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Introduction

he Annual Report comprises a summary of financial information, a business description of the Bank, as well as the audited financial statements for the years ended 31 December 2004, together with the independent auditor's report, published both in Croatian and English languages.

Legal Status

The Annual Report comprises the annual financial statements prepared in accordance with International Financial Reporting Standards and audited in accordance with International Standards on Auditing.

The Annual Report has been prepared in accordance with Section 30 of the Accounting Act and Section 276 of the Companies Act, which require that the Management Board report to the shareholders at the Annual General Meeting.

Abbreviations

In this Annual Report Hrvatska poštanska banka d.d. is referred to as «the Bank» or «the HPB», Croatian National Bank is referred to as «the CNB», and Croatian Bank for Reconstruction and Development is referred to as «the CBRD».

Exchange Rates

The following mid exchange rate rulings of the CNB have been used to translate the balances linked to foreign currency at the following dates:

31 December 2004 EUR 1 = HRK 7.671234

USD 1 = HRK 5.636883

31 December 2003 EUR 1 = HRK 7.646909

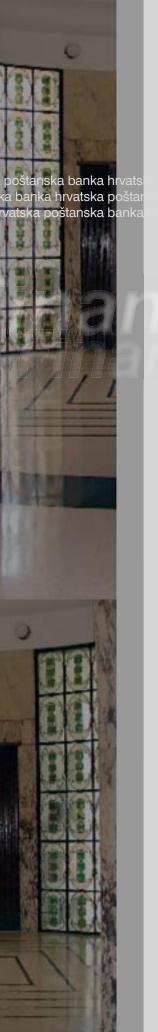
USD 1 = HRK 6.118506

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Summaries and Basic Financial Indicators in HRK mil.

	2004	2003	2002	2001
Basic indicators				
Net profit for the year	59	84	71	8
Total assets	5,547	5,417	5,541	2,715
Loans to clients	2,574	2,436	2,036	1,337
Deposits of clients	4,365	4,369	4,611	1,990
Equity and reserves	649	590	506	435
Other indicators				
Return on equity	10.06%	14.43%	12.16%	1.34%
Return on assets	1.06%	1.56%	1.28%	0.29%
Cost income ratio	48.01%	51.35%	43.26%	85.39%
Liable capital	619	535	465	444
Capital adequacy ratio	24.32%	25.65%	22.58%	38.44%

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Report of the President of the Management Board



am pleased to present to you, on behalf of the Management Board of Hrvatska poštanska banka, the business results for the year 2004, as well as the business plans for the following year.

The end of 2004 was marked by the finalization of the business consolidation process of Hrvatska poštanska banka, during which most of the Bank's operations were focused on stabilizing the operations and retaining the Bank's existing position on the Croatian banking market.

In the previous year, the Bank achieved net profit in the amount of HRK 58.8 million, and the balance sheet increased 2.4 per cent, having reached HRK 5.5 billion. Return on Equity was 10.06 per cent, Return on Assets 1.06 per cent, and the Cost-Income Ratio was 48.01 per cent.

The total loan portfolio in the amount of HRK 2.6 billion represents a rise of 5.6 per cent.

Total deposits amounted to HRK 4.4 billion, with an 11 per cent rise of retail deposits, and an 8 per cent decrease in corporate deposits. Retail term deposits rose by 27.8 per cent and amounted to HRK 520 million, out of which HRK 285 million were foreigncurrency denominated, which had a positive effect on the maturity and currency structures of the balance sheet in favor of long-term and foreign-currency sources of funds.

The previous year was marked by continued well-established cooperation between the Bank and the Croatian Bank for Reconstruction and Development in financing the tourist trade and agricultural sectors, as well as the SMEs.

In addition, Hrvatska poštanska banka enhanced the access to its customers, by expanding its business and ATM networks and introducing new products and services. Namely, the Bank expanded its business network through opening of a new branch in Varaždin, and a representative office in Vinkovci, having become, in addition to the existing direct sales channels of over 1200 post offices, the branches in Zagreb and in Split, more accessible to its customers. Apart from that, 34 additional ATMs were installed, so that now the Bank has 114 ATMs in total.

In addition to the already developed bank card products (MasterCard charge and Maestro), the MasterCard revolving card was issued and the prerequisites were created for issuing and accepting all Visa type cards.

Apart from all the efforts mentioned above, new Management Board of Hrvatska poštanska banka was appointed in late 2004, marking, thus, a turn in the Bank's operations in terms of setting more ambitious business targets.

Namely, the strategic orientation of our development has been focused on improving significantly the business relations with the Croatian Post, by expanding direct sales channels through the ATM network and EFT POS devices, and developing own business network. The business network development in the cooperation with the Croatian Post is the result of our desire to ensure our overall territorial presence, from the large regional centres to the smallest places throughout the country. Our intention is to offer lines

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of products and services that would meet the needs of our customers in the entire territory of the Republic of Croatia.

This year, our priority is introducing a wide range of new, attractive products intended for our retail customers. Also, we would like to additionally develop the cash market products through securities trading and investment banking. We will place a special emphasis on designing our offer of financial operations, tailored to the specific needs and requirements of small and mediumsized enterprises, with whom we wish to establish ourselves as a reliable partner in business.

The development priorities of Hrvatska poštanska banka comprise organizational and staff restructuring, a continuous improvement of our internal controls system, and the implementation of a new information system with the aim to improve the client service quality and increase our operational efficiency.

Being aware that only together with our staff we will be able to attain the set targets and establish ourselves as an efficient and reliable bank in relation to our business partners, the improvement of their knowhow and skills is another key task of the Management Board in 2005.

We wish to make Hrvatska poštanska banka a distinguished player on the Croatian banking market. We intend to achieve this by tending to the needs of our shareholders and business partners in a systematic way and by assuming an active approach to our customers, for whom we will create a comfortable business environment through flexible products and services that will efficiently fit their needs in accordance with the best banking practice.

Finally, I would like to thank our customers and business partners for their trust, loyalty and professional conduct. I wish to extend special thanks to our shareholders and all members of the Supervisory Board for their confidence.

Josip Protega

President of the Management Board

15 March 2005

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Description of the Business Operations of the Bank

rvatska poštanska banka d.d., Zagreb (the "Bank") is founded and registered as a company limited by shares under current legislation and is licensed to conduct commercial banking activities in the Republic of Croatia. The head office of the Bank is situated in Zagreb, Jurišićeva 4. As at 31 December 2004, the Bank was operating a total of 3 branches in Zagreb, Split and Varaždin.

The main activities of the Bank are offering of various types of deposits and loans to legal entities and individuals in local and foreign currencies, domestic and foreign clearing payment operations, issuing of guarantees, sureties and other types of guarantees, buying and selling of local and foreign currencies and securities and other banking services.

Through the network of own branches and post offices, Hrvatska poštanska banka d.d. has been recognized as a dominant financial service provider for retail customers in the whole territory of the Republic of Croatia, as well as a supporter to the Croatian economy, especially in the SME sector. In the total Bank's customer base, over 7 thousand are legal entities and more than 1 million are individuals.

As a domestic bank, the HPB is among the leading banks in Croatia, both by the total assets of HRK 5.5 billion and by its share equity, which place it on the eight position among 37 banks in total.

According to effective Payment System Law, Croatian Post d.d. Zagreb is authorized to conduct cash payment transactions on behalf of Hrvatska poštanska banka d.d. what positions it as a participant in a cash payment system (see Note 5).

The shareholders' structure is as follows:

	31 December 2004		31 December 2003		
_	Paid capital HRK '000	Ownership %	Paid capital HRK '000	Ownership %	
Croatian Privatization Fund	216,354	37.00	216,349	37.00	
Croatian Post	196,231	33.56	196,231	33.56	
Croatian Pension Fund	163,811	28.01	163,811	28.01	
Other	8,384	1.43	8,389	1.43	
Total	584,780	100.00	584,780	100.00	

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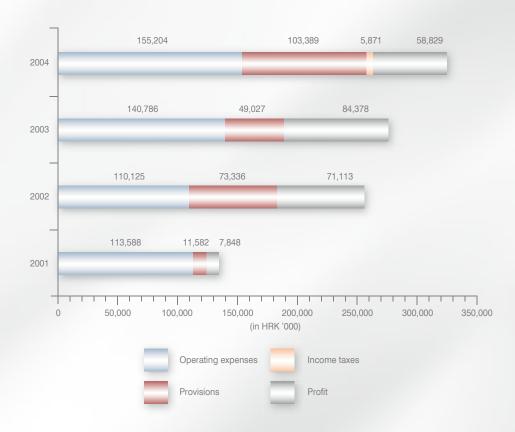


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Operational income consists mostly of income from banking services provided in Croatia. The Bank considers that its business consists of a single business segment, banking and related services.

The 2004 operational income figure amounts to HRK 323.3 million. In the total structure, operating expenses (48 per cent) account for the major share, followed by provisions (32 per cent). Operating expenses are 10 per cent higher compared to the previous year's figure, whereas the provisions for identified, unidentified losses and other charges for 2004 doubled versus the 2003 figure. By applying a more conservative policy of managing credit risks, the Bank will reduce the level of provisions in the following period.

Distribution of operational income



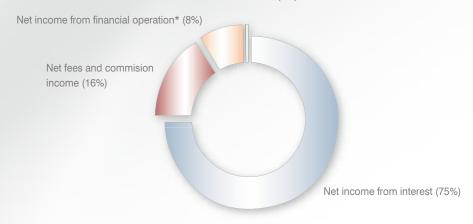


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Total operational income is 17.9 per cent higher than in 2003. Net interest income, accounting for 75.7 per cent of total income, which rose by HRK 57.7 million compared to 2003, represents the most significant portion.

