

# Annual Report 2004

**ERSTE & STEIERMÄRKISCHE BANK D.D.**

## Erste & Steiermärkische Bank d.d.

### Key performance indicators

<b>Profit and Loss Statement Items</b>	<b>2004</b> in HRK thousand	<b>2003</b> in HRK thousand
Net interest income before provisions	671.455	619.242
Provisions for loan losses, net of recoveries	(36.980)	(95.664)
Net fee and commission income	125.234	104.844
Net foreign exchange gains	94.366	86.418
Income from trading and valuation of financial instruments	24.601	26.124
Other operating income	15.972	15.024
Total expenses	(530.511)	(544.686)
Profit before taxation	364.137	211.302
Net profit for the year	289.274	228.383

<b>Balance Sheet Items</b>	<b>2004</b> in HRK thousand	<b>2003</b> in HRK thousand
Total assets	25.776.932	19.517.204
Loans and advances to customers	13.447.167	9.645.825
Due to customers	13.503.792	11.135.390
Total shareholders' equity	1.676.260	1.603.883

### Additional information

<b>Number of employees</b>	<b>1503</b>	<b>1540</b>
<b>Number of units with the business network</b>	<b>120</b>	<b>118</b>

## General information

### **ERSTE & STEIERMÄRKISCHE BANK D.D.**

Identification number: 3337367

Giro account: 2402006 - 1031262160

SWIFT: ESBCHR22

REUTERS: ESZH

Telex: 24143 bankom hr

Internet: [www.erstebank.hr](http://www.erstebank.hr)

E-mail: [erstebank@erstebank.hr](mailto:erstebank@erstebank.hr)

Info telephone: 0800 7890

### **MAIN HEAD OFFICE**

#### **ERSTE & STEIERMÄRKISCHE BANK D.D.**

Croatia, 51000 RIJEKA, Jadranski trg 3a

Tel.: + 385 (0) 62 37 5000

Fax: + 385 (0) 62 37 6000

### **HEAD OFFICE**

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# Erste & Steiermärkische Bank d.d.

## Supervisory Board

Mag. Reinhard Ortner, President  
August Jost,  
Deputy President until 29.06.2004  
Franz Kerber,  
Deputy President since 29.06.2004  
Dr. Manfred Wimmer, Member  
Mag. Karin Svoboda, Member  
Dr. Kristijan Schellander, Member  
Reinhold Schuster, Member  
Bernhard Spalt, Member  
Franz Mally, Member  
Josip Stanković, Member

## Management Board

Petar Radaković, President  
Tomislav Vuić, Deputy president  
Borislav Centner, Member  
Sava Dalbokov, Member  
Slađana Jagar, Member

## Management

### Divisions:

#### Retail Division,

Saša Krbavac,  
Head until 01.09.2004  
Zdenko Matak,  
Head since 01.09.2004

#### Corporate Division,

Marko Krajina, Head

#### IT and Organization Division,

Ivan Vuk, Head

#### Processing Division,

Jasna Veseli, Head

#### Accounting and Controlling Division,

Karma Perišin, Head

#### Treasury Division,

Tomislav Kalafatić, Head

#### Property Management Division,

Ivan Prpić, Head

#### Risk Management Division,

Damir Bronić, Head

### Departments:

#### Human Resources Department,

Vanda Szabo,  
Head until 01.05.2005  
Maja Crnjak,  
Head since 01.05.2005

#### Marketing and Communication Department,

Dijana Bojčeta-Markoja, Head

#### Legal Department,

Jasminka Hanušić, Head

#### Securities Custody Department,

Lidija Kaić, Head

#### Internal Audit Department,

Rade Cvjetičanin, Head

#### Multi Channel Management Department,

Igor Žganjer, Head

#### Secretary of the Bank:

Irena Šunić

## Retail Division

### **Regional Department East,**

Bjelovar, Preradovićeva bb,  
Zdenko Matak,

Head until 01.09.2004

Goran Belošević,

Head since 01.09.2004

### **Regional Department Istria,**

Pula, Ciscuttieva 15,  
Ticijan Peruško, Head

### **Regional Department South,**

Split, Trg Hrvatske bratske  
zajednice 3, Jurica Smoljan, Head

### **Regional Department Rijeka,**

Rijeka, Jadranski trg 3a,  
Ante Zubović, Head

### **Regional Department West,**

Zagreb, Ulica grada Vukovara 41,  
Gordana Čutura,

Head until 01.12.2004

Ivica Brčić,

Head since 01.12.2004

## Corporate Division

### **Commercial Centre Bjelovar,**

Bjelovar, Preradovićeva bb

### **Commercial Centre Čakovec,**

Čakovec, Katarine Zrinski 1

### **Commercial Centre Dubrovnik,**

Dubrovnik, Vukovarska 26

(since June 2005)

### **Commercial Centre Istra I,**

Pazin, 25. rujna 17

### **Commercial Centre Istra II,**

Pula, Ciscuttieva 15

### **Commercial Centre Karlovac,**

Karlovac, Trg J.B. Tita 2

### **Commercial Centre Osijek,**

Osijek, Ribarska 2

### **Commercial Centre Rijeka,**

Rijeka, Jadranski trg 3a

### **Commercial Centre Split,**

Split, Trg Hrvatske bratske  
zajednice 3

### **Commercial Centre Varaždin,**

Varaždin, Tome Blažeka 1

(since May 2005)

### **Commercial Centre Zadar,**

Zadar, Obala kneza Branimira 6

### **Commercial Centre Zagreb I,**

Zagreb, Ulica grada Vukovara 41

### **Commercial Centre Zagreb II,**

Zagreb, Ulica grada Vukovara 41

# Annual Report 2004

## Content:

<b>Report on the performed supervision of the Bank's business operations in the year 2004</b>	<b>02</b>
<b>Report of the President of the Management Board</b>	<b>03</b>
<b>Management Board</b>	<b>04</b>
<b>Retail Division</b>	<b>06</b>
<b>Corporate Division</b>	<b>07</b>
<b>Treasury Division</b>	<b>10</b>
<b>IT and Organization Division</b>	<b>11</b>
<b>Human Resources</b>	<b>12</b>
<b>Independent Auditor's Report</b>	<b>13</b>
<b>Financial Statements</b>	<b>14</b>
<b>Notes to Financial Statements</b>	<b>18</b>

# Report on the performed supervision of the Bank's business operations in the year 2004

\_\_\_\_\_ Pursuant to Article 263 par. 3 and Article 300c par. 2 of the Companies Law, and Article 8 par. 1 of Erste & Steiermärkische Bank d.d. Articles of Association, the Supervisory Board of Erste & Steiermärkische Bank d.d. adopted, on March 25, 2005 the following

## Report on the performed supervision of the Bank's business operations in the year 2004

\_\_\_\_\_ The Supervisory Board of Erste & Steiermärkische Bank d.d. was constituted at its first session held on July 31, 2002, when it commenced functioning pursuant to the law, the Bank's Articles of Association and other by-laws.

