

| Annual report 2004

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Letter of the Chairman of the Board of Supervisors



On behalf of the Supervisory board of Podravska banka it is my pleasure to present the results of yet another successful year for Podravska banka. In 2004, Podravska banka consolidated its market position and its recognizable brand name on the Croatian banking market and, according to financial ratios, continued to grow. We can be proud of that success, especially as it was achieved under the circumstances of stiff competition on the Croatian financial market and a restrictive monetary policy. Podravska banka has outgrown regional frameworks and has become a bank of national stature. Its objective is, through planned acquisitions on the Croatian banking market, to become one of the top 10 banks in Croatia and become the best middle sized bank in Croatia. With this objective, new financial services will be developed to keep up with current banking trends, in order to provide our clients with the maximum satisfaction possible while increasing profitability and efficiency, as well as meeting the expectations of our shareholders. The largest part of the Bank's profits in 2004 will be allocated to the Bank's reserves with the aim of strengthening the Bank's capital. The existing team of professional employees, exceptionally high quality IT support, ever expanding and well organized operational network, and a wide range of products and services that meet the needs of the most demanding clients, guarantee continuing growth and success of Podravska banka. And finally, on behalf of the Supervisory Board, I wish to thank all our clients for the confidence they have placed in us, the Bank shareholders, employees and management of Podravska banka for achieved results. I also want to thank the members of the Supervisory Board for their effort and cooperation.

SIGILFREDO MONTINARI
Chairman of the Supervisory Board

Letter of the Chairman of the Management Board and the Chief Executive Officer

It is our honor and pleasure to present the results achieved by Podravska banka in 2004.

In circumstances of stiff competition on the financial market and the continuance of the restrictive monetary policy started in 2003, the increase in the bank's assets was slower than in previous years and amounted to 11%, while credit volume increased for 12%.

In such an environment, Podravska banka achieved an above-average balance rise of 18%, and profit growth, after tax deduction, of 12,6% in comparison to year 2003. The growth in deposits of over 18% is the result of a significant increase of clients who have accepted Podravska banka as a safe and flexible financial institution with modern technology as well as professional and competent personnel.

Further expansion of the operational network, as well as ATM and EFTPOS machine network have strengthened the Bank's position on the market, making it accessible to clients throughout almost the entire Croatian banking market, with an increasing and more recognizable offer of banking and other financial services.

In 2004 the Bank continued to invest significant funds in the modernization and development of information technology in order to meet the market demands.

We would like to take this opportunity and give praise to all the employees of Podravska banka for their top-quality commitment and effort throughout 2004.

We also want to thank our clients and business partners for their professional relationship and trust.

We would especially like to thank the members of the Supervisory board for the exceptional cooperation and support in 2004.



MORENO MARSON
Chief Executive Officer



JULIO KURUC
Chairman of the
Management Board



Markets |



Global economy

- > **The recovery of the global market**, which began in the second half of 2003, continued in 2004, but kept large regional differences.
- The leader in economic growth in the world was again Asia. Mainly China with annual growth rate of 9%, India with growth of 7.5%, Malaysia (8%), South Korea (5.5%) and Japan, which achieved growth of more than 4%, after years of recession.
- The economies of United Kingdom (growth rate 3%), US and Australia (growth rate around 4%) had the positive influence on the global economy. The German and Italian markets, which are Croatia's most interesting export markets, had another difficult year, achieving a lower economic growth than their main competitors.
- Despite the satisfactory growth of euro-zone imports of 3.6%, Italian and German GDP grew for 1.1% during last year, which is 1.5%. Globally, growth was slowing down causing the growth of GDP to slow down in France in the third trimester, so euro-zone GDP stayed under official estimate growth rate of 1.8%.
- Slower global economy growth in the second half of the year was the consequence of price changes of crude oil that have caused the biggest oil crisis in the last 30 years. Retaining the price of oil around 50 US\$ per barrel will reduce planned rates of economic growth in 2005.
- At the end of 2004, euro registered a record high value against the dollar and reached the highest value against the yen, while on the foreign currency markets the demand for the American currency was still low.
- The American dollar continued to lose in value throughout 2004 and it lost more than 6% against the euro and more than 3% against the yen.
- Since the beginning of this year, as a consequence of high growth rates of American economy and the increase of interest rates, the three-year-drop of the dollar against the most important world currencies has been stopped. In March, FED raised its reference interest rate for the seventh month in a row, from 2.25% (31st December

2004) to 2.75%, and announced the increase of inflation that indicates expectations of further interest growth. The interest rates in euro-zone remain at 2%, while in Japan they amount to almost 0%.

In the first half of 2004, Croatian GDP was 4.0%, induced by personal spending and capital investments. Good results of the tourist sector in the third trimester, production growth, as well as retail growth, had a positive effect on Croatian economy in the second half of the year.

In 2005 we expect an intensification of production, faster export growth, slight increase in retail and a rise in production investments.

Year 2004 saw the rise of GDP by 3.6%, and further 4.1% are planned for the year 2005.

Last year, for the tenth year in a row, Croatia achieved a high level of price stability, and a relatively low inflation rate, despite supply pressures. In 2004 the average inflation rate was 2%. The expected inflation rate for year 2005 is 2.7%.

In 2004 production growth was 3.7%, in comparison to that of the previous year, and the projection for 2005 is 3.8%.

Positive trends on the labor market were continued in 2004, so the average unemployment rate was 18.2%. A relatively steady growth of employment is expected in 2005, as well as a drop in registered unemployment to 18% by the end of 2005.

Foreign debt reached the level of 30.2 billion dollars by the end of 2004. Slowing down of the foreign debt will continue in 2005, partly due to the government's orientation towards the domestic financial market when financing its needs, partly due to achieved profits and reductions in the banks' credit transactions.

The revenue and expenditures planning in the state budget for 2005 was done as a part of a three-year-plan to decrease the deficit of overall consolidated state of 6.3% in 2003 to 2.9% in 2007.

The European Council gave Croatia a candidate status in December 2004, and the negotiations were supposed to start in March 2005. Although they have not started yet, the credit rating of the country has been maintained.

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Croatian economy

The restrictive monetary policy began in 2003 and continued through the first half of 2004 and had repercussions on slowing the monetary aggregates. Only central bank money registered high growth rates, which was expected due to measures that immobilized a large part of kuna resources.

The money supply increased for 2% in comparison to 2003.

At the end of 2004, total kuna deposits amounted to 22.5 billion kunas, and had achieved the annual growth rate of 22.4%. The foreign currency deposits totaled at

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Banking system

81.7 billion kunas, which is an increase of 5.7 billion kunas from 2003 or a growth of 8%. The foreign currency population deposits, which represent 84% of the total foreign currency deposits, were nominally 6% higher than in the previous year.

Bank loans had a growth slowdown due to measures of the monetary policy. In 2004, the loan growth on the annual level was 12%.

The interest rates level on average considerably exceeded 2003. This is a result of the restrictive monetary policy which tried to eliminate structural surplus in liquidity within the system.

Six biggest banks, and bank groups, cover 84.4% of the market in terms of assets. There are 35 banks altogether on the financial market at the moment. New bank mergers are announced as well as a potential privatization of the two remaining state-owned banks.

Bank sector's assets increased slower than during previous years, therefore there was an increase of 11% in 2004.

In 2004, the domestic equity market registered a record number and value of 1.25 billion euros, three corporative bonds in the amount of 117 million euros and two municipal bonds: one of the town of Koprivnica, in the amount of 60 million kunas and the other of the town of Zadar in the amount of 18.5 million euros. The total amount of existing euro bonds, on the domestic market alone, reached the level of 2.5 billion euros.

That turnover at the Zagreb Stock Exchange was 23.7 billion kunas, that is 71.6% more than in 2003. The Varaždin Stock Exchange had a turnover of 1.4 billion kunas or 91.3% more than in 2003. This makes 2004 a year of record turnover growth in the financial market.



Review of operations |



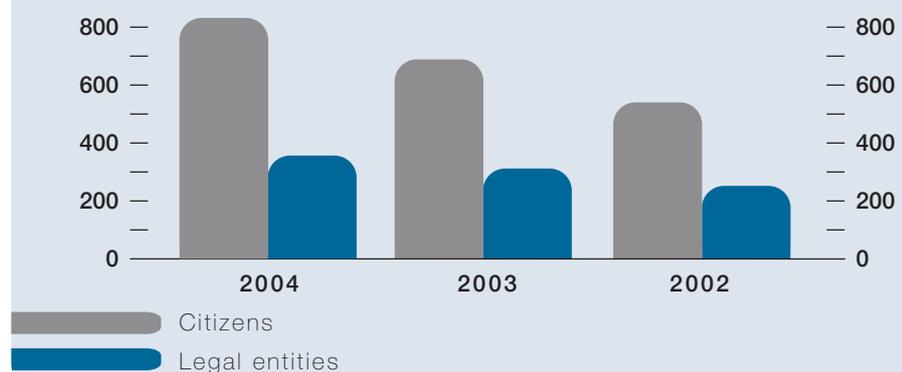
Deposits

- > **The total deposits** at the end of year 2004 amounted to 1.18 billion kunas, i.e. an increase of 18% compared with the previous year. The structure of the deposits did not change in comparison to 2003, with 70% of deposits made by individuals and 30% made by legal entities.

TOTAL DEPOSITS

HRK'000	CHANGE				
	2004	2003	2002	2004/03	2003/02
Individuals	830.734	701.337	540.469	18,45%	29,76%
Legal entities	352.839	300.990	252.041	17,23%	19,42%
Total deposits	1.183.573	1.002.327	792.510	18,08%	26,47%

TOTAL DEPOSITS



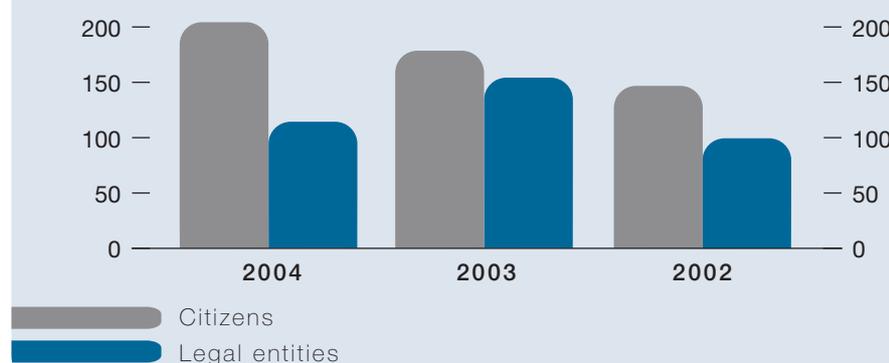
Term deposits with 72.5% were dominant in term structure of the total Bank deposits. With regard to the currency structure of the deposits made by individuals, kuna deposits increased by 32.6%. This is certainly a reflection of confidence in the Bank, but also the return of confidence in the domestic currency.

