated by the Bank for the taxation period (see Note 24).

Deferred taxes are provided for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using the liability method at currently enacted tax rates. Deferred tax liabilities are provided for in full. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.

The Bank is subject to various indirect operating taxes. These are included as component of administrative expenses.

## 2.10 Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Slovenian Tolars at the official Bank of Slovenia exchange rate on the date of the transaction, which approximates the prevailing market rates. Any gain or loss resulting from the change in rates of exchange, subsequent to the date of transaction, is included in the Income Statement as a gain or loss from the revaluation of foreign curren-

cy positions and recognised in 'Net profit on financial operations'. Monetary assets and liabilities, including outstanding commitments to deliver or acquire foreign currencies under spot exchange transactions, are translated at the official rate of exchange valid at the Balance Sheet date.

The principal rates of exchange set forth by the Bank of Slovenia and used in the preparation of the Bank's Balance Sheet at the reporting date were as follows:

| Currency | 31 December<br>2003 | 31 December<br>2002 |
|----------|---------------------|---------------------|
| EUR      | 236,6903            | 230,2673            |
| USD      | 189,3674            | 221,0708            |

## 2.11 Provisions for Guarantees and Other Off-Balance Sheet Credit Related Commitments

The amount of provisions for guarantees and other off-Balance Sheet credit related commitments is recognized as an expense and a liability, when the Bank has legal or constructive obligations which have occurred as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and a reasonable estimate of the amount of the resulting loss can be made. Any loss resulting from recognition of provision for liability is recognized in the Income Statement for the period.

## 2.12 Fiduciary Activities

Assets managed by the Bank in its capacity as a nominee, trustee or agent are not assets of the Bank and accordingly are not included in these financial statements.

## 2.13 Regulatory Requirements

The Bank is subject to the regulatory requirements of the Bank of Slovenia. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-Balance Sheet commitments and provisioning to cover credit risk, liquidity, interest rates, and foreign currency position.

# 3. Notes to the Financial Statements

## 3.1 Cash and Balances with the Central Bank

|   | 2003<br>SIT'000  | 2002<br>SIT'000  |
|---|------------------|------------------|
| Cash on hand                                      | 1.207.456        | 985.875          |
| Cash in clearing account                          | 38.518           | (213.789)        |
| Obligatory minimum reserves with the Central Bank | 2.754.076        | 3.553.967        |
|   | <b>4.000.050</b> | <b>4.326.053</b> |

### 3.2 Trading Assets

|   | 2003<br>SIT'000  | 2002<br>SIT'000  |
|---|------------------|------------------|
| Treasury bills issued by the Government of Slovenia | 6.884.685        | 4.834.694        |
| Amounts receivable under Forward FX contracts       | 171.672          | 220.987          |
|   | <b>7.056.357</b> | <b>5.055.681</b> |

On 31 December 2003, and 2002, treasury bills held for trading earned annual interest of 5.4% and 8.5%, respectively.

On 31 December 2003, and 2002, the notional amounts of the forward FX contracts above was SIT 59,525,196 thousand and SIT 33,996,459 thousand, respectively.

Treasury bills are carried at cost, which approximates fair value due to their short-term nature.

### 3.3 Loans and Advances to, and Placements with Banks

|                  | 2003<br>SIT'000   | 2002<br>SIT'000   |
|------------------|-------------------|-------------------|
| Demand deposits  | 631.953           | 477.005           |
| Term deposits    | 31.154.280        | 17.884.087        |
| Accrued interest | 412.021           | 126.819           |
|                  | <b>32.198.254</b> | <b>18.487.910</b> |

On 31 December 2003, and 2002, interest rates on term deposits to other banks, denominated in SIT ranged from 0.10 % to 9.50 % and 5.20% to 10.00%, respectively.

On 31 December 2003, and 2002, interest rates on term deposits to other banks, denominated in EUR and other convertible foreign currencies ranged from 0.17% to 7.25% and 0.50% to 7.25%, respectively.

### 3.4 Loans and Advances to, Customers

|                                   | 2003<br>SIT'000    | 2002<br>SIT'000    |
|-----------------------------------|--------------------|--------------------|
| Companies                         | 100.771.682        | 88.337.228         |
| Individuals                       | 27.409.601         | 20.159.316         |
| Accrued interest                  | 816.001            | 903.900            |
|                                   | <b>128.997.284</b> | <b>109.400.444</b> |
| Less losses on loans and advances | (1.510.186)        | (1.057.162)        |
|                                   | <b>127.487.098</b> | <b>108.343.282</b> |

Loans and advances to customers are made principally within Slovenia. On 31 December 2003, and 2002, interest rates on loans and Loans and advances to customers are made principally within Slovenia. On 31 December 2003, and 2002, interest rates on loans and advances to customers, denominated in SIT, ranged from 5.75% to 15.29% and 6.91% to 16.60%, respectively.

On 31 December 2003, and 2002, interest rates on loans and advances to customers denominated in foreign currencies ranged from 1.25% to 7.71%, and 2.13% to 9.00%, respectively.

An industry analysis of the gross portfolio of loans and advances to customers follows:

|                               | 2003<br>SIT'000    | 2002<br>SIT'000    |
|-------------------------------|--------------------|--------------------|
| Industry                      | 21.650.384         | 20.426.686         |
| Trade                         | 18.683.979         | 17.508.119         |
| Construction                  | 4.201.019          | 1.268.991          |
| Insurance, financial services | 4.260.079          | 5.181.251          |
| Other services                | 23.760.773         | 18.846.924         |
| Public sector                 | 22.539.752         | 25.171.500         |
| Individuals                   | 32.391.111         | 19.939.811         |
|                               | <b>127.487.098</b> | <b>108.343.282</b> |