\_\_\_\_\_ The Supervisory Board held 3 meetings during the year 2004. At these meetings many issues relating to the Bank's standing and operations were addressed. In compliance with the provisions of the Articles of Association and the Supervisory Board Rules of Procedure, the Supervisory Board made decisions in 64 cases without convening a meeting, by written declarations of the Supervisory Board members. The Supervisory Board paid great attention to the Management Board Reports on the Bank's operations and gave approval to the Bank Management Board to make decisions and regulations for which the Supervisory Board's approval is required pursuant to the Banking Act and the Bank's Articles of Association.

\_\_\_\_\_ The Supervisory Board has a Credit Committee consisting of 3 members of the Supervisory Board, with competence to grant approval to the Management Board of the Bank to make decisions on granting loans or setting the limits whereby the exposure or the limit of the Bank towards a client or a group of clients exceeds the Management Board's decision-making level but is less than 10 percent of the Bank's liable capital. The Credit Committee submitted quarterly reports on its work to the Supervisory Board.

\_\_\_\_\_ In accordance with its legal obligations, the Supervisory Board effected the supervision of the Bank's operations and determined that the Bank operates in compliance with the law, the Bank's by-laws and the decisions of the General Meeting.

\_\_\_\_\_ In particular, the Supervisory Board inspected the Bank's financial statements for the year 2004, the report on the good standing of the Bank and the proposal of the Management Board on the distribution of profit. The Supervisory Board determined that the reports complied with the records in the Bank's business books and accurately presented the Bank's assets and operations, and therefore the Supervisory Board granted its approval to those reports and to the Management Board's proposal for distribution of profit.

\_\_\_\_\_ The Supervisory Board took into consideration the Auditor's report on the financial statements for the year 2004 and had no remarks thereon.

\_\_\_\_\_ The Bank Management Board proposed to the Supervisory Board that the net profit earned in the year 2004, amounting to HRK 289,273,744.71, be distributed for statutory reserves in the amount of HRK 3,529,850.27, for general bank risk reserves in the amount of HRK 35,293,308.23, for retained earnings in the amount of HRK 35,327.23 and for the shareholders' dividend in the amount of HRK 250,415,258.98, so that the dividend be determined in the amount of 18.91 percent of the nominal value of a share, amounting to HRK 18.91 for each share.

\_\_\_\_\_ The Supervisory Board approved the relevant proposal of the Management Board for the distribution of profit and payment of dividend and agreed that a proposal for such a decision be submitted for adoption at the Bank's General Meeting.

\_\_\_\_\_ The Supervisory Board shall present this Report to the Bank's General Meeting with a proposal for its approval.

Reinhard Ortner  
President of the Supervisory Board

# Report of the President of the Management Board

\_\_\_\_\_ It is a special pleasure for me to be able to report to you on the very good operating performance achieved by Erste & Steiermärkische Bank d.d. in the year 2004. Allow me therefore to present a few introductory facts on behalf of the Management Board of the Bank.

\_\_\_\_\_ The banking industry in Croatia in the year 2004 was again marked by continued increasing competitiveness, and further concentration together with restrictive measures introduced by the central bank came into being, while demand for loans by both the retail and corporate sectors continued to increase. Another continuing trend was the use of alternative channels of sale and distribution for banking products. All these factors were challenges that we faced and reacted to in a successful manner. This confirms that the measures we took in the previous period in order to merge and restructure the Bank were appropriate, since they enabled us to strengthen our position as the third bank in Croatia, while at the same time continuously increasing our market share in the key areas of our operations. Erste & Steiermärkische Bank d.d. has achieved a market share which in terms of assets represents 11.30 percent, and 11.03 percent in loans, while the market share of the Bank in terms of deposits was 10.10 percent at the end of 2004.

\_\_\_\_\_ The total of the Bank's balance sheet was 25.77 billion kuna as at 31 December 2004, thus posting an increase of 32 percent over the balance sheet total on 31 December 2003, while assets per employee grew by 35 percent. Total equity increased by 4.5 percent, the Bank's net profit increased by more than 26 percent and amounted to 289.27 million kuna.

The total loan portfolio of the retail sector increased by 31 percent in the course of last year, and on 31 December 2004 it amounted to 6.52 billion kuna, while the gross loan portfolio of the corporate sector amounted to 7.81 billion kuna, posting an increase in excess of 41 percent. Retail deposits went up by 20 percent, and corporate deposits went up by 24 percent, additionally confirming our prominent position on the Croatian banking market.

\_\_\_\_\_ We were the first bank in Croatia to introduce a whole range of new products and services which have positioned us as an innovative bank, fully focused on meeting client needs. Something that should be mentioned is the introduction of the Maestro chip card, which marks the first step in the change-over to the new EMV chip technology, then also the introduction of new cobranding card products, while a special mention should be made of our model of housing loans pegged to the Swiss Franc, which was a unique feature offered in the Croatian retail market last year. The Bank has been paying special attention to the option of using alternative channels, and the Bank's Internet page was selected as the best of the financial Internet pages in a national competition. In the field of corporate banking, we have continued successful cooperation with the relevant ministries and with HBOR with the aim of continuing to provide quality services to companies, while the Bank was paying special attention to its operations with small and medium-sized companies.

\_\_\_\_\_ In addition to very good financial performance, I should also stress that a lot of effort was invested in providing training to our employees at all levels, as well as in the start of a new way of planning training and career development, which is going to help us achieve even better results in the years to come.

\_\_\_\_\_ Aware of its social responsibility, Erste & Steiermärkische Bank d.d. has been active in sponsoring various events and activities, showing thus that it has the ambition to be an active member of the community in which it operates.

\_\_\_\_\_ I would like to thank all the employees and colleagues of the Management Board and the Supervisory Board for the effort invested and the contribution made in achieving these results. I would also like to take this opportunity to thank the Bank's clients and all our shareholders for the support and trust we have enjoyed.

