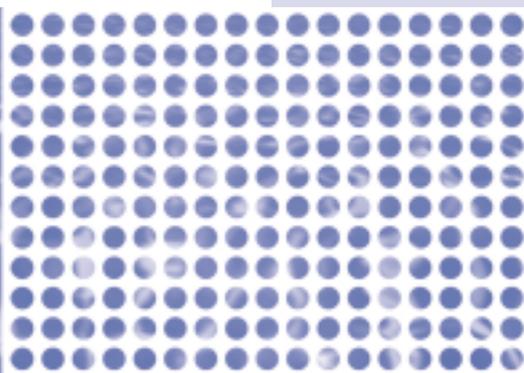


Nova banka



ANNUAL REPORT | GODIŠNJE IZVJEŠĆE



2004

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REPORT OF THE PRESIDENT OF THE MANAGEMENT BOARD

Nova banka accomplished a number of significant business successes in 2004, confirming its readiness and capability to successfully cope with an increasing competitive pressures of the Croatian banking market.

The most demanding task that we faced during 2004 was organizational merger of Nova banka and Dubrovačka banka as well as the operational and technical system integration onto a single IT platform. Positive results of the integration reflected very soon in excellent business results: at the end of the year the Bank's net profit amounted to 142.8 million kuna while the group's profit amounted to 141.7 million kuna.

Nova banka carefully and gradually carried out the process of optimalization in the number of employees to match the amount of the Bank's assets and realistic business needs. This way, along with significant organizational improvements, we managed to achieve considerable operational costs reduction. Employee-related expenditures decreased by 10.4 percent, while the total operational costs decrease amounted to 6.8 percent.

Credit risk management measures carried out last year and in the previous years, yielded very good results, preventing possible new more significant credit risks, while successful repayment of the bad debt had positive effect on the result. Having kept the trust of its traditional clients the Bank reached its main goal on the market. This ensured stability of the business results and a strong foundation for future growth and business strengthening outside traditional regions in which the Bank operates.

Aforementioned business activities of the Bank yielded greater growth of return on average assets by 84.8 percent now amounting to 1.8 percent for the group. Moreover, return on average equity also increased by 53 percent now amounting to 21.2 percent. Among the Bank's security indicators, we emphasize the capital adequacy rate which was significantly strengthened in 2004 and will, following the Assembly, amount to 17.13 percent according to minimally prescribed rate of 10 percent.

Along with the evident positive business indicators and results, Nova banka also worked intensively on improving its client services by expanding range of its products. At the end of last year and at the beginning of 2005, the Bank started issuing VISA Classic credit card; considerably improved its loans offer for retail sector with special emphasis on housing loans and it also launched Internet banking for physical persons. Selection of new products and services is being prepared for the year of 2005.

Especially important for the future of the Bank is the fact that Nova banka got a new majority shareholder in December 2004 - Hungarian OTP Bank. The arrival of the most profitable and one of the strongest and most dynamic banks of the Central Europe to the Croatian banking market presents a challenge for all of its players and a great opportunity for Nova banka. With the new owner, the Bank will focus more decisively on market growth and expansion of its network as well as diversifying its offer of banking and non-banking products.

We believe we have fulfilled all the preconditions to keep and justify the trust of our clients and contribute to further growth and development of the regions in which Nova banka operates. However, along with our business strength and new ownership structure, there comes the ambition to participate in market competition on a national level as an equal player with other successful Croatian banks, thus affirming Nova banka and OTP Group in regions in which we have not been present until now.

Damir Odak
President of the Management Board

13 April 2005



RESPONSIBILITY OF THE BOARD

Pursuant to the Croatian Accounting Law (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 Nova banka d.d. and the Group for that period.

After making enquiries, the Board has a reasonable expectation that the Bank and Group 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;
- judgments 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 company and the group 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 the Group and must also ensure that the financial statements comply with the Croatian Accounting Law (90/92). The Board is also responsible for safeguarding the assets of the Bank and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Board on 25 February 2005



Damir Odak, President of the Management Board
Nova banka d.d.
Domovinskog rata 3
23000 Zadar



REPORT OF THE AUDITOR¹

To the Shareholders of Nova banka d.d., Zadar

Introduction

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

Scope

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank and of the Group as at 31 December 2004 and 2003 and of the results of their operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

Deloitte.

DELOITTE & TOUCHE d.o.o.

Zagreb, 25 February 2005



INCOME STATEMENTS

For the year ended 31 December 2004 and 2003

	Notes	Group Year ended 31 December		Bank Year ended 31 December	
		2004	2003	2004	2003 Restated
Interest income	3	421,703	450,236	421,701	450,109
Interest expense	3	(159,301)	(170,683)	(159,293)	(170,634)
Net interest income		262,402	279,553	262,408	279,475
Fee and commission income	4	94,861	104,153	94,861	104,153
Fee and commission expense	4	(42,492)	(44,878)	(42,489)	(44,874)
Net fee and commission income		52,369	59,275	52,372	59,279
Exchange differences, net		(4,101)	(2,795)	(4,101)	(3,002)
Net trading gains	5	35,867	39,810	35,867	39,810
Other operating income	6	43,614	41,294	41,250	40,100
Operating income		390,151	417,137	387,796	415,662
Operating expenses	7	(327,778)	(350,760)	(324,351)	(347,944)
Decrease/(increase) in provisions and allowances	9	29,048	(10,379)	29,048	(10,379)
Profit before taxes		91,421	55,998	92,493	57,339
Income tax	10	50,273	19,973	50,280	20,000
Net profit for the year		141,694	75,971	142,773	77,339
EARNINGS PER SHARE (expressed in HRK)					
- basic	11	62.25	34.90	-	-

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



BALANCE SHEETS

As at 31 December 2004 and 2003

	Notes	Group		Bank	
		As at 31 December		As at 31 December	
		2004	2003	2004	2003 Restated
ASSETS					
Cash and balances with the					
Croatian National Bank	12	1,219,183	1,367,209	1,219,182	1,367,206
Amounts due from other banks	13	1,325,999	784,630	1,325,999	784,549
Derivative financial assets	28	7,827	7,553	7,827	7,553
Originated loans and other					
originated financial assets	14	3,737,556	3,981,274	3,737,556	3,981,274
Investments held to maturity	15	82,871	83,479	82,871	83,479
Other assets	16	58,917	78,639	61,096	91,712
Deferred tax assets	10	70,280	20,000	70,280	20,000
Assets available for sale	17	1,133,500	1,358,111	1,130,889	1,346,080
Investments in subsidiaries	18	-	-	21,092	21,092
Tangible and intangible assets	19	241,380	275,506	209,829	243,189
Total assets		7,877,513	7,956,401	7,866,621	7,946,134
LIABILITIES					
Amounts due to other banks	20	11,169	154,903	11,169	154,903
Amounts due to customers	21	6,393,502	6,399,933	6,393,975	6,402,072
Other borrowed funds	22	630,355	690,475	630,355	690,475
Derivative financial liabilities	22	7,927	7,242	7,927	7,242
Provisions	23	35,621	25,085	35,621	25,085
Other liabilities	24	59,562	81,071	59,306	80,853
Total liabilities		7,138,136	7,358,709	7,138,353	7,360,630
SHAREHOLDERS' EQUITY					
Share capital	25	455,280	455,280	455,280	455,280
Share premium	25	171,178	171,178	171,178	171,178
Treasury shares	25	(29)	(29)	(29)	(29)
Retained profits/(Accumulated losses)	26	59,493	(82,201)	48,384	(94,389)
Other reserves	26	53,455	53,464	53,455	53,464
Total shareholders' equity		739,377	597,692	728,268	585,504
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		7,877,513	7,956,401	7,866,621	7,946,134
CONTINGENCIES AND COMMITMENTS	27	707,471	457,249	707,471	457,249

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



All amounts are expressed in thousands of HRK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY GROUP

For the year ended 31 December 2004 and 2003

	Share capital	Share premium	Treasury shares	Other reserves	Retained profits / (accumulated losses)	Total
Balance as at 1 January 2003	425,280	171,178	(29)	52,781	(158,172)	491,038
Issue of share capital	30,000	-	-	-	-	30,000
Unpaid dividends from previous years	-	-	-	683	-	683
Profit for the year	-	-	-	-	75,971	75,971
Balance at 31 December 2003	455,280	171,178	(29)	53,464	(82,201)	597,692
Balance as at 1 January 2004	425,280	171,178	(29)	53,464	(82,201)	597,692
Other decreases	-	-	-	(9)	-	(9)
Profit for the year	-	-	-	-	141,694	141,694
Balance at 31 December 2004	455,280	171,178	(29)	53,455	59,493	739,377

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



All amounts are expressed in thousands of HRK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY BANK

For the year ended 31 December 2004 and 2003

	Share capital	Share premium	Treasury shares	Other reserves	Retained profits / (accumulated losses)	Total
Balance at 1 January 2003	425,280	171,178	(29)	52,781	(162,842)	486,368
Issue of share capital	30,000	-	-	-	-	30,000
Unpaid dividends from previous years	-	-	-	683	-	683
Profit for the year	-	-	-	-	45,875	45,875
Balance at 31 December 2003	455,280	171,178	(29)	53,464	(116,967)	562,926
Balance at 1 January 2004 - prior to merger	455,280	171,178	(29)	53,464	(116,967)	562,926
Merger effects (Note 1)	-	-	-	-	22,578	22,578
Balance at 1 January 2004 - restated	455,280	171,178	(29)	53,464	(94,389)	585,504
Other decreases	-	-	-	(9)	-	(9)
Profit for the year	-	-	-	-	142,773	142,773
Balance at 31 December 2004	455,280	171,178	(29)	53,455	48,384	728,268

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



CASH FLOW STATEMENTS

For the year ended 31 December 2004 and 2003

Notes	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2004	2003	2004	2003 Restated
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxes	91,421	55,998	92,493	57,339
Adjustments to reconcile profit before taxes to net cash from operating activities				
(Decrease)/increase in provisions and allowances for impairment	9 (29,048)	10,379	(29,048)	10,379
Depreciation	7,19 19,288	21,609	17,980	21,215
Gains on disposal of tangible and intangible assets	6 (2,513)	(10,168)	(2,513)	(12,160)
Decrease in other assets	30,268	17,632	41,142	14,094
Decrease in other liabilities	(20,508)	(28,012)	(20,557)	(13,152)
Amortization of goodwill	7,19 29,003	28,989	29,003	28,989
Fair value adjustment on AFS assets	6 (163)	(1,096)	(163)	(1,096)
Realised gains on sale of AFS assets	6 (6,137)	(710)	(6,137)	(746)
Dividends from investments	6 (150)	(2,181)	(150)	(9,656)
Realised loss on sale of AFS assets	7 -	921	-	921
Impairment of AFS assets	7 2,492	251	2,492	251
Fair value adjustment of HFT assets	411	(365)	411	(365)
Write-off of receivables	7 1,342	-	1,342	-
Indexation of replacement bonds	6 (17,539)	(3,593)	(17,539)	(3,593)
Income from elimination of liabilities	6 (9,009)	-	(9,009)	-
Profit on liquidation of subsidiaries	18 -	-	-	(2,707)
Operating results before changes in operating assets and liabilities	89,158	89,654	99,747	89,713
Changes in operating assets and liabilities				
Net (decrease)/increase in amounts due to other banks	20 (143,734)	81,419	(143,734)	81,419
Net increase/(decrease) in amounts due to customers	21 1,588	(42,310)	(78)	(66,899)
Purchase of HTM investments	14 b (102,981)	(28,242)	(102,981)	(28,242)
Net decrease/(increase) in mandatory reserve with Croatian National Bank	12 148,780	(234,731)	148,780	(234,731)
Net decrease/(increase) in amounts due from other banks	109,855	(95,435)	109,774	(95,317)
Net decrease/(increase) in originated loans and advances to customers	13,865	(425,355)	13,865	(425,355)
Bonuses and other employee benefits	23 b (4,979)	(2,706)	(4,979)	(2,706)
Payments for litigations	23 b -	(5,207)	-	(5,207)
Income tax paid	(38)	(3,344)	-	-
Net cash provided by/(used in) operating activities	111,514	(666,257)	120,394	(687,325)

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



CASH FLOW STATEMENTS (continued)

For the year ended 31 December 2004 and 2003

	Notes	Group		Bank	
		Year ended 31 December		Year ended 31 December	
		2004	2003	2004	2003 Restated
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends from investments	6	150	2,181	150	9,656
Net decrease in HTM investments	15	608	36,658	608	36,350
Sale of AFS securities		192,340	300,852	192,340	300,852
Purchase of penalty bills of the Croatian National Bank	15	-	(7,831)	-	(7,831)
Liquidation of subsidiaries		-	(3,097)	-	5,774
Proceeds from sale of AFS assets		54,749	25,226	45,329	30,081
Purchases of tangible and intangible assets		(14,566)	(12,997)	(14,024)	(12,598)
Proceeds from sale of tangible and intangible assets		2,905	5,989	2,905	5,766
Net cash provided by investing activities		236,186	346,981	227,308	368,050
CASH FLOWS FROM FINANCING ACTIVITIES					
Issue of shares	25	-	30,000	-	30,000
Net (decrease)/increase in other borrowed funds	22	(60,120)	115,058	(60,120)	115,058
Net cash (used in)/provided by financing activities		(60,120)	145,058	(60,120)	145,058
Net increase/(decrease) in cash and cash equivalents		287,580	(174,218)	287,582	(174,217)
Cash and cash equivalents at beginning of year	28	1,253,279	1,427,497	1,253,276	1,427,493
Cash and cash equivalents at end of year	28	1,540,859	1,253,279	1,540,858	1,253,276

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004 and 2003

1. GENERAL

The consolidated group of Nova banka d.d. (the "Group") consists of parent company Nova banka d.d. (the "Bank") and 2 subsidiaries fully owned by the Bank (Dalbank Invest d.o.o. and Dalbank Nekretnine d.o.o.). The Bank is headquartered in Zadar, Domovinskog rata 3, and was incorporated in the Republic of Croatia. The Bank provides retail and corporate banking services. The Bank is registered at the Commercial Court in Zadar, with the registered share capital in the amount of HRK 455,279,600.00 at 1 October 2004.