### 3.5. Investments

|   | 2003<br>SIT'000   |                   | 2002<br>SIT'000   |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | Fair Value        | Cost              | Fair Value        | Cost              |
| <b>Securities available for sale</b>          |                   |                   |                   |                   |
| Equity securities issued by Slovene companies | 88.142            | 88.142            | 88.055            | 88.055            |
| Debt securities                               | 1.389.017         | 1.325.197         | -                 | -                 |
|   | <b>1.477.159</b>  | <b>1.413.339</b>  | <b>88.055</b>     | <b>88.055</b>     |
| <b>Investments held to maturity</b>           |                   |                   |                   |                   |
| <b>Long-term debt securities:</b>             |                   |                   |                   |                   |
| Public sector bonds                           | 5.530.575         | 5.530.575         | 4.998.200         | 4.998.200         |
| Bonds issued by other financial institutions  | -                 | -                 | 9.631             | 9.631             |
| <b>Treasury bills:</b>                        |                   |                   |                   |                   |
| Treasury bills in SIT                         | 24.186.476        | 24.186.476        | 8.087.552         | 8.087.552         |
| Treasury bills in FX                          | 25.071.960        | 25.071.960        | 24.403.803        | 24.403.803        |
|   | <b>54.789.011</b> | <b>54.789.011</b> | <b>37.499.186</b> | <b>37.499.186</b> |
|   | <b>56.226.170</b> | <b>56.202.350</b> | <b>37.587.241</b> | <b>37.587.241</b> |

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%, Bankard d.o.o., Ljubljana – 2.24%, Slovenska izvozna družba, d.d., Ljubljana – 0.01% and Swift – 0.01%. The 2002 allowance for doubtful amounts relates to the investment in Marles Holding d.d. The Bank sold the investment in Unileasing d.o.o., Ljubljana and realised a profit of SIT 233 thousand. On 31 December 2003, the portfolio of securities available for sale includes securities at fair value of SIT 1,335,400 thousand that are traded on stock exchanges.

Bonds and other fixed income securities include bonds issued by the Republic of Slovenia, German State bonds ("BRD") and SKB bonds. All treasury bills are issued by the Bank of Slovenia or the Republic of Slovenia. On 31 December 2003, and 2002, interest rates on investments denominated in SIT ranged from 5.75% to 9.74% and 8.30% to 12.00%, respectively. On 31 December 2003, and 2002, interest rates on investments, denominated in foreign currencies ranged from 0.98% to 6.00% and 1.20% to 6.00%, respectively.

### 3.6 Property and Equipment

|                                 | Leasehold improvement | Furniture, vehicles and hardware | Computer software | Total            |
|---------------------------------|-----------------------|----------------------------------|-------------------|------------------|
| <b>COST</b>                     | <b>SIT '000</b>       | <b>SIT '000</b>                  | <b>SIT '000</b>   | <b>SIT '000</b>  |
| On 31 December 2002             | 516.016               | 1.387.985                        | 2.726.191         | 4.630.192        |
| Additions                       | 215.409               | 236.692                          | 375.561           | 827.662          |
| Disposals                       | -                     | (47.256)                         | (1.162)           | (48.418)         |
| On 31 December 2003             | 731.425               | 1.577.421                        | 3.100.590         | 5.409.436        |
| <b>ACCUMULATED DEPRECIATION</b> |                       |                                  |                   |                  |
| On 31 December 2002             | 125.171               | 766.407                          | 1.584.349         | 2.475.927        |
| Depreciation for 2003           | 56.974                | 196.305                          | 499.050           | 752.329          |
| Disposals                       | -                     | (34.672)                         | (1.162)           | (35.834)         |
| On 31 December 2003             | 182.145               | 928.040                          | 2.082.237         | 3.192.422        |
| <b>NET BOOK VALUE</b>           |                       |                                  |                   |                  |
| On 31 December 2003             | <b>549.280</b>        | <b>649.381</b>                   | <b>1.018.353</b>  | <b>2.217.014</b> |
| On 31 December 2002             | <b>390.845</b>        | <b>621.578</b>                   | <b>1.141.842</b>  | <b>2.154.265</b> |

### 3.7 Other Assets

|  | 2003<br>SIT'000 | 2002<br>SIT'000 |
|--|-----------------|-----------------|
| Overdrafts of current accounts held by private customers | 191.079         | 142.298         |
| Overdrafts with retail clients for credit risks          | 130.181         | 94.569          |
| Tax refunds receivable                                   | 51.437          | 33.655          |
| Fees and commissions                                     | 66.825          | 42.953          |
| Prepaid expenses   | 32.513          | 37.884          |
| Accrued income   | 73.182          | 37.217          |
| Other receivables  | 63.749          | 68.669          |
|  | <b>608.966</b>  | <b>457.245</b>  |
| Less losses on other assets                              | (152.766)       | (117.025)       |
|  | <b>456.200</b>  | <b>340.220</b>  |

### 3.8 Amounts Owed to Banks

|                  | 2003<br>SIT'000    | 2002<br>SIT'000   |
|------------------|--------------------|-------------------|
| Demand deposits  | 299.333            | 853.899           |
| Term deposits    | 80.711.686         | 50.263.060        |
| Other borrowings | 33.099.606         | 22.017.849        |
| Accrued interest | 657.811            | 693.175           |
|                  | <b>114.768.436</b> | <b>73.827.983</b> |

On 31 December 2003, and 2002, interest rates on amounts owed to banks denominated in SIT ranged from 5.00% to 5.80% and 6.00% to 8.80%, respectively.

On 31 December 2003, and 2002, interest rates on amounts owed to banks, denominated in foreign currencies ranged from 0.90% to 5.74% and 1.80% to 5.70%, respectively.

### 3.9 Amounts Owed to Customers

|                                  | 2003<br>SIT'000   | 2002<br>SIT'000   |
|----------------------------------|-------------------|-------------------|
| Saving deposits:                 |                   |                   |
| Demand deposits                  | 4.089.997         | 4.906.882         |
| Time deposits                    | 30.548.744        | 29.159.216        |
| Other amounts owed to customers: |                   |                   |
| Current settlement accounts      | 28.399.233        | 20.942.661        |
| Time deposits                    | 28.192.637        | 27.170.910        |
| Accrued interest                 | 634.566           | 570.100           |
|                                  | <b>91.865.177</b> | <b>82.749.769</b> |

On 31 December 2003, and 2002, interest rates on amounts owed to customers, denominated in SIT ranged from 1.00 % to 10.05% and 2.80% to 12.70%, respectively.