Petar Radaković  
President of the Management Board



# Management Board



Petar Radaković, President,  
responsible for Risk Management Division,  
Internal Audit Department and Legal Department



Tomislav Vuić, Vice president,  
responsible for Retail Division,  
Multi Channel Management Department, Marketing and Communication  
Department and Human Resources Department



Borislav Centner, Member,  
responsible for Corporate Division and Property Management Division  
(since 02.03.2005 responsible for Corporate Division, Treasury Division and  
Securities Custody Department)



Sava Dalbokov, Member,  
responsible for Treasury Division,  
IT and Organization Division and Securities Custody Department  
(since 02.03.2005 responsible for IT and Organization Division and Property  
Management Division)



Slađana Jagar, Member,  
responsible for Accounting and Controlling Division and Processing Division

# Retail Division

\_\_\_\_\_ The main features of retail operations in 2004 were an increase in market share, productivity and profitability. In parallel, the Retail Division continued intense efforts to improve and develop the existing products and services and to create new ones, together with flexibility in business and expanding the business network.

\_\_\_\_\_ In 2004, the Bank again put an emphasis on education and further training of employees, with the aim of providing highly professional and top-quality services to clients, and it will continue to do so in the coming period.

\_\_\_\_\_ Following the Bank's strategy, whose fundamental goals include providing the best-quality service on the market, the Retail Division's operations were focused on following three segments:

- readily available and favorable products and services for all clients,
- specialized products and the offer of a high-quality and professional service,
- products and services for clients with above-average financial capacity, i.e. with a greater amount of available financial means.

\_\_\_\_\_ In 2004, the Bank's business network was expanded by the opening of the Virovitica branch office and advisory centers in Zadar and Dubrovnik, which means that by the end of 2004 the Bank operated at 120 locations throughout Croatia.

\_\_\_\_\_ With the completion of comprehensive reconstruction works at the Bank's premises in Vukovarska ulica in Zagreb, the Bank's largest and the most representative premises in Zagreb for retail operations were opened, which are also one of the largest advisory centers in Croatia.

\_\_\_\_\_ Also, by the end of 2004, a comprehensive reconstruction and modernization of the Bank's Advisory Center on Jadranski trg, Rijeka, was completed. Based on the strategy of an open and transparent approach to clients, the Bank's head office in Rijeka became the most attractive and modern premises for working with clients, including disabled persons, who have gained full access to the premises.

\_\_\_\_\_ The Retail Division has increased the number of individuals and sole traders who use the Bank's services by over 30,000, namely to 530,000 clients. In addition to standard services, the Bank also offers the possibility of using Internet and telephone banking, getting information by SMS messages, purchase of shares in Erste Invest funds, life and property insurance, house savings products, and at the end of 2004, the clients also had 255 commission-free ATMs throughout Croatia at their disposal.

\_\_\_\_\_ In 2004, the Bank significantly increased its share in total loans provided to individual clients, which amounted to 9.98 percent as at 31 December 2004, compared with 8.98 percent in the previous year, which

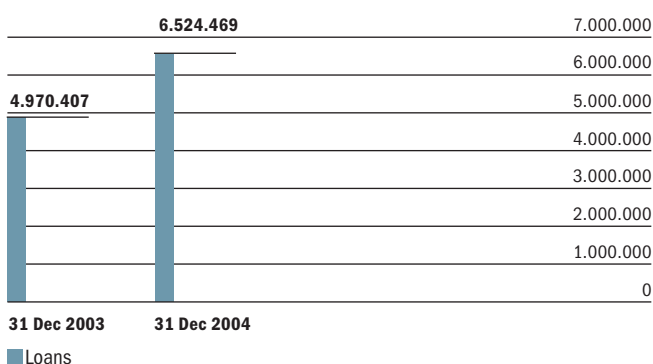
is a result of the increase of the Retail Division's total loan portfolio by over 30 percent. Also, the Bank's share in retail deposits in Croatia at the end of 2004 was 9.5 percent, while in the previous year it was 8.8 percent, implying a total increase in retail savings of over 20 percent.

\_\_\_\_\_ A significant increase in placement of housing loans in 2004, by offering the most attractive product on the market, resulted in a 3.4 percent increase in market share, and the Bank finished the business year with an 8 percent market share in housing loans.

## Loans

\_\_\_\_\_ The portfolio of loans in the Retail Division has been increased by 31.2 percent against 31 December 2003.

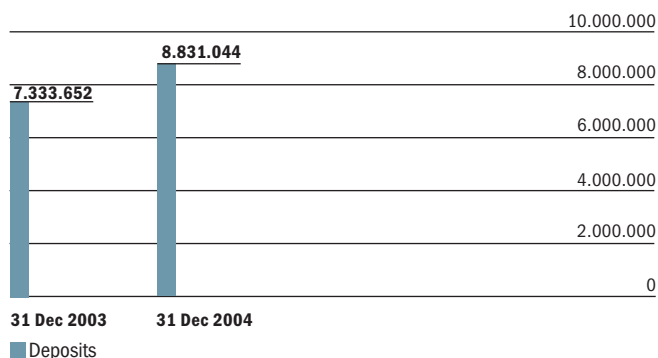
### Loans, in 000 kuna



## Deposits

\_\_\_\_\_ As at 31 December 2004, the balance of deposits recorded by the Retail Division was 20.5 percent larger than on 31 December 2003.

### Deposits, in 000 kuna



# Corporate Division

Despite exceptional competitiveness in the banking market, high growth rates for placements were remarkable in corporate operations in 2004. This resulted in a strong increase of the Bank's market share in loans, which was also accompanied by growth in corporate deposits.

The Bank's market share as at 31 December 2004 in corporate loans reached 12.11 percent compared with 9.19 percent in the previous year, while in the same period, the market share in corporate deposits was increased to 11.60 percent from the previous 9.80 percent.

The Bank carries out corporate operations through 12 Business Centers and 9 Profit Centers, which were established on a regional basis to provide services to small and medium-sized companies, that is, to the segment of the economy to which the Bank's activities are particularly directed. In 2004, Erste & Steiermärkische Bank started its operations through Profit Centers in Požega and Koprivnica, and a Business Center in Dubrovnik, while the Business Center in Zadar started its operations in new and larger premises last year.