On 30 September 2004, the Bank merged with its wholly owned subsidiary, Dubrovačka banka d.d., Dubrovnik after which Dubrovačka banka discontinued its operations as separate entity. The accompanying financial statements for the year ended 31 December 2004 have been combined to present as if the merger had occurred as of 1 January 2004. The comparative numbers for the Bank for the year ended 31 December 2003 have been restated to present the merged entity.

The ownership structure at the date of the merger was as follows:

	Nova banka d.d., Zadar				Dubrovačka banka d.d., Dubrovnik			
	Paid-in share capital	Number of ordinary shares	Nominal value of each share	Ownership	Paid-in share capital	Number of ordinary shares	Nominal value of each share	Ownership
	HRK	Number of shares	HRK	%	HRK	Number of shares	HRK	%
Reginter d.o.o.	308,142,000	1,540,710	200	67.68	-	-	-	-
SEEF Holdings Limited	106,455,800	532,279	200	23.38	-	-	-	-
SWR Investment Limited	20,600,000	103,000	200	4.52	-	-	-	-
Nova banka	27,400	137	200	0.00	233,000,000	2,330,000	100	100.00
Small shareholders	20,054,400	100,272	200	4.42	-	-	-	-
	455,279,600	2,276,398	-	100.00	233,000,000	2,330,000	-	100.00



1. GENERAL INFORMATION (continued)

On the date of the merger, the amounts of assets, liabilities, income, expenses and profit before tax were as follows:

	Nova banka	Dubrovačka banka	Elimination	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Assets	5,604,460	3,239,435	823,446	8,020,449
Liabilities	5,003,773	2,959,076	581,069	7,381,780
Net assets	600,687	280,359	242,377	638,669
Contingencies and commitments	446,322	132,341	-	578,663

	Nova banka	Dubrovačka banka	Elimination	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Interest and similar income	200,195	143,568	14,975	328,788
Interest and similar expense	(90,958)	(61,929)	(14,975)	(137,912)
Net interest income	109,237	81,639	-	190,876
Fee and commission income	52,098	21,234	-	73,332
Fee and commission expense	(20,029)	(11,866)	-	(31,895)
Net fee and commission income	32,069	9,368	-	41,437
Other net income	35,346	3,151	-	38,497
Other operating and administrative expenses	(147,733)	(58,030)	-	(205,763)
Increase in provisions and allowances	8,842	3,170	-	12,012
Profit before tax	37,761	39,298	-	77,059

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

1. Foreign exchange operations in Croatia
2. Domestic payment transactions
3. Receipt of all types of deposits
4. Issuance of all types of loans, opening of letters of credit, issuance of warranties and bank guarantees, and assuming other financial obligations
5. Bill-of-exchange, cheque and deposit certificate operations for own account or on behalf of the Bank's customers
6. Services related to securities (including brokerage)
7. Issuance and management of payment instruments (including cards)
8. Foreign credit operations and payment transactions
9. Domestic payment operations

**1. GENERAL INFORMATION** (continued)

Directors and Management

General Assembly

Viktor Siništaj	President of the General Assembly
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Supervisory Board

Robert Hans von Griethuysen	President
Ronald Oliver Drake	Member
David McMahon	Member
David Donald Curl	Member
Marijan Kostrenčić	Member

Management Board

Damir Odak	President
Sanja Martinko	Member
Zorislav Vidović	Member

The shareholding structure of the Bank is as follows:

	31 December 2004		31 December 2003	
	Paid capital	Ownership %	Paid capital	Ownership %
Reginter d.o.o.	308,142	67.68	308,659	67.80
SEEF Holdings Limited	106,456	23.38	105,938	23.27
SWR Investment Limited	20,600	4.52	20,600	4.52
Nova banka	27	0.00	27	0.00
Small shareholders	20,055	4.42	20,056	4.41
Total	455,280	100.00	455,280	100.00

The Group considers that its business consists of a single business segment, banking and related services. All services are provided in the Republic of Croatia, and therefore are considered a single geographical segment.



2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of presentation

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

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 consolidated financial statements, and actual results in the future could differ from those estimates. The effect of any change in estimates will be included in the financial statements when determinable.

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

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

The Group applies its accounting policies consistently and there are no material changes in the accounting policies compared to previous years.

(b) Basis of consolidation

The financial statements presented are of the Bank and of the Group. The consolidated financial statements of the Group consist of the financial statements of the Bank and of the Bank's subsidiaries.

Subsidiaries are those companies where the Company has the power to govern the financial and operating policies of an invested enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the effective date of control until the date of expiry of control.

Intercompany balances, transactions and profits from transactions between Group enterprises are eliminated on consolidation.

(c) Foreign currencies

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

**(d) Interest income and expense**

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

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(e) Fee and commission income

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

(f) Sale and repurchase agreements

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

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

(g) Net trading income

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

(h) Dividend income

Dividends received on equity securities, except for investments in associates are recognised as income in the income statement when the right to receive dividend has been established.

(i) Held for trading assets ("HFT assets")

Trading securities are initially recognised at cost and subsequently remeasured at fair value based on quoted bid prices at the balance sheet date. All realised and unrealised gains and losses on trading securities are recognised as net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends are shown under dividend income.

(j) Held to maturity investments and assets available for sale

The Group classified its investment securities into the following two categories: (1) held to maturity (public debt, Housing Bonds of the Croatian Ministry of Finance and Mandatory Treasury Bills), and (2) available for sale (equity securities, debt securities and foreclosed tangible assets). Investments



held to maturity and assets available for sale are initially stated at acquisition cost.

(1) Held to maturity Investments (“HTM investments”)

are those investments which the Group has both the intention and the ability to hold until maturity. These investments carried at amortised cost, less any allowance for impairment. The amortisation charge for the year of any discount or premium on acquisition of held-to-maturity securities is recognised in other investment income throughout the period of investment,

An investment held to maturity is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the financial instrument’s original effective interest rate.

(2) Assets available for sale (“AFS assets”)

After initial recognition, assets available for sale are subsequently remeasured at fair value based on quoted bid prices. Where no quoted bid prices are available, fair values of debt securities are estimated using the present value of future cash flows. Fair values for unquoted equity instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the income statement as other operating income or expense. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as other operating income or expense.

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

(k) Associated companies

Associated companies are those in which the Bank has more than 20% and less than 50% voting rights and over which the Bank exercises significant influence but not control. Associates are accounted for under the equity method, whereby the Bank's accrues its share in the profit or loss of associated companies. Dividends are recognised as received and reduce the carrying value of the investment. Unrealised gains and losses resulting from changes in the value of investments in associates are included in the income statement under other income and expense, respectively.

(l) Originated loans and allowance for loan impairment

Loans originated by the Group by providing money directly to a debtor are categorised as loans originated by the Group 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 debtors

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

The allowance for loan losses also includes amounts for losses which are present in the loan portfolio but not specifically identified. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the debtors and reflecting the current economic climate in which the debtors operate.



When a loan is uncollectable, it is written off against the related impairment allowance; subsequent recoveries and releases of allowance are credited to the allowance for loan impairment in the income statement.

(m) Derivative financial instruments

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include forward currency agreements. These financial instruments are used by the Bank to hedge currency exchange risk associated with its transactions in the financial markets.

Derivative financial instruments are initially recognised at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of income as they arise. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement. The majority of the Bank's embedded derivatives result from foreign currency clauses in loan agreements that protect the lender from devaluation of the domestic currency.

(n) Computer software development costs

Generally, costs associated with developing computer programs are recognised as an expense as incurred. However, expenditure that enhances and extends the benefits of computer programs beyond their original specifications and useful lives is recognised as a capital improvement and added to the original cost of the software. Software development costs recognised as assets are amortised using the straight-line method over their useful lives.

**(o) Tangible and intangible assets**

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

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

	2004	2003
Buildings	10-40 years	10-40 years
Computers	4 years	4 years
Furniture and equipment	2.5-10 years	2.5-10 years
Motor vehicles	4 years	4 years
Intangible assets	3.3-5 years	3.3-5 years
Goodwill	5	5

Goodwill represents the difference between the cost of acquisition of interest in a subsidiary and the fair value of the subsidiary's identifiable net assets at the date of acquisition. Following the merger with Istarska banka and Sisačka banka (as at 30 June 2002) and with Dubrovačka banka as at 30 September 2004), the Bank recognised goodwill in its balance sheet. Goodwill is amortised on a straight-line basis over its estimated useful life.

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

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

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

(p) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and cash equivalents with original maturities of less than 90 days, including treasury bills and amounts due from other banks.

(q) Off-balance sheet commitments and contingencies

In the ordinary course of business, the Bank enters into credit related commitments that are recorded in off-balance-sheet accounts and primarily include guarantees, letters of credit and transactions with financial instruments. The provision for possible commitments and contingent liabilities losses is maintained at a level Bank's management 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 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. If these conditions are not met, no provision should be recognised.

(r) Income tax

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

Deferred income taxes are provided using the balance sheet liability method of accounting under which deferred tax consequences are recognised for differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes. Any tax effects related to transactions and other events recognized in the statement of operations are also recognized in the statement of operations and tax effects related to transactions and events recognized directly in equity are also recognized directly in equity.

A deferred tax liability is recognized for all taxable temporary differences unless it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

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

(s) Share capital and Treasury shares

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

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

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

(t) Fiduciary activities

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

(v) Employee benefits

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



All amounts are expressed in thousands of HRK

3. NET INTEREST INCOME

	Group		Bank	
	2004	2003	2004	2003 Restated
Interest and similar income				
Cash reserves and placements with other banks	24,697	8,296	24,695	8,169
Balances with Croatian National Bank	13,117	20,327	13,117	20,327
Corporate loans	73,997	93,602	73,997	93,602
Retail loans	222,403	223,388	222,403	223,388
Available for sale securities	66,383	77,791	66,383	77,791
Replacement bonds	18,822	18,006	18,822	18,006
Other	2,284	8,826	2,284	8,826
	421,703	450,236	421,701	450,109
Interest and similar expense				
Current accounts and deposits of retail customers	103,646	125,324	103,646	125,324
Current accounts and deposits of corporate customers	30,150	19,151	30,150	19,151
Borrowings from, current accounts and deposits of other banks	22,133	23,550	22,125	23,501
Debt securities	2,615	2,091	2,615	2,091
Other	757	567	757	567
	159,301	170,683	159,293	170,634

4. NET FEE AND COMMISSION INCOME

	Group		Bank	
	2004	2003	2004	2003 Restated
Fee and commission income				
Corporate customers	43,478	42,655	43,478	42,655
Banks	535	2,098	535	2,098
Retail customers	50,848	59,400	50,848	59,400
	94,861	104,153	94,861	104,153
Fee and commission expense				
Corporate customers	26,791	29,262	26,791	29,262
Banks	8,975	8,995	8,972	8,991
Retail and other customers	6,726	6,621	6,726	6,621
	42,492	44,878	42,489	44,874

*All amounts are expressed in thousands of HRK***5. NET TRADING GAINS**

	Group		Bank	
	2004	2003	2004	2003 Restated
Net gains on foreign currency dealings	34,832	39,097	34,832	39,097
Fair value adjustment of derivative financial instruments	1,035	713	1,035	713
	35,867	39,810	35,867	39,810

6. OTHER OPERATING INCOME

	Group		Bank	
	2004	2003	2004	2003 Restated
Gains on sale and disposal of property and equipment	2,513	10,168	2,513	12,160
Income from elimination of liabilities	9,009	-	9,009	-
Indexation of replacement bonds	17,539	3,593	17,539	3,593
Gains on sale of foreclosed assets	3,403	-	3,403	-
Dividend income	150	2,181	150	9,656
Profit on liquidation of subsidiaries (Note 18)	-	2,707	-	2,707
Effect of fair valuation of AFS assets	163	1,096	163	1,096
Gains on sale of AFS assets	2,734	710	2,734	746
Other income	8,103	20,839	5,739	10,142
	43,614	41,294	41,250	40,100

Income from elimination of liabilities in the amount of HRK 9,009 thousand is the result of a management board decision to close citizens' demand deposit accounts with balances below HRK 100 which have been inactive over 3 years and who the Bank was not able to contact. The decision of the management board does not release the Bank of its legal liability should any of the account holders demand payment in the future, at which time it would represent an expense to the Bank.