On 31 December 2003, and 2002, interest rates on amounts owed to customers, denominated in foreign currencies ranged from 0.10% to 6.90%, and 0.30% to 6.90%, respectively.

### 3.10 Provisions

|  | 2003<br>SIT'000 | 2002<br>SIT'000 |
|--|-----------------|-----------------|
| Balance on 1 January   | <b>542.208</b>  | <b>286.522</b>  |
| Specific provision for other credit commitments and contingent liabilities | (63.366)        | 255.686         |
| <b>Balance on 31 December</b>  | <b>478.842</b>  | <b>542.208</b>  |

### 3.11 Other Liabilities

|  | 2003<br>SIT'000  | 2002<br>SIT'000  |
|--|------------------|------------------|
| Accounts payable                                     | 188.818          | 396.141          |
| Accrued expense                                      | 253.682          | 368.204          |
| Taxes and social contributions                       | 1.103.735        | 366.683          |
| Liabilities under forward FX contracts               | 113.116          | 231.577          |
| Excluded income from C, D and E credit rated clients | 189.375          | 122.589          |
| Wages, salaries and bonuses                          | 109.019          | 88.551           |
| Liabilities for international settlements            | 177.344          | 55.558           |
| Amounts due to customers                             | 117.896          | 31.409           |
| Other liabilities                                    | 112.651          | 141.812          |
|  | <b>2.365.636</b> | <b>1.802.524</b> |

Fair value and theoretical value of derivative financial instruments

### 3.12 Subordinated Debt

|                                       | 2003<br>SIT'000  | 2002<br>SIT'000  |
|---------------------------------------|------------------|------------------|
| Remaining maturity up to three months | 8.169            | 10.576           |
| Remaining maturity over 5 years       | 3.025.748        | 1.862.979        |
|                                       | <b>3.033.917</b> | <b>1.873.555</b> |

All subordinated loans represent amounts owed to the Bank's immediate Parent, Bank Austria AG, Vienna. On 31 December 2003, and 2002, and subordinated loans denominated in Euro bear an annual interest from 2.58% to 2.69%, and from 2.4% to 4.3%, respectively.

### 3.13 Shareholders Equity

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.

Shares authorised, issued and fully paid on 31 December 2003, and 2002.

|                             | Number of shares | Par value SIT | 2003 SIT'000      | 2002 SIT'000      |
|-----------------------------|------------------|---------------|-------------------|-------------------|
|                             | 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         |
|                             |                  |               | <b>3.101.378</b>  | <b>3.101.378</b>  |
|                             |                  |               | 2003 SIT'000      | 2002 SIT'000      |
| Share capital               |                  |               | 3.101.378         | 3.101.378         |
| Share premium               |                  |               | 263.786           | 263.786           |
| Retained earnings           |                  |               | 12.133.449        | 9.770.470         |
| Available-for sales reserve |                  |               | 47.865            | -                 |
| Current year profit         |                  |               | 1.622.657         | 2.362.979         |
|                             |                  |               | <b>17.169.135</b> | <b>15.498.613</b> |

Reserves arise from revaluation of equity because of inflation accounting in the years prior to 2002. Reserves can only be used to offset losses and their distribution, in the form of dividends, is restricted. There are no restrictions on distributions from retained earnings and current year profit. No dividends have been proposed to be distributed for the year ended 31 December 2003.

### 3.14 Interest Income

|   | 2003 SIT'000      | 2002 SIT'000      |
|---|-------------------|-------------------|
| Interest on loans and advances to customers | 7.137.767         | 7.942.495         |
| Interest on debt securities                 | 3.173.170         | 1.743.890         |
| Interest on loans and advances to banks     | 1.024.416         | 745.080           |
| Other interest                              | 2.330             | 8.866             |
|   | <b>11.337.683</b> | <b>10.440.331</b> |

### 3.15 Interest Expense

|                                       | 2003<br>SIT'000  | 2002<br>SIT'000  |
|---------------------------------------|------------------|------------------|
| Interest on amounts owed to customers | 2.792.397        | 2.956.172        |
| Interest on amounts owed to banks     | 2.787.766        | 2.499.648        |
| Other interest                        | 70.108           | 266.336          |
|                                       | <b>5.650.271</b> | <b>5.722.156</b> |

### 3.16 Losses on Loans and Advances

|  | 2003<br>SIT'000 | 2002<br>SIT'000  |
|--|-----------------|------------------|
| Provision for losses on loans and advances                     | 488.765         | 307.498          |
| Provisions for guarantees and other credit related commitments | (81.766)        | 255.686          |
| Direct write-offs  | 19.526          | (108.350)        |
|  | <b>426.525</b>  | <b>(454.834)</b> |

### The movement in the provision for losses on loans and advances was as follows:

|                | 2003<br>SIT'000  | 2002<br>SIT'000  |
|----------------|------------------|------------------|
| On 1 January   | <b>1.174.187</b> | <b>866.689</b>   |
| Allocation     | 1.281.672        | 922.387          |
| Release        | (792.907)        | (614.889)        |
| On 31 December | <b>1.662.952</b> | <b>1.174.187</b> |

### 3.17 Fee and Commission Income

|                              | 2003<br>SIT'000  | 2002<br>SIT'000  |
|------------------------------|------------------|------------------|
| Foreign exchange commissions | 974.283          | 948.975          |
| Loan origination fees        | 850.952          | 660.318          |
| Brokerage and custody fees   | 253.695          | 343.728          |
| Transaction fees             | 271.154          | 190.789          |
| Other service charges        | 42.778           | 29.327           |
|                              | <b>2.392.862</b> | <b>2.173.137</b> |