Services for large companies and international clients are provided by two departments located in Zagreb and Rijeka.

As at 31 December 2004, the Corporate Division had 144 employees, which is 7 more than at the end of 2003.

In the area of working with corporate entities, the Bank puts a special emphasis on good cooperation with the Ministry of Economy, Labor and Enterprise, as well as the Ministry of Sea, Tourism, Transport and Development. Once again in 2004, the Bank was one of the most active participants in all the lending programs of the above ministries, and also cooperates with local government and self-government units (towns and counties), maintaining one of the leading positions in this business segment throughout Croatia. The Bank placed more than HRK 200 million through these programs in 2004.

Cooperation with HBOR (Croatian Bank for Reconstruction and Development) was also intensified mainly due to new, high-quality credit lines for small and medium-sized businesses, especially in the area of financing exports. The Bank recorded placements amounting to almost HRK 290 million through HBOR's credit lines.

In 2004, the Bank has significantly increased its client base. Thus, as at 31 December 2004, the number of business accounts held by legal entities amounted to 17,205, of which 13,341 were settlement accounts, accounting for 12 percent of the total number of settlement accounts held by legal entities. The total number of business accounts held by legal entities and sole traders as at 31 December 2004 amounted to 30,652, which was over 14 percent of the total number of accounts in Croatia.

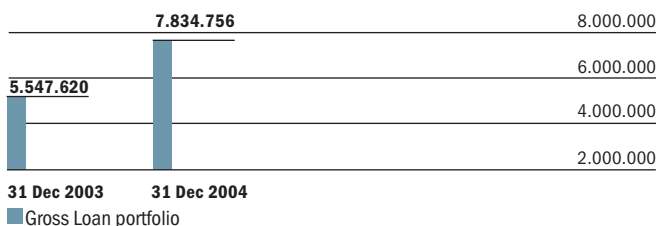
As at 31 December 2004, the share of the Corporate Division in the total exposure to credit risks of the Bank was 37.79 percent, compared with 35.33 percent as at 31 December 2003.

In 2004, the fierce competition in banks' operations with corporate clients continued, which caused a further fall in the interest margin by 0.74 percentage points.

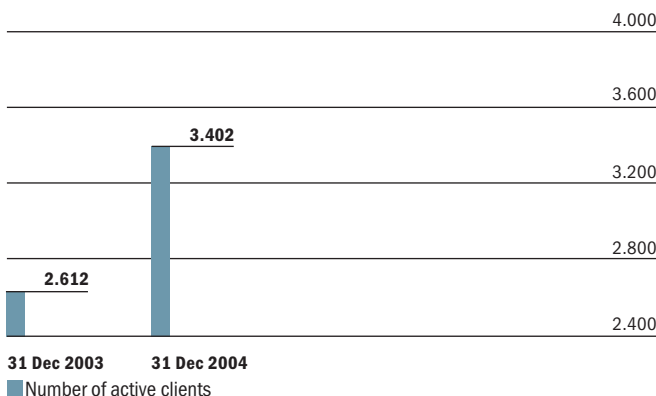
A growth in revenues was also achieved in the area of non-interest bearing revenues, of which the largest portion comes from fees for domestic payment operations. In 2004, there was a further increase in the use of Internet banking - NetBanking, which accounted for 27 percent of domestic payment operations and over 40 percent of international transactions in December 2004.

In 2004, the gross loan portfolio of the Corporate Division recorded a growth of no less than 41 percent, and the number of active clients (clients with risk exposure) grew by 30 percent.

## Gross Loan Portfolio, in 000 kuna



## Number of active clients

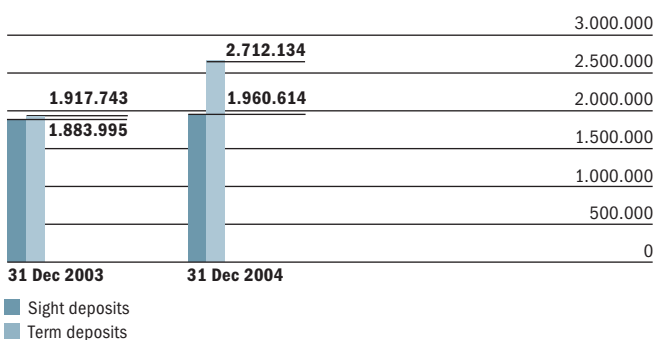


# Corporate Division

## Deposits by Corporate Clients

\_\_\_\_\_ In 2004, a total growth in deposits of 23 percent was achieved, induced by a strong growth of time deposits (where annual growth rate was 41 percent).

### Deposits by Corporate Clients, in 000 kuna



### Off-balance Sheet Placements to Corporate Clients, in 000 kuna

	31 Dec 2003	31 Dec 2004
Guarantees	789.665	910.259
Letters of Credit	150.395	192.171
Bills of Exchange	17.587	20.433
Unused loans	698.719	1.101.086
<b>Total</b>	<b>1.656.366</b>	<b>2.223.949</b>

\_\_\_\_\_ In 2004, off-balance sheet placement had a 34 percent growth, in line with the increase of the Bank's loan activities.

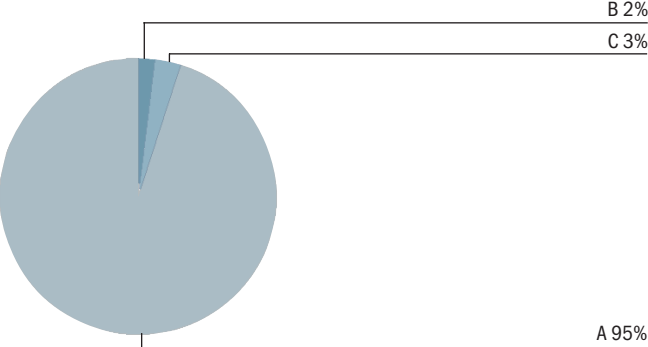
## The structure of exposure to credit risks in the business sector as at 31 December 2004 was as follows:

Activity/Debtor	Exposure in HRK 000	% of share
Retail and Wholesale Trade	2.913.354	26,78%
Production	2.445.794	22,48%
Public Sector	1.429.632	13,14%
Building and Construction	893.972	8,22%
Hotels and Restaurants	787.512	7,24%
Transport, Warehousing and Communications	723.300	6,65%
Real Estate Business, Rentals and Business Services	540.939	4,97%
Financial Mediation - Other Financial Institutions	355.634	3,27%
Supply of Electricity, Gas and Water	314.676	2,89%
Agriculture, Hunting, Forestry and Fishing	238.902	2,20%
Other Social and Personal Services	126.555	1,16%
Health Insurance and Social Care	44.903	0,41%
Education	28.290	0,26%
Mining and Extraction	20.155	0,19%
Foreign Entities	14.859	0,14%
	<b>10.878.476</b>	<b>100,00%</b>

\_\_\_\_\_ Compared with the beginning of the year, there have not been major changes in the structure of business sectors. The trading sector accounts for the largest share, but further increase has been stopped, while an increased share was recorded in the production and building and construction sectors.