The Bank's dividend income in 2003 includes dividend received from the subsidiary Dalbank Invest d.o.o. in the amount of HRK 7,475 thousand.

Other income of the Group include closed-end investment fund PIF Velebit managing fee in the amount of HRK 1,298 thousand (2003: HRK 9,805 thousand).



All amounts are expressed in thousands of HRK

7. OPERATING EXPENSES

	Group		Bank	
	2004	2003	2004	2003 Restated
Staff costs (Note 8)	139,624	156,018	138,762	154,798
Professional services and cost of material	82,241	82,220	81,567	81,820
Savings deposit insurance premiums	23,375	26,227	23,375	26,227
Marketing	13,969	9,227	13,969	9,148
Amortization of goodwill (Note 19)	29,003	28,989	29,003	28,989
Depreciation (Note 19)	19,288	21,609	17,980	21,215
Administrative expenses	10,792	16,435	10,792	16,250
Loss on sale of foreclosed assets	-	921	-	921
Other taxes and contributions	1,931	655	1,931	655
Write-off of receivables	1,342	-	1,342	-
Effect of fair valuation of AFS assets	2,492	251	2,492	251
Other costs	3,721	8,208	3,138	7,670
	327,778	350,760	324,351	347,944

8. STAFF COSTS

	Group		Bank	
	2004	2003	2004	2003 Restated
Gross salary	107,653	119,546	106,795	118,606
- Net salaries	74,048	82,984	73,399	82,444
- Taxes, surtaxes and contributions	33,605	36,562	33,396	36,162
Contributions on salaries	18,369	20,544	18,369	20,417
Other payments to employees	13,602	15,928	13,598	15,775
	139,624	156,018	138,762	154,798

At year-end, the Group had 1,074 (2003: 1,266) and the Bank 1,069 (2003: 1,262) employees.

9. PROVISIONS AND ALLOWANCE FOR IMPAIRMENT LOSSES

	Group		Bank	
	2004	2003	2004	2003 Restated
Amounts due from other banks (Note 13)	(2,753)	(5,611)	(2,753)	(5,611)
Loans and advances to customers (Note 14)	(32,206)	10,178	(32,206)	10,178
Other assets (Note 16)	(9,604)	(1,973)	(9,604)	(1,973)
Litigation provision (Note 23 b)	2,714	(1,072)	2,714	(1,072)
Provisions for off-balance sheet items (Note 23 b)	2,961	1,345	2,961	1,345
Provision for severance pays and bonuses to employees (Note 23 b)	9,840	7,512	9,840	7,512
Net (release)/increase	(29,048)	10,379	(29,048)	10,379



10. TAXATION

	Group		Bank	
	2004	2003	2004	2003 Restated
Current taxes:				
Corporate income tax expense	(7)	(27)	-	-
	(7)	(27)	-	-
Deferred taxes:				
Deferred tax credit	50,280	20,000	50,280	20,000
	50,280	20,000	50,280	20,000
	50,273	19,973	50,280	20,000

Current tax represents amount payable in accordance with Croatian law, assessed at a rate of 20% (2003: 20%).

Changes in deferred tax assets of the Group and of the Bank during the year are as follows:

	Group		Bank	
	2004	2003	2004	2003 Restated
Balance at 1 January	20,000	-	20,000	-
Tax assets recognised during the year	67,194	20,000	67,194	20,000
Tax assets utilised during the year	(20,000)	-	(20,000)	-
Deductible temporary differences	3,086	-	3,086	-
	70,280	20,000	70,280	20,000

The income tax expense in relation to the accounting profit or loss of the Bank can be analysed as follows:

	Bank	
	2004	2003 Restated
Accounting profit before taxation	92,493	57,339
Adjustment on consolidation	-	7,344
Accrued income recognised for tax purposes	15,428	-
Tax allowable expense resulting from value adjustment	(4,400)	(25,790)
Tax disallowable expense in respect of severance pays provided against	2,328	2,088
Increase in taxable profit by tax disallowable expenses	1,290	-
Decrease in taxable profit by dividend income and subsidies	(637)	(7,697)
Non-deductible expense	796	4,553
Tax losses brought forward	(107,298)	(39,975)
Tax losses	-	(2,138)
Tax expense at 20% rate (2003: 20%)	-	-



10. TAXATION (continued)

The Group is subject to corporate income tax in accordance with Croatian law. Tax gains and losses of individual Group companies cannot be utilised on the Group level or transferred to one Group member to another. Taxable profit may be reduced only to the extent of tax losses brought forward by the Group companies. At 31 December 2004, only one Group company "Dalbank Nekretnine" d.o.o., had income tax liability determined according to its taxable income of HRK 7 thousand (2003: "Dalbank Nekretnine" in the amount of HRK 27 thousand), whereas all other Group companies had no income tax liability as a result of tax losses amounting to HRK 336,960 thousand in total (2003: HRK 443,913 thousand) on the Group level and to HRK 335,968 thousand (2003: HRK 443,266 thousand) on the Bank level. Tax losses can be carried forward up to five years and are subject to adjustment as resulting from inspections by the Croatian Ministry of Finance

Tax losses:

	Group		Bank	
	2004	2003	2004	2003 Restated
Tax losses brought forward	443,913	544,521	443,266	544,521
Tax loss for the year	345	2,785	-	2,138
Amounts utilised in the year	(107,298)	(39,975)	(107,298)	(39,975)
Expired tax losses	-	(63,418)	-	(63,418)
Total tax losses available	336,960	443,913	335,968	443,266
Tax effect from tax losses carried forward (at a rate of 20%)	67,392	88,783	67,194	88,653
Amount not recognised as deferred tax assets	198	68,783	-	68,653
Recognised deferred tax assets	67,194	20,000	67,194	20,000

At 31 December 2004 unutilised tax losses that are available for setting off against the future profits amount to HRK 67,392 thousand (2003: HRK 88,783 thousand) for the Group and HRK 67,194 thousand (2003: HRK 88,653 thousand) for the Bank. Based on these losses, deferred tax assets in the amount of HRK 67,194 thousand have been recognised both for the Group and the Bank (2003: HRK 20,000 thousand), whereas the remaining HRK 198 thousand (2003: HRK 68,783 thousand) for the Group has not been recognised as deferred tax assets due to uncertainty as to the ability to generate taxable profit in the future. Management Board has recognised deferred tax assets in the amount of HRK 67,194 thousands based on 2005 profit projection in the amount of HRK 150,464 thousands.

At 31 December 2004, tax losses available for carry forward expire as follows:

	Group		Bank	
	2004	2003	2004	2003 Restated
Up to 5 years	345	2,785	-	2,138
Up to 4 years	2,785	79,087	2,138	79,087
Up to 3 years	79,087	107,504	79,087	107,504
Up to 2 years	107,504	162,294	107,504	162,294
Up to 1 year	147,239	92,243	147,239	92,243
Total tax loss carried forward	336,960	443,913	335,968	443,266

The Bank has not had a tax inspection in recent years and there exists the possibility that the taxable income or loss of the Bank might be revised as the result of a tax inspection. Management believes that any such revision would not be material.



11. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit or loss for the period attributable to ordinary shareholders by weighted average number of principal ordinary shares during the year, after deduction of treasury shares.

The net profit of the Group attributable to ordinary shareholders in respect of 2004 amounts to HRK 141,694 thousand (2003: HRK 75,971 thousand). The weighted average number of principal ordinary shares used in the calculation of the basic earnings per share was 2,276,261 (2003: 2,176,261).

12. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Cash in hand	85,029	105,442	85,028	105,439
Giro account balance	84,043	43,666	84,043	43,666
Current accounts with foreign banks	34,185	44,576	34,185	44,576
Current accounts with domestic banks	3,898	9,344	3,898	9,344
Items in course of collection	7,705	11,078	7,705	11,078
Assets included in cash and cash equivalents (Note 28)	214,860	214,106	214,859	214,103
Obligatory reserve at Croatian National Bank				
- in HRK	566,303	619,010	566,303	619,010
- in foreign currency	438,020	534,093	438,020	534,093
Subtotal: Total obligatory reserve at Croatian National Bank	1,004,323	1,153,103	1,004,323	1,153,103
	1,219,183	1,367,209	1,219,182	1,367,206

Obligatory reserves in HRK and in foreign currency (Note 30) are calculated at the rate of 18% on HRK and foreign currency deposits, and foreign currency loans. The Bank is as at 31 December 2004 bound to hold at least 60% of such reserves in its account with the Croatian National Bank. Obligatory reserve deposits are not available for use in the Bank's day-to-day operations.

13. AMOUNTS DUE FROM OTHER BANKS

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Short-term placements with other banks	1,278,024	789,159	1,278,024	789,078
Loans and advances to other banks in Croatia	52,064	2,313	52,064	2,313
Subtotal: Total gross amount due from other banks	1,330,088	791,472	1,330,088	791,391
Less: allowance for impairment	(4,089)	(6,842)	(4,089)	(6,842)
	1,325,999	784,630	1,325,999	784,549



All amounts are expressed in thousands of HRK

14. ORIGINATED LOANS AND OTHER ORIGINATED FINANCIAL ASSETS

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Loans and advances to customers	3,596,335	3,581,006	3,596,335	3,581,006
Other originated financial assets	141,221	400,268	141,221	400,268
	3,737,556	3,981,274	3,737,556	3,981,274

a) Loans and advances to customers

Analysis by type of product

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
HRK denominated				
Retail customers	2,451,759	2,490,802	2,451,759	2,490,802
Corporate customers	1,469,223	1,273,719	1,469,223	1,273,719
Foreign currency denominated				
Retail customers	10,757	9,766	10,757	9,766
Corporate customers	112,108	225,796	112,108	225,796
State Agency for Savings Deposit Insurance and Bank Rehabilitation	63,691	177,520	63,691	177,520
Total loans	4,107,538	4,177,603	4,107,538	4,177,603
Less: allowance for impairment	511,203	596,597	511,203	596,597
	3,596,335	3,581,006	3,596,335	3,581,006



All amounts are expressed in thousands of HRK

Movements in allowance for impairment were as follows:

GROUP AND THE BANK

	31/12/2004		31/12/2003	
	Specific	Other	Specific	Other
Balance at 1 January	543,999	52,598	709,934	47,055
Amounts collected (Note 9)	(47,549)	-	-	-
New provisions made (Note 9)	5,854	9,489	4,635	5,543
Exchange differences	8,978	-	15,303	-
Amounts written off	(62,166)	-	(185,873)	-
Balance at 31 December	449,116	62,087	543,999	52,598

At 31 December 2004, total non-performing loans were HRK 635,917 thousand for the Bank (2003: HRK 776,140 thousand). Unrecognised interest for the Bank on these loans amounts to HRK 362,359 thousand at 31 December 2004 (2003: 375,777 thousand). Accrued interest outstanding for 2004 in respect of impaired loans amounts to HRK 4,988 thousand at 31 December 2004 (2003: HRK 5,027 thousand).