Operational income structure for the period 01.01.2004 - 31.12.2004

Other income (1%)



* The item includes net income from exchange differences, dividens and net income from trading



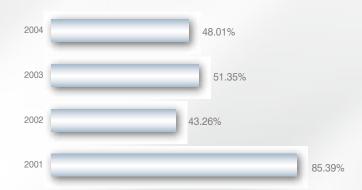
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Net profit for 2004 amounts to HRK 58.8 million, representing a decrease of HRK 25.5 million compared to the 2003 figure.



The cost/income ratio was 48.01 per cent in 2004, and is significantly lower than the ratios reported by other banks in the Republic of Croatia.



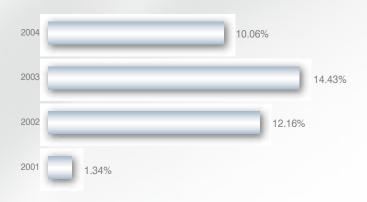




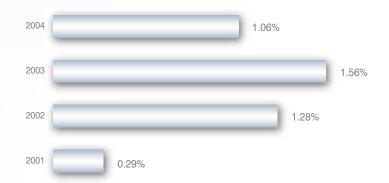
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The following figures illustrate the movements in Return on Equity (ROE) and Return on Assets (ROA) for the period 2001 to 2004.

Return on equity (ROE)



Return on assets (ROA)

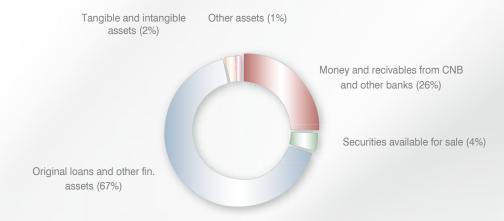




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At the end of 2004, the total assets of the Bank amounted to HRK 5,547 million, representing an increase of HRK 130 million, or 2.4 per cent compared to the previous year. Originated loans and other financial assets represent the most significant portion, or 67 per cent, of the total assets structure, followed by cash and amounts due from the CNB and other banks, which represent 26 per cent of the total figure.

Assets structure on 31.12.2004



As at 31 December 2004 total loans amounted to HRK 2,574 million, which represents an increase of 5.6 per cent compared to 2003. In the total loan structure, corporate loans and loans to government units account for 80 per cent, and retail loans for 20 per cent. The Bank's activities in the following years will be focused on further growth of the retail loan portfolio so as to increase its share in the total assets structure.

Structure and movement of net loans

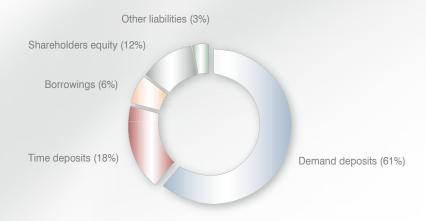




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With a share of 61 per cent, demand deposit represent the biggest portion of the total liabilities, followed by term deposit, which account for 18 per cent.

Structure of liabilities on 31.12.2004



At the end of 2004, bank and customer deposits were at the 2003 level, with demand deposits (77 per cent) prevailing in relation to the term deposits (23 per cent). In the area of deposits, the Bank will intensify its activities to increase the overall deposit base and improve both the maturity and currency structures of term deposits in favour of long-term and foreign currency deposits.

Structure and movement of deposits



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Retail Business

R

etail operations, involving over 1 million accounts opened with the CNB, are carried out through the

Bank's business network and more than 1 200 post offices, arranged so as to cover the entire territory of the Republic of Croatia. In order to make its products and services more fit to customer needs, the Bank opened a branch in Varaždin and a representative office in Vinkovci, that now operate along with the existing branch in Zagreb and a subsidiary in Split.

The HPB continued to expand other sales channels, specifically in the area of credit card operations, by installing 34 new ATMs (the Bank currently has 114 ATMs) and having negotiated the use of 356 EFT POS terminals at the Financial Agency. In addition to cash disbursement, this enables the Bank's customers to deposit cash or to perform non-cash payment transactions.

In the area of card business efforts are continuing to create the prerequisites for an accelerated development of this business segment. In addition to the existing options of issuing and accepting all types of MasterCards, the Bank has become a principal member of VISA International, which has created the basis for issuing and receiving all types of VISA cards.

The Bank is still focused on introducing new and improving its existing products and services, whereat it is important to emphasise the implementation of the Call Centre which facilitates the Bank's retail customers quick access to the information on all significant products in this business segment.

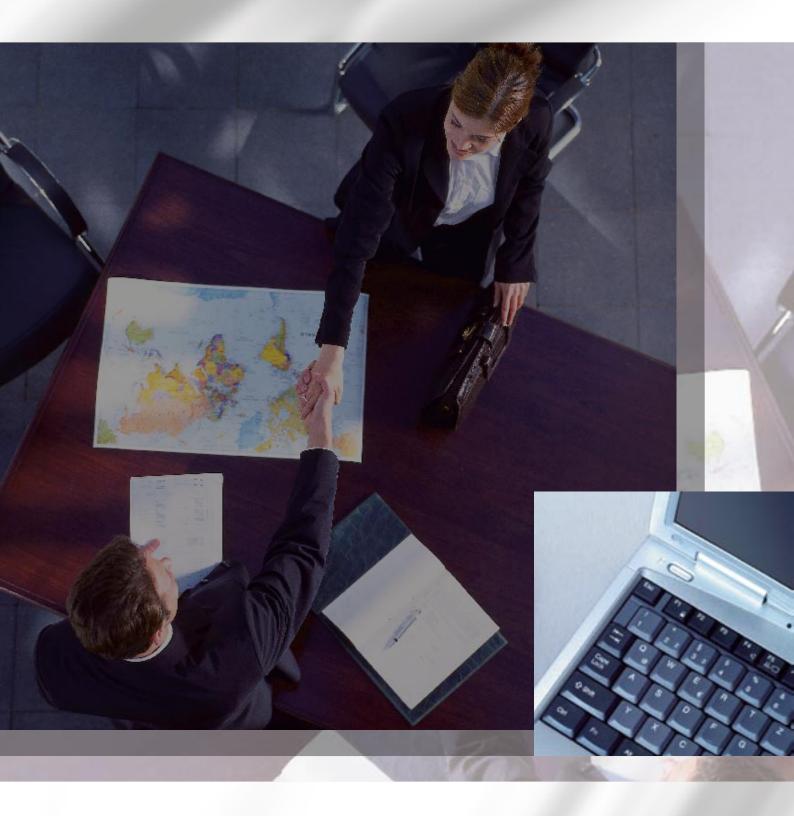
As far as the total deposit structure is concerned, retail deposits in the amount of HRK 1.79 billion at 31 December 2004 account for 41 per cent, which represents an increase of 11 per cent in the year 2004. Out of this amount, HRK 1.27 billion are in respect of demand deposits, which rose 5 per cent, and HRK 520 million in respect of term deposits, which increased 28 per cent during 2004. Such a higher increase in term deposits is the effect of the interest rate policy applied by the Bank, which stimulates long-term savings, as well as foreign currency savings.

In 2004 the Bank continued to enhance its lending activities, and approved 9,037 loans to individuals in a total amount of HRK 152 million. The gross loan portfolio increased 20 per cent and amounted to HRK 562 million at 31 December 2004. Non-designated cash credits account for 58 per cent of the total retail loans, whereas overdraft facilities on individuals' accounts represent 31 per cent of the total retail loans.

Cash payment transactions, exchange operations, carried out via post offices, and agency business with the Ministry of Croatian Homeland War Veterans and the Ministry of Agriculture as business partners represented a significant segment of operations in the Retail Business.

Over 4 000 loans were approved out of the funds provided by the Ministries, with a total balance in the amount of HRK 327 million at 31 December 2004.

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Corporate Business

he principal efforts in the corporate business were focused on financing the current manufacturing demands and the working capital of enterprises mostly from the sectors of tourist trade, agriculture, exports but also of other companies.

The opening of the Varaždin branch and the representative office in Vinkovci will facilitate the Bank's efforts to make its products more available to its corporate customers, as well.

During 2004, the Bank played, along with other banks, an active role in providing loans to large public enterprises and funds, which are guaranteed by the State. The Bank continued to provide its lending products to the SME customers operating in tourist trade in accordance with the Government's program "Incentives for Success".

The gross corporate loan portfolio in 2004 rose by 6.4 per cent, and amounts to HRK 2,264 million, with short-term loans denominated in domestic currency accounting for the major part of corporate loans.

Most of long-term loans were approved out of the CBRD funds allocated in accordance with the CBRD programs. During 2004 a total of HRK 136 million were placed out of those funds. The primary purposes of those loans were financial restructuring, purchase of equipment and fixed assets for the construction of accommodation facilities in the tourist trade sector, as well as for exports.

In 2004 the Bank enhanced its activities in the agency business, and acted on behalf of 17 principals. The loan portfolio within the agency business amounted to HRK 269 million at 31 December 2004, and the loans were used by 1 326 customers.

Total corporate deposits at 31 December 2004 amounted to HRK 2,530 million, representing a decline of 8 per cent compared to the previous year. The decline is a result of a significant withdrawal of government unit deposits in December.

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Treasury Operations

he Treasury was successful in reaching its primary objective, which was managing the Bank's liquidity, by maintaining an optimum level of liquidity reserves in both domestic and foreign currencies. The advanced technological model of centralized liquidity management, along with the improved liquidity management risk methods, by implementing new internal regulations, has facilitated the monitoring of cash flows.

Through its Treasury, the Bank actively participated on the money market. Surplus of liquid funds was placed as short-term borrowings to other banks (comprising 672 transactions with domestic banks and 1 036 transactions with foreign banks), as well as investments in short-term securities on the primary and secondary markets. During 2004 the Bank was among the leading three financial institutions by volume of subscribed treasury bills issued by the Croatian Ministry of Finance, in the total amount of HRK 827 million at 31 December 2004.

During 2004 the Bank also increased its portfolio of government and corporate bonds issued in the Republic of Croatia. The role of the Bank as agent in issuing of the bonds of the Ministry of Finance of the Republic of Croatia that mature in 2014 and 2019 deserves to be emphasized.