\_\_\_\_\_ In 2004, the loan portfolio structure for legal entities continued positive trends, so that by the end of the year the share of low-risk placements (categorized as A class under the Croatian National Bank classification) exceeded 95 percent.

**Structure of the Corporate Division Portfolio  
by Risk Groups**



# Treasury Division

\_\_\_\_\_ In 2004, the Treasury Division successfully maintained day-to-day kuna and foreign currency liquidity, appropriately managing the Bank's time deposit and foreign currency structure. Also, the Treasury Division continuously took care that all legal and internal requirements are observed.

\_\_\_\_\_ 2004 was characterized by the following trends:

- strengthening of the Bank's role on the domestic securities market,
- introduction of new products,
- expanding the Treasury's client base,
- optimum Balance Sheet Management of the Bank,
- ongoing strengthening of relations with international financial institutions.

## Strengthening the Bank's Role on the Domestic Securities Market

\_\_\_\_\_ Erste & Steiermärkische Bank maintained its success on the money market during 2004. Thus, it successfully arranged and issued City of Koprivnica bonds on the market to the amount of HRK 60,000,000. This issue also represented the first long-term kuna municipal bonds on the Croatian market.

\_\_\_\_\_ The Bank also participated in two Republic of Croatia bond issues. The first issue was in February 2004 to the amount of EUR 650,000,000, with the Bank as a leading co-arranger in this issue. The second series of Republic of Croatia bonds was in December 2004 to the total amount of EUR 200,000,000, and the Bank participated as the leading arranger during this issue.

## Introduction of New Products

\_\_\_\_\_ During 2004, the Bank successfully continued to participate actively in the creation of the currency and securities markets in the Republic of Croatia in addition to its participation in day-to-day foreign currency transactions, and transactions involving the securities of domestic and foreign financial institutions, as well as transactions with domestic corporate and individual clients.

\_\_\_\_\_ In accordance with overall market development trends and in order to provide more services for its clients, Erste & Steiermärkische Bank has continued introducing various new products, such as: interest rate swaps, currency options and product structuring. Besides these products, it should also be noted that the Bank is a market leader in trading in FX swaps and FX forwards.

## Expanding the Treasury's Customer Base

\_\_\_\_\_ The Bank's clients have recognized the Treasury Division's continuing commitment to introducing new products and services, which resulted in a significant increase of volume of trading and the number of the Treasury Division's customers. In addition to financial institutions, the customer base of the Treasury Division includes natural persons, small and medium-sized enterprises, and the largest and most significant Croatian companies.

## Optimum Balance Sheet Management of the Bank

\_\_\_\_\_ Throughout 2004, the Croatian market continued to go through a phase of increased volatility, caused by further measures introduced by the Croatian National Bank, aimed primarily at containing foreign debt. Despite this environment, the Treasury Division of Erste & Steiermärkische Bank was successful in implementing effective management processes with regard to the Bank's balance sheets, while optimizing the Bank's exposure to currency risks and interest rate fluctuation risks, thus optimizing its revenues.

\_\_\_\_\_ The Treasury Division introduced new, sophisticated accounting tools to measure interest rate fluctuation risks into the assets and liabilities segment. This application allows the Bank to comprehensively measure its exposure to interest rate fluctuation risk, whether long-term or short-term. In addition, the Bank is able, with the use of this application, to measure interest rate risks in accordance with the measures regulated by the Basel II standards.

\_\_\_\_\_ Also, the Treasury Division continued to advance the transfer pricing system, with the aim of an even more effective management of the Bank's assets and liabilities.

## Ongoing Strengthening of Relations with International Financial Institutions

\_\_\_\_\_ The Bank continued intensive cooperation with international financial institutions throughout 2004 in order to develop a correspondent network, as well to allow better, faster, but also lower-priced services for all its customers.

# IT and Organization Division

During 2004, the IT and Organization Division expended most of its development resources on the development of IT solutions, in order to follow business requests, as designed by the Bank's new products and services and changes on the market. Development was essential in order to introduce new technological solutions, either locally or at the Erste Bank Group level, as well as on the basis of frequent changes to the regulative framework.

The Division continuously improves the Bank's internal organization by establishing optimum IT processes, and a prompt response to business needs, with optimum costs of development and maintenance of the Bank's IT platform.

Throughout 2004, internal organization and process efficiency within the IT and Organization Division were upgraded, based on the 'IT Reorganization' project.

## Support to the Bank's New Products and Services

Regarding the applications, the IT and Organization Division developed, among other things, a software for expanding the range of products and services, with particular emphasis on projects in the area of credit card operations (introducing co-branding/loyalty cards), Internet and SMS banking and retail and corporate operations.

## IP Telephony

The project of implementing the integral 'IP Telephony' system for 1,500 employees of the Bank was successfully completed by the end of 2004. The selected solution is based on new technologies and is fully incorporated into the Bank's IT network infrastructure. A unique number was introduced for all users and all the Bank's locations throughout Croatia, and the use of IP telephony permits significant savings in day-to-day business operations.

## Other activities

Throughout 2004, the Bank completed or launched a number of projects with the aim of optimizing IT infrastructure and further increasing stability and availability of the IT systems within the Bank. The Bank makes continuous investments in modern technology, in order to allow uninterrupted and secure availability of its services to clients, through a broad range of distribution channels, including the Bank's business network, self-service devices, Internet and telephone banking, etc.