14. ORIGINATED LOANS AND OTHER ORIGINATED FINANCIAL ASSETS (continued)

a) Loans and advances to customers (continued)

Concentration of credit risk by industry

Set out below is an overview of the Group's and the Bank's concentration by various types of industries (gross amounts before allowance for impairment):

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
State Agency for Savings Deposit Insurance and Bank Rehabilitation	63,691	177,520	63,691	177,520
Agriculture, forestry and fisheries	162,236	125,503	162,236	125,503
Mining	5,393	6,001	5,393	6,001
Food and beverages	110,785	119,766	110,785	119,766
Leather and textiles	2,874	1,376	2,874	1,376
Publishing and printing	13,767	11,166	13,767	11,166
Non-metal mineral and chemical products	6,452	3,946	6,452	3,946
Metal-working industry	16,218	13,722	16,218	13,722
Other manufacturing industries	106,349	135,292	106,349	135,292
Energy, gas and water supply	8,361	7,009	8,361	7,009
Construction	209,801	138,483	209,801	138,483
Trade and commerce	458,561	514,253	458,561	514,253
Hotels and restaurants	177,072	104,373	177,072	104,373
Transport and communications	111,606	102,623	111,606	102,623
Financial intermediation	8,220	201	8,220	201
Real estate	74,193	72,775	74,193	72,775
Public administration and defence	22,452	19,423	22,452	19,423
Education, health and social welfare	6,477	4,816	6,477	4,816
Other services and social activities	56,136	93,254	56,136	93,254
Foreign entities	31,946	25,533	31,946	25,533
Subtotal: Total corporate loans	1,652,590	1,677,035	1,652,590	1,677,035
Individuals	2,454,948	2,500,568	2,454,948	2,500,568
Total loans	4,107,538	4,177,603	4,107,538	4,177,603
Less allowance for impairment	(511,203)	(596,597)	(511,203)	(596,597)
	3,596,335	3,581,006	3,596,335	3,581,006



All amounts are expressed in thousands of HRK

The loan to the Agency was granted on the basis of the contract on the sale and portfolio management concluded on 4 February 2002. During Croatian bank privatisation, it was a common transaction to transfer investment portfolios to the Government Agency by banks. Based on the contract, the Bank sold and transferred to the Agency its business interests, valid receivables and properties in the amount of HRK 301,679 thousand, i.e. at the net book value of the portfolio as recorded in the Bank's accounts at 31 December 2001. The net book value of transferred loans was HRK 208,671 thousand, of business interests HRK 78,264 thousand and of properties HRK 14,744 thousand. The settlement date for the entire sale price is 30 June 2005. The price amount is pegged to the middle exchange rate of Euro as published by the Croatian National Bank at 28 March 2002 (date of the portfolio transfer) and is determined specifically at each payment date. Interest is accrued on a quarterly basis at the rate of EURIBOR plus 2 percentage points and paid every six months.

b) Other financial assets originated by Bank

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Foreign currency treasury bills of the Croatian National Bank	-	362,028	-	362,028
Treasury bills of the Croatian Ministry of Finance in HRK	141,221	38,240	141,221	38,240
	141,221	400,268	141,221	400,268

Interest on treasury notes of the Croatian Ministry of Finance denominated in Croatian Kuna was between 4.90% to 7.00% in 2004, and 6.7% to 6.75% in 2003.

**15. HELD TO MATURITY INVESTMENTS**

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Receivables for public debt	26,541	58,887	26,541	58,887
Housing bonds of the Croatian Ministry of Finance	16,813	16,761	16,813	16,761
Corporate bills of exchange	34,548	-	34,548	-
Obligatory treasury bills of the Croatian National Bank	-	7,831	-	7,831
Treasury bills of the Croatian Ministry of Finance	4,969	-	4,969	-
	82,871	83,479	82,871	83,479

The housing bonds of the Ministry of Finance were received as compensation for flats purchased by the government of Croatia.

The treasury bills of the Ministry of Finance of the Republic of Croatia were purchased from Erste und Steiermaerkische Bank on 18 November 2004, with maturity date 17 February 2005, and at an interest rate of 4.70% annually. Their total nominal value amounts to HRK 5,000 thousand.

Obligatory treasury bills of the Croatian National Bank ("the CNB") were subscribed during 2003 under the CNB decision on mandatory subscription of treasury bills dated 18 September 2003, when the direct supervision findings of the CNB revealed a growth in the Bank's placements over the first three months of 2003 in excess of the prescribed limit by 0.11%. The treasury bills were subscribed for a period of 90 days from the date of subscription, which was 15 October 2003, and accrue interest at a rate of 0.5%. No trading in the treasury bills is allowed.



All amounts are expressed in thousands of HRK

16. OTHER ASSETS

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Accrued interest	9,854	18,890	9,854	18,890
Accrued fees and commissions	17,188	20,431	17,188	20,431
Items in course of collection	24,953	44,969	24,953	44,572
Accounts receivable	7,341	-	7,138	-
Receivables in respect of credit card operations	13,337	4,666	13,337	4,666
Due from Croatia osiguranje	8,915	6,501	8,915	6,501
Receivables for prepaid taxes and contributions	576	442	576	442
Prepaid expenses	2,311	3,460	2,307	3,460
Due from sale of investment	-	9,735	-	9,735
Due from Dalbank Invest	-	-	3,002	14,980
Income tax prepayments	507	1,317	-	-
Other	3,270	7,167	3,161	6,974
Allowance for impairment	(29,335)	(38,939)	(29,335)	(38,939)
	58,917	78,639	61,096	91,712

Movements in provisions for impairment for other assets for the Group and the Bank were as follows:

	2004	2003
Balance at 1 January	38,939	40,912
Provisions made (Note 9)	(9,604)	(1,973)
Balance at 31 December	29,335	38,939

Receivables from Croatia Osiguranje in the amount of HRK 8,915 thousand (2003: HRK 6,501 thousand) represent the savings component of annual insurance premiums paid in by the Bank for all its employees. The policy beneficiary is the Bank, and the contracted insurance period is 10 years.

The amount due from Dalbank Invest consists of HRK 3,002 thousand (2003 : HRK 9,000 thousand for sold property and of HRK 5,980 thousand for the sale of investment in the company Brodomerkur).

17. ASSETS AVAILABLE FOR SALE

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Equity securities	20,145	47,777	17,534	35,746
Debt securities	1,110,517	1,286,821	1,110,517	1,286,821
Foreclosed assets	2,838	23,513	2,838	23,513
	1,133,500	1,358,111	1,130,889	1,346,080



17. ASSETS AVAILABLE FOR SALE (continued)

a) Equity securities

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Equity securities at cost				
- unquoted	45,819	98,927	43,208	80,707
Fair value adjustment				
- unquoted	(25,674)	(51,150)	(25,674)	(44,961)
	20,145	47,777	17,534	35,746

Most significant investments available for sale are as follows:

Name of company	Business	Effective share	
		31/12/2004 %	31/12/2003 %
Brodmerkur d.d., Split	Trade	-	26.12
Jadranka d.d., Mali Lošinj	Tourism	5.36	5.36
Uljanik d.d., Pula	Shipbuilding	0.63	0.63
Istra d.d., Pula	Trade	1.95	1.95
Naprijed d.d., Split	Publishing	37.70	37.70
Tekstilna industrija Zadar	Textiles	25.61	25.61
MBU - Zagreb	Financial sector	11.78	11.78
Tržište novca - Zagreb	Financial sector	12.4	12.4
Zagreb Stock Exchange, Zagreb	Financial sector	2.17	2.22
ITS Fažana	Non-metal manufacturing	12.99	12.99
Istarska autocesta Zagreb	Transport and communications	3.08	3.08
KIM Mljekara Karlovac d.d., Karlovac	Dairy products	2.43	2.43

Available-for-sale equity securities have been acquired mostly in exchange for impaired receivables.

The value of investments in shares of Tekstilna industrija Zadar and Naprijed d.d. Split approximates zero. These two companies are under liquidation and bankruptcy proceeding.



All amounts are expressed in thousands of HRK

b) Debt securities

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Quoted				
HZZO bonds	-	24,549	-	24,549
Agency bonds	10,921	11,263	10,921	11,263
Bonds of Ministry of Finance	18,853	30,580	18,853	30,580
CBRD bonds	25,398	23,889	25,398	23,889
Bonds of foreign governments	8,152	13,529	8,152	13,529
Corporate bills of exchange	-	13,432	-	13,432
Bills of exchange issued by local self-government units	-	3,876	-	3,876
Subtotal: Quoted debt securities	63,324	121,118	63,324	121,118
Agency bonds for the restructuring of Dubrovačka banka	657,204	793,538	657,204	793,538
Replacement bonds of the Croatian Ministry of Finance	389,989	372,165	389,989	372,165
Subtotal: Unquoted debt securities	1,047,193	1,165,703	1,047,193	1,165,703
	1,110,517	1,286,821	1,110,517	1,286,821

The bonds of the State Agency for Savings Deposit Insurance and Bank Rehabilitation (DAB) were issued with the guarantee of the Ministry of Finance on behalf of the Croatian Government. The bonds are denominated in Croatian Kuna and linked to EUR under the currency clause; the interest rate on these bonds is 8.375 % and interest is paid semi-annually. Bonds expire in full amount at 19 December 2005. The bonds are quoted on the Zagreb Stock Exchange (1st Quotation).

The bonds of the Croatian Bank for Reconstruction and Development ("CBRD") are issued with the guarantee of the Ministry of Finance on behalf of the Croatian Government. The bonds are denominated in Euro and the interest rate on these bonds is 5.75% and interest is paid annually. The bonds mature on 4 December 2012. These bonds are quoted on the Luxembourg Stock Exchange. The bonds of the CBRD in the nominal amount of EUR 1.9 million were pledged with Erste und Steiermaerkische Bank d.d. as collateral for the repo loan issued by the bank (Note 22 b).

The bonds of the Croatian Ministry of Finance (the so-called Brady Bonds) are denominated in USD, and interest is calculated at six-month USLIBOR + 81.25 basis points. The bonds are due in semi-annual instalments, with the ultimate maturity date 31 July 2006. These bonds are quoted on the Luxembourg Stock Exchange.



17. ASSETS AVAILABLE FOR SALE (continued)

b) Debt securities (continued)

Foreign government bonds were issued by Federal Republic of Germany - Sovereign in the amount of EUR 1,000,000, at an interest rate of 4.125%, with interest paid annually. The entire principal is due on 4 July 2008. These bonds are quoted on German stock exchanges.

The rehabilitation bonds represent bonds issued by the Agency (DAB) as part of the rehabilitation of Dubrovačka banka for the purpose of covering accumulated losses of the Bank, which exceeded the Bank's capital during the rehabilitation, as well as for the necessary initial increase of the Bank's capital. The rehabilitation bonds were issued in two series, denominated in Croatian Kuna and linked to Euro under the currency clause. The total amount of A-series bonds is HRK 1,002 million, and the maturity date is 25 November 2007; the total amount of B-series bonds is HRK 1,600 million, with maturity date 15 November 2008. The rehabilitation bonds were issued at fixed annual rates of 6% and 7%.

The rehabilitation bonds can be sold only following prior approval by the Agency and they may be pledged at the Croatian National Bank for Lombard loans.

At 31 December 2004, HRK 230,137 thousand (2003: HRK 114,704 thousand) of debt securities were pledged at commercial banks as collateral for received loans and deposits.

Replacement bonds were issued by the Croatian Government to replace the economic restructuring bonds based on the Government decision of 6 April 2000. The replacement bonds are denominated in Croatian Kuna and are indexed to the industrial price index. Every six months the principal amount of the bond is revalued based on changes in the index and the revaluation gains are included in income in the period they occur. The interest rate on these bonds is 5% annually, and the interest is paid on a semi-annual basis. The principal is due in 2011.

c) Foreclosed assets

Assets acquired on effecting collaterals provided for receivables comprise the following:

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Land and buildings	2,838	17,701	2,838	17,701
Machinery and equipment	-	5,812	-	5,812
Total	2,838	23,513	2,838	23,513
Movements in foreclosed assets:				
Balance at 1 January	23,513	35,023	23,513	35,023
Additions during the year	6,913	16,615	6,913	16,615
Disposals during the year	(30,002)	(26,953)	(30,002)	(26,953)
Net profit/(expense) in the income statement	2,414	(1,172)	2,414	(1,172)
Balance at 31 December	2,838	23,513	2,838	23,513

The value of the remaining foreclosed assets is stated at recoverable amounts based on estimates made by certified valuation experts.