In total, non-time funds of individuals, the savings amount to 66%, and the balance is

DEMAND DEPOSITS

HRK'000	CHANGE				
	2004	2003	2002	2004/03	2003/02
Individuals	200.420	178.601	154.735	12,22%	15,42%
Legal entities	125.072	145.617	100.790	-14,11%	44,48%
Total demand deposits	325.492	324.218	255.525	0,40%	26,88%

DEMAND DEPOSITS



assets in current and giro accounts. An exceptional growth is noted in term deposits in kunas with a currency clause (45%). The predominant share of deposits of individuals avoids a concentration of deposits and assures stable sources for the Bank's operations. With term deposits of individuals, approximately 80% are contracted with a variable interest rate.

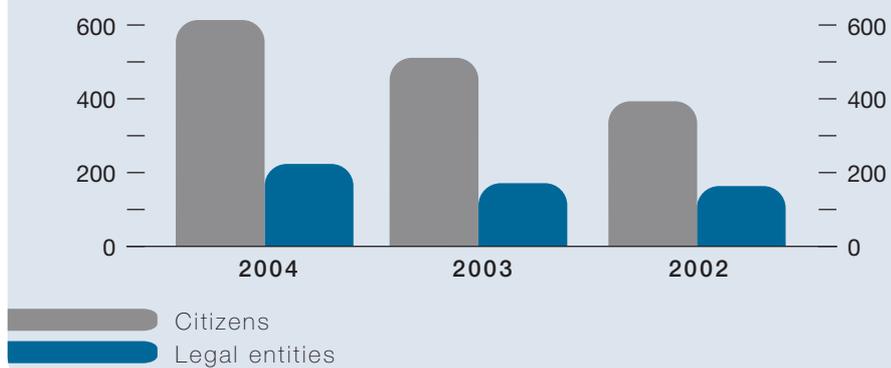
In 2004 the Bank created a new savings product – depoFIX savings in kunas and foreign currencies, with fixed interest rates, which was quickly accepted on the market. At the end of the year the total depoFIX savings deposit amounted to 97 million kunas.

There was a significant increase in the number of term deposits of legal entities of 46.6% due to an increase in kuna deposits (58.4%). Such deposit growth is a result of the strengthening of the Bank's brand name, the expansion of operational network throughout Croatia and the increase of the number of clients who put their trust in the Bank.

TERM DEPOSITS

HRK'000	CHANGE				
	2004	2003	2002	2004/03	2003/02
Individuals	630.314	522.736	385.734	20,58%	35,52%
Legal entities	227.767	155.373	151.251	46,59%	2,73%
Total term deposits	858.081	678.109	536.985	26,54%	26,28%

TERM DEPOSITS



The loan policy of Podravska banka is strategically oriented to the credit financing of population, trades and small and medium-sized businesses.

The total loans to clients increased from 870 million kunas in 2003 to 883 million kunas in 2004. The population loans increased by almost 10%, reaching a 72.5% share in the total loans. The gross loans to population and legal entities in the Bank's total assets was somewhat lower than at the end of 2003, and they amount to 57%.

For several years the Bank has insured loans to individuals from the non-payment risk with first-class insurance companies, so that 60% of these loans was covered at the end of 2004. The Bank pays a great deal of attention to its relationship with business subjects, for which it provides a full banking-financial service, as well as short-term and long-term loans. Classic loans to business subjects in 2004 are somewhat lower than the previous year because one part of trade loans was substituted by an increased amount of discounted bills issued for delivered goods and services.

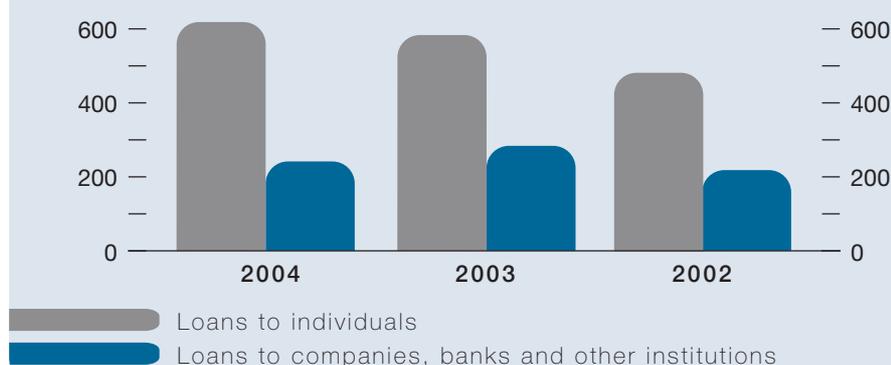
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Loans

LOANS

HRK'000	CHANGE				
	2004	2003	2002	2004/03	2003/02
Loans to individuals	639.939	583.983	482.627	9,58%	21,00%
Loans to legal entities	243.317	286.037	213.237	-14,93%	34,14%
Total gross loans	883.256	870.020	695.864	1,52%	25,03%
Total loan reserves	39.455	35.828	37.009	10,12%	-3,19%
Total net loans	843.801	834.192	658.855	1,15%	26,61%

LOANS



The structure of the credit portfolio according to the branches of activity did not change significantly in comparison to the previous period. Trade increased (8.3%)

whereas the other activities were respectively under 5%. During the year, interest rates were lowered due to coordination with the prevailing interest rates.

In 2004, the credit offer was expanded with new types of loans and adaptation to the standard credit offers to specific groups of clients. Individuals were offered a range of attractive loans for different purposes under competitive market conditions. Particular attention was devoted to meeting individual needs and prospects of clients, as well as to the speed and quality of service.

In 2004, as in previous years, in cooperation with the Ministry of Economy, labor and enterprises, as well as with the units of local management, the Banks provided loans to development programs of small and medium-sized business and the development of agricultural farms. In this way, the Bank contributes to the development of economic activities of small and medium-sized businesses in production and service industries, thus significantly increasing the number of clients who use the complete financial services of the Bank.

The Bank has a well established, successful cooperation with the Croatian Credit Bank for Reconstruction and Development in the realization of seven special programs of credit financing. Using very favorable loan conditions, the Bank provides its clients with sources for business financing, the export of goods and services, self-employment and financial restructuring.

Securities and liquidity management

> **During 2004**, the bank retained optimal kuna and foreign currency liquidity, term and foreign currency positions, in line with laws, monetary policy and the bank's internal regulations. The loan activity is carried on within stipulated frameworks and is financed for the collected deposits.

The trend of the restrictive monetary policy from 2003 continued in 2004. Croatian National Bank introduced new measures by, primarily administrative ones such as compulsory reserves, which led to a reduction in loan activities of banks in general, to a decreased money supply on the money market and an increase of interest rates. Considering the structure of Bank's resources, the aforementioned administrative measures did not have a significant influence on the Bank's liquidity.

The Bank has invested surplus assets, according to the authorized internal limits, in term deposits with first-class foreign and domestic banks approved money market interbank loans, and in securities and monetary funds of low risk. Realized income from loans to other banks increased 79% in comparison to 2003, which is mainly due to a good Bank's kuna liquidity despite high interest rates on the money market.

During 2004, the treasury activities especially intensified, namely broker and trust operations, which the clients recognized for their speed, high quality and price of a provided service.

The value the clients entrusted with the Bank was over 50 million kunas by 31st December 2004.

Kuna rate against the euro was 7.67 kunas at the end of 2004, which is an increase

of 0.3% since 2003. The kuna rate against the US dollar increased by 7.9% in 2004, and was 5.64 kunas.

Monitoring trends on the foreign currency market while meeting clients' demands, the Bank made a net income from buying and selling foreign currencies in the amount of 14.2 million kunas, which represents a 13% growth since 2003.

In 2004, the Bank kept its position as an active participant on the financial market. While issuing municipal bonds of the town of Koprivnica, with a nominal value of 60 million kunas, the Bank acted as an agent and a sponsor of the issuing.

The result of owner and debt securities trades, the Bank made an income of 4.9 million kunas, which represents a 117% increase compared to 2003.

During the year, business contacts were made with new international bank institutions of high reputation in the world financial circles, by opening dollar and euro accounts for the needs of the Bank's clients.

Monetary transactions The expansion of the Bank's operational network throughout Croatia, cooperation with financial institutions of neighboring countries and top-quality IT support led to an increase in the number of clients, and consequently the number of Banks' monetary transactions. Payment transactions for business subjects are done by the Bank independently or in cooperation with the Financial Agency (FINA), and all with the aim of keeping the clients through a wide range and high quality services offered at Podravska banka.

In 2004, the Bank perfected POBAklik service (internet banking), which includes both kuna and foreign currency monetary transactions, and as such was excellently accepted by clients, especially business subjects.

In 2004, the Bank made international monetary transactions through 20 accounts in 15 countries of the world. It had correspondent relationships with more than 180 domestic and international banks, and that number is constantly growing in accordance with clients' demands and needs.

During 2004, the amount of foreign inflow for business subjects grew for 17% in comparison to the previous year, whereas the foreign outflow by orders of business subjects increased by 8%.

The total value of international monetary transactions of the Bank's clients and business subjects, done through Podravska banka, was over 135 million euro, that is a 12% increase compared to 2003.

In 2004, adjusting to the demands and needs of its clients, the Bank continued to spread its operational network and the range of its products and services made for the population and business subjects.

New subsidiaries were opened in 2004 – in Zagreb (Vlaška street), Križevci, Dugo Selo and Garešnica. The Bank now operates in 34 locations throughout Croatia.

At the beginning of 2004, *Orange packages* for current accounts were launched. They

contain a range of products and services in connection with current accounts of individuals, POBA sms, POBA klik, insurance packages, MasterCard credit cards, and they offer more favorable conditions to *Orange package* users.

Automatic teller machines (ATM) and EFTPOS network were spreading all throughout the year so, at the end of 2004, 40 ATMs and 384 EFTPOSs were available to clients. The machines accept all types of cards and offer other services that are available on the domestic market. The significant increase of EFTPOSs in 2004 enabled the development of a unique product on the Croatian banking market – Maestro SHOP – that enables the owners of Podravska banka Maestro credits cards payment in installments as well as deferred payment for products and services while using EFTPOSs. Furthermore, a new and unique savings product was created – depoFIX savings, with very attractive fixed interest rates on term deposits with a premium. In the second half of 2004, Podravska banka signed a contract with Istituto Centrale delle Banche Popolari Italiane (ICBPI) from Milan, thus becoming their exclusive partner for payments of Italian pensions to users in Croatia.

In 2004, the Bank continued to develop a wide range of loan offers to individuals and business subjects for different purposes.

Sprint 48 loans for individuals were especially well-accepted, because of the fast implementation of the loan, but also because of the possibility to deter the first installment for three months.