Foreign currency operations on behalf of the Bank and its customers, as well as foreign currency dealings made up a significant share of the Treasury operations, along with the receipt of all types of deposits from the Bank's corporate customers.

The Custody Department, operating within the Treasury, continued to invest its efforts in improving the role of the Bank as a custodian of mandatory and voluntary pension funds, as well as open-end investment funds.

Of other Treasury activities, one should emphasise its active participation in the preparations for brokerage operations, improvement of its securities investment policy, and fair value estimates of securities. ka poštanska banka hrvatska poštanska banka hrvatska poštanska banka hrvatska poštanska hrvatska poštanska banka hrvatska Iska banka hrvatska postanska banka hrvatska poštanska banka hrvatska poštanska hrvatska poštanska banka hrvatska poštanska hrvatska poštanska banka h





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Risk Management and Internal Controls System

Risk management

The readiness of the Bank to assume risks in its day-to-day operations is a prerequisite for achieving positive financial results. Risk Management function in Hrvatska poštanska banka comprises risk assessment and risk exposure measurement, the quantification of the Bank's readiness to assume risks through a system of limits, reporting and monitoring limit compliance, along with the corrective measures taken with the aim to bring positions within the prescribed limits.

The strategic guidelines in risk management and the definition of risk levels the Bank is ready to accommodate are carried out by the corresponding steps taken by the Management Board, the Credit Committee and the Assets and Liabilities Management Committee.

The Risk Management Division is in charge of making independent assessments and measuring risk exposures, which serve as a basis for quantifying the readiness of the Bank to assume risks through a system of limits. The business divisions of the Bank implement the decisions issued by bodies competent for risk management and maintain positions within the prescribed limits.

In order to achieve positive operating results, the Bank manages its credit risk, market risk and structural risks (comprising the liquidity risk and the interest rate risk in the non-trading portfolio of the balance sheet), which gives rise to exposure to operational risk.

Credit risk

Credit risk is a risk of potential losses that may be incurred to the Bank in the event that a counterparty does not meet its contractual obligations. The Bank estimates the expected recoverable amounts, or potential losses for each individual loan prior to any approval, as well as through the entire period of business relationship with a counterparty. In managing credit risk, the Bank applies a conservative approach, which is characterised by strict adherence to laws and regulations, provisions for potential loan losses, as well as by maintaining the capital adequacy above the legal minimum of 10 per cent.

Market risk

Market risk is a risk of potential losses as a result of changes in market conditions (fluctuations in interest rates, exchange rates, share prices, and similar). Market risk exposure arises on those positions that are carried at fair (market) values, which include trading financial assets, financial assets available for sale, and the foreign currency position. In managing market risks, the Bank acts in full compliance with the legal provisions and decisions issued by the Croatian National Bank. The Bank develops a system of managing market risks that is based on the value at risk principle, that is, it presents its market risk exposures through potential losses (over an established timeframe and with a certain level of statistic reliability).





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Management

Structural risk of the Bank's balance sheet

Structural risk is a risk of potential losses for the Bank as a result of mismatching of maturities of assets and liabilities – the (structural) liquidity risk – or mismatching of repricing dates of individual items of assets and liabilities – interest rate risk in the non-trading portfolio of the Bank's balance sheet.

Managing liquidity risk is based on maintaining adequate levels of liquidity reserves, compliance with the structural limits and prescribed actions in the event of liquidity crisis.

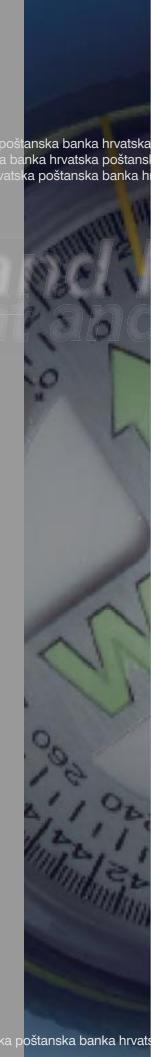
In managing interest rate risk, the HPB defines its target exposure by reference to the sensitivity of net interest income (i.e. from the earnings perspective) and the sensitivity of the economic value of capital (i.e. from the economic value perspective). The Bank develops an interest rate risk management system for the non-trading part of its balance sheet.

Operational risk

Operational risk is a risk of potential losses that may be incurred to the Bank as a result of human error, inappropriate (insufficiently defined) processes and procedures, information systems failure, or as a result of external influences. The Bank builds its operational risk management system in line with the New Basel Accord ("Basel II"), governing the capital adequacy of banks. This system rests on collecting information on losses caused by operational risks (classified by business line and type of event) and on periodical control risk self-assessment.

Future steps in the development of the risk management function

The future steps in developing the risk management function are linked with the efforts to reach compliance with the guidelines provided by the New Basel Accord. The Bank will establish such a risk management function that will enable the Bank's overall risk exposure to be in accordance with the available capital. To this end, the Bank will establish economic capital (the minimum capital availability), as well as determine the overall potential losses (over a defined timeframe and with a certain level of statistic reliability) that may be incurred as a result of risk exposure.





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Internal Controls System

The internal controls system of the Bank is based on the following four principles:

- · Clear lines of responsibility
- · Segregation of duties
- Built-in control procedures
- · Effective internal audit

The fundaments of the internal controls system are incorporated in the Bank's bylaws. Control is a task of all the Bank's staff, whereas the Bank's management is responsible for their implementation.

An efficient application of the internal controls system protects the Bank from all the risk it is exposed to and enables an early-warning system, by providing timely information on any increased exposure to a certain risk.

Accordingly, the internal audit function prepares an annual audit plan, with the aim to assess the types and intensity of risks assumed by the Bank in the course of its day-to-day operations.

All the business areas and functions of the Bank are covered by the audit programme, and the audits are carried out on the basis of quarterly plans. The Internal Audit is independent in developing its plans and proposing action plans, which are carried out once they are approved by the Management Board.

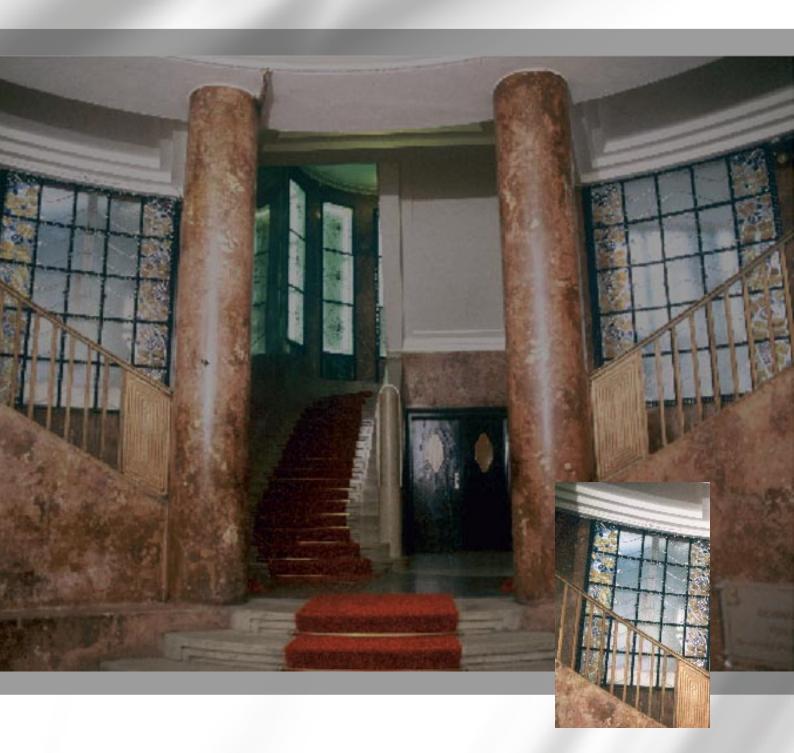
The Bank has well-established antilaundering procedures, which have been developed in accordance with the applicable legal provisions and procedures adopted by the Bank's Management Board. The Bank has appointed a person responsible for prevention of money laundering.

The prevention system consists of the following:

- Identification of transactions at the Bank's access points
- · Identification of customers
- Relevant deeds of title of the Bank's customers
- Timely reporting to authorized person
- Exchange of information with the Croatian State Antilaundering Department
- Timely distribution of indications of any money laundering and of lists of persons suspected of participating in financing terrorism and trafficking
- Education in the current antilaundering issues and monitoring of the application of the implemented procedures

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Management and Governance of the Bank

In accordance with the Companies Act and the Bank's statute, the bodies of the HBP are the Supervisory Board and the Management Board.

Supervisory Board

The Supervisory Board supervises the activities of the Bank's Management Board. The Supervisory Board consists of seven members, who are elected by the General Assembly by simple majority of vote. The Supervisory Board members have a four-year mandate and may be re-elected.

The Supervisory Board makes decisions by majority of total votes, with each member having one vote.

The Supervisory Board submits to the General Assembly a written report on the supervision of management, with a specific reference to the compliance of the Bank with applicable laws, the Bank's by-laws and decisions of the General Assembly, the

compliance of the financial statements with the business records of the Bank, as well as whether they present fairly the assets and the operations of the Bank. In addition, the report contains the view of the Supervisory Board regarding the distribution of profits and coverage of losses proposed by the Bank's Management Board.

According to the law, the Supervisory Board members are entitled to a fee for their work, which is disbursed to them in the amount determined by the Bank's General Assembly by means of a decision for the business year in which the fees will be paid.

The President of the General Assembly is Mr. Vlado Bujanić.