*All amounts are expressed in thousands of HRK***18. INVESTMENTS IN SUBSIDIARIES**

Set out below are the operating subsidiaries of the Bank, included in the consolidated statements of the Group:

Name	Business activity	Effective share	
		31/12/2004	31/12/2003
Dubrovačka banka d.d.	Banking	-	100%
Dalbank Invest d.o.o.	Investment Fund		
	Management Company	100%	100%
Dalbank Nekretnine d.o.o.	Real estate	100%	100%

The amounts of assets, liabilities, income, expenses and profit in subsidiary companies are as follows:

	Dalbank Invest		Dalbank Nekretnine	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Assets	3,471	15,864	19,956	19,927
Liabilities	3,083	15,052	19,781	19,777
Net assets	388	812	175	150
	Dalbank Invest		Dalbank Nekretnine	
	2004	2003	2004	2003
Total income	1,378	10,202	975	776
Total expenses	(1,802)	(10,890)	(971)	(684)
Net profit/(loss) for the year	(424)	(688)	4	92

**18. INVESTMENTS IN SUBSIDIARIES** (continued)

During 2003, the Bank initiated liquidation proceedings for two of its subsidiaries, Dalbank Vrijednosnice d.o.o. and Dalbank Consulting d.o.o., which were concluded in December 2003. In the final balance sheets for liquidation purposes, which the Bank adopted and included in its account, the assets exceeded the liabilities.

	Dalbank Vrijednosnice	Dalbank Consulting	Total
Assets			
Property and equipment	67	12	79
Receivables	837	3	840
Cash	5,760	14	5,774
Total assets	6,664	29	6,693
Equity and liabilities			
Short-term liabilities	(3)	-	(3)
Equity	(3,783)	(200)	(3,983)
Total equity and liabilities	(3,786)	(200)	(3,986)
Net assets gained /(losses) (Note 6)	2,878	(171)	2,707



All amounts are expressed in thousands of HRK

19. TANGIBLE AND INTANGIBLE ASSETS

Group

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Intangible asset	Asset under constructin	Total
Cost:								
At 31 December 2003	234,383	88,908	88,163	7,841	966	44,058	5,293	469,612
Additions	450	88	452	9	-	2,522	11,045	14,566
Transfers from assets under construction	9	8,897	1,397	-	-	28	(10,331)	-
Disposals	(345)	(21,313)	(3,251)	(2,165)	(5)	(2,507)	-	(29,586)
At 31 December 2004	234,497	76,580	86,761	5,685	961	44,101	6,007	454,592
<i>Accumulated depreciation/ amortisation:</i>								
At 31 December 2003	72,352	80,471	70,927	6,891	-	35,434	-	266,075
Charge for the year	5,829	4,812	4,795	511	-	3,341	-	19,288
Disposals	(307)	(21,312)	(3,007)	(2,165)	-	(2,394)	-	(29,185)
At 31 December 2004	77,874	63,971	72,715	5,237	-	36,381	-	256,178
Net book value:								
At 31 December 2004	156,623	12,609	14,046	448	961	7,720	6,007	198,414
At 31 December 2003	162,031	8,437	17,236	950	966	8,624	5,293	203,537



19. TANGIBLE AND INTANGIBLE ASSETS (continued) - Restated

	Bank							
	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Intangible asset	Asset under construction	Total
Cost:								
At 31 December 2003	198,257	88,746	88,059	7,574	966	44,058	5,293	432,953
Additions	-	24	433	-	-	2,522	11,045	14,024
Transfer from assets under construction	9	8,897	1,397	-	-	28	(10,331)	-
Disposals	(345)	(21,279)	(3,251)	(2,165)	(5)	(2,507)	-	(29,552)
At 31 December 2004	197,921	76,388	86,638	5,409	961	44,101	6,007	417,425
<i>Accumulated depreciation/amortisation:</i>								
At 31 December 2003	68,311	80,339	70,840	6,809	-	35,434	-	261,733
Charge for the year	4,718	4,722	4,773	426	-	3,341	-	17,980
Disposals	(307)	(21,278)	(3,007)	(2,165)	-	(2,394)	-	(29,151)
At 31 December 2004	72,722	63,783	72,606	5,070	-	36,381	-	250,562
Net book value:								
At 31 December 2004	125,199	12,605	14,032	339	961	7,720	6,007	166,863
At 31 December 2003	129,946	8,407	17,219	765	966	8,624	5,293	171,220

GOODWILL

Goodwill stated on the Bank's balance sheet represents goodwill arisen on acquisition of Istarska banka d.d., Pula, Sisačka banka d.d., Sisak (which is included in the Bank's accounts following the merger on 30 June 2002) and Dubrovačka banka d.d., Dubrovnik (which is included in the Bank's accounts following the merger on 30 September 2004). Goodwill amortization charge is included in the income statement under "Operating expenses".

Movements in goodwill are as follows:

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
At 1 January	71,969	100,958	71,969	100,958
Amortization charge (Note 7)	(29,003)	(28,989)	(29,003)	(28,989)
At 31 December	42,966	71,969	42,966	71,969



20. AMOUNTS DUE TO OTHER BANKS

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Demand deposits				
HRK denominated	6,938	1,485	6,938	1,485
Foreign currency denominated	4,231	1,510	4,231	1,510
Time deposits				
HRK denominated	-	55,603	-	55,603
Foreign currency denominated	-	96,305	-	96,305
	11,169	154,903	11,169	154,903

21. AMOUNTS DUE TO CUSTOMERS

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Retail customers				
Demand deposits				
HRK denominated	646,735	619,185	646,735	619,185
Foreign currency denominated	1,320,315	1,499,561	1,320,315	1,499,561
Time deposits				
HRK denominated	264,205	233,054	264,205	233,054
Foreign currency denominated	3,258,369	3,127,529	3,258,369	3,127,529
Frozen foreign currency savings	6,373	23,411	6,373	23,411
Corporate customers				
Demand deposits				
HRK denominated	457,814	455,789	457,814	455,789
Foreign currency denominated	107,477	82,299	107,477	82,299
Time deposits				
HRK denominated	167,931	251,470	167,931	251,470
Foreign currency denominated	164,283	107,635	164,283	107,635
Current accounts and deposits of subsidiaries	-	-	473	2,139
	6,393,502	6,399,933	6,393,975	6,402,072

Frozen foreign currency deposits represent deposits of individuals placed with commercial banks prior to 27 April 1991, which were frozen in accordance with the Government's decision.

**22. OTHER BORROWED FUNDS**

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Domestic creditors:				
CBRD	308,896	231,726	308,896	231,726
Ministry of Finance	1,083	1,079	1,083	1,079
Other borrowings from domestic banks	77,949	66,251	77,949	66,251
Foreign creditors:				
Refinanced foreign currency borrowings	34,356	47,543	34,356	47,543
Commercial banks	161,643	296,888	161,643	296,888
Government agencies	46,428	46,988	46,428	46,988
	630,355	690,475	630,355	690,475

a) Amounts due to the Croatian Bank for Reconstruction and Development

At 31 December 2004, the total debt to the CBRD was HRK 308,896 thousand for the Group and for the Bank (2003: HRK 231,726 thousand). The funds are designated for approving loans to end users † corporate and retail customers † under the SMEs, tourist trade and agriculture incentive programme supported by the CBRD, at an average interest rate of 2.69% (2003: 3.07%).

(b) Other borrowings from domestic banks

Of the total borrowings from domestic banks, the major portion of HRK 61,796 thousand, both for the Group and for the Bank, represents a loan from Privredna banka Zagreb d.d., Zagreb with a currency clause. These borrowed funds pay an interest rate of 6-month EURIBOR + 1.9%. Other borrowings of the Group and of the Bank from domestic banks include a liability to Erste und Steiermaerkische Bank under a repo loan in the amount of HRK 15,400 thousand, with an interest rate of 2.65% and the final repayment deadline 28 January 2004.

(c) Refinanced foreign currency loans***London Club***

At 31 December 2004, the liabilities to the London Club were HRK 21,241 thousand for the Group and for the Bank (2003: HRK 34,897 thousand for the Bank). Based on the Information Memorandum of 9 May 1999 and the Notification of Offer of 14 June 1996, the Croatian Government assumed at 31 July 1996 the obligation in respect of 29.5% of reprogrammed debt of the former Yugoslavia to commercial banks under the New Financial Agreement by issuing own A- and B-series bonds on 31 July 1996 to replace the debt under the New Financial Agreement. The financial debt is USD denominated and has been reprogrammed over 14 years, at an interest rate of six-month LIBOR for USD + 13/16% margin annually.



Paris Club

At 31 December 2004, the liabilities to the Paris Club were 13,115 thousand for the Group and for the Bank (2003: HRK 12,646 thousand). The loans repayable between 1984 and 1988 were refinanced and reprogrammed by means of several agreements, concluding with the Paris Club Agreement of 21 March 1995. Under the Agreement, principal is repayable in 24 semi-annual instalments, commencing on 31 January 1998. During 1997 and 1998, further individual negotiations with Paris Club members took place and bilateral consolidation agreements were concluded. The agreement with Italy was still pending at the date of this report.

(d) Amounts due to commercial banks

Of the total debt to commercial banks, the major portions comprise the following: a) HRK 44,122 thousand, both for the Group and for the Bank (2003: HRK 49,478 thousand) due to the World Bank (IBRD). The interest on the borrowings is calculated at variable rate in the amount of 6-month EURIBOR + 0.50% margin annually. The loan is repayable in semi-annual instalments; b) HRK 49,863 thousand, both for the Group and the Bank (2003: HRK 49,725 thousand), comprising two loans received from Adria Bank AG Wien at an interest rate of 3-month EURIBOR + 1.5%, fully repayable on 30 June 2005; and c) HRK 38,356 thousand (2003: HRK 38,250 thousand) in respect of a loan from Nova Ljubljanska banka d.d. at a variable interest rate of 3-month EURIBOR + 1.4%. The entire loan is due on 27 March 2005.

Other liabilities comprise loans granted by other commercial banks that have been placed to the Group's and the Bank's customers.

(e) Amounts due to government agencies

The major portion of this debt relates to the debt to the DEG, which amounts to HRK 39,568 thousand (2003: HRK 39,098 thousand). The loan was approved for a period of 6 years, at variable interest rate (6-month EURIBOR + 4.5%); these funds are included in the Bank's supplementary capital in accordance with the Croatian law. The entire loan is due on 15 November 2009.

HRK 6,860 thousand of the total debt to government agencies (2003: HRK 7,890 thousand) represents a placement by the customer MEDIOCREDITO, which is repayable in equal semi-annual instalments until 2011, at a fixed interest rate of 1.75%.



23. PROVISIONS

a) Analysis of provisions

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Provisions for off-balance sheet items	7,231	4,270	7,231	4,270
Litigation provision	15,747	13,033	15,747	13,033
Provision for severance pays and bonuses to employees	12,643	7,782	12,643	7,782
	35,621	25,085	35,621	25,085

b) Movements in provisions for liabilities and charges

Provisions for off-balance sheet items

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Balance at 1 January	4,270	6,725	4,270	6,725
Net expense in the income statement (Note 9)	2,961	1,345	2,961	1,345
Transfer to other liabilities	-	(3,800)	-	(3,800)
Balance at 31 December	7,231	4,270	7,231	4,270

Litigation provision

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Balance at 1 January	13,033	19,312	13,033	19,312
Net expense in the income statement (Note 9)	2,714	(1,072)	2,714	(1,072)
Decrease in provisions	-	(5,207)	-	(5,207)
Balance at 31 December	15,747	13,033	15,747	13,033

Provision for severance pays and bonuses to employees

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Balance at 1 January	7,782	2,976	7,782	2,976
Net expense in the income statement (Note 9)	9,840	7,512	9,840	7,512
Decrease in provisions	(4,979)	(2,706)	(4,979)	(2,706)
Balance at 31 December	12,643	7,782	12,643	7,782



c) Legal actions

Registration

A small number of the shareholders of Istarska banka initiated a legal action in respect to the merger of Istarska banka and Sisačka banka with Dalmatinska banka and the subsequent registration of Dalmatinska banka, which was renamed to Nova banka. The claims on two legal actions have already been rejected on the first-instance court, that is, the court has ruled in favour of the Bank. In the opinion of the management, the higher court will rule in favour of the Bank.

Other legal actions

Commodity Stockpiles Board filed a legal action against Nova banka in the amount of HRK 15,037 thousand related to two issued letters of intent to issue guarantees for the debt of Diona d.d. to the Commodity Stockpiles Board. On 9 January 2003 the Municipal Court in Pula rejected the claim, and issued a judgement in favour of the Bank. The plaintiff has filed an appeal which is still pending. The Bank's Management believes the case is without merit and has made no provision.