The loan offer for business subjects, different types of loans were added to the offer, aside from the regular types of loans: security based loans, discount bill based loans and loans based on giro-account limits.

In cooperation with the Ministry of Economy, Labor and Entrepreneurship, the Banks provided loans to development programs of small and medium-sized entrepreneurs, thus contributing to the development of production and service sectors and increasing the number of clients using other financial services of the Bank.

Aside from banking services, other financial services are being developed, so through its operational network, the Bank activated the sale of bank insurance in cooperation with insurance companies.

The Bank also offers tutelage services for securities, trading services for securities and investment counseling services. These have been recognized on the market and accepted by clients.

Podravska banka signed a Contract with FINA about moving to the 3rd type of business cooperation in monetary transactions, which means that Podravska banka can independently handle its clients' accounts (of business subjects) and offer an even higher quality of service for the domestic monetary transactions.

During 2004, Podravska banka made its market position stronger and its brand name recognizable on the Croatian banking market. With achieved results, constantly expanding its operational network and introducing new products and services, Podravska banka follows current banking transactions trends, thus confirming its competitive ability with reference to largest banks in Croatia.

Sponsorships and donations Podravska banka is developing a recognizable policy of sponsorship and donation for various programs of general interest, such as health, cultural, sports and humanitarian projects. During the past year, 78 beneficiaries received sponsorships and donations. The largest share of funds was allocated for culture and education, followed by health and sports.

When entering a new market and opening new subsidiaries, particular attention is always devoted to making suitable donations that are planned according to specific characteristics of the area.

In a business environment characterized by a strongly competitive market and increasingly demanding clients, the guidelines for the successful operation of Podravska banka are client oriented, aimed at meeting their needs and demands and raising the quality of products and services.

Constant internal changes in the organization, processes and procedures, staff potential, employee education and motivation through monitoring and evaluating work, characterized 2004. The organizational changes during the past year were necessitated by the expansion of the Bank's operations, the reinitiating of securities operations and the provision of other financial services as well as the need for continuing strengthening of support to the operational network so that it will function as well and as quickly as possible. The aim was to deliver greater efficiency and speed in providing services, to improve coordination and functioning generally, in particular with back office units, and to strengthen information technology.

During 2004, due to development and introduction of new products and services, there were intense efforts in adding to the existing information technology program from areas including loans, foreign currency and finance operations, as well as the development of new IT applications in connections with securities, the development of monetary transactions and Internet banking, which required the education and training of personnel through various forms of internal and external schooling. Numerous professional seminars, courses and training programs in the area of banking and finance, accounting, auditing and control, monetary transactions, marketing, communicating, sales, management of time and associates, foreign languages and other areas, for a total duration of nearly 700 working days, were attended by nearly 50% of the employees, including the majority of the management personnel of the Bank at all levels.

The process of improving the educational standing of employees through hiring new people due to the expansion and new product growth continued during 2004. In 2004 alone, around 1000 CVs were received, 287 interviews with candidates conducted and eventually 51 people employed. In comparison to the previous year, an increase was recorded in the number of employees by approximately 7%, so that at the end of the year 2004, the Bank had 235 employees, of whom approximately 58% were engaged in direct work with clients (front office). The average age of the Bank employees is 37 years.

< Organizational structure and personnel

Capital

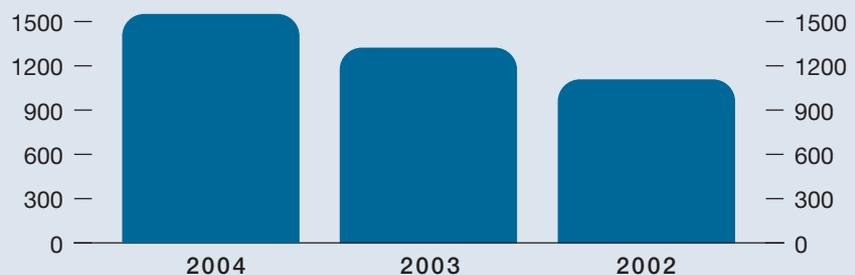
> During this fiscal year, the capital of the Bank, without the profits realized during the year, increased by 10.7 million kunas, representing an increase of 8.1% in comparison with 2003. The increase is a result of increased Bank reserves from the profits realized in 2003. On the 31st of December, 2004 the equity capital totaled 142.2 million kuna, comprising 9.1% of the total assets.

Share capital amounts to 62.9 million kunas. A total of 157.256 shares have been issued (each with a nominal value of 400,00 kunas), of which 147.256 are ordinary shares and 10.000 are preferred shares. At the end of the year, the Bank had 3.202 shareholders, none of whom held more than 10% of the regular shares. Foreign individuals possess 73.7% of the total share capital (foreign individuals and legal entities possess 80.6% of the capital stock). The remaining share capital is in the ownership of domestic individuals and legal entities. The amount and the structure of capital is adequate for the volume and types of services that the Bank provides, as well as the risk to which it is exposed, according to the regulations of the Croatian National Bank.

CAPITAL

HRK'000	CHANGE				
	2004	2003	2002	2004/03	2003/02
Liabilities	1.400.609	1.179.868	976.426	18,71%	20,84%
Equity capital	142.169	131.461	121.492	8,15%	8,21%
Retained earnings	13.254	11.773	10.301	12,58%	14,29%
Total	1.556.032	1.323.102	1.108.219	17,60%	19,39%

CAPITAL



Capital

The Croatian financial market in 2004 was marked by a very strong banking competition and further reductions in both credit and debit interest rates. Despite these conditions on the market, Podravska banka realized 57.3 million kunas of net income from interest, which is a 6,5% increase in comparison with 2003.

By expanding its operational network and offering a wider range of high quality services to its clients, and despite a 2.3 million kunas deduction of realized compensations due to demarcation of compensations according to accounting regulations, the Bank realized an increase in compensation income of 25.4%, in comparison with 2003. Because of the increased operating volume, especially foreign currency monetary transactions, the Bank had an increased net income from differences in foreign exchange rates of 12.8%. The year 2004 was marked as a year of substantial investment in securities, and the security trade resulted in income of 5 million kunas.

All of this had an impact on income from regular operations that increased to 94 million kunas in 2004, that is an increase of 13.7%.

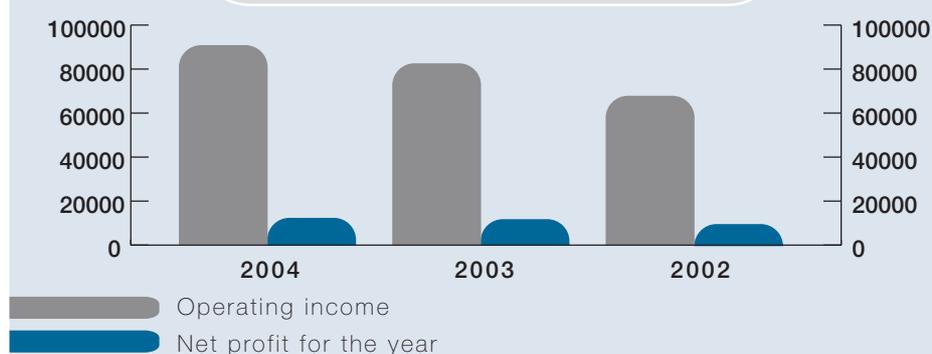
< Profit and lost account

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NET PROFIT FOR THE YEARS

HRK'000	2004	2003	2002	CHANGE	
				2004/03	2003/02
Operating income	93.965	82.659	67.236	13,68%	22,94%
Net profit for the year	13.254	11.773	10.287	12,58%	14,45%

NET PROFIT FOR THE YEAR



The hiring of new professional personnel for the requirements of the operational network as well as investment in education and providing motivation and incentives for employees, resulted in a 14.7% increase in personnel expenditures. Due to the

restrictive policy in expenditure management, administrative costs stayed on the last year level of 28 million kunas.

The aforementioned activities resulted in an increase in operational expenditures of 5.8% and they totaled 56.8 million kunas on 31st December 2004.

The total gross income from regular operations amounts to 37.1 million kunas and represents a high increase of 28.3% in comparison to 2003.

In 2004, amortization increased by 10.7% , which for the most part is a result of investment in the modernization of information technology and other equipment necessary for equipping and modernizing subsidiaries during 2004 and in earlier years.

After the application of its cautious and conservative policies in reserves for risk investments, and the strict application of the prevailing regulations, the Bank earmarked additional reserves for risk investments in the amount of 5.4 million kunas. After deducting the stated expenditures from the gross income, the profit from the regular operations totals 19.1 million kunas, which is a remarkable 45.4% increase in comparison to 2003.

By deducting the amount of tax paid from the profits from regular operations in the amount of 3.2 million kunas, as well as net, other and special expenditures, the financial performance of the operations of the Bank for the year 2004 amounts to 13.3 million kunas. This represents an increase of 12.6% in comparison to 2003.

BALANCE SHEET

<i>HRK'000</i>	2004	2003	2002	CHANGE	
				2004/03	2003/02
Assets					
Cash and amounts due from banks	157.075	117.512	94.744	33,67%	24,03%
Obligatory reserves at the Croatian National Bank	160.594	140.285	97.033	14,48%	44,57%
Securities	179.119	83.854	128.134	113,61%	-34,56%
Placements with other banks	155.942	74.885	50.477	108,24%	48,35%
Loans to clients	841.485	834.192	658.855	0,87%	26,61%
Public debt due from Rep. of Croatia	4.697	14.048	22.234	-66,56%	-36,82%
Investment in subsidiary	2.939	2.939	4.040	0,0%	-27,25%
Tangible assets and intangible assets	44.225	46.917	39.118	-5,74%	19,94%
Other assets	9.956	8.470	13.584	17,54%	-37,65%
Total assets	1.556.032	1.323.102	1.108.219	17,60%	19,39%
Liabilities					
Deposits from banks	49.811	11.567	26.238	330,63%	-55,92%
Deposits from clients	1.183.573	1.002.327	792.510	18,08%	26,47%
Old foreign currency savings	712	2.183	3.590	-67,38%	-39,19%
Loans	141.593	149.756	140.221	-5,45%	6,80%
Reserves for liabilities and charges	1.104	1.322	1.758	-16,49%	-24,80%
Other liabilities	23.816	12.713	12.109	87,34%	4,99%
Share capital and reserves	155.423	143.234	131.793	8,51%	8,68%
Total liabilities	1.556.032	1.323.102	1.108.219	17,60%	19,39%