### 3.18 Fee and Commission Expense

|                              | 2003<br>SIT'000 | 2002<br>SIT'000 |
|------------------------------|-----------------|-----------------|
| Foreign exchange commissions | 99.736          | 195.816         |
| Transaction fees             | 73.700          | 61.069          |
| Brokerage fees               | 28.221          | 55.220          |
| Loan origination fees        | 31.037          | 21.011          |
| Other service charges        | 25.915          | 38.755          |
|                              | <b>258,609</b>  | <b>371,871</b>  |

### 3.19 Net Trading Results

|  | 2003<br>SIT'000  | 2002<br>SIT'000 |
|--|------------------|-----------------|
| Foreign exchange gains/(losses)          | (453.418)        | 422.027         |
| Gains on securities                      | 221.108          | 199.074         |
| Gains/(losses) on derivative instruments | (25.933)         | 136.110         |
|  | <b>(258.243)</b> | <b>757.211</b>  |

### 3.20 General Administrative Expenses

|  | 2003<br>SIT'000  | 2002<br>SIT'000  |
|--|------------------|------------------|
| Wages, salaries and bonuses            | 1.493.852        | 1.285.828        |
| Social security costs                  | 380.181          | 311.452          |
| Depreciation and amortization          | 752.330          | 657.885          |
| Data processing costs                  | 399.419          | 369.970          |
| Rent                                   | 298.889          | 301.153          |
| Other administrative expense           | 358.346          | 279.050          |
| Consulting and professional fees       | 220.925          | 259.927          |
| Other employee benefits                | 228.230          | 188.216          |
| Communication                          | 206.264          | 168.128          |
| Advertising, marketing and sponsorship | 150.861          | 96.404           |
|  | <b>4.489.297</b> | <b>3.918.013</b> |

The Bank does not have pension arrangements separate from the State pension system of Slovenia. This system requires that current contributions by the employer be calculated as a percentage of current gross salary payments; these expenses are charged to the Income Statement in the period the related compensation is earned by the employee. No liabilities arise to the Bank from the payment of pensions to employees in the future. The average number of personnel employed by the Bank during the years ended 31 December 2003, and 2002, was 269 and 246, respectively.

### 3.21 Balance of Other Operating Income and Expenses

|                          | 2003<br>SIT'000 | 2002<br>SIT'000 |
|--------------------------|-----------------|-----------------|
| Other operating income   | 28.495          | 49.130          |
| Other operating expenses | (69.870)        | (72.820)        |
|                          | <b>(41.375)</b> | <b>(23.690)</b> |

### 3.22 Taxes on Income

|                | 2003<br>SIT'000 | 2002<br>SIT'000 |
|----------------|-----------------|-----------------|
| Current taxes  | 427.378         | 517.136         |
| Deferred taxes | 556.190         | -               |
|                | <b>983.568</b>  | <b>517.136</b>  |

Current income tax expense represents the amount of tax to be paid under Slovene law statutory tax rates. Deferred tax income or expense results from the change of carrying amounts of deferred tax assets and deferred tax liabilities. The corporate income tax rate for the years ended 31 December 2003, and 2002, was 25%. The tax on operating profit differs from the theoretical amount that would arise, using the basic tax rate as follows:

|                                 | 2003<br>SIT'000  | 2002<br>SIT'000  |
|---------------------------------|------------------|------------------|
| <b>Net income before taxes</b>  | <b>2.606.224</b> | <b>2.880.115</b> |
| Applicable tax rate             | 25 %             | 25 %             |
| Computed income tax expense     | 651.556          | 720.029          |
| Tax effects from:               |                  |                  |
| tax-exempt income               | (129.258)        | (134.255)        |
| non deductible expenses         | 71.977           | 32.966           |
| IFRS adjustments                | 389.293          | (101.604)        |
| <b>Reported taxes on income</b> | <b>983.568</b>   | <b>517.136</b>   |
|                                 | 38 %             | 18 %             |

Slovenian tax legislation and practice has changed significantly in recent years. Many parts of the legislation remain untested and there is uncertainty about the interpretation that the tax authorities may apply in a number of areas. The management of the Bank has applied revised tax legislation on a prudent basis. Tax positions taken by the Bank are subject to examination and could be challenged by the tax authorities. As a result there is uncertainty about the potential impact, should the interpretation of the tax authorities differ from that applied by the Bank. However, the Bank's Management considers that the any tax liability, which might arise in connection such circumstances, would not be material.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred taxes were not recorded in prior years due to their immaterial nature. However, in the current year management has decided to record deferred tax in full. The current year deferred tax charge of SIT 556,190 thousand, includes SIT 380,060 thousand which relates to prior periods. Temporary differences on 31 December 2003, and 2002, relate mostly to different methods of income and expense recognition, as well as to recorded values of certain assets.

| Temporary differences<br>on 31 December 2003, and 2002 were:                   | 2003<br>SIT'000  |  |
|--|------------------|--|
| <b>Deferred liabilities relating to</b>  |                  |  |
| Specific provisions for A rated clients  | 1.928.842        |  |
| Other provisions   | 105.405          |  |
| Valuation of securities available<br>for sale and investments held to maturity | 190.511          |  |
| <b>Deferred liabilities</b>  | <b>2.224.758</b> |  |
| Applicable tax rate  | 25 %             |  |
| <b>Deferred tax liability</b>  | <b>556.190</b>   |  |

### 3.23 Information for Cash Flow Statement

|                                   | 2003<br>SIT'000   | 2002<br>SIT'000   |
|-----------------------------------|-------------------|-------------------|
| Cash on hand and clearing account | 1.245.974         | 985.875           |
| Current accounts with other banks | 30.090.989        | 16.826.790        |
|                                   | <b>31.336.963</b> | <b>17.812.665</b> |

### 3.24 Financial Commitments and Contingencies

Legal proceedings. In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral, or outstanding, credit balances, as well as related interest and expenses from defaulted customers. The management of the Bank believe that any legal proceedings pending on 31 December 2003 will not result in material loss to the Bank. Credit commitments. The following table indicates the contractual amounts of the Bank's off-balance-sheet financial instruments that commit to extend credit to customers (see Note 6).

|  | 2003<br>SIT'000   | 2002<br>SIT'000   |
|--|-------------------|-------------------|
| Commitments to extend credit                 | 24.241.685        | 15.672.136        |
| Guarantees and standby letters of credit     | 32.379.198        | 32.969.422        |
| Documentary and commercial letters of credit | 989.975           | 331.731           |
|  | <b>57.610.858</b> | <b>48.973.289</b> |

## 4. Estimated fair Value of Financial Assets and Liabilities

The fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's-length transaction. Where available, fair value is based on quoted market prices. However, no readily available market prices exist for significant portions of the Bank's financial instruments. In circumstances where quoted market prices are not readily available, fair value is estimated using discounted cash flow models or other pricing techniques, as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates.