A Croatian bank filed a legal action against Nova banka in respect of payment of DEM 2 million, plus interest and for HRK 139 thousand, plus interest. The claim is raised in connection with the letter of intent issued for a bank from Bosnia and Herzegovina in favour of the plaintiff. In 2002, the Commercial Court in Rijeka ruled in favour of the plaintiff. Nova banka lodged an appeal before the High Commercial Court, which cancelled the decision of the first-instance court and decided to bring the case back before the first-instance court for reconsideration. In December 2004, the claim of the plaintiff was rejected, and the first-instance Court ruled in favour of Nova banka. The plaintiff has filed an appeal at the High Commercial Court, which is still pending. As the final outcome of this litigation is uncertain, the management of the Bank made a provision for 50% of the amount under litigation.

d) Capital commitments

At 31 December 2004 neither the Group nor the Bank had any capital commitments.

e) Commitments for business leases

The Bank and the Group have commitments based on 55 business lease contracts. The contracts are related to lease of branches and ATMs.

Future minimum lease payments based on contract are as follows:

	31/12/04
Up to 1 year	2,995
1 to 5 years	7,728
Over 5 years	3,267
Total	13,990



All amounts are expressed in thousands of HRK

24. OTHER LIABILITIES

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Liability under guarantee issued for Globus Holding	13,164	18,043	13,164	18,043
Accrued interest and fees	3,343	8,424	3,343	8,424
Amounts due to suppliers	8,517	14,101	8,359	13,975
Salaries and contributions	9,861	12,059	9,829	11,974
Due to the Agency	4,985	2,313	4,985	2,313
Income tax liability	-	11	-	-
Deferred income	1,733	-	1,733	-
Liabilities under credit card operations	2,103	2,151	2,103	2,151
Liabilities under currency dealings	250	-	250	-
Other liabilities	15,606	23,969	15,540	23,973
	59,562	81,071	59,306	80,853

25. ORDINARY SHARES, SHARE PREMIUM AND TREASURY SHARES

	Number of approved and issued preference shares	Nominal value of preference shares	Number of approved and issued preference shares	Nominal value of preference shares	Total ordinary shares	Share premium	Treasury shares
		HRK		HRK	HRK'ooo	HRK'ooo	HRK'ooo
At 1 January 2003	2,126,393	200	5	200	425,280	171,178	(29)
Shares issued during 2003	150,000	200	-	-	30,000	-	-
Replacement of preference shares with ordinary shares	5	200	(5)	200	-	-	-
At 31 December 2003	2,276,398	200	-	-	455,280	171,178	(29)
At 31 December 2004	2,276,398	200	-	-	455,280	171,178	(29)

Shares issued during 2003 represent new shares issued to SEEF Holdings Limited and Reginter d.o.o..

In the normal course of its equity trading and market activities, the Bank buys and sells its own shares. This is in accordance with the Bank's Statute, and all aspects of the Companies Act. These shares are treated as a deduction from the shareholders' equity. Gains and losses on sales of own shares are included in equity under reserves. There were 137 treasury shares at the end of 2004 (2003: 137 treasury shares).

The following are the Bank's shareholders with a holding in excess of 3%:

	Effective holding	
	31/12/2004	31/12/2003
Reginter d.o.o.	67.68%	67.80%
SEEF Holdings Limited	23.38%	23.27%
SWR Investment Limited	4.52%	4.52%

**26. RESERVES AND ACCUMULATED PROFIT / (LOSSES)**

	Group		Bank	
	Other reserves	Accumulated profit/ (losses)	Other	Accumulated profit/ (losses)
At 1 January 2003 - after correction	52,781	(158,172)	52,781	Restated (162,842)
Profit for the year	-	75,971	-	45,875
Transfer of unpaid dividend from previous years to reserve	683	-	683	-
At 31 December 2003	53,464	(82,201)	53,464	(116,967)
At 1 January 2004	53,464	(82,201)	53,464	(116,967)
Opening balance correction - effects of merger	-	-	-	22,578
At 1 January 2004 - after correction	53,464	(82,201)	53,464	(94,389)
Profit for the year	-	141,694	-	142,773
Other decreases	(9)	-	(9)	-
At 31 December 2004	53,455	59,493	53,455	48,384

Other reserves consist of legal, statutory and other reserves.

Legal reserve

- Under Croatian law, a portion of the Bank's net profit is to be allocated to a non-distributable legal reserve until such time the reserve funds reach 5% (HRK 22,736 thousand) of the Bank's share capital. At 31 December 2004, legal reserve amounted to HRK 22,340 thousand (2003: HRK 22,340 thousand).

Statutory reserve is formed as follows:

- Up to 5% of the share capital (to cover the loss per written off bad debts, disbursement of dividend on preference shares and for the same purposes for which funds are allocated to legal reserve). At 31 December 2004 these statutory reserve funds amounted to HRK 7,037 thousand (2003: HRK 7,037 thousand)
- For purchase of own shares - up to 10% of the Bank's share capital. At 31 December 2004, these reserve funds amounted to HRK 20,806 thousand (2003: HRK 20,806 thousand).



27. CONTINGENCIES AND COMMITMENTS

Presented below are contractual amounts of the Group's and the Bank's off-balance sheet financial instruments:

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
Payment guarantees	80,743	119,119	80,743	119,119
Performance bonds	62,668	85,129	62,668	85,129
Letters of credit	44,262	72,530	44,262	72,530
Approved unused loans	527,029	182,944	527,029	182,944
Other	-	1,797	-	1,797
	714,702	461,519	714,702	461,519
Less: provision (Note 23 a)	(7,231)	(4,270)	(7,231)	(4,270)
	707,471	457,249	707,471	457,249

Derivatives are shown in the table below:

	THE GROUP AND THE BANK							
	31/12/2004				31/12/2003			
	Contractual/ notional amount		Fair value		Contractual/ notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Embedded derivatives	230,047	234,114	7,827	7,927	198,798	193,890	7,151	7,242
Currency forwards	-	-	-	-	19,748	-	402	-
	230,047	234,114	7,827	7,927	218,546	193,890	7,553	7,242

Details of the contractual or notional amount and the fair value of the Bank's derivative financial instruments (currency forwards, embedded derivatives) outstanding at year-end are stated above.

Embedded financial derivatives relate to currency clauses in loans which protect the lender from devaluations in the domestic currency. These instruments are entered into to allow the Bank and its customers to transfer, modify or reduce their interest rate and currency risks.



28. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statements, cash and cash equivalent comprise the following balances with maturities of up to 90 days:

	Group		Bank	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003 Restated
NovCash and cash equivalents (excluding mandatory reserve with Croatian National Bank) (Note 12)	214,860	214,106	214,859	214,103
Amounts due from other banks (Notes 13 and 32)	1,325,999	677,145	1,325,999	677,145
Other receivables originated by the bank - Treasury bills of the Croatian National Bank Note 14 b)	-	362,028	-	362,028
	1,540,859	1,253,279	1,540,858	1,253,276

29. CREDIT RISK

The Group and the Bank take on exposure to credit risk, which is the risk upon credit approval that the counterparty will be unable to pay amounts in full when due. Both the Group and the Bank structure the levels of credit risk they undertake 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 an annual or more frequent review.

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

Commitments to extend credit. The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credits in the form of loans, guarantees or stand-by letters of credit. Commitments to extend credit issued by the Bank and the Group represent issued loan commitments or guarantees, undrawn portions of and approved overdrafts loans. Commitments to extend credit or guarantees issued by the Bank which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. 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 by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. However, both the Group and the Bank record provisions for these instrument on the same basis as for their loans.



29. CREDIT RISK (continued)

Concentrations of assets, liabilities and off-balance sheet items

	Group					
	2003			2002		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
Geographic region:						
Croatia	6,561,804	6,529,384	706,390	7,119,092	7,351,832	457,249
Former Yugoslavia	2,042	219,506	-	243	38,273	-
OECD	1,313,666	446,018	1,081	824,213	566,296	-
Others	1	682,605	-	12,853	-	-
Total	7,877,513	7,877,513	707,471	7,956,401	7,956,401	457,249
Economic sector:						
Croatian National Bank	1,059,296	3	-	1,450,579	-	-
Trade	331,130	101,206	90,723	380,772	116,938	98,166
Finances	1,400,874	666,199	-	900,011	385,385	30
Tourism	189,867	78,579	15,633	113,722	93,111	14,239
Agriculture	146,379	15,125	9,209	104,881	14,625	31,859
Manufacturing	415,741	134,966	92,617	349,021	145,324	65,609
Retail sector	2,325,547	5,499,037	360,901	2,424,167	5,053,670	101,033
Others	2,008,679	1,382,398	138,388	2,233,248	2,147,348	146,313
Total	7,877,513	7,887,513	707,471	7,956,401	7,956,401	457,249

	Bank					
	2003			2002		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
Geographic region:						
Croatia	6,550,912	6,518,492	706,390	7,108,825	7,341,565	457,249
Former Yugoslavia	2,042	219,506	-	243	38,273	-
OECD	1,313,666	446,018	1,081	824,213	566,296	-
Others	1	682,605	-	12,853	-	-
Total	7,866,621	7,866,621	707,471	7,946,134	7,946,134	457,249
Economic sector:						
Croatian National Bank	1,059,296	3	-	1,450,579	-	-
Trade	331,130	101,206	90,723	380,772	116,938	98,166
Finances	1,400,874	666,199	-	896,230	381,604	30
Tourism	189,867	78,579	15,633	113,722	93,111	14,239
Agriculture	146,379	15,125	9,209	104,881	14,625	31,859
Manufacturing	415,741	134,966	92,617	349,021	145,324	65,609
Retail sector	2,325,547	5,499,037	360,901	2,424,167	5,053,670	101,033
Others	1,997,787	1,371,506	138,388	2,226,762	2,140,862	146,313
Total	7,866,621	7,866,621	707,471	7,946,134	7,946,134	457,249



30. CURRENCY RISK

Concentrations of assets, liabilities and off balance sheet items

The Bank and the Group take on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on their financial positions and cash flows.

The table below provides an analysis of the Group's and of the Bank's main currency exposures. The remaining currencies are shown within 'Other currencies.' Both the Group and the Bank monitor their foreign exchange (FX) position for compliance with the regulatory requirements of the Croatian National Bank established in respect of limits on open positions. Measuring the open positions of the Group and of the Bank includes monitoring the value at risk limit both for the Group and for the Bank.

	Group						Total
	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	
At 31 December 2004							
Assets							
Cash and balances with Croatian National Bank	44,831	-	44,831	450,925	699,506	23,921	1,219,183
Amounts due from other banks	658,645	-	658,645	542,963	50,002	74,389	1,325,999
Derivative financial assets	-	-	-	-	7,827	-	7,827
Originated loans and other receivables	57,794	2,663,687	2,721,481	42,599	901,514	71,962	3,737,556
Investments held to maturity	16,813	26,541	43,354	-	39,517	-	82,871
Other assets	921	7,437	8,358	284	49,981	294	58,917
Deferred tax	-	-	-	-	70,280	-	70,280
Assets available for sale	34,054	668,125	702,179	18,858	412,463	-	1,133,500
Tangible and intangible assets	-	-	-	-	241,380	-	241,380
Total assets	813,058	3,365,790	4,178,848	1,055,629	2,472,470	170,566	7,877,513
Liabilities							
Amounts due to other banks	2,362	-	2,362	630	6,938	1,239	11,169
Amounts due to customers	3,681,849	123,497	3,805,346	1,019,054	1,413,191	155,911	6,393,502
Other borrowed funds	226,029	98,066	324,095	25,481	274,462	6,317	630,355
Derivative financial liabilities	-	-	-	-	7,927	-	7,927
Provisions	-	-	-	-	35,621	-	35,621
Other liabilities	13,166	60	13,226	9,411	36,814	111	59,562
Total liabilities	3,923,406	221,623	4,145,029	1,054,576	1,774,953	163,578	7,138,136
Net FX position	(3,110,348)	3,144,167	33,819	1,053	697,517	6,988	739,377
Off balance sheet items	8,895	76,517	85,412	5,894	89,025	111	180,442
Credit commitments	-	-	-	-	527,029	-	527,029
At 31 December 2003							
Total assets	602,265	3,811,981	4,414,246	1,276,960	2,089,623	175,572	7,956,401
Total liabilities	3,934,497	453,184	4,387,681	1,261,897	1,541,191	167,940	7,358,709
Net FX position	(3,332,232)	3,358,797	26,565	15,063	548,432	7,632	597,692
Off balance sheet items	129,222	3,908	133,130	19,671	112,661	8,843	274,305
Commitments to extend credit	-	3,705	3,705	-	179,239	-	182,944



30. CURRENCY RISK (continued)

Concentrations of assets, liabilities and off balance sheet items (continued)