PROFIT AND LOSS ACCOUNTS

HRK'000	CHANGE				
	2004	2003	2002	2004/03	2003/02
Net interest income	57.302	53.828	36.139	6,45%	48,95%
Net fee and commission income	17.508	13.960	17.824	25,42%	-21,68%
Net foreign exchange gains	14.199	12.591	7.322	12,77%	71,96%
Gain on non-trading financial instruments	4.956	2.280	5.951	117,37%	-61,69%
Operating income	93.965	82.659	67.236	13,68%	22,94%
Staff costs	28.760	25.074	20.795	14,70%	20,58%
Other administrative costs	28.076	28.655	20.822	-2,02%	37,62%
Operating expences	56.836	53.729	41.617	5,78%	29,10%
Gross operating profit	37.129	28.930	25.619	28,34%	12,92%
Amortization	12.556	11.342	8.324	10,70%	36,26%
Impairment losses	5.446	4.432	7.487	22,88%	-40,80%
Operating profit	19.127	13.156	9.808	45,39%	34,14%
Other and extraordinary income and expenses, net	(2.680)	(778)	479	244,47%	-262,42%
Income tax expense	3.193	605	-	427,77%	-
Net profit for the year	13.254	11.773	10.287	12,58%	14,45%

COMMITMENTS AND CONTINGENCIES

HRK'000	CHANGE				
	2004	2003	2002	2004/03	2003/02
Guarantees and letters of credit	49.426	38.622	21.516	27,97%	79,50%
Undrawn lending commitments	68.636	92.648	117.830	-25,92%	-21,37%
Total	118.062	131.270	139.346	-10,06%	-5,80%

OTHER DATA

HRK'000	CHANGE				
	2004	2003	2002	2004/03	2003/02
Employees	235	212	197	10,85%	7,61%
Number of subsidiaries	29	25	22	4	3
Adequacy of capital	12,78%	13,08%	14,71%	-0,3*	-1,6*

* percent point

INDICES

HRK'000	CHANGE				
	2004	2003	2002	2004/03	2003/02
Structural indices					
Equity / total assets	10,0%	10,8%	11,9%	-0,8*	-1,1*
Equity / total deposits	12,6%	14,1%	16,1%	-1,5*	-2,0*
Loans to clients / clients deposits	71,1%	83,2%	83,1%	-12,1*	-0,1*
Profitability indices					
Return on equity	11,9%	9,7%	8,7%	2,2*	1,0*
Return on assets	1,1%	0,9%	0,9%	0,2*	0,0*

HRK'000	CHANGE				
	2004	2003	2002	2004/03	2003/02
Productivity indices					
Total assets / number of employees	6.621	6.241	5.626	6,09%	10,93%
Total deposits / number of employees	5.248	4.783	4.156	9,72%	15,09%
Total placements / number of employees	5.007	4.684	4.251	6,90%	10,19%
Operating income / number of employees	400	390	341	2,56%	14,37%
Gross operating profit / number of employees	158	137	130	15,33%	5,38%
Operating expenses / operating income	60,5%	65,0%	61,9%	-4,5*	3,1*
Operating expenses + amortization / operating income	73,8%	78,7%	74,3%	4,9*	4,4*
Staff costs / operating income	30,6%	30,3%	30,9%	0,3*	-0,6*
Number of employees / number of subsidiaries	8	8	9	0	-1

* percent point

The Management and the Supervisory boards of the Bank propose to the General Assembly of the Bank that the total profits earned during 2004 be distributed for the payment of dividends to the Bank shareholders – the owners of preferred shares, the payment to employees in the name of profit share, by issuing 3000 debt-equity shares (in reserves), and the rest should be entered into the Banks reserves.

Dividends per preferred share amount to 28.00 kunas.

< Profit distribution

Future business operations

> **The strategic goals of the Bank** are the continuance of the stable operation of the Bank as a modern institution of a universal type, and a strengthening of its market position.

In 2005, as during 2004, the Bank will continue to make its market position stronger and further expand its operating network to new markets with significant economic potential. These include primarily Istria and Mešimurje, with their business centers in Pula and Čakovec, and to towns Sisak and Karlovac which are business centers of their regions.

Istria is becoming extremely interesting due to the Bank's exclusive partnership with ICBPI (Istituto Centrale delle Banche Popolari Italiane) from Milan for payment of Italian pensions. At the same time, the Bank's stronger presence in Požeško-slavonska county is planned. In addition, the Bank will strengthen its existing Commercial centers with subsidiaries in Osijek and Zagreb (in *Eurocentar* in Miramarska street).

In each of the newly-opened subsidiaries, clients will receive the complete financial service based on personal approach, speed and flexibility. Such an expansion will help Podravska banka to strengthen its brand name and confirm its strategic guidelines of becoming a strong middle-sized national bank. The Bank will gain additional strength with planned acquisitions on the Croatian banking market.

With investments in IT support, improving existing and developing new services, the experience and expertise of its employees and management, Podravska banka will ensure a dominant role among middle-sized banks and a place among the top 10 banks in Croatia.



Financial statements |

Statement on the responsibilities of the bank management

- > The Management Board is responsible for the preparation of financial statements for each financial year, which give a true and fair view of the state of affairs of the Bank, results of its operation, changes in equity and cash flows for the year.

In preparing those financial statements, the Management Board is required to:

- select suitable accounting policies which are in conformity with the International Financial Reporting Standards and the Croatian Accounting Law and apply them consistently;
- make judgments and evaluations that are reasonable and prudent;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for:

- maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank;
- ensuring that the financial statements comply with Croatian law;
- taking such steps as are reasonable to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

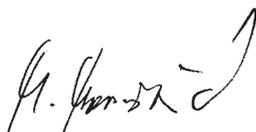
On behalf of the Management Board:

25 March 2005



Mr. Julio Kuruc

President of the Management Board



Marijan Marušić

Management Board member

Deloitte.

Deloitte & Touche d.o.o.
Heinzelova 33
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Auditors' report

To the shareholders of Podravka banka d.d., Koprivnica

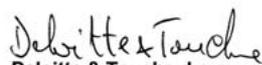
We have audited the accompanying balance sheets of Podravka banka d.d. Koprivnica. (the "Bank") as at 31 December 2004 and 2003, and the related statements of income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

Basis of opinion

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2004 and 2003 and of the results of its operations, changes in equity and cash flows for the years then ended, in accordance with International Financial Reporting Standards.


Deloitte & Touche d.o.o.

Zagreb, 25 March 2005

INCOME STATEMENT

<i>HRK'000</i>	Notes	2004	2003
Interest and similar income	3	100.075	94.373
Interest and similar expense	3	(42.773)	(40.545)
Net interest income		57.302	53.828
Fee and commission income	4	30.376	27.155
Fee and commission expense	4	(12.868)	(13.195)
Net fee and commission income		17.508	13.960
Net foreign exchange gains	5	14.199	12.591
Other operating income	6	5.866	4.133
Other operating income		20.065	16.724
Operating expenses	7	(72.982)	(67.702)
Impairment losses and provisions	9	(5.446)	(4.432)
Profit before taxation		16.447	12.378
Income tax	10	(3.193)	(605)
Net profit for the year		13.254	11.773
Earnings per share		88	78

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

HRK'000	Notes	31 DECEMBER	
		2004	2003
Assets			
Cash and amounts due from banks	11	157.075	117.512
Obligatory reserve with Croatian National Bank	12	160.594	140.285
Placements with other banks	13	155.942	74.885
Available-for-sale financial assets	14	133.427	45.750
Originated loans and other financial assets originated by the Bank	15	887.177	872.296
Public debt of the Republic of Croatia	16	4.697	14.048
Investments in subsidiary	17	2.939	2.939
Tangible assets	18	36.605	37.878
Intangible assets	19	7.620	9.039
Other assets	20	9.956	8.470
Total assets		1.556.032	1.323.102
Liabilities and shareholders' equity			
Deposits from banks	21	49.811	11.567
Amounts due to customers	22	1.183.573	1.002.327
Frozen deposits		712	2.183
Borrowings	23	141.593	149.756
Provisions for liabilities and charges	24	1.104	1.322
Other liabilities	25	23.816	12.713
Total liabilities		1.400.609	1.179.868
Share capital	26	62.902	62.902
Treasury shares		(1.059)	(175)
Legal reserves		72.730	61.237
Other reserves		7.596	7.497
Retained earnings		13.254	11.773
Total shareholders' equity		155.423	143.234
Total liabilities and shareholders' equity		1.556.032	1.323.102

The accompanying notes form an integral part of these financial statements.
 These financial statements were approved by the Management Board on 25 March 2005 and signed by:



Mr. Julio Kuruc
 President of the Management Board



Marijan Marušić
 Management Board member

CASH FLOW STATEMENT

HRK'000	Notes	31 DECEMBER	
		2004	2003
Operating activities			
Profit before taxation		16.447	12.378
Adjusted by net cash from operations			
Depreciation and amortization		12.556	11.202
Net income from sale of tangible assets		(28)	(833)
Book value of sold and written off long term assets		252	508
Increase in interest receivables and other assets		(1.486)	(2.194)
Increase in interest payable and other liabilities		7.973	927
Impairment of financial assets		5.721	4.988
Provisions, contingencies and commitments		(218)	(436)
Collection of written off loans		(57)	(120)
Profit before changes on operating assets and liabilities		41.160	26.420
Changes on operating assets and liabilities			
Increase in amounts due from the Croatian National Bank		(20.309)	(43.146)
Decrease in placements with other banks		118	15.356
Increase in loans and other assets originated by the Bank		(66.964)	(153.098)
Decrease of Public debt		9.351	8.527
Increase / (decrease) due to other banks		38.244	(14.671)
(Decrease) of frozen savings		(1.471)	(1.407)
Increase due to customers		181.246	209.074
NET INCREASE OF CASH FROM OPERATING ACTIVITIES		181.375	47.055
Investment activities			
(Decrease) / increase in available-for-sale financial instruments		(79.437)	53.244
Purchase of tangible and intangible long term assets		(10.116)	(19.509)
Cash inflow from sale of long-term tangible assets		28	833
NET (OUTFLOW) / INFLOW FROM INVESTING ACTIVITIES		(89.525)	34.568
Financial activities			
(Decrease) / increase of borrowings		(8.163)	9.333
Increase of treasury shares		(884)	(84)
Cash inflow from sale of treasury sales included in reserves		99	32
Dividend payments		(266)	(263)
NET CASH (OUTFLOW) / INFLOW FROM FINANCING ACTIVITIES		(9.214)	9.018
NET INCREASE IN CASH AND CASH EQUIVALENTS		82.636	90.641
Cash and cash equivalents at beginning of year		230.381	139.740
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	313.017	230.381

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Share capital	Treasury shares	Legal reserves	Other reserves	Retained earnings	Proposed dividend	Total
	KN'000	KN'000	KN'000	KN'000	KN'000	KN'000	KN'000
At 31 December 2002	62.902	(91)	51.216	7.465	10.021	280	131.793
Approved dividend with respect to 2002	-	-	-	-	-	(280)	(280)
Purchase of treasury shares	-	(790)	-	-	-	-	(790)
Sale of treasury shares	-	706	-	32	-	-	738
Net profit for the year	-	-	-	-	11.773	-	11.773
Transfers	-	-	10.021	-	(10.021)	-	-
At December 2003	62.902	(175)	61.237	7.497	11.773	-	143.234
Approved dividend with respect to 2003	-	-	-	-	-	(280)	(280)
Purchase of treasury shares	-	(1.196)	-	-	-	-	(1.196)
Sale of treasury shares	-	312	-	99	-	-	411
Net profit for the year	-	-	-	-	13.254	-	13.254
Transfers	-	-	11.493	-	(11.773)	280	-
At 31 December 2004	62.902	(1.059)	72.730	7.596	13.254	-	155.423

The accompanying notes form an integral part of these financial statements.