In 2004, the members of the Supervisory Board were:

Ante Žigman, M.Sc., President	From 13 April 2004
Prof. Dragan Kovačević, D.Sc., Vice President	From 13 April 2004
Zoran Bubaš, Member	
Branko Jakušić, Member	
Grga Ivezić, M.Sc., Member	From 13 April 2004
Vera Babić, Member	From 13 April 2004
Ass. Prof. Drago Jakovčević, D.Sc., Member	From 13 April 2004
Prof. Mato Crkvenac, D.Sc., President	Until 13 April 2004
Božidar Pankretić, M.Sc., Member	Until 13 April 2004
Mario Švigir, Member	Until 13 April 2004
Srećko Vuković, Member	Until 13 April 2004
Žarko Primorac, D.Sc., Member	Until 13 April 2004



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Management Board

The Management Board is responsible for successful operations of the Bank and decides by majority of vote. In the event of split vote, the deciding vote is the vote of the President of the Management Board, who also has the right to veto the majority decision.

The Management Board represents the Bank, with both the duty and authority to take all actions to represent the Bank before the court and other authorities.

The persons who are proposed for the President and members of the Management Board should meet all the criteria prescribed by law and other applicable regulations. For each appointment of the President and members of the Management Board, the Supervisory Board has the obligation to seek prior consent of the Croatian National Bank. The members of the Management Board are appointed by the Supervisory Board for a five-year mandate, with the possibility of reappointment.

The members of the Bank's Management Board in 2004 were as follows:

Josip Protega, President Ivan Sladonja, Member Josip Slade, President Slavko Durmiš, Member Anđelka Čavlek, Member From 18 November 2004 From 18 November 2004 Until 18 November 2004 Until 18 November 2004 Until 18 November 2004

Managers of organizational units directly reporting to the Management Board:

Marija Prskalo, Corporate Operations
Mato Filipović, Retail Operations
Mihovil Šodan, Split Branch
Tatjana Rudeš, Treasury
Zoran Sikora, Risk Management
Zlatko Držanić, Accounting and Financial Controls
Mladen Šunjić, Legal, Human Resources and General Affairs
Bojan Rebselj, Information Technology
Danica Šulentić, Operations Support
Miroslav Marić, Internal Audit Department



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Responsibility for the financial statements

ursuant to the Croatian
Accounting Law ("National
Gazette" 90/92), the
Management Board is
responsible for ensuring that financial
statements are prepared for each financial
year in accordance with International
Financial Reporting Standards (IFRS) as
published by the International Accounting
Standards Board (IASB) which give a true
and fair view of the state of affairs and
results of the Bank for that period.

After making enquiries, the Board has a reasonable expectation that the Bank have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements. In preparing those financial statements, the responsibilities of the Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;

- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with the Croatian Accounting Law ("National Gazette" 90/92). The Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Board

Josip Protega Hrvatska poštanska banka d.d. Jurišićeva 4 10000 Zagreb Republic of Croatia 28 February 2005



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Deloitte. Independent auditors' report To the Shareholders of Hrvetska postarska banka rl.d., Zagreb: We have audited the accompanying balance sheet of Havinaka postansia banka d.d., Zegrob ("the Bank") as of 34 December 2004 and 2000 seek the related statements of income, changes in equity and cash flows for the years then ended. Those Engelor statements are responsibility of the Swe's management. Our responsibility is to express an opinion on these financial statements based on our audit Basis of opinion We condusted our and to in apportunes with international Standards on Auditing. Those standards require that we plan and perform the audit to obtain reuserable resserves about whether the financial statements and loco of material misstatument. An audit includes examining, on a tool looks, ovidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant certificities made by managements, as well as everlating the overall financial statement proximitation. We believe that by audits provide a resecrable basis for our coinsen In our spinon the financial statements give a true and fair view of the financial position of the Bank as of \$1 December 2004 and 2003 and of the results of its operations, each flows, and changes in repolly for ther years then ended in accordance or th International Financial Reporting Stancause. Zigot. 28 February 2005 Audit.Tax.Consulting.Financial Advisory.



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Income statement

For the years ended 31 December 2004 and 2003

	Note	2004 HRK'000	2003 HRK'000
Interest income	2	224 600	055.000
		324,690	255,220
Interest expense	3	(79,852)	(68,071)
Net interest income		244,838	187,149
Fees and commission income	4	584,979	612,984
Fees and commission expense	5	(534,007)	(565,599)
Net fees and commission income		50,972	47,385
Net profit on financial operations	6	25,712	27,111
Other income	7	1,771	12,546
Operating income		27,483	39,657
General and administrative expenses	8	(138,027)	(126,758)
Depreciation and amortisation	17	(17,177)	(14,028)
Operating expense		(155,204)	(140,786)
PROFIT BEFORE PROVISIONS FOR LOAN AND INVESTMENT LOSSES AND INCOME TAXES		168,089	133,405
Provision for impairment of loans, securities and other assets	14,15,16	(96,546)	(50,219)
Provision for obligations	21	(6,843)	1,192
PROFIT BEFORE INCOME TAXES		64,700	84,378
INCOME TAXES	9	(5,871)	
NET PROFIT FOR THE YEAR		58,829	84,378

Signed on behalf of Hrvatska poštanska banka d.d. on 28 February 2005:

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President of the Management Board Member of the Management Board

Ivan Sladonja



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Balance sheet

As at 31 December 2004 and 2003

	Note	2004 HRK'000	2003 HRK'000
ASSETS			
Cash and accounts with other banks	10	531,402	740,568
Due from the Croatian National Bank	11	512,317	363,112
Placements with banks	12	378,125	363,043
Trading securities	13	103,624	81,760
Securities available for sale	14	103,624	103,203
Originated loans to customers and other financial assets, net	15	3,716,684	3,554,580
Other assets, net	16	74,735	86,711
Tangible and intangible fixed assets	17	129,289	124,362
TOTAL ASSETS		5,547,321	5,417,339
LIABILITIES			
Due to banks		46,937	271
Demand deposits from customers	18	3,335,572	3,311,688
Term deposits from customers	19	982,710	1,055,915
Borrowings	20	349,924	241,643
Other liabilities	21	183,162	217,635
Total liabilities		4,898,305	4,827,152
SHAREHOLDERS' EQUITY			
Share capital	22	584,780	584,780
Own shares		(874)	(874)
Reserves and retained profit/(deficit)		6,281	(78,097)
Net income for the year		58,829	84,378
Total shareholders' equity		649,016	590,187
TOTAL LIABILITIES AND TOTAL SHAREHOLDERS' EQUITY		5,547,321	5,417,339

Signed on behalf of Hrvatska poštanska banka d.d. on 28 February 2005:

President of the Management Board Member of the Management Board



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Statement of Changes in Shareholder's Equity

For the years ended 31 December 2004 and 2003

HRK'000	Share capital	Own shares	Reserves and Retained profit / (deficit)	Net income for the year	Total
Balance as at 31 December 2002	584,780	(874)	(149,210)	71,113	505,809
Transfer to reserves	-	-	71,113	(71,113)	
Net profit for the year	-	-	-	84,378	84,378
Balance as at 31 December 2003	584,780	(874)	(78,097)	84,378	590,187
Transfer to reserves			84,378	(84,378)	
Net profit for the year				58,829	58,829
Balance as at 31 December 2004	584,780	(874)	6,281	58,829	649,016

Signed on behalf of Hrvatska poštanska banka d.d. on 28 February 2005:

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President of the Management Board

Josip Protega

Ivan Sladonja

Member of the Management Board



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Statement of Cash Flows

For the years ended 31 December 2004 and 2003

	Note	2004 HRK'000	2003 HRK'000
Operating Activities			
Net income for the year		64,700	84,378
Adjustments to reconcile to net cash provided by and used in operating activities:			
Depreciation and amortisation	17	17,177	14,028
Loss on disposal of fixed assets	17	27	
Provision for impairment of loans, securities and other assets	14,15,16	96,546	50,219
Provision for obligations	21	6,843	(1,192
Fair value adjustment of securities held for trading and securities available for sale	13,14	(15,825)	(12,017
Changes in operating assets and liabilities:			
Net decrease/(increase) in due from the Croatian National Bank	11	(149,205)	113,82
Net (increase) in originated loans to customers and other financial assets, before provision	15	(255,623)	(1,565,096
Net decrease/(increase) in other assets, before provision	16	9,949	40,26
Net decrease/(increase) in due to banks		46,666	(193
Net (decrease)/increase in demand deposits	18	23,884	(493,816
Net (decrease)/increase in term deposits	19	(73,205)	250,66
Net (decrease)/increase in other liabilities, before provision	21	(47,187)	(38,488
Paid income tax		(1,000)	
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES		(276,253)	(1,557,428
Investing Activities			
Net (increase) in securities held for trading	13	(13,309)	(24,222
Net decrease/(increase) in securities available for sale	14	9,328	(64,324
Net decrease/(increase) in investments held to maturity		-	451,772
Net purchases of tangible and intangible assets	17	(22,131)	(15,447
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		(26,112)	347,779
Financing Activities			
Net increase in borrowings	20	108,281	75,39
NET CASH PROVIDED BY FINANCING ACTIVITIES		108,281	75,39
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(194,084)	(1,134,252
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	24	1,103,611	2,237,86
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	24	909,527	1,103,61

Signed on behalf of Hrvatska poštanska banka d.d. on 28 February 2005:

President of the Management Board

Josip Protega

Member of the Management Board

Ivan Sladonja



Accounting policies

1. SUMMARY OF BASIS ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Bank have been prepared under the historical cost convention, adjusted for the revaluation of certain financial assets and liabilities in accordance with International Financial Reporting Standards.

The financial statements are prepared on an accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and they are reported in the financial statements of the period to which they relate, and on the going concern assumption.

The reporting currency used in the financial statements is the Croatian kuna ("HRK") rounded with accuracy to HRK thousand (unless otherwise indicated).

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

Income and expenses are recorded in the period in which they are earned or incurred.

Foreign currency translation

Assets and liabilities expressed in foreign currencies are converted into HRK at the mid exchange rates quoted by the Croatian National Bank at the balance sheet date. Income and expenses arising in foreign currencies are converted at the exchange rate on the transaction date. Resulting foreign exchange gains and losses are recorded in the income statement.