It is the opinion of the Bank's management that fair value of the Bank's financial assets and liabilities are not materially different from the amounts stated in the Balance Sheet on 31 December 2003. In estimating fair value of the Bank's financial instruments, the following methods and assumptions were used.

### **a) Cash and balances with the Central Bank**

The carrying values of cash and balances with the Central Bank are generally deemed to approximate their fair value.

### **b) Investments held to maturity**

Fair values of securities carried in the 'Held to maturity' portfolio are calculated by discounting future cash flows using prevailing market rates.

### **c) Due from banks**

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated, based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk).

### **d) Loans and advances to customers**

The fair value of variable yield loans that regularly re-price, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated

using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. Loans at fixed interest rates represent only a small fraction of the total portfolio and hence the fair value of total loans and advances to customers approximate the carrying values at the Balance Sheet date.

### **e) Amounts due to banks and customers**

The fair value of term deposits payable on demand represents the carrying value of amounts payable on demand at the Balance Sheet date. The fair value of term deposits at variable interest rates approximates their carrying values at the Balance Sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows, using rates currently offered for deposits of similar remaining maturities.

### **f) Financial instruments**

The fair values of financial instruments held as on 31 December 2003, and 2002, are set out in the following table:

|                           | Notional<br>Amount<br>SIT'000 | Positive market<br>value<br>SIT'000 | Negative market<br>value<br>SIT'000 |
|---------------------------|-------------------------------|-------------------------------------|-------------------------------------|
| <b>2003</b>               |                               |                                     |                                     |
| Foreign exchange forwards | 59.525.196                    | 219.016                             | 209.249                             |
| Interest rate swaps       | 16.745.812                    | 42.107                              | 26.039                              |
| Forward rate agreements   | 1.183.452                     | -                                   | -                                   |
| <b>2002</b>               |                               |                                     |                                     |
| Foreign exchange forwards | <b>33.996.459</b>             | <b>254.315</b>                      | <b>209.592</b>                      |

#### 4.1 Related-Party Transactions

| Banks from BA-HVB Group                           | 2003<br>SIT'000    | 2002<br>SIT'000   |
|---|--------------------|-------------------|
| Loans and advances to, and placements with, banks | 19.073.717         | 13.654.029        |
| Interest income                                   | 323.639            | 456.890           |
| <b>Assets total</b>                               | <b>19.397.356</b>  | <b>14.110.919</b> |
| Amounts owed to banks                             | 109.474.032        | 66.404.087        |
| Other liabilities                                 | 376.408            | 490.533           |
| Subordinated debt                                 | 3.033.917          | 1.873.555         |
| Interest expense                                  | 2.545.744          | 1.732.777         |
| <b>Liabilities total</b>                          | <b>115.430.101</b> | <b>70.500.952</b> |
| <b>Management</b>                                 |                    |                   |
| Loans and advances to customers                   | 8.573              | 9.061             |
| Interest income                                   | 596                | 653               |
| <b>Assets total</b>                               | <b>9.169</b>       | <b>9.714</b>      |
| Amount owed to customers                          | 24.080             | 33.141            |
| Interest expense                                  | 2.460              | 2.581             |
| <b>Liabilities total</b>                          | <b>26.540</b>      | <b>35.722</b>     |

The total gross salaries of management in 2003, and 2002, amounted to SIT 129,567 thousand and SIT 100,680 thousand, respectively.

In the normal course of business the Bank enters into numerous transactions with other members of the HVB Group. All of these transactions are on normal commercial terms.

## 4.2 Foreign Currency Risk

The Bank's financial position and cash flows are exposed to the effects of fluctuations in foreign currency exchange rates. The Bank monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Slovenian Central Bank established in respect of limits on open positions. The Bank seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures. The table below provides an analysis of the Bank's main currency exposures.