1. General Podravska banka d.d., Koprivnica (the "Bank") is incorporated in the Republic of Croatia. It was registered as a joint stock company at the Commercial Court in Bjelovar on 12 July 1995. The registered headquarters of the Bank is in Koprivnica, Opatička 3.

The Bank's main areas of operation include all deposit and credit operations for corporate and retail customers, domestic and international payment transactions, issuance of various types of guarantees, securities trading and other banking activities.

2. Accounting standards and conventions The principal accounting policies adopted for the preparation of the financial statements are set out below.

Basis of preparation These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board.

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the

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Notes

financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of the date of the consolidated financial statements, and actual results could differ from those estimates. The effect of any change in estimates will be included in the financial statements when determinable.

These financial statements are prepared under the historical cost convention, except for certain financial instruments that are carried at fair value. Financial assets and liabilities whose fair value cannot be determined reliably, as well as all non-financial assets and liabilities, are stated at amortised cost or cost decreased for impairment. Income and expenditure are recorded under the accrual principle.

The financial statements are stated in Croatian Kuna ('HRK'). At 31 December 2004, the exchange rate for USD 1 and EUR was HRK 5.64 and HRK 7.67, respectively (2003: USD 1 = HRK 6.12 and EUR 1 = HRK 7.65).

Foreign currencies The functional currency of the Bank is the Croatian Kuna. Income and expenditure arising from transactions denominated in foreign currencies are translated to Croatian Kuna at the official rates of exchange on the date of the transaction. Monetary assets and liabilities are translated at the official middle exchange rate valid at the balance sheet date. Any gain or loss resulting from translation of foreign currencies is included in the income statement for the period to which it relates.

Interest income and expenses Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Interest is calculated in accordance with Croatian law and the underlying agreement between lender and borrower. Interest is added to the principal when this is foreseen by the underlying agreement. Interest income is suspended when deemed uncollectible and recognised as income when collected.

Fee and commission income Fees and commissions for services are recognised when related services are performed. Loan origination fees are recognised as adjustment to effective yield on the loan amortised on a straight-line basis from 1 January 2004. In prior years, loan origination fees were recognised on the date the loan was disbursed. Fees and commissions arising from negotiations or participation in negotiations about a transaction on behalf of a third party, e.g. in connection with acquisition of loans, shares or other securities, or purchases or disposal of enterprises, are recognised upon completion of the underlying transaction.

Sale and repurchase agreements Securities sold subject to a repurchase

agreements ('repos') are retained in the financial statements as trading or investment securities or financial assets originated by the Bank and the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits, or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans to other banks or customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements, using the effective yield method.

Net trading income Net trading income includes gains and losses on trading in foreign currencies and sale or fair valuation of trading financial assets and liabilities.

Held for trading assets ('HFT assets') Trading securities are initially recognised at cost and subsequently re-measured at fair value, based on quoted bid prices at the balance sheet date. All realised and unrealised gains and losses on trading securities are recognised as net trading income. Interest earned trading securities is reported as interest income. Dividends are shown under dividend income.

Held-to-maturity investments and assets available for sale The Bank classified its investment securities into the following two categories: (1) held-to-maturity (public debt, Housing Bonds of the Croatian Ministry of Finance, and Mandatory Treasury Bills), and (2) available-for-sale (equity securities, debt securities and foreclosed tangible assets). Investments held to maturity and assets available for sale are initially stated at acquisition cost.

(1) Held to maturity Investments ('HTM investments') Held-to-maturity investments are those investments which the Bank has both the intention and the ability to hold until maturity. These investments are carried at amortised cost, less any allowance for impairment. Any discount or premium on a security is recognised on a straight-line basis over its life. An investment held to maturity is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets carrying amount and the present value of expected future cash flows, discounted at the financial instrument's original effective interest rate.

(2) Assets available for sale ('AFS assets') After initial recognition, assets available for sale are carried at fair value, based on quoted bid prices. Where no quoted bid prices are available, fair values of debt securities are estimated using the present value of future cash flows. Fair values for unquoted equity instruments are estimated using applicable price/earnings or price/cash flow ratios, refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the income

statement as other operating income or expense. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as other operating income or expense.

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably estimated are measured at cost, less allowance for impairment.

Originated loans and allowance for loan impairment When the Bank provides money directly to a debtor it is categorised as loans originated by the Bank and is 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 the debtors.

Loans and advances to customers and financial institutions are stated net of an allowance for loan impairment. An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, that is the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans.

The allowance for loan losses also includes amounts for losses which are present in the loan portfolio, but are not specifically identified. These have been estimated based upon historical patterns of losses in each component, and the credit ratings allocated to the debtors and reflecting the current economic climate in which the debtors operate. When a loan is uncollectible, it is written off against the related impairment allowance; subsequent recoveries and releases of allowances are credited to the allowance for loan impairment in the income statement.

Tangible and intangible assets All tangible and intangible assets are stated at cost less accumulated depreciation/amortisation and impairment loss, if any.

Depreciation and amortization are calculated for all assets, except for land and assets under construction, using the straight line method at rates estimated to write off the cost of each asset to their residual values over their estimated useful life as follows:

	2004	2003
Buildings	2.5% - 10%	2.5% - 10%
Office equipment	20% - 25%	20% - 25%
Motor vehicles	20%	20%
Software	20%	20%

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to its recoverable amount.

Gains and losses on the disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred. Improvements are capitalised.

At each balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. If the carrying amounts of property, equipment and other tangible assets exceed their estimated recoverable amounts, they are written down to the estimated recoverable amount.

Cash and cash equivalents For the purposes of the cash flow statement, cash and cash equivalents comprise cash and cash equivalents with original maturities of less than 90 days, including treasury bills and amounts due from other banks. Cash and cash equivalents excludes the obligatory reserve with the CNB as these funds are not available for the day-to-day operations of the Bank.

Off-balance sheet commitments and contingencies In the ordinary course of business, the Bank enters into credit related commitments that are recorded in off-balance-sheet accounts and primarily include guarantees, letters of credit and transactions with financial instruments. The allowances for possible losses on off balance sheet commitments and contingencies are maintained at a level the Bank's Management believes is adequate to absorb probable future losses. The Management Board determines the adequacy of the provision, based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Income tax Taxes currently due are calculated in accordance with Croatian legislation. Income tax is computed on the basis of taxable profit, calculated by adjusting the statutory financial result for certain income and expenditure items as required by law.

Deferred income taxes are provided using the balance sheet liability method of accounting under which deferred tax consequences are recognised for differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes. Deferred tax is charged or credited in the income statements, except when it relates to items charged or credited directly to equity, in which case the deferred tax is dealt with in equity.

A deferred tax liability is recognized for all taxable temporary differences, unless it arises from the initial recognition of an asset or liability in a transaction which, at the

time of the transaction, affects neither accounting profit nor taxable profit (tax loss). Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Current and deferred taxes are recognized as income or expense and are included in the net profit for the period, except to the extent that the tax arises from a transaction or event that is recognized in the same or different period, directly in equity.

Share capital and Treasury shares External costs directly attributable to the issuance of new shares, except for those resulting from transactions, are deducted from the equity, net of any related taxes.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

When the Bank or its subsidiary undertakings purchase the Bank's share capital or become entitled to purchase its share capital, the consideration paid, including all transaction costs less any taxes, is presented as a deduction from the total equity. Gains and losses on the sale of treasury shares are credited and charged, respectively, to treasury shares within equity.

Fiduciary activities Assets and income arising thereon together with related undertakings to return such assets to customers, are excluded from these financial statements when the Bank acts in a fiduciary capacity, such as a nominee, trustee or agent.

Employee benefits The Company provides benefits for its employees, which include long-service benefits (jubilee awards) and one-off retirement bonuses. The obligation and the cost of these benefits is determined using the Projected Unit Credit Method. The Projected Unit Credit Method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds, where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

Regulatory requirements The Bank is subject to regulatory requirements of the Croatian National Bank. 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 rate and foreign currency position.

3. INTEREST AND SIMILAR INCOME AND EXPENSES

HRK'000	2004	2003
a) Interest and similar income		
Analysis by source		
Individuals	64.486	62.439
Companies	24.848	22.198
State and public sector	4.164	4.030
Domestic banks	4.579	3.891
Foreign banks	1.998	1.815
Total	100.075	94.373
Analysis by product		
Debt securities	8.031	6.427
Treasury bills	85	251
Obligatory reserves with Croatian National Bank	2.316	2.462
Placements with other banks	3.505	1.954
Public debt due from the Republic of Croatia	331	782
Loans and advances to customers	85.807	82.497
Total	100.075	94.373
b) Interest and similar expense		
Analysis by source		
Individuals	25.540	23.669
Companies	8.614	8.585
State and public sector	3.017	2.001
Domestic banks	1.990	3.097
Foreign banks	1.689	3.024
Other foreign entities	1.923	169
Total	42.773	40.545
Analysis by product		
Deposits from banks	515	725
Deposits from companies	8.527	8.291
Deposits from public sector	3.016	2.001
Deposits from individuals	25.540	23.669
Deposits from other foreign entities	1.923	170
Borrowings	3.252	5.689
Total	42.773	40.545

4. FEE AND COMMISSION INCOME AND EXPENSE

<i>HRK'000</i>	2004	2003
a) Fee and commission income		
Analysis by source		
Individuals	15.945	14.715
Companies	11.340	10.481
Domestic banks	2.181	1.600
State and public sector	358	255
Foreign legal entities	552	104
Total	30.376	27.155
Analysis by product		
Loans and advances to customers	2.071	3.775
Credit cards transactions	10.471	8.358
Domestic payment transactions	8.531	7.620
Other services	9.303	7.402
Total	30.376	27.155
b) Fee and commission expenses		
Analysis by source		
Companies	11.124	11.191
Domestic banks	1.609	1.877
Foreign banks	135	127
Total	12.868	13.195
Analysis by product		
Domestic payment transactions	5.629	6.295
Cash transactions	5.154	5.388
Other services	2.085	1.512
Total	12.868	13.195

5. NET FOREIGN EXCHANGE GAINS

<i>HRK'000</i>	2004	2003
Net foreign exchange gain on trading	12.282	9.607
Net gains from translation of monetary assets and liabilities	1.917	2.984
Total	14.199	12.591

6. OTHER OPERATING INCOME

<i>HRK'000</i>	2004	2003
Gains less losses on non-trading financial instruments	4.956 2.280	
Gains on sale of tangible assets	28	833
Rental income	130	362
Other income	752	658
Total	5.866	4.133

7. OPERATING EXPENSES

<i>HRK'000</i>	2004	2003
Staff costs (Note 8)	28.760	25.074
Depreciation	10.114	9.115
Amortization	2.442	2.087
Allowances for impairment	-	140
Rental costs	3.852	3.355
Administrative expenses	8.710	8.937
Service expenses	15.514	16.363
Other costs	3.590	2.631
Total	72.982	67.702

8. STAFF COSTS

<i>HRK'000</i>	2004	2003
Net salaries	15.043	13.206
Taxes, including local taxes	3.936	3.266
Contributions	8.008	6.895
Provisions for severance pays under employment contracts	1.010	689
Other staff costs	763	1.018
Total	28.760	25.074

At the end of 2004, the Bank had 235 employees (2003: 212 employees).