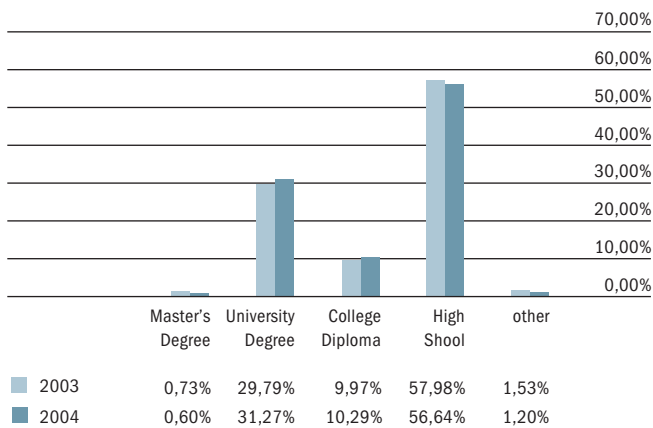


# Human Resources

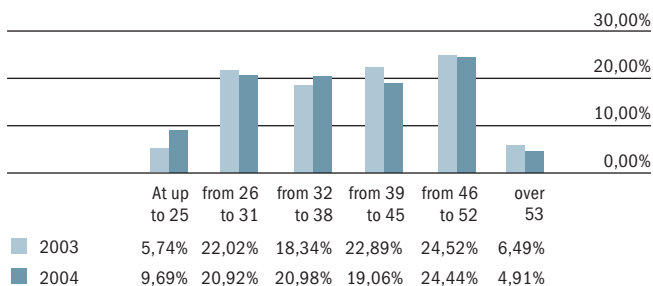
As at 31 December 2004, Erste & Steiermärkische Bank employed a total of 1503 people, of whom 1434 were employees by the FTE (full time equivalent) criterion.

Employees' average age was 38, while the average management age, up to the third management level, was 40. The qualification structure indicates that 56.64 percent of Bank employees have completed high school, and 31.27 percent have university degrees. Women comprise 73.86 percent of the Bank's staff.

## Educational Structure



## Age Structure



## Training and Development

The expansion of the training program was continued in 2004, and the Bank employees spent almost 7,500 days in training. The same year saw a new program in operation for retail trainees, through which the Bank offers them high-quality preparation for future work, while reducing the adjustment and basic learning period. In this way, the Bank aims to establish a structured process of internal high-potential personnel development, thus additionally ensuring the long-term quality of its human resources.

Among other initiatives for improving employees' motivation and qualification, several instruments were introduced, with the purpose of defining clear professional goals and development possibilities for the Bank's employees, ensuring timely and quality feedback regarding each employee's progress towards the achievement of the agreed goals (annual interviews).

# Independent Auditor's Report



■ Ernst & Young d.o.o.  
Milana Sachsa 1  
10000 Zagreb  
CROATIA

## To the Board of Directors and the Shareholders of Erste & Steiermärkische Bank d.d. Rijeka:

\_\_\_\_\_ We have audited the accompanying financial statements of Erste & Steiermärkische Bank d.d. Rijeka (the Bank) as at 31 December 2004, as set out on pages 14 to 48. The financial statements have been prepared in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, as required by the Croatian Accounting Law.

### Respective responsibilities of the Board and auditors

\_\_\_\_\_ These financial statements are the responsibility of the Bank's Board. Our responsibility is to express an independent opinion on these financial statements based on our audit.

### Basis of opinion

\_\_\_\_\_ We conducted our audit of the financial statements of the Bank in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free from 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

\_\_\_\_\_ In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2004 and of the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards, as required by the Croatian Accounting Law.

A handwritten signature in black ink that reads 'Ernst &amp; Young d.o.o.' in a cursive script.

Ernst & Young d.o.o.

Zagreb, 07.02.2005

# Profit and Loss Account

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

	Note	2004	2003
Interest income	3	1.167.808	1.026.186
Interest expense	3	(496.353)	(406.944)
<b>Net interest income before provisions</b>		<b>671.455</b>	<b>619.242</b>
Provisions for loan losses, net of recoveries	4	(36.980)	(95.664)
<b>Net interest income after provisions</b>		<b>634.475</b>	<b>523.578</b>
Fee and commission income	5	247.580	232.768
Fee and commission expense	5	(122.346)	(127.924)
<b>Net fee and commission income</b>		<b>125.234</b>	<b>104.844</b>
Net foreign exchange gains	6	94.366	86.418
Income from trading and valuation of financial instruments	7	24.601	26.124
Other operating income	8	15.972	15.024
<b>Total income</b>		<b>894.648</b>	<b>755.988</b>
Depreciation	19	(59.936)	(59.651)
General administrative expenses	9	(418.785)	(430.026)
Other operating expenses	10	(51.790)	(55.009)
<b>Total expenses</b>		<b>(530.511)</b>	<b>(544.686)</b>
<b>Profit before taxation</b>		<b>364.137</b>	<b>211.302</b>
Income taxes	11	(74.863)	17.081
<b>Net profit for the year</b>		<b>289.274</b>	<b>228.383</b>

\_\_\_\_\_ The accompanying notes on pages 18 to 48 are an integral part of these financial statements.

# Balance sheet

at 31 December 2004 (all amounts expressed in HRK thousand)

	Note	2004	2003
<b>ASSETS</b>			
Cash and current accounts with banks	12	1.194.163	1.572.981
Balances with Croatian National Bank	13	2.088.344	1.104.687
Securities	14	2.546.304	1.840.196
Due from other banks	15	5.814.831	4.681.437
Loans and advances to customers	16	13.447.167	9.645.825
Other assets	17	152.544	122.315
Deferred tax asset	11	-	61.704
Equity securities	18	62.851	46.086
Tangible and intangible assets	19	470.728	441.973
<b>Total assets</b>		<b>25.776.932</b>	<b>19.517.204</b>
<b>LIABILITIES</b>			
Due to other banks	20	4.758.124	1.619.715
Due to customers	21	13.503.792	11.135.390
Other borrowed funds	22	5.130.691	4.529.381
Other liabilities	23	348.866	267.857
Provisions	24	41.997	44.782
Subordinated instruments	25	317.202	316.196
<b>Total liabilities</b>		<b>24.100.672</b>	<b>17.913.321</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	26	1.324.248	1.324.237
Reserves		62.686	51.263
Net profit for the year		289.274	228.383
Retained earnings		52	-
<b>Total shareholders' equity</b>		<b>1.676.260</b>	<b>1.603.883</b>
<b>Total equity and liabilities</b>		<b>25.776.932</b>	<b>19.517.204</b>
Commitments and contingencies	27	2.847.048	2.179.410

\_\_\_\_\_ The accompanying notes on pages 18 to 48 are an integral part of these financial statements.