Interest income and expense

Interest income and expense are recognised in the income statement when earned or incurred.

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 securities held for trading and accrued discount and premium on treasury bills and other discounted instruments.

Fee and commission income and expense

Fee and commission income consists primarily of fees on domestic and foreign payments, loan fees and fees for issuing guarantees and letters of credit.



1. SUMMARY OF BASIS ACCOUNTING POLICIES (continued)

Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income. Fees for foreign currency payment transactions are recognised as income when collected.

Income taxes

Under the current fiscal legislation in Croatia, the Bank is liable for income taxes at a rate of 20% for the year 2004 and 2003. Based upon the application of related legislation, the Bank has income tax obligation for the year 2004, while in 2003 it did not have.

Deferred taxation is accounted for, using the balance sheet liability method in respect of temporary differences in the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted at the date of the Balance Sheet. Deferred income tax assets are recognized for tax loss carry forwards only to the extent that the realization of such assets is probable, Taxable losses may be carried forward for a period of up to five years.

Off-balance sheet financial instruments

The provision for commitments, guarantees and other off balance sheet liabilities losses is maintained at a level Bank's Management Board believes is adequate to absorb probable future losses. 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.

The Bank recognises a provision for obligations when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the obligation.

Securities

Securities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the security investment strategy. On the adoption of IAS 39, the Bank developed security investment strategies and, reflecting the intent of the acquisition, allocated securities to "Securities held for trading" and Investment securities to the "Securities available for sale" portfolio, "Held to maturity" portfolio and "Loans originated by the Bank". The principal difference among the portfolios relates to the measurement approach of securities and the recognition of their fair values in the financial statements. All securities held by the Bank are recognised using settlement date accounting and initially measured at their cost including transaction costs.



1. SUMMARY OF BASIS ACCOUNTING POLICIES (continued)

Securities (continued)

a) Securities held for trading

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

All purchases and sales of securities held for trading that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised as spot transactions.

b) Investments held-to-maturity

Investment securities which management intends and is able to hold to maturity are classified as held-to-maturity. Investment securities are initially recognized at cost (which includes transaction costs).

Held-to-maturity securities are carried at amortized cost using the effective yield method, less any impairment. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortized 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. When an impairment of assets is identified, the Bank recognises provisions through the profit and loss statement.

Interest earned whilst holding investment securities is reported as "Interest income" in the income statement.



1. SUMMARY OF BASIS ACCOUNTING POLICIES (continued)

Securities (continued)

c) Securities available for sale

Available-for-sale securities are those financial assets that are not classified as trading or held to maturity. Subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price / cashflow ratios refined to reflect specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are reported in income statement line "Net profit on financial operations".

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

d) Loans originated by the Bank

Amounts originally granted by the bank to customers for an agreed term, as well as securities bought directly from issuer which are not intended to be sold immediately or in the short term are included in the caption "Originated loans to customers and other financial assets" and are carried at amortized cost.

e) Sale and repurchase agreements

Securities sold under sale and repurchase agreements ("repos") are recorded as assets in the balance sheet lines "Securities held for trading", "Securities available for sale" and "Investments held to maturity" and the counterparty liability is included in "Amounts due to banks" or "Amounts due to customers" as appropriate. Securities purchased under agreements to purchase and resell ("reverse repos") are recorded as assets in the balance sheet line "Due from banks" or "Originated loans and advances to customers" as appropriate, with the corresponding decrease in cash being included in "Cash and balances with the central bank". The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.



1. SUMMARY OF BASIS ACCOUNTING POLICIES (continued)

Originated loans and advances to customers, placements with banks and provision for possible loan and placement losses

f) Loans originated by the Bank

Loans originated by the Bank by providing money directly to the borrower, are categorised as loans originated by the Bank and are carried at amortised cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognised when cash is advanced to borrowers. A loan loss impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the loan loss impairment is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

When a loan is uncollectable, it is written off against the related impairments provisions; subsequent recoveries are credited to the income statement.

g) Other financial assets originated by the Bank

Assets originated by the Bank include securities purchased at original issuance. As the Bank does not have the intent to sell these securities immediately or in the short term, these securities are categorized as loans originated by Bank and are carried at amortised cost. Related interest is reported as "Interest income" in the income statement.

h) Tangible and intangible assets

Tangible and intangible assets are stated at cost, less accumulated depreciation.

Depreciation and amortisation of tangible and intangible assets is computed under the straight-line method over the estimated useful lives of the assets:

	2004	2003
Buildings	40 years	40 years
Computers	4 years	4 years
Furniture and equipment	4-5 years	4-5 years
Motor vehicles	4 years	4 years
Other assets	10 years	10 years
Intangible assets	4-5 years	4-5 years

Gains and losses on the disposal of assets are based on the difference between their book and selling value and are recorded in the income statement.



1. SUMMARY OF BASIS ACCOUNTING POLICIES (continued)

h) Tangible and intangible assets (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. The largest components of the Bank's assets are periodically tested for impairment and temporary impairments are provisioned.

Repairs are charged to the profit and loss account when the expenditure is incurred.

Statement of Cash Flows

For the purpose of reporting cash flows, cash and cash equivalents include cash, unrestricted balances with the Croatian National Bank, due from banks with a maturity of less than 90 days and treasury bills issued by the Croatian National Bank (see Note 24).

Regulatory requirements

The Bank is subject to the 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.

Managed Funds - Agency Business

The Bank manages assets on behalf of legal entities and individuals for which a fee is charged. As such amounts do not represent assets of the Bank, they have been excluded from the accompanying Balance Sheet (see Note 28).



Notes to the Financial Statements

For the years ended 31 December 2004 and 2003

2. INTEREST INCOME

	2004 HRK'000	2003 HRK'000
Originated loans and other assets	218,747	194,531
Placements with financial institutions	24,657	26,648
Debt securities and treasury bills issued by Croatian National Bank	81,286	34,041
Total	324,690	255,220

3. INTEREST EXPENSE

	2004 HRK'000	2003 HRK'000
Borrowings	6,953	6,821
Deposits	72,742	61,218
Other	157	32
Total	79,852	68,071



4. FEES AND COMMISION INCOME

	2004 HRK'000	2003 HRK'000
Corporate	289,113	316,358
Retail	227,287	242,000
Croatian Pension Fund	31,874	30,451
Banks and financial institutions	7,971	13,090
Other	28,734	11,085
Total	584,979	612,984

Fees for payment transactions represent HRK 537,796 thousand for the period 2004 and HRK 568,035 thousand for the period 2003.

5. FEES AND COMMISION EXPENSE

2004 HRK'000	2003 HRK'000
380,614	399,398
146,778	161,894
6,608	4,300
7	7
534,007	565,599
	380,614 146,778 6,608

Fees for payment transactions represent HRK 527,389 for the period 2004 and HRK 561,290 thousand for the period 2003.



6. NET PROFIT ON FINANCIAL OPERATIONS

	2004 HRK'000	2003 HRK'000
Gains on foreign currency transactions, net	17,346	16,656
Dividend income	298	310
Foreign exchange translation gains, net	90	5,473
Other foreign exchange gains/(losses), net	63	275
Income from trading, net	7,915	4,397
Total	25,712	27,111

7. OTHER INCOME

	2004 HRK'000	2003 HRK'000
Income from previous years	1,099	2,761
Collection of written off receivables	-	9,459
Other	672	326
Total	1,771	12,546



8. GENERAL AND AMINISTRATIVE EXPENSES

	2004 HRK'000	2003 HRK'000
Goods and services	31,881	33,432
Marketing and representation costs	6,323	3,386
Post and telecommunication services	20,505	20,876
Salaries, net	30,958	25,088
Payroll taxes and contributions	31,619	24,202
Fees to Supervisory Board and employees	2,301	1,921
Deposits insurance charge	8,443	8,333
Other general and administrative expenses	5,997	9,520
Total	138,027	126,758

The number of employees was 306 and 267 as at 31 December 2004 and 2003, respectively. Above analysis include fees paid to Supervisory Board, in amount of HRK 582 thousand and HRK 523 thousand as at 31 December 2004 and 2003, respectively.



9. INCOME TAX

The Bank's tax liability is calculated based upon the accounting profit taking into account tax non-deductible expenses and tax exempt income. The corporate income tax rate for the years ended 31 December 2004 and 2003 was 20%.

Income tax reconciliation as at 31 December is summarized as follows:

	2004 HRK'000	2003 HRK'000
Accounting profit	64,700	84,378
Deductible income	(2,014)	(3,038)
Non-deductible expenses	11,588	(7,119)
Income for the year	74,274	74,221
Tax losses brought forward	(44,921)	(119,142)
Income tax rate	20%	20%
Tax losses available to be carried forward	-	(44,921)
Income tax base	29,353	-
Income tax expense	5,871	
Effective income tax rate	9%	

Taxable losses may be carried forward for a period of up to 5 years. As at 31 December 2004 the Bank had no tax losses to carry forward, as opposed to 2003 when it had tax losses available to carry forward for offset against future taxable income of HRK 44,921 thousand, respectively. However, such future taxable income cannot be foreseen with reasonable certainty and the Bank has offset the asset with a full valuation reserve.

Croatian tax legislation and practice has changed significantly in recent years. Many parts of the legislation remain untested and there is uncertainty about the interpretation that the tax authorities may apply in a number of areas. Management of the Bank has applied revised tax legislation on a prudent basis. Tax positions taken by the Bank are subject to examination and could be challenged by the tax authorities. As a result there is uncertainty about the potential impacts should the interpretation of the tax authorities differ from that applied by the Bank.

However, the Bank's Executive considers that the tax liability which might arise in connection with this would not be material.