9. IMPAIRMENT LOSSES AND PROVISIONS

<i>HRK'000</i>	Notes	2004	2003
Loans and advances to customers	15	5.616	3.926
Subsidiaries	17	-	1.101
Other assets	21	105	(39)
Off balance sheet items	24	(218)	(436)
Subtotal		5.503	4.552
Collection of receivables previously written off		(57)	(120)
Total		5.446	4.432

10. INCOME TAX EXPENSE

<i>HRK'000</i>	2004	2003
Current tax	3.446	605
Deferred tax	(253)	-
Income tax expense	3.193	605
Adjustment of deferred tax asset is as follows		
1 January	-	-
Deferred income assets	253	-
Tax obligation	253	-
Adjustment of income tax expenses for the period is as follows		
Accounting profit before taxation	16.447	12.378
Non-deductible expenses, permanent differences (net)	792	504
Non-deductible expenses, temporary differences	168	1.276
Taxable income, temporary differences	(174)	-
Tax base	17.233	14.158
Tax loss brought forward	-	(11.132)
Taxable profit	17.233	3.026
Income tax rate	20%	20%
Income tax liability	3.446	605

11. CASH AND AMOUNTS DUE FROM BANKS

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
Cash in hand	37.221	36.737
Items in course of collection	4.275	3.807
Current accounts with domestic banks	2.745	2.114
Current accounts with foreign banks	43.235	22.732
Current accounts with the Croatian National Bank	68.320	50.985
Other cash reserves	1.279	1.137
Total	157.075	117.512

12. OBLIGATORY RESERVE WITH CROATIAN NATIONAL BANK

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
- In HRK	118.995	101.844
- In foreign currencies	41.599	38.441
Total	160.594	140.285

Obligatory reserves in HRK and in foreign currency are calculated at the rate of 18% (2003: 19%) on HRK and foreign currency deposits and on foreign currency loans. At 31 December 2003, the Bank had the obligation to hold at least 60% (2003: 40%) of such reserves on its account with the Croatian National Bank. Additional obligatory reserve had to be calculated at the rate of 24% on increase of sources from foreign entities and related parties. These amounts had to be held with CNB with no interest.

13. PLACEMENTS WITH OTHER BANKS

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
Foreign currency deposits with other banks	101.074	74.885
Deposits with other banks in HRK	4.776	-
Loans given to other banks in HRK	50.092	-
Total	155.942	74.885

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

HRK'000	31 DECEMBER	
	2004	2003
Investments in open-end investment funds	7.376	963
Debt securities	116.619	38.843
Equity securities	9.432	14.184
Total	133.427	53.990
Impairment allowance	-	(8.240)
Net total	133.427	45.750
a) Debt securities		
Bonds of the Republic of Croatia	55.963	15.842
Corporate bills of exchange	60.653	22.995
Other securities	3	6
Total	116.619	38.843
Debt securities		
- listed	55.963	15.843
- unlisted	60.656	23.000
Total	116.619	38.843
b) Equity securities		
Listed equity securities available for sale		
Bilokalnik d.d. Koprivnica	5.377	5.377
Adris grupa d.d. Rovinj	1.050	-
Končar d.d. Zagreb	620	142
Ericsson Nikola Tesla d.d. Zagreb	296	-
Kraš d.d. Zagreb	276	-
Podravka d.d. Koprivnica	287	257
Slavonski zatvoreni investicijski fond d.d. Osijek	220	-
Koka d.d. Varaždin	200	-
Plava laguna d.d. Poreč	187	-
Anita d.d. Vrsar	166	-
Institut građevinarstva d.d. Zagreb	160	-
Privredna banka d.d. Zagreb	150	-
Istraturist Umag d.d. Umag	142	30
Riviera Holding d.d. Poreč	110	-
Pomka d.d. in bankruptcy Koprivnica	-	5.619
Avard d.d. in bankruptcy Gola	-	2.621
Others	191	138
Total gross equity securities	9.432	14.184
Less: impairment allowance	-	(8.240)
Total net equity securities	9.432	5.944

The Bank has no significant influence on the operations of any of the entities in which it has investments. Equity securities held by the Bank at year-end include mostly shares in companies acquired in exchange for outstanding receivables (debt-to-equity swap).

15. ORIGINATED LOANS AND OTHER FINANCIAL ASSETS ORIGINATED BY THE BANK

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
CNB treasury bills	-	38.104
Loans and advances to customers	883.256	870.020
Bonds of the Republic of Croatia	45.692	-
Total, gross	928.948	908.124
Deferred fees	(2.316)	-
Allowances for impairment	(39.455)	(35.828)
Total, net	887.177	872.296

Analysis by lending portfolio

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
HRK denominated		
Loans to corporate customers	193.293	176.266
Loans to individuals	629.466	583.377
Total	822.759	759.643
Foreign currency denominated		
Loans to corporate customers	50.024	109.771
Loans to individuals	10.473	606
Total gross loans and advances to customers	883.256	870.020
Deferred fees	(2.316)	-
Allowances for impairment	(39.455)	(35.828)
Total net loans and advances to customers	841.485	834.192

Movements in provisions for impairment

<i>HRK'000</i>	2004	2003
At 1 January	35.828	37.009
Charged during the year	5.616	3.926
Amortization to interest income	(683)	(1.082)
Amounts written off	(1.306)	(4.025)
At 31 December	39.455	35.828

At 31 December 2004, total non-performing loans and those that did not accrue interest amounted to HRK 60,610 thousand (2003: HRK 49,027 thousand). Unrecognised interest on these loans amounted to HRK 26,689 thousand at 31 December 2004 (2003: HRK 25,647 thousand). Accrued interest outstanding for 2004 with respect to impaired loans amounted to HRK 1,136 thousand at 31 December 2004 (2003: HRK 411 thousand).

ORIGINATED LOANS AND OTHER FINANCIAL ASSETS ORIGINATED BY THE BANK

Concentration of credit risk by industry

The Bank has a diversified portfolio within Croatia covering all sectors of the economy. All commercial lending is to companies domiciled in Croatia. At 31 December 2003 the Bank had the following gross credit risk concentration by industry:

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
Trade	73.716	113.980
Agriculture	29.134	22.920
Textile and leather industry	13.699	14.448
Food industry	14.306	13.898
Wood industry	12.043	12.896
Metal industries	19.039	16.059
Paper industry	3.242	2.364
Publishing	4.394	3.824
Mining	692	1.000
Other industries	20.246	23.589
Construction	21.938	10.488
Real estate operations	9.614	7.490
Transportation and communications	9.409	9.880
Health and social care	1.635	5.085
Housing	-	2.738
Hotels and restaurants	892	9.270
Other	9.318	16.108
Individuals	639.939	583.983
Total	883.256	870.020

16. PUBLIC DEBT DUE FROM THE REPUBLIC OF CROATIA

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
Due within one year	4.697	9.479
Due over one year	-	4.569
Ukupno	4.697	14.048

At the end of 2004 the last instalment was due.

17. INVESTMENTS IN SUBSIDIARY

At 31 December 2004, the Bank controlled the following subsidiary:

	Nature of business	Country of incorporation	Direct holding at 31 DECEMBER 2004
Brokeri 21 d.o.o. u in liquidation	Brokerage	Croatia	100%

These Banks' investment in the subsidiary can be analysed as follows:

HRK'000	31 DECEMBER	
	2004	2003
Investment	4.040	4.040
Impairment	(1.101)	(1.101)
Total	2.939	2.939

18. TANGIBLE ASSETS

KN'000	Land and buildings	Office equipment and motor vehicles	Computers	Tangible assets under construction	Total
Cost					
At 31 December 2003	38.183	26.721	25.513	-	90.417
Transfer	-	461	(461)	-	-
Additions	-	-	-	9.093	9.093
Disposals and write-offs	-	(899)	(621)	-	(1.520)
Transfers	80	4.742	1.656	(6.478)	-
At 31 December 2004	38.263	31.025	26.087	2.615	97.990
Accumulated depreciation					
At 31 December 2003	24.404	15.444	12.691	-	52.539
Transfer	-	278	(278)	-	-
Charge for the year	877	4.213	5.024	-	10.114
Disposals and write-offs	-	(648)	(620)	-	(1.268)
At 31 December 2004	25.281	19.287	16.817	-	61.385
Net book value					
At 31 December 2004	12.982	11.738	9.270	2.615	36.605
At 31 December 2003	13.779	11.277	12.822	-	37.878

Property in the net book value of HRK 12,5 million is pledged as a collateral for deposits received in amount of HRK 25,1 million.