\_\_\_\_\_ The financial statements were approved by the Management Board on 7th February 2005:

Member of the Management Board



Sladana Jagar

President of the Management Board



Petar Radaković

# Statement of Changes in Shareholders' Equity

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

	Share capital	Share premium	Legal reserves	Other reserves	Accumulated losses/retained earnings	Net profit for the year	Total
<b>Balance as at 1 January 2003</b>	<b>838.244</b>	-	-	-	<b>(1.568)</b>	<b>121.568</b>	<b>958.244</b>
Issue of shares for merged banks shareholders	486.004	-	-	-	-	-	486.004
Purchase of treasury shares	(11)	-	-	-	-	-	(11)
Distribution of profit	-	-	6.000	45.263	1.568	(52.831)	-
Payment of dividend for the year 2002	-	-	-	-	-	(68.737)	(68.737)
Net profit for the year	-	-	-	-	-	228.383	228.383
<b>Balance as at 31 December 2003</b>	<b>1.324.237</b>	-	<b>6.000</b>	<b>45.263</b>	-	<b>228.383</b>	<b>1.603.883</b>
Sale of treasury shares	11	4	-	-	-	-	15
Distribution of profit	-	-	11.419	-	52	(11.471)	-
Payment of dividend for the year 2003	-	-	-	-	-	(216.912)	(216.912)
Net profit for the year	-	-	-	-	-	289.274	289.274
<b>Balance as at 31 December 2004</b>	<b>1.324.248</b>	<b>4</b>	<b>17.419</b>	<b>45.263</b>	<b>52</b>	<b>289.274</b>	<b>1.676.260</b>

\_\_\_\_\_ The accompanying notes on pages 18 to 48 are an integral part of these financial statements.

# Cash Flow Statement

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

	2004	2003
<b>Cash flow from operating activities</b>		
Profit before tax	364.137	211.302
Provisions for loan losses, net of recoveries	36.980	95.664
Other provisions	8.563	1.587
Net gains from value adjustments of equity securities	(1.627)	(4.224)
Depreciation	59.936	59.651
	467.989	363.980
<b>Changes in assets</b>		
Increase in balances with the Croatian National Bank	(983.657)	(201.930)
(Increase)/decrease in securities	(775.883)	393.003
Increase in loans to banks	(8.412)	(1.551)
Increase in loans and advances to customers	(3.849.670)	(1.574.768)
(Increase)/decrease in accrued interest and other assets	(30.229)	83.413
<b>Changes in liabilities</b>		
Increase in due to other banks	3.138.409	892.784
Increase in due to customers	2.368.402	1.761.599
Increase in other borrowed funds	601.310	1.185.809
Increase/(decrease) in accrued interest and other liabilities	67.850	(85.168)
<b>Net cash flow from operating activities</b>	996.109	2.817.171
<b>Cash flows from investing Activities</b>		
(Increase)/decrease in equity securities	(15.138)	1.063
Increase in investments in tangible and intangible assets	(88.691)	(116.888)
<b>Net cash flow from investing activities</b>	(103.829)	(115.825)
<b>Cash flows from financing Activities</b>		
Increase in subordinated instruments	1.006	8.461
Purchase of own shares	-	(11)
Sale of own shares	15	-
Payment of dividend to the shareholders of the merged bank	-	(62.419)
Payment of dividend	(216.912)	(68.737)
<b>Net cash flow from financing activities</b>	(215.891)	(122.706)
<b>Net increase in cash and cash equivalents</b>	676.389	2.578.640
<b>Cash acquired by the merger</b>	-	1.084.881
<b>Cash and cash equivalents at the beginning of the year</b>	6.311.405	2.647.884
<b>Cash and cash equivalents at the end of the year (Note 29)</b>	6.987.794	6.311.405
<b>Paid interest</b>	472.257	398.054
<b>Collected interest</b>	1.127.307	1.023.725
<b>Received dividends</b>	1.433	1.248

\_\_\_\_\_ The accompanying notes on pages 18 to 48 are an integral part of these financial statements.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 1. General information

\_\_\_\_\_ Erste & Steiermärkische Bank d.d. Rijeka was established in 1954 and was entered into the Court Register as joint stock company on 24th January 1990. The Bank's registered head office is at Jadranski trg 3a, Rijeka, the Republic of Croatia.

\_\_\_\_\_ The Bank is licensed to conduct commercial banking activities in the Republic of Croatia. The main activities of the Bank are offering of various types of deposit and credit services to legal entities and individuals, domestic and international payment operations, issuing of letter's of credit, sureties and other types of guarantees, taking over of other financial commitments, buying and selling of securities and other banking services.

Members of the Management Board of Erste & Steiermärkische Bank d.d. Rijeka in 2004 were as follows:

Petar Radaković, President of the Management Board  
Tomislav Vuić, Deputy President of the Management Board  
Borislav Centner, member of the Management Board  
Sava Dalbokov, member of the Management Board  
Sladana Jagar, member of the Management Board

Members of the Supervisory Board of Erste & Steiermärkische Bank d.d. Rijeka in 2004 were as follows:

Mag. Reinhard Ortner, President  
August Jost, Deputy President until 29 June 2004  
Franz Kerber, Deputy President since 29 June 2004  
Dr. Manfred Wimmer, member  
Mag. Karin Svoboda, member  
Dr. Kristijan Schellander, member  
Reinhold Schuster, member  
Bernhard Spalt, member  
Franz Mally, member  
Josip Stanković, member

\_\_\_\_\_ As at 31 December 2004, the Bank had 1.503 employees (as at 31 December 2003, the number of employees was 1.540).

## 2. Accounting policies

\_\_\_\_\_ The principal accounting policies adopted in the preparation of these financial statements are set out below.

### a) Basis of presentation

\_\_\_\_\_ These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB), currently applicable interpretations issued by the Standing Interpretations Committee of the IASB and the relevant Croatian laws.

### b) Basis of preparation

\_\_\_\_\_ The financial statements are presented in Kuna (HRK), rounded to the nearest thousand.

\_\_\_\_\_ The financial statements are prepared on a fair value basis for financial assets and liabilities classified as held for trading, and financial assets classified as available for sale, except those for which a reliable measure of fair value is not available. These and other financial assets and liabilities and non-financial assets and liabilities are stated at depreciated cost or historical cost.