| SIT '000                                | SIT                 | EUR                 | USD                | Other            | Total                |
|---|---------------------|---------------------|--------------------|------------------|----------------------|
| <b>ASSETS</b>                           |                     |                     |                    |                  |                      |
| Cash and balances                       |                     |                     |                    |                  |                      |
| with the Central Bank                   | 3.627.308           | 270.629             | 47.358             | 54.755           | <b>4.000.050</b>     |
| Trading assets                          | 6.980.287           | 76.070              | -                  | -                | <b>7.056.357</b>     |
| Loans and advances to,                  |                     |                     |                    |                  |                      |
| and placements with banks               | 13.166.405          | 15.358.687          | 2.855.189          | 817.973          | <b>32.198.254</b>    |
| Loans and advances to customers         | 36.990.338          | 88.638.562          | 1.211.854          | 646.344          | <b>127.487.098</b>   |
| Investments                             | 29.116.592          | 24.381.353          | 2.768.225          | -                | <b>56.266.170</b>    |
| Property and equipment                  | 2.217.014           | -                   | -                  | -                | <b>2.217.014</b>     |
| Other assets                            | 423.149             | 21.091              | 9.924              | 2.036            | <b>456.200</b>       |
|   | <b>92.521.093</b>   | <b>128.746.392</b>  | <b>6.892.550</b>   | <b>1.521.108</b> | <b>229.681.143</b>   |
| <b>LIABILITIES</b>                      |                     |                     |                    |                  |                      |
| Amounts owed to banks                   | 8.532.720           | 105.275.872         | 957.712            | 2.132            | <b>114.768.436</b>   |
| Amounts owed to customers               | 39.150.393          | 46.149.474          | 5.374.645          | 1.190.663        | <b>91.865.177</b>    |
| Provisions                              | 68.710              | 410.133             | -                  | -                | <b>478.842</b>       |
| Other liabilities                       | 1.541.160           | 797.309             | 27.167             | -                | <b>2.365.636</b>     |
| Subordinated debt                       | -                   | 3.033.917           | -                  | -                | <b>3.033.917</b>     |
|   | <b>49.292.983</b>   | <b>155.666.705</b>  | <b>6.359.524</b>   | <b>1.192.795</b> | <b>212.512.007</b>   |
| <b>Net Balance Sheet FX Position</b>    | <b>43.228.110</b>   | <b>(26.920.313)</b> | <b>533.026</b>     | <b>328.313</b>   | <b>17.169.135</b>    |
| <b>Off-Balance Sheet FX position</b>    | <b>(19.379.896)</b> | <b>(35.833.594)</b> | <b>(1.774.978)</b> | <b>(622.390)</b> | <b>(57.610.858)</b>  |
| <b>TOTAL NET FX POSITION AT</b>         |                     |                     |                    |                  |                      |
| <b>31 DECEMBER 2003</b>                 | <b>23.848.214</b>   | <b>(62.753.907)</b> | <b>(1.241.952)</b> | <b>(294.077)</b> | <b>(40.441.722)</b>  |
| <b>Total assets</b>                     |                     |                     |                    |                  |                      |
| on 31 December 2002                     | 70.777.034          | 95.455.060          | 8.544.549          | 1.518.009        | <b>176.294.652</b>   |
| <b>Total liabilities</b>                |                     |                     |                    |                  |                      |
| on 31 December 2002                     | (42.661.040)        | (108.337.060)       | (8.423.170)        | (1.374.769)      | <b>(160.796.039)</b> |
| <b>Net FX Balance Sheet FX position</b> | <b>28.115.994</b>   | <b>(12.882.000)</b> | <b>121.379</b>     | <b>143.240</b>   | <b>15.498.613</b>    |
| <b>Off-Balance Sheet FX position</b>    | <b>(10.641.144)</b> | <b>(36.888.991)</b> | <b>(604.201)</b>   | <b>(838.953)</b> | <b>(48.973.289)</b>  |
| <b>TOTAL NET FX POSITION ON</b>         |                     |                     |                    |                  |                      |
| <b>31 DECEMBER 2002</b>                 | <b>17.474.850</b>   | <b>(49.770.991)</b> | <b>(482.822)</b>   | <b>(695.713)</b> | <b>(33.474.676)</b>  |

### 4.3 Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure, based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next reprising date. It is the policy of the Bank to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of reprising mismatch in the Balance Sheet. Those assets and liabilities that do not have a contractual maturity date or are not interest bearing are grouped in 'maturity undefined' category.

| SIT '000                     | Up to 1 month       | 1 - 3 months        | 3 - 12 months     | 1-5 years        | Over 1-5 years   | Non-interest        | Total                |
|------------------------------|---------------------|---------------------|-------------------|------------------|------------------|---------------------|----------------------|
| <b>ASSETS</b>                |                     |                     |                   |                  |                  |                     |                      |
| Cash and balances            |                     |                     |                   |                  |                  |                     |                      |
| with the Central Bank        | 1.245.974           | -                   | -                 | -                | -                | 2.754.076           | <b>4.000.050</b>     |
| Trading assets               | 7.056.357           | -                   | -                 | -                | -                | -                   | <b>7.056.357</b>     |
| Loans and advances to        |                     |                     |                   |                  |                  |                     |                      |
| and placements with banks    | 27.903.868          | 1.798.952           | 1.446.837         | 1.023.525        | -                | 25.072              | <b>32.198.254</b>    |
| Loans and advances           |                     |                     |                   |                  |                  |                     |                      |
| to customers                 | 50.236.659          | 41.734.294          | 32.316.697        | 1.453.275        | 620.304          | 1.125.869           | <b>127.487.098</b>   |
| Investments                  | 15.038.053          | 15.828.041          | 22.483.982        | 1.356.237        | 1.471.715        | 88.142              | <b>56.266.170</b>    |
| Property and equipment       | -                   | -                   | -                 | -                | -                | 2.217.014           | <b>2.217.014</b>     |
| Other assets                 | -                   | -                   | -                 | -                | -                | 456.200             | <b>456.2008</b>      |
|                              | <b>101.480.911</b>  | <b>59.361.287</b>   | <b>56.247.516</b> | <b>3.833.037</b> | <b>2.092.019</b> | <b>6.666.373</b>    | <b>229.681.143</b>   |
| <b>LIABILITIES</b>           |                     |                     |                   |                  |                  |                     |                      |
| Amounts owed to banks        | 19.180.311          | 64.095.953          | 30.019.871        | 301.963          | 512.526          | 657.812             | <b>114.768.436</b>   |
| Amounts owed                 |                     |                     |                   |                  |                  |                     |                      |
| to customers                 | 60.297.392          | 14.454.281          | 15.145.021        | 1.333.284        | 632              | 634.567             | <b>91.865.177</b>    |
| Provisions                   | -                   | -                   | -                 | -                | -                | 478.842             | <b>478.842</b>       |
| Other liabilities            | -                   | -                   | -                 | -                | -                | 2.365.636           | <b>2.365.636</b>     |
| Subordinated debt            | 755.408             | 1.213.250           | 1.065.259         | -                | -                | -                   | <b>3.033.917</b>     |
|                              | <b>80.233.111</b>   | <b>79.763.484</b>   | <b>46.230.151</b> | <b>1.635.247</b> | <b>513.158</b>   | <b>4.136.857</b>    | <b>212.512.008</b>   |
| <b>Balance-sheet gap</b>     | <b>21.247.800</b>   | <b>(20.402.197)</b> | <b>10.017.365</b> | <b>2.197.790</b> | <b>1.578.861</b> | <b>2.529.516</b>    | <b>17.169.135</b>    |
| <b>Off-Balance Sheet gap</b> | <b>(24.241.685)</b> | <b>-</b>            | <b>-</b>          | <b>-</b>         | <b>-</b>         | <b>(33.369.173)</b> | <b>(57.610.858)</b>  |
| <b>TOTAL GAP</b>             |                     |                     |                   |                  |                  |                     |                      |
| <b>ON 31 DECEMBER 2003</b>   | <b>(2.993.885)</b>  | <b>(20.402.197)</b> | <b>10.017.365</b> | <b>2.197.790</b> | <b>1.578.861</b> | <b>(30.839.657)</b> | <b>(40.441.723)</b>  |
| <b>Total assets</b>          |                     |                     |                   |                  |                  |                     |                      |
| on 31 December 2002          | 82.473.514          | 46.951.934          | 39.083.041        | 883.057          | 2.161.331        | 4.741.775           | <b>176.294.652</b>   |
| <b>Total liabilities</b>     |                     |                     |                   |                  |                  |                     |                      |
| on 31 December 2002          | (70.042.201)        | (57.582.541)        | (29.150.421)      | (1.100.557)      | (575.587)        | (2.344.732)         | <b>(160.796.039)</b> |
| <b>Balance Sheet gap</b>     | <b>12.431.313</b>   | <b>(10.630.607)</b> | <b>9.932.620</b>  | <b>(217.500)</b> | <b>1.585.744</b> | <b>2.397.043</b>    | <b>15.498.613</b>    |
| <b>Off-Balance Sheet gap</b> | <b>(15.672.136)</b> | <b>-</b>            | <b>-</b>          | <b>-</b>         | <b>-</b>         | <b>(33.301.153)</b> | <b>(48.973.289)</b>  |
| <b>TOTAL GAP</b>             |                     |                     |                   |                  |                  |                     |                      |
| <b>ON 31 DECEMBER 2002</b>   | <b>(3.240.823)</b>  | <b>(10.630.607)</b> | <b>9.932.620</b>  | <b>(217.500)</b> | <b>1.585.744</b> | <b>(30.904.110)</b> | <b>(33.474.676)</b>  |