	Bank						Total
	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	
At 31 December 2004							
Assets							
Cash and balances with Croatian National Bank	44,831	-	44,831	450,925	699,505	23,921	1,219,182
Amounts due from other banks	658,645	-	658,645	542,963	50,002	74,389	1,325,999
Derivative financial assets	-	-	-	-	7,827	-	7,827
Originated loans and other receivables	57,794	2,663,687	2,721,481	42,599	901,514	71,962	3,737,556
Investments held to maturity	16,813	26,541	43,354	-	39,517	-	82,871
Other assets	921	7,437	8,358	284	52,160	294	61,096
Deferred tax	-	-	-	-	70,280	-	70,280
Assets available for sale	34,054	668,125	702,179	18,858	409,852	-	1,130,889
Investments in subsidiaries	-	-	-	-	21,092	-	21,092
Tangible and intangible assets	-	-	-	-	209,829	-	209,829
Total assets	813,058	3,365,790	4,178,848	1,055,629	2,461,578	170,566	7,866,621
Liabilities							
Amounts due to other banks	2,362	-	2,362	630	6,938	1,239	11,169
Amounts due to customers	3,681,849	123,497	3,805,346	1,019,054	1,413,664	155,911	6,393,975
Other borrowed funds	226,029	98,066	324,095	25,481	274,462	6,317	630,355
Derivative financial liabilities	-	-	-	-	7,927	-	7,927
Provisions	-	-	-	-	35,621	-	35,621
Other liabilities	13,166	60	13,226	9,411	36,558	111	59,306
Total liabilities	3,923,406	221,623	4,145,029	1,054,576	1,775,170	163,578	7,138,353
Net FX position	(3,110,348)	3,144,167	33,819	1,053	686,408	6,988	728,268
Off balance sheet items	8,895	76,517	85,412	5,894	89,025	111	180,442
Credit commitments	-	-	-	-	527,029	-	527,029
At 31 December 2003 - restated							
Total assets	602,265	3,811,981	4,414,246	1,276,960	2,079,356	175,572	7,946,134
Total liabilities	3,934,497	453,184	4,387,681	1,261,897	1,543,112	167,940	7,360,630
Net FX position	(3,332,232)	3,358,797	26,565	15,063	536,244	7,632	585,504
Off balance sheet items	129,222	3,908	133,130	19,671	112,661	8,843	274,305
Commitments to extend credit	-	3,705	3,705	-	179,239	-	182,944

31. INTEREST RATE RISK

Interest rate sensitivity of assets, liabilities and off balance sheet items

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 table below provides information on the extent of the Group's and of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy both of the Group and of the Bank to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in 'Non-interest bearing' category.

	Group					Non-interest bearing	Total	Fixed rate
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year				
At 31 December 2004								
Assets								
Cash and balances with Croatian National Bank	1,088,366	-	-	-	130,817	1,219,183	650,346	
Amounts due from other banks	1,325,787	212	-	-	-	1,325,999	1,325,999	
Derivative financial assets	-	-	-	-	7,827	7,827	-	
Originated loans and other receivables	2,318,619	135,249	500,878	782,810	-	3,737,556	1,434,365	
Investments held to maturity	35,946	14,295	15,738	79	16,813	82,871	66,057	
Other assets	-	-	-	-	58,917	58,917	-	
Deferred tax	-	-	-	-	70,280	70,280	-	
Assets available for sale	4,710	-	164,950	940,857	22,983	1,133,500	1,091,664	
Tangible and intangible assets	-	-	-	-	241,380	241,380	-	
Total assets	4,773,428	149,756	681,566	1,723,746	549,017	7,877,513	4,568,431	
Liabilities								
Amounts due to other banks	6,939	-	-	-	4,230	11,169	-	
Amounts due to customers	3,831,233	1,079,222	1,447,666	35,381	-	6,393,502	2,562,269	
Other borrowed funds	44,378	56,964	131,104	397,909	-	630,355	331,157	
Derivative financial liabilities	-	-	-	-	7,927	7,927	-	
Provisions	-	-	-	-	35,621	35,621	-	
Other liabilities	-	-	-	-	59,562	59,562	-	
Total liabilities	3,882,550	1,136,186	1,578,770	433,290	107,340	7,138,136	2,893,426	
On-balance-sheet interest rate sensitivity gap	890,878	(986,430)	(897,204)	1,290,456	441,677	739,377	1,675,005	
Off-balance-sheet interest rate sensitivity gap	-	-	-	-	-	-	-	



31. INTEREST RATE RISK (continued)

Interest rate sensitivity of assets, liabilities and off balance sheet items (continued)

	Bank				Non-interest bearing	Total	Fixed rate
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year			
At 31 December 2004							
Assets							
Cash and balances with Croatian National Bank	1,088,366	-	-	-	130,816	1,219,182	650,346
Amounts due from other banks	1,325,787	212	-	-	-	1,325,999	1,325,999
Derivative financial assets	-	-	-	-	7,827	7,827	-
Originated loans and other receivables	2,318,619	135,249	500,875	782,810	-	3,737,556	1,434,365
Investments held to maturity	35,946	14,295	15,738	79	16,813	82,871	66,057
Other assets	-	-	-	-	61,096	61,096	-
Deferred tax	-	-	-	-	70,280	70,280	-
Assets available for sale	4,710	-	164,950	940,857	20,372	1,130,889	1,091,664
Investments in subsidiaries	-	-	-	-	21,092	21,092	-
Tangible and intangible assets	-	-	-	-	209,829	209,829	-
Total assets	4,773,428	149,756	681,566	1,723,746	538,125	7,866,621	4,568,431
Liabilities							
Amounts due to other banks	6,939	-	-	-	4,230	11,169	-
Amounts due to customers	3,831,706	1,079,222	1,447,666	35,381	-	6,393,975	2,562,269
Other borrowed funds	44,378	56,964	131,104	397,909	-	630,355	331,157
Derivative financial liabilities	-	-	-	-	7,927	7,927	-
Provisions	-	-	-	-	35,621	35,621	-
Other liabilities	-	-	-	-	59,306	59,306	-
Total liabilities	3,883,023	1,136,186	1,578,770	433,290	107,084	7,138,353	2,893,426
On-balance-sheet interest rate sensitivity gap	890,405	(986,430)	(897,204)	1,290,456	431,041	728,268	1,675,005
Off-balance-sheet interest rate sensitivity gap	-	-	-	-	-	-	-

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

	Group		Bank	
	31/12/2004	Interest rate %	31/12/2004	Interest rate %
Cash and balances with Croatian National Bank	1,219,182	1.93	1,219,182	1.93
Amounts due from other banks	1,325,999	2.13	1,325,999	2.13
Loans and other financial assets created by the Bank	3,737,556	8.20	3,737,556	8.20
Investments held to maturity	82,871	5.11	82,871	5.11
Assets available for sale	1,133,500	6.07	1,130,889	6.07
	7,499,108		7,496,497	
Amounts due to other banks	11,169	0.89	11,169	0.89
Amounts due to customers	6,393,502	2.16	6,393,975	2.16
Other borrowed funds	638,282	4.05	630,355	4.05
	7,042,953		7,035,499	



All amounts are expressed in thousands of HRK

	Group				Non- interest bearing	Total	Fixed rate
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year			
At 31 December 2003							
Assets							
Cash and balances with Croatian National Bank	1,219,903	-	-	-	147,306	1,367,209	425,969
Amounts due from other banks	784,630	-	-	-	-	784,630	784,630
Derivative financial assets	-	-	-	-	7,553	7,553	-
Originated loans and other liabilities	1,829,223	146,714	545,650	1,459,687	-	3,981,274	1,161,368
Investments held to maturity	28,485	-	19,117	19,117	16,760	83,479	65,182
Other assets	-	-	-	-	78,639	78,639	-
Deferred tax	-	-	-	-	20,000	20,000	-
Assets available for sale	114,070	2,844	141,893	1,028,016	71,288	1,358,111	1,247,652
Tangible and intangible assets	-	-	-	-	275,506	275,506	-
Total assets	3,976,311	149,558	706,660	2,506,820	617,052	7,956,401	3,684,801
Liabilities							
Amounts due to other banks	71,938	25,246	30,014	25,000	2,705	154,903	139,719
Amounts due to customers	3,949,863	917,046	1,364,547	168,477	-	6,399,933	4,296,576
Other borrowed funds	98,877	156,576	42,301	392,721	-	690,475	288,790
Derivative financial liabilities	-	-	-	-	7,242	7,242	-
Provisions	-	-	-	-	43,128	43,128	-
Other liabilities	-	-	-	-	63,028	63,028	-
Total liabilities	4,120,678	1,098,868	1,436,862	586,198	116,103	7,358,709	4,725,085
On-balance-sheet interest rate sensitivity gap	(144,367)	(949,310)	(730,202)	1,920,622	500,949	597,692	(1,040,284)
Off-balance-sheet interest rate sensitivity gap	-	-	-	-	-	-	-



31. INTEREST RATE RISK (continued)

Interest rate sensitivity of assets, liabilities and off balance sheet items (continued)

	Bank				Non-interest bearing	Total	Fixed rate
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year			
At 31 December 2003							
Assets							
Cash and balances with Croatian National Bank	1,219,903	-	-	-	147,303	1,367,206	425,969
Amounts due from other banks	784,549	-	-	-	-	784,549	784,549
Derivative financial assets	-	-	-	-	7,553	7,553	-
Originated loans and other receivables	1,829,223	146,714	545,650	1,459,687	-	3,981,274	1,161,368
Investments held to maturity	28,485	-	19,117	19,117	16,760	83,479	65,182
Other assets	-	-	-	-	91,712	91,712	-
Deferred tax	-	-	-	-	20,000	20,000	-
Assets available for sale	114,070	2,844	141,893	1,028,016	59,257	1,346,080	1,247,652
Investments in subsidiaries	-	-	-	-	21,092	21,092	-
Tangible and intangible assets	-	-	-	-	171,220	171,220	-
Goodwill	-	-	-	-	71,969	71,969	-
Total assets	3,976,230	149,558	706,660	2,506,820	606,866	7,946,134	3,684,720
Liabilities							
Amounts due to other banks	71,938	25,246	30,014	25,000	2,705	154,903	139,719
Amounts due to customers	3,952,002	917,046	1,364,547	168,477	-	6,402,072	4,296,576
Other borrowed funds	98,877	156,576	42,301	392,721	-	690,475	288,790
Derivative financial liabilities	-	-	-	-	7,242	7,242	-
Provisions	-	-	-	-	43,128	43,128	-
Other liabilities	-	-	-	-	62,810	62,810	-
Total liabilities	4,122,817	1,098,868	1,436,862	586,198	115,885	7,360,630	4,725,085
On-balance-sheet interest rate sensitivity gap	(146,587)	(949,310)	(730,202)	1,920,622	490,981	585,504	(1,040,365)
Off-balance-sheet interest rate sensitivity gap	-	-	-	-	-	-	-

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

	Group		Bank	
	31/12/2004	Interest rate %	31/12/2004	Interest rate %
Cash and balances with Croatian National Bank	1,367,209	1.19	1,367,206	1.19
Amounts due from other banks	784,630	2.16	784,549	2.16
Loans and other financial assets created by the Bank	3,981,274	8.72	3,981,274	8.72
Investments held to maturity	83,479	5.28	83,479	5.28
Assets available for sale	1,358,111	5.00	1,346,080	5.00
	7,574,703		7,562,588	
Amounts due to other banks	154,903	3.63	154,903	3.63
Amounts due to customers	6,399,933	2.33	6,402,072	2.33
Other borrowed funds	690,475	3.94	690,475	3.94
	7,245,311		7,247,450	

32. LIQUIDITY RISK

The Group and the Bank are exposed to daily calls on their available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. The Group and the Bank do not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below analyses assets and liabilities of the Group and of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	Group					Total
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	
At 31 December 2004						
Assets						
Cash and balances with Croatian National Bank	1,219,183	-	-	-	-	1,219,183
Amounts due from other banks	1,325,787	212	-	-	-	1,325,999
Derivative financial assets	7,827	-	-	-	-	7,827
Originated loans and other receivables	774,506	188,240	737,898	856,650	1,180,262	3,737,556
Investments held to maturity	35,946	14,295	15,738	79	16,813	82,871
Other assets	58,917	-	-	-	-	58,917
Deferred tax	-	-	-	70,280	-	70,280
Assets available for sale	7,321	-	164,950	340,388	620,841	1,133,500
Tangible and intangible assets	-	-	-	-	241,380	241,380
Total assets	3,429,487	202,747	918,586	1,267,397	2,059,296	7,877,513
Liabilities						
Amounts due to other banks	11,169	-	-	-	-	11,169
Amounts due to customers	3,804,751	1,095,833	1,457,288	16,687	18,943	6,393,502
Other borrowed funds	44,378	56,964	131,104	142,718	255,191	630,355
Derivative financial liabilities	7,927	-	-	-	-	7,927
Provisions	-	-	-	-	35,621	35,621
Other liabilities	59,562	-	-	-	-	59,562
Total liabilities	3,927,787	1,152,797	1,588,392	159,405	309,755	7,138,136
Net liquidity gap	(498,300)	(950,050)	(669,806)	1,107,992	1,749,541	739,377
At 31 December 2003						
Total assets	3,022,229	485,284	732,854	1,324,761	2,391,273	7,956,401
Total liabilities	3,969,108	1,182,438	1,571,766	328,107	307,290	7,358,709
Net liquidity gap	(946,879)	(697,154)	(838,912)	996,654	2,083,983	597,692