10. CASH AND DUE FROM BANKS

	2004 HRK'000	2003 HRK'000
Cash on hand:		
In HRK		
held at the Bank premises	35,031	26,248
held at FINA and Croatian Post	205,970	199,200
Sub-total	241,001	225,448
In foreign currency	7,493	11,071
Sub-total	248,494	236,519
Cheques in the course of collection:		
In HRK	-	-
In foreign currency	102	238
Sub-total	102	238
Nostro accounts with domestic banks in foreign currency	6,979	4,501
Nostro accounts with foreign banks in foreign currency	10,006	10,499
Cash on clearing account with CNB	265,821	488,811
Total	531,402	740,568

11. DUE FROM THE CROATIAN NATIONAL BANK

	2004 HRK'000	2003 HRK'000
Obligatory reserve:		
in HRK	466,601	311,936
in foreign currency	45,716	51,176
Total	512,317	363,112

Obligatory reserves in HRK and in foreign currency are calculated at the rate of 18% on HRK and foreign currency deposits, and foreign currency loans. The Bank is bound to hold at least 60% of such reserves in its account with the Croatian National Bank.



12. PLACEMENTS WITH BANKS

	2004 2003 HRK'000 HRK'000	
Short-term placements with foreign banks	238,074	363,043
Short-term loans to domestic banks	140,051	-
Total	378,125	363,043

13. SECURITIES HELD FOR TRADING

	2004	2003
	HRK'000	HRK'000
Bonds - quoted:		
issued by Croatian Bank for Reconstruction and Development	33,882	31,850
issued by Ministry of Finance of Republic of Croatia	34,840	33,506
issued by Croatian Health Fund	-	8,136
issued by Companies	24,654	-
Equity securities:		
Croatia osiguranje d.d,. Zagreb	10,248	8,268
Total	103,624	81,760

Details of equity securities held for trading as at 31 December 2004 are presented as follows:

	Activity	Country	Number of shares held	% of ownership
Croatia osiguranje d.d., Zagreb	Insurance	Croatia	2,329	0,74%

Bonds and equity securities are listed on the Zagreb Stock Exchange.



14. SECURITIES AVAILABLE FOR SALE

	2004 HRK'000	2003 HRK'000
Bonds by Ministry of Finance of Republic of Croatia - quoted	93,775	97,020
Fair value adjustment	7,270	6,143
Subtotal	101,045	103,163
Equity securities – not quoted:		
- in companies	229	189
- in non-banking financial institutions	60	40
Provision for impairment on equity securities	(189)	(189)
Subtotal	100	40
Total	101,145	103,203

The movements in the provision for impairment of equity securities are summarised as follows:

2004 HRK'000	2003 HRK'000
189	15,118
-	-
-	(14,929)
189	189
	HRK'000 189



15. ORIGINATED LOANS TO CUSTOMERS AND OTHER FINANCIAL ASSETS, NET

	2004 HRK'000	2003 HRK'000
Originated loans to customers, net	2,573,504	2,436,368
Other financial assets	1,143,180	1,118,212
Total	3,716,684	3,554,580

15.1. Originated loans to customers, net

	2004	2003
	HRK'000	HRK'000
Short-term loans:		
Companies	1,733,341	1,582,763
Individuals	194,283	151,139
Total short-term loans	1,927,624	1,733,902
Long-term loans:		
Companies	530,344	543,926
Individuals	367,947	317,632
Total long-term loans	898,291	861,558
Total short-term and long-term loans	2,825,915	2,595,460
Provision for impairment	(252,411)	(159,092)
Total	2,573,504	2,436,368

The movements in the provision for possible loan losses are summarised as follows:

2004 HRK'000	2003 HRK'000
159,092	117,692
93,519	46,997
1,032	1,044
(1,232)	(6,641)
252,411	159,092
	HRK'000 159,092 93,519 1,032 (1,232)



15. ORIGINATED LOANS TO CUSTOMERS AND OTHER FINANCIAL ASSETS, NET (continued)

15.1. Originated loans to customers, net (continued)

The distribution of the loan portfolio, by industry, is summarised as follows:

	2004 HRK'000	2003 HRK'000
Agriculture and forestry	24,113	35,582
Manufacturing	628,719	640,795
Construction	88,863	66,548
Transport, warehousing and communications	114,868	111,636
Trade	256,780	311,081
Tourism	90,876	27,858
Services	20,238	21,241
Individuals	560,898	468,576
Ministry of Finance of Republic of Croatia	1,016,000	429,779
Croatian Health Fund	-	240,000
Croatian Privatisation Fund	-	223,673
Other	8,710	7,753
Accrued interest receivable	15,850	10,938
Provision for impairment	(252,411)	(159,092)
Total	2,573,504	2,436,368

As at 31 December 2004, the 10 biggest customers, before provisions, accounted for in aggregate 54.95 % of the total loan portfolio (31 December 2003: 55.69 %).

The total amount of non-performing loans amounted to HRK 280,115 thousand and HRK 170,472 thousand as at 31 December 2004 and 2003, respectively.

Interest rates on loans for the year ended 31 December are summarised as follows:

	2004	2003
Individuals and crafts	6%-10.98%	5.25%-11.5%
Companies	5.8%-10%	5.25%-11%



15. ORIGINATED LOANS TO CUSTOMERS AND OTHER FINANCIAL ASSETS, NET (continued)

15.2. Other financial assets originated by the Bank

	2004 HRK'000	2003 HRK'000
Bills of exchange issued by enterprises	209,708	187,781
Commercial notes by domestic companies	-	43,386
Treasury notes issued by Ministry of Finance of Republic of Croatia	827,065	887,045
Bonds issued by companies	4,722	-
Bonds issued by Ministry of Finance of Republic of Croatia - quoted	101,685	-
Total	1,143,180	1,118,212

Interest rates on treasury notes issued by Ministry of Finance of Republic of Croatia depending on their maturity ranged from 3.75% to 7% in 2004.

16. OTHER ASSETS, NET

2004 HRK'000	2003 HRK'000
39,309	59,484
944	657
1,376	1,376
22,620	9,013
3,419	13,290
818	251
7,861	2,898
76,347	86,969
(1,612)	(258)
74,735	86,711
	. ,



16. OTHER ASSETS, NET (continued)

The movements in the provision for impairment are summarised as follows:

	2004 HRK'000	2003 HRK'000
Balance as at 1 January	258	2,496
Provision for impairment – charged for the period	3,027	3,222
Write offs	(1,673)	(5,460)
Balance as at 31 December	1,612	258

17. TANGIBLE AND INTANGIBLE FIXED ASSETS

HRK '000	Buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Assets in progress	Intangible Assets	Tota
Cost or revaluation								
Balance as at 31 December 2003	122,976	41,023	13,638	1,466	4,491	1,428	13,930	198,952
Additions	-	17,859	1,379	-	30	912	1,951	22,13
Transfers	734	-	-	-	-	(734)	-	
Disposals	-	(4,483)	(445)	-	-	-	(607)	(5,535
Balance as at 31 December 2004	123,710	54,399	14,572	1,466	4,521	1,606	15,274	215,548
Depreciation and amortisation								
Balance as at 31 December 2003	28,122	26,646	8,660	1,157	1,696		8,309	74,59
Charge for the year	3,008	9,195	2,196	115	462	-	2,201	17,17
Disposals	-	(4,472)	(429)	-	-	-	(607)	(5,508
Balance as at 31 December 2004	31,130	31,369	10,427	1,272	2,158		9,903	86,25
Net book value Balance as at 31 December 2004	92,580	23,030	4,145	194	2,363	1,606	5,371	129,28
Balance as at 31 December 2003	94,854	14,377	4,978	309	2,795	1,428	5,621	124,36



18. **DEMAND DEPOSITS**

	2004 HRK'000	2003 HRK'000
Demand deposits of individuals:		
In HRK	1,201,431	1,144,078
In foreign currency	66,940	60,103
Sub-total	1,268,371	1,204,181
Demand deposits of companies:		
In HRK	1,112,308	1,378,812
In foreign currency	156,506	88,743
Sub-total	1,268,814	1,467,555
Restricted deposits:		
In HRK	778,721	628,925
In foreign currency	19,666	11,027
Sub-total	798,387	639,952
Total	3,335,572	3,311,688

Interest rates on demand deposits ranged from 0.1% to 3% during the year 2004 and 0.1% to 2% for 2003, respectively.



19. TERM DEPOSITS

Term deposits as at 31 December are summarised as follows:

	2004 HRK'000	2003 HRK'000
Deposits of individuals:		
In HRK	234,746	204,094
In foreign currency	285,286	202,733
Sub-total	520,032	406,827
Deposits of companies:		
In HRK	276,864	217,643
In foreign currency	185,814	431,445
Sub-total	462,678	649,088
Total	982,710	1,055,915

Interest rates on term deposits ranged mainly from 1.5% to 6% during the year 2004 and 1.5% to 5% for 2003, respectively.

20. BORROWINGS

	2004 HRK'000	2003 HRK'000
Croatian Bank for Reconstruction and Development	349,420	240,786
Biro Data Servis - long term financial leasing	504	857
Total	349,924	241,643

Borrowings from Croatian bank for Reconstruction and Development are granted to Bank's clients for purposes of financing various renewal and development projects and are with different maturities.

Interest rates on borrowings from banks ranged from 5% to 9% during the year 2004 and from 1% to 5% during the year 2003, respectively.



21. OTHER LIABILITIES

	2004 HRK'000	2003 HRK'000
Liabilities to vendors	26,164	48,565
Liabilities for salaries, salaries deductions, taxes and contributions on salaries	4,643	3,989
Liabilities for fees	28,565	43,712
Items in transit (including those through post offices)	67,262	73,542
Other liabilities	7,658	10,317
Liabilities for repayment of guarantees	22,939	24,178
Provisions for obligations	20,060	13,332
Income tax payable	5,871	-
Total	183,162	217,635

The movements in the provisions for obligations are summarised as follows:

	2004 HRK '000	2003 HRK '000
Balance as at 1 January	13,332	27,113
Provision for obligations – charged for the period	6,843	(1,192)
Payment of liabilities	(115)	(12,618)
Foreign exchange losses, net	-	29
Balance as at 31 December	20,060	13,332

22. SHARE CAPITAL

Subscribed share capital as at 31 December 2004 and 2003 in amount of HRK 584,779,800 consists of 531,618 authorized, ordinary shares, with a nominal amount of HRK 1,100 each.