#### 4.4 Liquidity Risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the Bank of Slovenia. The table below provides an analysis of assets, and liabilities, by relevant maturity groupings, based on the remaining periods from Balance Sheet date to contractual maturity dates. It is presented under the most prudent consideration of maturity dates where options, or repayment schedules, allow for early repayment possibilities. The Bank has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Bank has defined a set of indicators for which binding limits are established. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loans drawn down, guarantees, and from margin and other "calls" on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of re-investment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

| SIT '000   | On demand           | Under 90 days       | 3 -12 months       | 1-5 years           | Over 5 years        | Total                |
|--|---------------------|---------------------|--------------------|---------------------|---------------------|----------------------|
| <b>ASSETS</b>                                    |                     |                     |                    |                     |                     |                      |
| Cash and balances with the Central Bank          | 1.245.974           | -                   | -                  | -                   | 2.754.076           | <b>4.000.050</b>     |
| Trading assets                                   | -                   | 7.056.357           | -                  | -                   | -                   | <b>7.056.357</b>     |
| Loans and advances to, and placements with banks | 631.953             | 29.459.036          | 1.472.824          | 634.441             | -                   | <b>32.198.254</b>    |
| Loans and advances to customers                  | 1.290.832           | 17.089.134          | 28.479.439         | 66.726.718          | 13.900.975          | <b>127.487.098</b>   |
| Investments                                      | -                   | 27.773.882          | 22.203.971         | 3.893.975           | 2.394.342           | <b>56.266.170</b>    |
| Property and equipment                           | -                   | -                   | -                  | -                   | 2.217.014           | <b>2.217.014</b>     |
| Other assets                                     | -                   | 189.535             | 236.178            | 21.000              | 9.487               | <b>456.200</b>       |
|  | <b>3.168.759</b>    | <b>81.567.944</b>   | <b>52.392.412</b>  | <b>71.276.134</b>   | <b>21.275.894</b>   | <b>229.681.143</b>   |
| <b>LIABILITIES</b>                               |                     |                     |                    |                     |                     |                      |
| Amounts owed to banks                            | 299.333             | 15.882.654          | 12.576.529         | 79.437.584          | 6.572.336           | <b>114.768.436</b>   |
| Amounts owed to customers                        | 32.489.230          | 46.826.747          | 11.200.879         | 1.344.591           | 3.730               | <b>91.865.177</b>    |
| Provisions                                       | 12.771              | 29.402              | 16.700             | 323.726             | 96.243              | <b>478.842</b>       |
| Other liabilities                                | -                   | 2.029.130           | 248.675            | 87.831              | -                   | <b>2.365.636</b>     |
| Subordinated debt                                | -                   | 8.169               | 153                | -                   | 3.025.595           | <b>3.033.917</b>     |
|  | <b>32.801.334</b>   | <b>64.776.102</b>   | <b>24.042.936</b>  | <b>81.193.732</b>   | <b>9.697.904</b>    | <b>212.512.008</b>   |
| <b>Balance-sheet gap</b>                         | <b>(29.632.575)</b> | <b>16.791.842</b>   | <b>28.349.476</b>  | <b>(9.917.598)</b>  | <b>11.577.990</b>   | <b>17.169.135</b>    |
| <b>Off-Balance Sheet gap</b>                     | <b>(1.834.521)</b>  | <b>(29.489.263)</b> | <b>(7.020.156)</b> | <b>(13.016.544)</b> | <b>(6.250.374)</b>  | <b>(57.610.858)</b>  |
| <b>TOTAL GAP</b>                                 |                     |                     |                    |                     |                     |                      |
| <b>ON 31 DECEMBER 2003</b>                       | <b>(31.467.096)</b> | <b>(12.697.421)</b> | <b>21.329.320</b>  | <b>(22.934.142)</b> | <b>5.327.616</b>    | <b>(40.441.723)</b>  |
| Total assets on 31 December 2002                 | 5.670.628           | 56.703.295          | 41.883.048         | 60.040.072          | 11.997.609          | <b>176.294.652</b>   |
| Total liabilities on 31 December 2002            | (26.723.455)        | (54.582.945)        | (32.631.821)       | (38.787.243)        | (8.070.5750)        | <b>(160.796.039)</b> |
| <b>Balance Sheet gap</b>                         | <b>(21.052.827)</b> | <b>2.120.350</b>    | <b>9.251.227</b>   | <b>21.252.829</b>   | <b>3.927.034</b>    | <b>15.498.613</b>    |
| <b>Off-Balance Sheet gap</b>                     | <b>(1.324.981)</b>  | <b>(14.459.439)</b> | <b>(7.160.907)</b> | <b>(13.504.204)</b> | <b>(12.523.758)</b> | <b>(48.973.289)</b>  |
| <b>TOTAL GAP</b>                                 |                     |                     |                    |                     |                     |                      |
| <b>ON 31 DECEMBER 2002</b>                       | <b>(22.377.808)</b> | <b>(12.339.089)</b> | <b>2.090.320</b>   | <b>7.748.623</b>    | <b>(8.596.724)</b>  | <b>(33.474.676)</b>  |