19. INTANGIBLE ASSETS

<i>HRK'000</i>	Software	Leasehold improvements (rights)	Total
Cost			
At 31 December 2003	5.707	8.887	14.594
Additions	183	840	1.023
Disposals and write-offs	(10)	-	(10)
At 31 December 2004	5.880	9.727	15.607
Accumulated amortization			
At 31 December 2003	2.829	2.726	5.555
Charge for the year	990	1.452	2.442
Disposals and write-offs	(10)	-	(10)
At 31 December 2004	3.809	4.178	7.987
Net book value			
At 31 December 2004	2.071	5.549	9.039
At 31 December 2003	2.878	6.161	7.620

20. OTHER ASSETS

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
Accrued fees and commissions	2.116	1.783
Foreclosed assets	308	2.135
Other assets	9.557	6.053
Total, gross	11.981	9.971
Allowances for impairment	(2.025)	(1.501)
Total, net	9.956	8.470

21. DEPOSITS FROM BANKS

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
Term deposits from banks, due within one year		
- in HRK	-	3.901
- in foreign currency	49.811	7.666
Total	49.811	11.567

22. AMOUNTS DUE TO CUSTOMERS

HRK'000	31 DECEMBER	
	2004	2003
Companies		
<i>Demand deposits</i>		
- in HRK	102.957	119.070
- in foreign currency	22.115	26.547
<i>Subtotal</i>	125.072	145.617
<i>Time deposits</i>		
- in HRK	138.032	87.137
- in HRK, with a currency clause	79.208	64.041
- in foreign currency	10.527	4.195
<i>Subtotal</i>	227.767	155.373
Total companies	352.839	300.990
Individuals		
<i>Demand deposits</i>		
- in HRK	89.455	82.327
- in foreign currency	110.965	96.274
<i>Subtotal</i>	200.420	178.601
<i>Time deposits</i>		
- in HRK	82.909	61.325
- in HRK, with a currency clause	215.243	148.660
- in foreign currency	332.162	312.751
<i>Subtotal</i>	630.314	522.736
Total individuals	830.734	701.337
Total deposits	1.183.573	1.002.327

23. BORROWINGS

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
Repo loans from domestic banks and other legal entities	46.027	8.500
Short-term borrowings from domestic banks (money market)	30.013	48.279
CBRD loans	26.049	21.932
Borrowings from foreign banks	39.504	63.045
Other borrowings	-	8.000
Total	141.593	149.756

Repo loans from domestic banks and other legal entities relate to loans for which the Bank has pledged securities with the obligation to repurchase them on a certain future date (see Note 31). The loan received in 2004 pays interest at a rate from 2,7% up to 3,45% (2003; 9,5%).

Short-term borrowings from the money market represent funds obtained from domestic banks for liquidity purposes. Interest rates on those borrowings ranged from 2% to 7%.

The funds from the Croatian Bank for Reconstruction and Development (HBOR) are designated for approving loans to end users – corporate and retail customers – under the SMEs, tourist trade and agriculture incentive programmes supported by the CBRD, at an interest rate of 1% to 5% (2003: 2% to 5%).

Foreign bank borrowings comprise loan funds obtained from Adria Bank AG, Austria, LB Interfinanz, Switzerland and Banka Antoniana Padovana, Italy. These borrowings are repayable in instalments and the interest rate is Euribor+2% and 1,5% or LIBOR+2%. The borrowings are repayable in 2007.

24. PROVISIONS FOR LIABILITIES AND CHARGES

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
At 1 January	1.322	1.758
Charge for the year	(218)	(436)
At 31 December	1.104	1.322

25. OTHER LIABILITIES

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
Accrued fees and commissions	1.116	1.022
Dividends payable	140	135
Liabilities to employees	4.580	2.710
Other liabilities	17.980	8.846
Total	23.816	12.713

26. SHARE CAPITAL

<i>KN'000</i>	31 December 2004			31 December 2003		
	Ordinary shares	Preference shares	Total shares	Ordinary shares	Preference shares	Total shares
Authorised capital fully paid in	58.902	4.000	62.902	58.902	4.000	62.902
Nominal value per share	400 kn	400 kn	400 kn	400 kn	400 kn	400 kn
Number of shares	147.256	10.000	157.256	147.256	10.000	157.256

Preference shares are cumulative, non-voting and are entitled to a 7% fixed annual dividend. These shares are owned mostly by domestic individuals.

The major shareholders of the Bank at 31 December 2004 were as follows:

Ordinary share capital	%
Cerere S.R.L. Trieste	6,93
Antonia Gorgoni	9,98
Lorenzo Gorgoni	9,97
Đuro Predović	9,33
Miljan Todorović	8,73
Andrea Montinari	5,12
Piero Montinari	5,12
Sigilfredo Montinari	5,12
Dario Montinari	5,12
Giovanni Semeraro	4,39
Other shareholders (each less than 3%)	30,19
Total	100,00

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement for the year ended 31 December 2004 include:

<i>HRK'000</i>	Notes	31 DECEMBER	
		2004	2003
Cash in hand	11	37.221	36.737
Items in course of collection	11	4.275	3.807
Current accounts with domestic banks	11	2.745	2.114
Current accounts with foreign banks	11	43.235	22.732
Current accounts with the Croatian National Bank	11	68.320	50.985
Other cash reserves	11	1.279	1.137
Treasury bills issued by CNB	15	-	38.104
Placements with other banks up to 90 days	13	155.942	74.765
Total		313.017	230.381

28. COMMITMENTS AND CONTINGENCIES

The aggregate amounts of outstanding guarantees, letters of credit and undrawn commitments at the year-end were:

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
Guarantees	39.164	29.621
Letters of credit	10.262	9.001
Undrawn lending facilities	68.636	92.648
Total	118.062	131.270

29. COMMITMENTS FROM OPERATING LEASE ARRANGEMENTS

The following table indicates the Bank's contractual amounts relating to operating lease payables:

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
Commitments due within one year	5.033	2.818
Commitments due from one to five years	17.131	8.908
Commitments due in longer more than five years	11.012	5.960
Total	33.176	17.686

The Bank leases business premises and other assets under an operating lease arrangement. The lease payments are originally denominated in EUR. In accordance with IAS 39 – Financial instruments: Recognition and Measurement, such lease commitments should be accounted for as embedded derivatives. Since market rates for forward EUR currency agreements in excess of six months are currently not available in Croatia, the Bank is not able to calculate the fair value of the embedded option. Accordingly, gains and losses will be recognized in the income statement upon payment of the lease instalments.

30. CONCENTRATION OF ASSETS AND LIABILITIES

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

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
Current accounts with Croatian National Bank	68.320	50.985
Other cash reserves	1.279	1.137
Obligatory reserve with Croatian National Bank	160.432	140.179
Treasury bills of Croatian National Bank	-	38.104
Treasury bills of the Ministry of Finance	-	-
Bonds of the Republic of Croatia	88.335	8.716
Loans and advances to customers	-	-
Public debt due from the Republic of Croatia	4.584	13.707
Other assets	114	1.075
Demand deposits from customers	(21.292)	(41)
Total	301.772	253.862

In addition, at 31 December 2004 the Bank had indirect exposure to the Croatian State in respect to debt securities issued by public funds, loans and off balance sheet exposures as follows:

State Agency for Deposit Insurance and Bank Rehabilitation	(766)	-
Croatian Bank for Reconstruction and Development	7.949	-
Loans and advances to customers guaranteed by the State	1.982	2.360
Other assets	52	49
Guarantees, letters of credit and undrawn lending facilities	827	35.958
Time and demand deposits	(52.211)	(36.767)
Borrowings from the Croatian Bank for Reconstruction and Development	(26.049)	(21.847)
Other liabilities	-	(1.393)
Total	(68.216)	(21.640)

31. REPURCHASE AGREEMENTS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price, plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

At 31 December, assets sold under repurchase agreements were as follows:

2004	Fair value of underlying assets <i>KN'000</i>	Carrying amount of corresponding liabilities <i>KN'000</i>	Repurchase date <i>KN'000</i>	Repurchase price <i>KN'000</i>
Available-for-sale securities	48.585	46.978	5.-27. 1.2005.	48.252

2003	Fair value of underlying assets <i>KN'000</i>	Carrying amount of corresponding liabilities <i>KN'000</i>	Repurchase date <i>KN'000</i>	Repurchase price <i>KN'000</i>
Available-for-sale securities	8.710	8.500	5.1.2004.	8.711

32. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Bank manages significant amounts of assets on behalf of third parties and individuals, which are mainly in the form of mortgage loans given by companies to their employees through the Bank as an agent. Managed funds are accounted for separately from those of the Bank's assets. Income and expenses of these funds are for the account of the respective fund and in the normal course of business no liability falls on the Bank in connection with these transactions. The Bank is compensated for its services by fees chargeable to the funds.

Funds managed on behalf of third parties can be analysed as follows:

<i>HRK'000</i>	31 DECEMBER	
	2004	2003
Assets		
Loans to individuals	23.718	19.987
Loans to corporate customers	29.306	26.441
Cash	2.205	3.776
Total assets	55.229	50.204
Liabilities		
Public sector	19.107	14.256
Companies	28.458	28.386
Financial institutions	7.664	7.562
Total liabilities	55.229	50.204

33. MATURITY ANALYSIS

The remaining contractual maturity of the Bank's assets and liabilities is presented in the table below.

	Up to 1 month <i>KN'000</i>	1-3 months <i>KN'000</i>	3 months to 1 year <i>KN'000</i>	Over 1 year <i>KN'000</i>	Over 3 years <i>KN'000</i>	Total <i>KN'000</i>
31 December 2004						
Assets						
Cash and amounts due from banks	157.075	-	-	-	-	157.075
Obligatory reserve with Croatian National Bank	55.102	32.304	47.427	20.606	5.155	160.594
Placements with other banks	139.464	16.478	-	-	-	155.942
Available-for-sale financial assets	68.316	59.578	-	2	5.531	133.427
Originated loans and other financial assets originated by the Bank	97.780	70.550	226.364	224.169	268.314	887.177
Public debt due from the Republic of Croatia	4.697	-	-	-	-	4.697
Investments in subsidiary	-	-	2.939	-	-	2.939
Tangible assets	-	-	-	-	36.605	36.605
Intangible assets	-	-	-	-	7.620	7.620
Other assets	7.682	758	1.516	-	-	9.956
Total assets	530.116	179.668	278.246	244.777	323.225	1.556.032
Liabilities and shareholders' equity						
Deposits from banks	20.577	29.234	-	-	-	49.811
Amounts due to customers	411.642	231.732	374.152	124.291	41.756	1.183.573
Frozen deposits	712	-	-	-	-	712
Borrowings	76.211	355	14.750	35.889	14.388	141.593
Provisions for liabilities and charges	1.104	-	-	-	-	1.104
Other liabilities	15.490	2.527	4.101	-	1.698	23.816
Total shareholders' equity	-	-	280	-	155.143	155.423
Total liabilities and shareholders' equity	525.736	263.848	393.283	160.180	212.985	1.556.032
Net liquidity gap	4.380	(84.180)	(115.037)	84.597	110.240	-
31 december 2003						
Total assets	433.525	100.529	229.679	277.268	282.101	1.323.102
Total liabilities and shareholders' equity	483.540	209.914	297.221	125.476	206.951	1.323.102
Net liquidity gap	(50.015)	(109.385)	(67.542)	151.792	75.150	-

34. INTEREST RATE RISK

The Bank is exposed to the risk of changes on the market, which have implications on the Bank's financial position and cash flows. The table below shows the evaluation of the Management Board concerning the exposure of the Bank on 31 December 2004, which is not necessarily an indicator in the long-term. The table shows the sensitivity of the Bank's profit due to the fluctuation of interest rates. The profit also depends on currency structure and liabilities. The Bank has marketable assets which bring yield interest rates and on which interest denominated in foreign currency is paid.