23. CONCENTRATIONS OF ASSETS AND LIABILITIES

Bank's loans include a loan to one borrower in the amount of HRK 1,016,000 thousand or approximately 36.1% of gross loans as at 31 December 2004 (2003: HRK 429,779 thousand or approximately 16.6%) (see Note 16.1). In accordance with Croatian National Bank regulations this exposure does not represent the Bank's large exposure.

Bank's received deposits include deposits from one customer in the amount of HRK 457,006 thousand and HRK 555,554 thousand at 31 December 2004 and 31 December 2003, respectively, or approximately 10.5% and 12.7% of all customer deposits as at 31 December 2004 and 2003, respectively.

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the Cash Flow Statement consist of cash, unrestricted balances with the Croatian National Bank, due from banks, placements with banks with a maturity until 90 days.

	2004 HRK'000	2003 HRK'000
Cash and due from banks	531,402	740,568
Placements with banks with maturity of less than 90 days	378,125	363,043
Total	909,527	1,103,611



25. CONTINGENT LIABILITIES AND COMMITMENTS

	2004 HRK'000	2003 HRK'000
Guarantees in HRK	51,276	63,558
Guarantees in foreign currency	886	2,014
Letters of credit	34,068	46,869
Accepted bills of exchange	437	3,065
Undrawn credit facilities	522,992	338,035
Total	609,659	453,541

As of 31 December 2004, the Bank created provisions for commitments arising from the issuance of guarantees, letters of credit and undrawn credit facilities amounting to HRK 7,406 thousand, which are included in "Provisions for obligations" (2003: HRK 6,796 thousand) (see Note 21).

Litigation

Whilst no assurance can be given with respect to the ultimate outcome of any litigation, the Bank believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows. The Bank created the provisions for legal cases in amount of HRK 4,190 thousand as of 31 December 2004 (as of 31 December 2003: HRK 3,862 thousand).

26. ESTIMATED FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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



26. ESTIMATED FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

a) Cash and due from banks

The carrying values of cash and due from banks are generally deemed to approximate their fair value.

b) Placements with banks and obligatory reserve with Croatian National Bank

The estimated fair value of placements with banks that mature in 180 days or less approximates their carrying amounts. The fair value of other placements with banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing placements with banks is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral. Provisions are not taken into consideration when calculating fair values.

c) Originated loans to customers and other financial assets, net

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. Loans at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total loans and advances to customers approximates the carrying values as of the balance sheet date. Provisions are not taken into consideration when calculating fair values.

Other financial assets originated by the Bank represents the securities bought directly from the issuer. Estimated fair value of these financial assets approximates the value presented in balance sheet.

d) Due to banks, demand and term deposits, borrowings

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



27. RELATED PARTY TRANSACTIONS

Related parties, are those counter parties that represent:

- enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- associates enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- enterprises in which a substantial interest in the voting power is owned, directly or
 indirectly, by any person described in (c) or (d) or over which such a person is able to
 exercise significant influence. This includes enterprises owned by directors or major
 shareholders of the Bank and enterprises that have a member of key management in
 common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.



27. RELATED PARTIES TRANSACTIONS (continued)

Related party	Exposure*	Payables	Interest income	Interest expense	Fee income	Fee expense	Other expense
31 December 2004 HRK '000							
Croatian Privatisation Fund	-	-	4,686	-	-	-	-
Croatian Post	19,362	150,356	65	4,169	1,761	366,428	32,807
Croatian Pension Fund	-	37,022	-	338	33,858	-	-
Employees and Management of the Bank	408	117	26	4	-	-	-
Total	19,770	187,495	4,777	4,511	35,619	366,428	32,807

Exposure* Includes outstanding loans, commitments and contingencies, interest and other receivables

As at 31 December 2003, balances outstanding with related parties comprised:

Related party	Exposure*	Payables	Interest income	Interest expense	Fee income	Fee expense	Other expense
31 December 2003 HRK '000							
Croatian Privatisation Fund	223,673	93	25,212	-	-	-	-
Croatian Post	4,427	323,315	-	9,145	-	387,398	34,527
Croatian Pension Fund	2,613	39,597	-	425	30,452	-	-
Employees and Management of the Bank	505	6	21	-	-	-	-
Total	231,218	363,011	25,233	9,570	30,452	387,398	34,527

Exposure* Includes outstanding loans, commitments and contingencies, interest and other receivables

All of the transactions stated above have been made under the normal commercial and banking conditions.



28. MANAGED FUNDS – AGENCY BUSINESS

The Bank manages funds in the name of and for the account of legal entities and individuals. The gains and losses of such operations are allocated to the ordering party and the Bank does not bear any liabilities.

The Bank's fee amounts to 1% on placed and collected funds.

Assets and liabilities managed in the name and for the account of third parties are summarised as follows:

	2004 HRK'000	2003 HRK'000
Assets:		
Companies	177,327	193,073
Individuals	389,719	331,669
Cash on clearing account	29,292	43,353
Total Assets	596,338	568,095
Liabilities:		
Croatian Employment Agency	65,707	121,485
Municipalities	50,944	44,814
Government of Republic of Croatia	381,382	309,536
Croatian Bank for Reconstruction and Development	9,238	11,920
Fund for Development and Employment	89,067	80,340
Total Liabilities	596,338	568,095

29. FOREIGN CURRENCY BALANCE SHEET AND FOREIGN EXCHANGE RISK

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions.

Foreign currency balance sheet and foreign exchange risk table summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2004 and 2003. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by domestic currency, domestic with foreign exchange clause and foreign currency.

Foreign exchange effects of financial instruments are included in the income statement on a daily basis.



29. FOREIGN CURRENCY BALANCE SHEET AND FOREIGN EXCHANGE RISK (continued)

The amount of total assets and liabilities as at 31 December 2004 in HRK and foreign currencies:

HRK '000	HRK	HRK with foreign exchange clause	Foreign currencies	Total
ASSETS				
Cash and due from banks	506,822	-	24,580	531,402
Due from the Croatian National Bank	466,601	-	45,716	512,317
Placements with banks	140,051	-	238,074	378,125
Securities held for trading	10,248	49,054	44,322	103,624
Securities available for sale	10,297	30,291	60,557	101,145
Originated loans to customers and other financial assets, net	3,069,216	522,398	125,070	3,716,684
Other assets, net	72,734	53	1,948	74,735
Tangible and intangible assets	129,289	-	-	129,289
TOTAL ASSETS (1)	4,405,258	1601,796	540,267	5,547,321
LIABILITIES				
Due to banks	3,730	-	43,207	46,937
Demand deposits	3,092,460	-	243,112	3,335,572
Term deposits	493,563	18,047	471,100	982,710
Borrowings	35,399	314,525		349,924
Other liabilities	159,695	73	23,394	183,162
TOTAL LIABILITIES	3,784,847	² 332,645	780,813	4,898,305
SHAREHOLDERS' EQUITY				
Share capital	584,780	-	-	584,780
Own shares	(874)	-	-	(874)
Reserves and retained profit	6,281	-	-	6,281
Net income for the year	58,829	-	-	58,829
TOTAL SHAREHOLDERS' EQUITY	649,016			649,016
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (2)	4,433,863	332,645	780,813	5,547,321
NET ON-BALANCE SHEET POSITION (1) - (2)	(28,605)	269,151	(240,546)	

 $^{^{\}mbox{\scriptsize d1}}\mbox{Included HRK }347,\!429$ thousand with foreign currency clause

²Included HRK 68,416 thousand with foreign currency clause



29. FOREIGN CURRENCY BALANCE SHEET AND FOREIGN EXCHANGE RISK (continued)

The amount of total assets and liabilities as at 31 December 2003 in HRK and foreign currencies:

HRK '000	HRK	HRK with foreign exchange clause	Foreign currencies	Total
ASSETS				
Cash and due from banks	714,259	-	26,309	740,568
Due from the Croatian National Bank	311,936	-	51,176	363,112
Placements with banks	-	-	363,043	363,043
Securities held for trading	8,268	31,814	41,678	81,760
Securities available for sale	10,133	34,154	58,916	103,203
Originated loans to customers and other financial assets, net	3,006,446	467,562	80,572	3,554,580
Other assets, net	84,234	860	1,617	86,711
Tangible and intangible assets	124,362	-	-	124,362
TOTAL ASSETS (1)	4,259,638	1534,390	623,311	5,417,339
LIABILITIES				
Due to banks	-	-	271	271
Demand deposits	3,151,816	-	159,872	3,311,688
Term deposits	403,067	18,670	634,178	1,055,915
Borrowings	12,657	228,986	-	241,643
Other liabilities	192,110	553	24,972	217,635
TOTAL LIABILITIES	3,759,650	²248,209	819,293	4,827,152
SHAREHOLDERS' EQUITY				
Share capital	584,780	-	-	584,780
Own shares	(874)	-	-	(874)
Reserves and retained deficit)	(78,097)	-	-	(78,097)
Net income for the year	84,378	-	-	84,378
TOTAL SHAREHOLDERS' EQUITY	590,187		-	590,187
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (2)	4,349,837	248,209	819,293	5,417,339
NET ON-BALANCE SHEET POSITION (1) - (2)	(90,199)	286,181	(195,982)	

¹Included HRK 248,123 thousand with two-way foreign currency clause

²Included HRK 52,297 thousand with two-way foreign currency clause



30. MATURITY STRUCTURE OF ASSETS AND LIABILITIES

The Bank is exposed to daily calls on its available cash resources from demand deposits, current accounts, term deposits and loan drawdowns.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. Specified mismatching potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest–bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Liquidity risk is presented as maturity structure of assets and liabilities at 31 December 2004 and 2003.