#### 4.5 Market Risk

The Bank is exposed to market risks. Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

The daily, market, "value at risk" measure (VAR) is an estimate, with a 99% confidence level, of the potential loss which might arise if current positions were to be held unchanged for one business day. The measurement is structured so that daily losses exceeding the VAR figure should occur, on average, not more than once every sixty days. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

Since VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the Board for all trading and portfolio operations; actual exposure against limits, together with a consolidated Bank-wide VAR, is reviewed daily by management. Average daily VAR for the Bank was SIT 8,185 thousand in 2003 (2002: SIT 4,508 thousand). However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

#### 4.6 Credit Risk

The Bank is exposed to credit risk, which is the risk that a borrower will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a rotation basis and subject to an annual, or more frequent, review. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential

borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit risk of financial derivatives - the replacement cost of financial derivative instruments with positive fair value represents the Bank's credit exposure. It is usually a small fraction of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent, calculated pursuant to generally applicable methodology using the current exposure method, and involves the fair market value of the contract (only if positive, otherwise a zero value is taken into account) and a portion of nominal value, which indicates the potential change in fair market value over the term of the contract. The credit equivalent is established depending on the type of contract and its maturity. The Bank assesses credit risks of all financial instruments on a daily basis.

On 31 December 2003, the Bank had a potential credit exposure of SIT 269,662 thousand (2002: SIT 263,178 thousand) in the event of non-performance by borrowers to its financial derivative instruments. This represents the gross replacement cost at market rates on 31 December 2003, of all outstanding agreements in the event of all borrowers defaulting, and does not allow for the effect of netting arrangements.

Bank is selective in its choice of borrowers. Inter-bank foreign exchange and money market transactions are subject to borrowing limits and limits on groups of related entities.

In general, non-Bank customers which enter into derivative transactions with the Bank are required to leave collateral with the Bank. The size of collateral is set by the Bank according to the risk profile of the customer's position, and is regularly reviewed. A small portion of positions is covered by credit lines regularly reviewed by credit risk management.

## 5. Differences Between SAS and IFRS

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

|  | 2003<br>SIT'000   | 2002<br>SIT'000   |
|--|-------------------|-------------------|
| <b>Shareholders' equity per SAS Financial Statements</b>         | <b>15.515.332</b> | <b>13.875.986</b> |
| Reversal of statutory provisions for A rated clients             | 1.928.842         | 1.520.238         |
| Valuation of non-trading securities                              | 165.759           | 183.043           |
| Trading – foreign exchange on non – trading securities valuation | 30.959            | 24.148            |
| Valuation of trading securities                                  | (1.079)           | -                 |
| Valuation of derivatives   | -                 | 2.704             |
| Other  | (3.554)           | 1.574             |
| Consolidation of BACA Storitve d.o.o.                            | -                 | (109.080)         |
| Other provisions   | 105.021           | -                 |
| Deferred tax   | (556.190)         | -                 |
| Deferred tax on securities available for sale                    | (15.955)          | -                 |
| <b>Shareholders' equity per IFRS Financial Statements</b>        | <b>17.169.135</b> | <b>15.498.613</b> |

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

|  | 2003<br>SIT'000  | 2002<br>SIT'000  |
|--|------------------|------------------|
| <b>Income before taxes under SAS Financial Statements</b>        | <b>1.938.639</b> | <b>2.473.701</b> |
| Reversal of statutory provisions for A rated clients             | 408.604          | 228.765          |
| Valuation of non-trading securities                              | (17.284)         | 74.925           |
| Trading – foreign exchange on non – trading securities valuation | 6.811            | 4.730            |
| Valuation of trading securities                                  | 100.254          | 1.079            |
| Valuation of derivatives   | (44.900)         | 99.920           |
| Consolidation of BACA Storitve d.o.o.                            | 109.080          | (3.005)          |
| Other provisions   | 105.021          | -                |
| <b>Income before taxes under IFRS Financial Statements</b>       | <b>2.606.225</b> | <b>2.880.115</b> |
| Less taxes on income   | (983.568)        | (517.136)        |
| <b>Net income per IFRS Financial Statements</b>                  | <b>1.622.657</b> | <b>2.362.979</b> |

### Comparative Amounts

Certain comparative amounts in the Income Statement and the Balance Sheet have been reclassified to conform to the current year's presentation. The impact is not significant, and has no impact on the reported net profit or assets.

### Approval of the Financial Statement

These financial statements were accepted by the Management Board on 26 January 2004.

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