32. LIQUIDITY RISK (continued)

	Bank					Total
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	
At 31 December 2004						
Assets						
Cash and balances with						
Croatian National Bank	1,219,182	-	-	-	-	1,219,182
Amounts due from other banks	1,325,787	212	-	-	-	1,325,999
Derivative financial assets	7,827	-	-	-	-	7,827
Originated loans and						
other receivables	774,506	188,240	737,898	856,650	1,180,262	3,737,556
Investments held to maturity	35,946	14,295	15,738	79	16,813	82,871
Other assets	61,096	-	-	-	-	61,096
Deferred tax	-	-	-	70,280	-	70,280
Assets available for sale	4,710	-	164,950	340,388	620,841	1,130,889
Investments in subsidiaries	-	-	-	-	21,092	21,092
Tangible and intangible assets	-	-	-	-	209,829	209,829
Total assets	3,429,054	202,747	918,586	1,267,397	2,048,837	7,866,621
Liabilities						
Amounts due to other banks	11,169	-	-	-	-	11,169
Amounts due to customers	3,805,224	1,095,833	1,457,288	16,687	18,943	6,393,975
Other borrowed funds	44,378	56,964	131,104	142,718	255,191	630,355
Derivative financial liabilities	7,927	-	-	-	-	7,927
Provisions	-	-	-	-	35,621	35,621
Other liabilities	59,306	-	-	-	-	59,306
Total liabilities	3,928,004	1,152,797	1,588,392	159,405	309,755	7,138,353
Net liquidity gap	(498,950)	(950,050)	(669,806)	1,107,992	1,739,082	728,268
At 31 December 2003 - restated						
Total assets	3,018,131	485,284	732,854	1,324,761	2,385,104	7,946,134
Total liabilities	3,971,029	1,182,438	1,571,766	328,107	307,290	7,360,630
Net liquidity gap	(952,898)	(697,154)	(838,912)	996,654	2,077,814	585,504

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. An unmatched position potentially enhances profitability, but also increases 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 Group 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.



33. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Transactions with related parties are entered into in the normal course of business. These include transactions between all Group companies on commercial conditions and at market rates, except for amounts invoiced by Charlemagne Capital Ltd., which are equal to actual costs incurred.

Under the Shareholders' Agreement between Reginter d.o.o. ("Reginter") and SWR Investment Limited ("SWR"), Charlemagne Capital Ltd., investment management company, may use the controlling rights of SWR and Reginter.

The volumes of related party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows

	31/12/2004	31/12/2003 Restated
Receivables:		
Dalbank Invest d.o.o.	3,002	14,980
Dalbank Nekretnine d.o.o.	-	-
	3,002	14,980
Liabilities:		
Dalbank Invest d.o.o.	(144)	(2,003)
Dalbank Nekretnine d.o.o.	(329)	(137)
	(473)	(2,140)
	2,529	12,840
Total income	2	-
Total expenditure	(4)	-

The balances outstanding at year-end, as well as income and expenditure from transactions between the Bank and the company Charlemagne Capital Ltd. were as follows:

	31/12/2004	31/12/2003
Total management charges and other costs	-	2,421
Liabilities outstanding at year-end	-	-

At year-end the Bank sold a building with a net book value of HRK 7,008 thousand to its subsidiary Dalbank Invest for HRK 9,000 thousand. Gains on this sale in the amount of HRK 1,992 thousand were eliminated on consolidation.

Included in the Bank's dividend income for 2003 are dividends received from Dalbank Invest in the amount of HRK 7,475 thousand (Note 6).

In addition, the Bank sold to Dalbank Invest a part of its investment in Brodomerkur in the same year. The Bank's gains arisen on this transaction amount to HRK 36 thousand.



34. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Group manages significant funds on behalf of third parties, placed mainly as loans between enterprises through the Group as agent. These assets are accounted for separately from those of the Group and no liability falls on the Group in connection with these transactions. The Group charges a fee for these services.

At 31 December 2004, funds managed by the Group and the Bank on behalf of third parties amounted to HRK 70.1 million (2003: HRK 54.8 million). The Group and the Bank are managing the assets on behalf of the following clients:

	31/12/2004
CBRD	59,100
Jadransko osiguranje d.d., Split	900
Grad Split	1,400
Ida d.o.o., Pula	1,700
Jadranski naftovod d.d., Zagreb	1,600
Hotel Neptun d.d., Komiža	800
Sisačko Moslavačka županija	2,600
Other	2,000
	70,100

35. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms length basis.

- Except for the public debt and bonds of the Republic of Croatia, financial assets and liabilities are contracted at variable rates.

- Impaired loans and advances are stated net of provision based on discounted future cash flows excepted to be received.

The fair value of loans and advances represents an estimate based on the discounted amount of estimated future principal and interest cash flows. The assumption is that loans will be repaid in accordance with contractual maturities. Expected cash flows are estimated on the basis of risk considerations and possible impairment. Estimated fair values reflect the changes in the credit status from the extension of the loan and changes in interest rates for fixed rate loans. In the opinion of the management, the carrying amounts of these instruments do differ significantly from their fair values.

- Investments held to maturity contain interest at rates not significantly different from market interest rates.

- The fair value of debt securities for which no quoted market price is available (Agency bonds for the restructuring of Dubrovacka banka, Replacement bonds of the Croatian Ministry of Finance) is estimated on the basis of present value of future cash flows, discounted at rates effective on the balance sheet date.



All amounts are expressed in thousands of HRK

- Fair values of demand deposits and deposits with undefined maturities are determined as amounts payable at call at the balance sheet date. Estimated fair values of deposits with fixed maturities are based on cash flows discounted using the effective rates for similar periods outstanding until maturity. In determining the fair value, the duration of the relationship with the depositors is not taken into account. Since most of the deposits are at fixed rates, which represent market rates, there are no significant differences between the fair value of deposits and their carrying amounts.

- As verifiable market prices for long-term loan debt of the Bank do not exist, its fair value is estimated on the basis of the present value of future cash flows discounted using the effective rates at the balance sheet date for new debts with similar remaining maturity. Since interest on long-term borrowings is accrued at variable rates, the carrying amount of the long-term debt does not differ significantly from its fair value.

36. POST BALANCE SHEET EVENTS

Pursuant to the contract on the acquisition of 93.63% of the share capital of Nova banka d.d., Zadar, signed on 7 December 2004 between the majority shareholders of Nova banka d.d., Zadar, and the Hungarian OTP Bank Rt, headquartered in Budapest, the Council of the Croatian National Bank gave in its session of 9 February 2005 its consent for OTP bank Rt, Budapest to acquire Nova banka. The acquisition of the Bank is expected to be completed in March 2005.

The Management of the Bank holds rights granted in prior periods to purchase 44,700 ordinary shares of the Bank at a price of HRK 359.70 per share. On 16 February 2005 the option holders informed the Bank of their intention exercise their options. At that date the fair value of the shares, as determined by reference to the public tender offer for shares of the Bank made by OTP Rt. was HRK 819.92 per share. Therefore the fair value of the options held by management was HRK 20,571,924. At the date of approving these financial statements the Bank had not yet fulfilled its obligations under these option contracts.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The issuance of these financial statements was approved by the Bank's Management Board on 25 February 2005. The financial statements were signed by:


Zorislav Vidović
Management Board Member


Damir Odak
President of the Management Board



SUPERVISORY BOARD

Hans van Griethuysen, CEO of SWC Ltd. and President of Nova banka Supervisory Board, joined Charlemagne Capital in 2001. Hans has been active in International Banking for 22 years with Rabobank and ABN Amro. As Executive Vice President of Rabobank's International Head Office, he was responsible for international strategy and privatisation issues, having previously been the head of the Bank's Irish, French and Indonesian operations. Hans is a Harvard Business School Alumnus (AMP 156) and holds an MBA from the Delft/Erasmus University in Holland. Hans has overall responsibility for the management of the investee banks in the private equity programme. He primarily works with management at each bank to develop and implement business development plans, implement mergers and prepare the banks for possible future sale.

Marijan Kostrenčić, the vice - Chair of the Nova banka Supervisory Board, graduated from University of Zagreb Law School in 1983, after which he spent some time in various seminars on International Commercial Law. Upon graduating he started working as a clerk at the Zagreb County Court, and continued his career as a legal advisor of the Croatian Assembly of Electro energetic Organizations - Ingra, INA - Tours, Association of Small Entrepreneurs and Private Businesses of Croatia. Shortly he also held a position as a Chief of Cabinet for the Ministry of Foreign Affairs, and in 1992 he became the General Manager and majority shareholder of one of the oldest consultancies INTEL d.o.o. Zagreb. From 1993 to 1996 he was a member of the Croatian Chamber of Commerce Legal Council, and from 1997 to 2000 he performed the duties of a vice-Chair for Organization and Legal Affairs. He is a legal advisor of the Croatian Privatization Fund, a consulting editor for a number of books, and has published over 20 expert papers during his career.

David Curl, Executive Director and the Investment Director of CCL, holds a degree in Economics from the University of Richmond USA, and an MBA from L'Institut Supérieur de Gestion in Paris. He joined Charlemagne Capital in 1994, specialising in equity investments in Emerging Europe. Since then David has been involved in the management of Charlemagne Capital's Russian and Emerging European regional funds. In May 2000, he was appointed Investment Director of Charlemagne Capital and is also responsible for the group's private equity and direct investment programme.

David McMahon, Executive Director of CCL, joined Charlemagne Capital in February 1998. David was previously Finance Director and General Manager of Templeton Life Assurance Limited in 1990. He later became Chief Financial Officer of Templeton's European businesses. David is responsible for budgeting and tax planning for Charlemagne Capital just as for financial due diligence on the private equity acquisitions. David is a Fellow of the Institute of Chartered Accountants in England & Wales.

Ronald Drake, Chairman of Soros Investment Capital Management LLC. He gained experience in investment and financial sector working in a number of leading positions in some of the largest institutions in this field. Before joining Soros ICM he worked as a Managing Director in Merrill Lynch, one of the world's leading financial management and advisory companies and in ABN AMRO Bank, a prominent global banking group.



MANAGEMENT BOARD

Damir Odak, president of the Management Board of Nova banka, was born in 1964 in Split. He graduated at the Faculty of Economics and started his career as junior researcher at the Institute of Economics in Zagreb. He was the Chairman of the Management Board of Trgovačka banka (now part of Erste group) from 1990 to 1997.

From 1997 until 2003 he was the Director of Corporate Banking Sector and a member of Management Board in Zagrebačka banka.

Zorislav Vidović, a member of Nova banka Management Board, graduated from the Faculty of Economy at the University of Zagreb, earning a B.S. in Finance, Banking and Insurance. In 1992 he is granted a broker license and soon after he passes the test for a member of a management board of a commercial bank. From 1988 to 1990 he worked for a financial service of the company Kepol Zadar. He transfers to Dalmatinska banka in 1990 and from 1997 to 2002 works as the Head of the Treasury Department. From April 1, 2002 he is a member of the Management Board, currently in charge of the Treasury and Finances. He has been a member of Supervisory Boards of daughter companies of Dalmatinska banka for a number of years.

Sanja Martinko, member of the Management Board of Nova banka, was born in 1965 in Zagreb. After graduating from University of Zagreb, Faculty of Economy (B.A. in Finances, Banking and Insurance) she starts her career in Privredna banka in 1990, and later transfers to Trgovačka banka where she was the Head of the Department for Foreign-Exchange Business and a member of the Management Board. In 1997, she comes to Zagrebačka banka to the position of the Head of the Department for Network Management, and from 1999 to 2001 she is a member of the Management Board of Prva stambena štedionica. Before coming to Nova banka she was also a Head of the Department for Product Management regarding business clients of Zagrebačka banka. In October 2003 she becomes a consultant for the Nova banka Management Board, and from February 2004 is a member of the Management Board.



BUSINESS NETWORK

● → Nova banka ● □





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