31 DECEMBER 2004	Up to 1 month KN'000	1 to 3 months KN'000	3 months do 1 year KN'000	Over 1 year KN'000	Non-interest bearing KN'000	Total KN'000	Fixed rate KN'000
Assets							
Cash and amounts due from banks	20.803	-	-	-	136.272	157.075	20.803
Obligatory reserve with Croatian National Bank	54.941	32.304	47.426	25.761	162	160.594	-
Placements with other banks	139.463	16.479	-	-	-	155.942	155.753
Available-for-sale financial assets	55.963	60.655	-	-	16.809	133.427	114.592
Originated loans and other financial assets originated by the Bank	744.565	2.234	11.147	122.845	6.386	887.177	145.120
Public debt due from the Republic of Croatia	4.584	-	-	-	113	4.697	4.584
Investments in subsidiary	-	-	-	-	2.939	2.939	-
Tangible assets	-	-	-	-	36.605	36.605	-
Intangible assets	-	-	-	-	7.620	7.620	-
Other assets	-	-	-	-	9.956	9.956	-
Total assets	1.020.319	111.672	58.573	148.606	216.862	1.556.032	440.852

Total liabilities and shareholders' equity

Deposits from banks	20.575	29.233	-	-	3	49.811	49.726
Amounts due to customers	883.532	57.650	184.794	55.694	1.903	1.183.573	346.295
Frozen deposits	712	-	-	-	-	712	712
Borrowings	80.711	355	14.750	45.777	-	141.593	141.593
Provisions for liabilities and charges	-	-	-	-	1.104	1.104	-
Other liabilities	-	-	-	-	23.816	23.816	-
Total shareholders' equity	-	-	-	-	155.423	155.423	-
Total liabilities and shareholders' equity	985.530	87.238	199.544	101.471	182.249	1.556.032	538.326
Interest rate sensitivity gap	34.789	24.434	(140.971)	47.135	34.613	-	(97.474)

31 DECEMBER 2003	Up to 1 month KN'000	1 to 3 months KN'000	3 months do 1 year KN'000	Over 1 year KN'000	Non-interest bearing KN'000	Total KN'000	Fixed rate KN'000
Total assets	982.125	50.070	25.084	86.622	179.201	1.323.102	274.738
Total liabilities and shareholders' equity	889.894	65.780	95.813	113.401	158.214	1.323.102	374.140
Interest rate sensitivity gap	92.231	(15.710)	(70.729)	(26.779)	20.987	-	(99.402)

35. AVERAGE INTEREST RATES

Disclosed average interest rates represent average yield on financial instruments at the end of the reporting period.

	2004	Interest rate	2003	Interest rate
	<i>KN'000</i>	%	<i>KN'000</i>	%
Assets				
Cash and amounts due from banks	20.803	2,53	10.891	1,78
Obligatory reserve with Croatian National Bank	160.432	1,57	140.179	1,42
Placements with other banks	155.941	2,81	74.885	1,83
Available-for-sale financial assets	116.618	7,70	38.452	8,41
Treasury bills of Croatian National Bank	-	-	38.104	1,95
Bonds of the Republic of Croatia	45.692	5,24	-	-
Loans and advances to customers	835.099	10,65	827.683	10,27
Public debt due from the Republic of Croatia	4.584	5,00	13.707	5,00
Total assets	1.339.169		1.143.901	
Liabilities				
Deposits from banks	49.809	1,99	11.567	8,97
Demand deposits from customers	325.492	0,56	324.219	0,66
Time deposits from customers	856.178	4,42	677.365	4,71
Frozen deposits	712	5,00	2.183	5,00
Borrowings	141.593	3,80	149.554	5,59
Total liabilities	1.373.784		1.164.888	

36. FOREIGN EXCHANGE POSITION

The Bank had the following foreign exchange position at 31 December 2004 and 2003.

	EURO and constituent currencies	EURO linked	USD	Other currencies	Total foreign currencies	HRK	Total
31 DECEMBER 2004	<i>KN'000</i>	<i>KN'000</i>	<i>KN'000</i>	<i>KN'000</i>	<i>KN'000</i>	<i>KN'000</i>	<i>KN'000</i>
Assets							
Cash and amounts due from banks	50.077	-	10.291	9.200	69.568	87.507	157.075
Obligatory reserve with Croatian National Bank	33.774	-	7.825	-	41.599	118.995	160.594
Placements with other banks	96.005	4.776	-	4.971	105.752	50.190	155.942
Available-for-sale financial assets	12.725	33.613	-	-	46.338	87.089	133.427
Originated loans and other financial assets originated by the Bank	71.087	606.647	264	4	678.002	209.175	887.177
Public debt due from the Republic of Croatia	-	4.697	-	-	4.697	-	4.697
Investments in subsidiary	-	-	-	-	-	2.939	2.939
Tangible assets	-	-	-	-	-	36.605	36.605
Intangible assets	-	-	-	-	-	7.620	7.620
Other assets	290	299	-	1	590	9.366	9.956
Total assets	263.958	650.032	18.380	14.176	946.546	609.486	1.556.032
Total liabilities and shareholders' equity							
Deposits from banks	49.811	-	-	-	49.811	-	49.811
Amounts due to customers	443.074	294.502	21.567	12.248	771.391	412.182	1.183.573
Frozen deposits	600	-	9	103	712	-	712
Borrowings	85.531	21.545	-	-	107.076	34.517	141.593
Provisions for liabilities and charges	-	-	-	-	-	1.104	1.104
Other liabilities	223	-	18	21	262	23.554	23.816
Total shareholders' equity	-	-	-	-	-	155.423	155.423
Total liabilities and shareholders' equity	579.239	316.047	21.594	12.372	929.252	626.780	1.556.032
Net foreign exchange position	(315.281)	333.985	(3.214)	1.804	17.294	(17.294)	-

	EURO and constituent currencies	EURO linked	USD	Other currencies	Total foreign currencies	HRK	Total
31 DECEMBER 2003	<i>KN'000</i>	<i>KN'000</i>	<i>KN'000</i>	<i>KN'000</i>	<i>KN'000</i>	<i>KN'000</i>	<i>KN'000</i>
Total assets	273.079	437.450	15.941	15.689	742.159	580.943	1.323.102
Total liabilities and shareholders' equity	478.998	234.635	21.105	12.685	747.423	575.679	1.323.102
Net foreign exchange position	(205.919)	202.815	(5.164)	3.004	(5.264)	5.264	-

37. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Financial instruments available for sale are measured at fair value. Originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment. The Management believes that the carrying value of these instruments is not significantly different from their fair value.

38. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties at 31 December 2004 included Brokeri 21 d.o.o., a subsidiary company which is in liquidation and in 100% ownership by the Bank.

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

At 31 December 2004, deposits from Brokeri 21 d.o.o. in liquidation amounted to HRK 2,012 thousand (2003.; 1.910 thousand) and other liabilities amounted to HRK 655 thousand (2003.; 687 thousand).



Bank organization I



Governance and management



The Bank's operations are controlled by the Supervisory Board and the Management Board. The officers of the Bank serving during the 2004 year, were as follows:

Supervisory Board

Sigilfredo Montinari, President
Miljan Todorović, Vice President
Dario Montinari, Member
Đuro Predović, Member
Dolly Predović, Member

Management Board

Mr. Julio Kuruc, President of the Management Board
Marijan Marušić, Management Board Member

Management of the Bank

Julio Kuruc
 Marijan Marušić

< Organizational
 chart of the Bank

Chief Executive Officer

Moreno Marson

Division

Commercial Division - Sanda Fuček Šanjić
 Treasury Division - Snježana Pobi
 Risk Management Division - Božica Širić
 Accounting Division - Vesna Laloš
 Information Technology Division - Dragomir Perica

Departments

Internal Auditing Department, Seretin Biserka
 IT Security Department, Trpčić Ivan
 Administration and Human Resources Department, Kovačević Božana
 Coordination and Organization Department, Posavec Nina
 Legal Department, Grošić Krunoslav

Commercial centers

Commercial center Koprivnica
 Commercial center Bjelovar
 Commercial center Zagreb
 Commercial center Rijeka
 Commercial center Split
 Commercial center Zadar
 Commercial center Varaždin



Commercial center Zagreb

Zagreb, Miramarska cesta 23, tel. 01 6323 800

Zagreb, Gajeva 5, tel. 01 4811 217

Zagreb, Vlaška ulica 129, tel. 01 4686 920

Zagreb, Shopping centar Prečko Slavenskog 1, tel. 01 3886 778

Donji Stupnik /"Mercatone-Emmezeta", Gospodarska bb, tel. 01 6531 830

Dugo Selo, J. Zorića 23, tel. 01 2754 210

Commercial center Split

Split, Obala Ante Trumbića 2, tel. 021 345 366

Kaštel Sućurac /TC Mercatone, Brižine bb, tel. 021 246 670

Commercial center Rijeka

Rijeka, Riva 6, tel. 051 324 570

Crikvenica, Vinodolska 6, tel. 051 242 322

Viškovo, Viškovo 88, tel. 051 504 190

FINA Opatija, Maršala Tita 87, tel. 051 272 238

FINA Poreč, V. Nazora 2, tel. 052 451 040

Commercial center Zadar

Zadar, S. Radića 2f, tel. 023 306 001

Commercial center Bjelovar

Bjelovar, Trg Eugena Kvaternika 12, tel. 043 220 840

Grubišno Polje, 77. samostalnog bataljuna ZNG 1, tel. 043 485 120

Veliki Grđevac, Kralja Tomislava 26, tel. 043 461 032

Osijek / TC Emmezeta, Svilajska 36, tel. 031 378 930

Đurđevac, Stjepana Radića 16, tel. 048 289 080

Garešnica, Trg hrvatskih branitelja 7, tel. 043 445 123

Križevci, I. Z. Dijankovečkog 2, tel. 048 279 270

FINA Virovitica, Kralja Tomislava 3, tel. 033 726 133

Commercial center Varaždin

Varaždin, Trg Slobode 2, tel. 042 215 280

Ludbreg, Petra Zrinskog 32, tel. 042 811 500

FINA Čakovec, O. Keršovanija 7, tel. 040 371 041

Commercial center Koprivnica

Koprivnica, Opatička 3, tel. 048 655 242

Koprivnica, Trg bana Jelačića 10, tel. 048 622 731

Koprivnica, Trg Eugena Kumičića 11, tel. 048 240 400

Koprivnica, Ivana Meštrovića bb, tel. 048 655 133

Koprivnica, Ante Starčevića 32, tel. 048 621 074

Gola, Trg kardinala A. Stepinca 6b, tel. 048 833 013

Đelekovec, P. Kvakana bb, tel. 048 834 009

Novigrad Podravski, Trg M. Gupca bb, tel. 048 832 030

Legrad, Trg Svetog Trojstva bb, tel. 048 835 151

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