30. MATURITY STRUCTURE OF ASSETS AND LIABILITIES (continued)

Maturity structure of assets and liabilities as at 31 December 2004:

HRK '000	0-30 days	31-90 days	91-360 days	1-3 years	Over 3 years	Total
ASSETS						
Cash and due from banks	531,402	-	-	-	-	531,402
Due from the Croatian National Bank	512,275	42	-	-	-	512,317
Placements with banks	378,096	29	-	-	-	378,125
Securities held for trading	-	1,650	-	23,683	78,291	103,624
Securities available for sale	-	3,228	-	16,179	81,738	101,145
Originated loans to customers and other financial assets, net	745,536	675,246	1,732,965	255,972	306,965	3,716,684
Other assets, net	49,795	-	-	-	24,940	74,735
Tangible and intangible assets	-	-	-	-	129,289	129,289
TOTAL ASSETS (1)	2,217,104	680,195	1,732,965	295,834	621,223	5,547,321
LIABILITIES						
Due to banks	46,910	27	-	-	-	46,937
Demand deposits	3,335,572	-	-	-	-	3,335,572
Term deposits	356,789	239,091	315,628	67,730	3,472	982,710
Borrowings	3,130	4,172	16,571	120,960	205,091	349,924
Other liabilities	155,057	-	5,232	10,523	12,350	183,162
TOTAL LIABILITIES	3,897,458	243,290	337,431	199,213	220,913	4,898,305
SHAREHOLDERS' EQUITY						
Share capital	-	-	-	-	584,780	584,780
Own shares	-	-	-	-	(874)	(874)
Reserves and retained profit	-	-	-	-	6,281	6,281
Net income for the year	-	-	-	-	58,829	58,829
TOTAL SHAREHOLDERS' EQUITY					649,016	649,016
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (2)	3,897,458	243,290	337,431	199,213	869,929	5,547,321
BALANCE SHEET MISMATCH (1) - (2)	(1,680,354)	436,905	1,395,534	96,621	(248,706)	
CUMULATIVE MISMATCH	(1,680,354)	(1,243,449)	152,085	248,706		



30. MATURITY STRUCTURE OF ASSETS AND LIABILITIES (continued)

Maturity structure of assets and liabilities as at 31 December 2003:

HRK '000	0-30 days	31-90 days	91-360 days	1-3 years	Over 3 years	Total
ASSETS						
Cash and due from banks	740,568	-	-	-	-	740,568
Due from the Croatian National Bank	363,112	-	-	-	-	363,112
Placements with banks	363,043	-	-	-	-	363,043
Securities held for trading	952	-	7,844	-	72,964	81,760
Securities available for sale	2,905	-	-	16,479	83,819	103,203
Originated loans to customers and other financial assets, net	995,223	743,511	1,405,098	149,266	261,482	3,554,580
Other assets, net	75,664	-	-	-	11,047	86,711
Tangible and intangible assets	-	-	-	-	124,362	124,362
TOTAL ASSETS (1)	2,541,467	743,511	1,412,942	165,745	553,674	5,417,339
LIABILITIES						
Due to banks	271	-	-	-	-	271
Demand deposits	3,311,688	-	-	-	-	3,311,688
Term deposits	453,547	378,270	179,584	38,748	5,766	1,055,915
Borrowings	352	117	15,319	45,609	180,246	241,643
Other liabilities	189,327	-	3,370	8,986	15,952	217,635
TOTAL LIABILITIES	3,955,185	378,387	198,273	93,343	201,964	4,827,152
SHAREHOLDERS' EQUITY						
Share capital	-	-	-	-	584,780	584,780
Own shares	-	-	-	-	(874)	(874)
Reserves and (retained deficit)	-	-	-	-	(78,097)	(78,097)
Net income for the year	-	-	-	-	84,378	84,378
TOTAL SHAREHOLDERS' EQUITY					590,187	590,187
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (2)	3,955,185	378,387	198,273	93,343	792,151	5,417,339
BALANCE SHEET MISMATCH (1) - (2)	(1,413,718)	365,124	1,214,669	72,402	(238,477)	
CUMULATIVE MISMATCH	(1,413,718)	(1,048,594)	166,075	238,477		

The maturities included in the above table represent maturity dates of the Bank's assets and liabilities based on originated period until payment maturity. Commitments have been excluded from the above analysis.



31. INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate gap table summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Interest rate risk as at 31 December 2004:

HRK '000	Non bearing	0-30 days	31-90 days	91-360 days	1-3 years	Over 3 years	Total
ASSETS							
Cash and due from banks	248,596	282,806	-	-	-	-	531,402
Due from the Croatian National Bank	537	511,780	-	-	-	-	512,317
Placements with banks	80	378,045	-	-	-	-	378,125
Securities held for trading	11,897	-	-	-	23,683	68,044	103,624
Securities available for sale	3,328	-	-	-	16,179	81,638	101,145
Originated loans to customers and other financial assets, net	17,342	2,613,586	339,187	594,154	35,120	117,295	3,716,684
Other assets, net	74,735	-	-	-	-	-	74,735
Tangible and intangible assets	129,289	-	-	-	-	-	129,289
TOTAL ASSETS (1)	485,804	3,786,217	339,187	594,154	74,982	266,977	5,547,321
LIABILITIES							
Due to banks	27	46,910	-	-	-	-	46,937
Demand deposits	4,645	3,330,927	-	-	-	-	3,335,572
Term deposits	3,008	921,603	391	54,873	32	2,803	982,710
Borrowings	478	348,972	61	274	139	-	349,924
Other liabilities	183,162	-	-	-	-	-	183,162
TOTAL LIABILITIES	191,320	4,648,412	452	55,147	171	2,803	4,898,305
SHAREHOLDERS' EQUITY							
Share capital	584,780	-	-	-	-	-	584,780
Own shares	(874)	-	-	-	-	-	(874)
Reserves and retained profit	6,281	-	-	-	-	-	6,281
Net income for the year	58,829	-	-	-	-	-	58,829
TOTAL SHAREHOLDERS' EQUITY	649,016						649,016
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (2)	840,336	4,648,412	452	55,147	171	2,803	5,547,321
INTEREST RATE GAP (1) - (2)	(354,532)	(862,195)	338,735	539,007	74,811	264,174	
CUMULATIVE MISMATCH	(354,532)	(1,216,727)	(877,992)	(338,985)	(264,174)		



31. INTEREST RATE RISK (continued)

Interest rate risk as at 31 December 2003:

HRK '000	Non bearing	0-30 days	31-90 days	91-360 days	1-3 years	Over 3 years	Total
ASSETS							
Cash and due from banks	236,757	503,811	-	-	-	-	740,568
Due from the Croatian National Bank	390	362,722	-	-	-	-	363,112
Placements with banks	40	363,003	-	-	-	-	363,043
Securities held for trading	9,220	-	-	7,844	-	64,696	81,760
Securities available for sale	2,944	-	-	-	16,479	83,780	103,203
Originated loans to customers and other financial assets, net	22,052	2,268,476	258,746	908,242	42,840	54,224	3,554,580
Other assets, net	86,703	8	-	-	-	-	86,711
Tangible and intangible assets	124,362	-	-	-	-		124,362
TOTAL ASSETS (1)	482,468	3,498,020	258,746	916,086	59,319	202,700	5,417,339
LIABILITIES							
Due to banks	-	271	-	-	-	-	271
Demand deposits	7,830	3,303,858	-	-	-	-	3,311,688
Term deposits	2,274	774,161	240,090	29,810	8,085	1,495	1,055,915
Borrowings	324	240,490	56	252	464	57	241,643
Other liabilities	217,635	-	-	-	-	-	217,635
TOTAL LIABILITIES	228,063	4,318,780	240,146	30,062	8,549	1,552	4,827,152
SHAREHOLDERS' EQUITY							
Share capital	584,780	-	-	-	-	-	584,780
Own shares	(874)	-	-	-	-	-	(874)
Reserves and (retained deficit)	(78,097)	-	-	-	-	-	(78,097)
Net income for the year	84,378	-	-	-	-	_	84,378
TOTAL SHAREHOLDERS' EQUITY	590,187						590,187
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (2)	818,250	4,318,780	240,146	30,062	8,549	1,552	5,417,339
INTEREST RATE GAP (1) - (2)	(335,782)	(820,760)	18,600	886,024	50,770	201,148	
CUMULATIVE MISMATCH	(335,782)	(1,156,542)	(1,137,942)	(251,918)	(201,148)		



31. INTEREST RATE RISK (continued)

Average interest rates as of 31 December 2004

The average interest rates as of 31 December 2004 calculated as a weighted average for each asset and liability category.

Assets	2004 HRK '000	Average interest rate
Cash and due from banks	282,806	1.25%
Due from the Croatian National Bank	511,780	1.27%
Placements with banks	378,045	2.85%
Securities held for trading	91,727	5.73%
Securities available for sale	97,817	6.23%
Originated loans to customers and other financial assets, net	3,699,342	7.16%
Total interest-bearing assets	5,061,517	5.87%
Liabilities		
Due to banks	46,910	2.37%
Demand deposits	3,330,927	0.79%
Term deposits	979,702	4.14%
Borrowings	349,446	2.43%
Total interest-bearing liabilities	4,706,985	1.62%

32. CREDIT RISK

The Bank takes on exposure to credit risk which is the risk upon credit approval and when counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to a quarterly or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed by obtaining collateral and corporate and personal guarantees.



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32. CREDIT RISK (continued)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will take over compulsory to make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Issued documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements are signed and authorised for issue on 28 February 2005.

These financial statements were approved by the Management Board on 28 February 2005.

Signed on behalf of the Management Board:

Josip Protega

President of the Management Board

Ivan Sladonja

Member of the Management Board



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