\_\_\_\_\_ The financial statements have been stated in a format generally adopted and internationally recognized and in accordance with IAS 30, "Disclosures in the Financial Statements of Banks and Similar Financial Institutions".

### c) Group accounts

\_\_\_\_\_ Group accounts have not been prepared on the grounds that the result, assets and liabilities of the Bank's subsidiaries are either insignificant in comparison to those of the Bank or control is intended to be temporary.

### d) Interest income and expenses

\_\_\_\_\_ Income from fully recoverable loans and expenses are stated in the Profit and Loss Account on an accrual basis. Interest income and loan approval fees which are considered as integral part of the effective yield of a loan are recognized using the effective yield method. As of 2001, and following the adoption of IAS 39, interest income has been recognized on an accrual basis for partially recoverable loans using the effective interest rate, and based on the recoverable claim amount.

### e) Fee and commission income

\_\_\_\_\_ Fee and commission income relates mainly to fees for guarantees, letters of credit, payment transactions and similar instruments, foreign currency transactions, as

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

well as mandate transactions and other services rendered by the Bank. Fees are recognized as income as services are provided.

## f) Foreign currency payment instruments

Income and expenses in foreign currencies are converted into HRK at the rate quoted on the day of transaction. Claims and liabilities stated in foreign currencies are converted into HRK at the Croatian National Bank mid rate quoted on the last day of accounting period, and claims and liabilities stated in Kuna, with foreign currency clause, are converted at the actual agreed rate. Gains and losses arising from recalculation of foreign currencies are stated in the Profit and Loss Account for the relevant year.

Significant exchange rates used as of 31 December 2004 are 1 EUR 7,671234 HRK and 1 USD 5,636883 HRK, and of 31 December 2003 were 1 EUR 7,646909 HRK and 1 USD 6,118506 HRK.

## g) Securities

Securities are measured initially at cost, including transaction costs.

Securities held for trading are shown at their fair values. The fair value of financial assets is established on the basis of the price quoted on the market as of balance sheet date, not including reductions for transaction costs. Where the market price is not available, the fair value of assets is estimated by discounted cash flows method.

Securities held to maturity include debt securities with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold until maturity. Premiums and discounts including initial transaction costs are included in the book value of the instrument and are amortized or accreted using the effective interest rate. Valuation is carried out at amortized cost, less any impairment.

Securities available for sale include some debt and equity securities. They are assessed according to fair value or at investment cost if the market price may not be determined even approximately. All securities are subject to impairment testing.

Income and expenses resulted from changes in fair or market value of trading assets and financial assets available for sale are recognized in the Profit and Loss Account.

In accounting for all financial instruments the Bank uses the settlement date.

## h) Investments in subsidiaries and associated companies

Investments in associated companies, with a shareholding of between 20% and 50%, are originally recorded at investment cost, and subsequently valued according

to the equity method.

Investments in subsidiaries are recorded at investment cost, and are consolidated where the financial statements of the subsidiary are deemed to be significant.

## i) Loans to clients

Loans are stated in the Balance Sheet in the amount of principal outstanding, net of any required value adjustments.

If it is determined that loan collection is not possible, and that all the legal options have been tried, the loan is written off. The written off claim is transferred to the off-balance sheet records.

## j) Provisions for loans and advances

The Bank reviews at each Balance Sheet date whether objective indications of value reduction exist. In the case of the financial assets value reduction, its recoverable value is re-estimated.

The provisions for identified loan losses are formed in the amount of the estimated bad and doubtful debt loss for loans identified as impaired. The loss represents the difference between the book value of the loan and present value of expected future collections. This amount is arrived at by discounting by the loan actual interest rate (valid actual interest rate on the loan at time the loan was categorized into bad and doubtful debts).

100 percent provisions are formed for non-recoverable placements.

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each loan portfolio component and considering the credit rating of the underlying customers and their repayment history.

Provisions for identified and unidentified losses on balance sheet exposures are charged against the Bank's expenses and shown as a reduction of the related assets (provisions).

Any provisions for identified losses from the off-balance sheet items are reported as the Bank's expenditures and provisions in the liabilities of the Bank.

## k) Tangible and intangible assets

All tangible assets are stated at the historical cost less depreciation.



# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

Depreciation is calculated on a straight-line basis to write off the acquisition cost of each asset item over its estimated useful life, except for land and assets in preparation. The following yearly rates are used:

	as %
Buildings	2,5
Computers	25,0
Furniture and equipment	10,0 - 33,3
Motor vehicles	25,0
Software	25,0
Other intangible assets	20,0

\_\_\_\_\_ Regular maintenance expenditure is directly charged against operating profit. Additional investments in reconstruction, renovation and modernization, which result in significant increase or improvement, increase its acquisition cost in the amount of investment.

## **l) Taxation**

\_\_\_\_\_ Income tax is calculated on the basis of taxable profit, which is calculated by adjusting the financial result for certain income and expense items (such as the costs of representation, partial costs for company cars, etc.) in accordance with Croatian regulations.

\_\_\_\_\_ In accordance with IAS No. 12, "Income Taxes", deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

\_\_\_\_\_ Deferred tax asset resulting from tax losses brought forward is recognized when it is probable that taxable profits will be available against which deferred tax asset can be utilized.

## **m) Cash and cash equivalents**

\_\_\_\_\_ The cash flow report indicates cash and cash equivalent items with residual maturity less than 90 days from the balance sheet date, including: cash and current accounts with banks and claims from other banks with maturity up to 90 days, the State and Croatian National Bank highly liquid securities with maturity up to 90 days (see Note 29).

## **n) Operations on behalf and for account of third parties**

\_\_\_\_\_ In addition to the operations that the Bank carries out on its behalf and for its account, it also performs operations on behalf and for account of third parties, charging a fee for its services. These operations are reported in separate bookkeeping records. The Bank is not exposed to any risk in connection with these activities.

## **o) Share capital and reserves**

\_\_\_\_\_ Share capital is stated in HRK at nominal value. Any profit for the year after appropriations is transferred to reserves.

\_\_\_\_\_ The nominal value of treasury shares is netted off against share capital. The premium paid or discount received on treasury shares is charged to share premium account.

## **p) Reclassification**

\_\_\_\_\_ Where necessary, the prior year amounts have been reclassified so as to achieve consistency between the disclosed data and data related to the current financial year as well as other data. Primary reason for reclassifications was to present the financial statements as closely as possible in line with structure of the financial statements of the parent bank.

\_\_\_\_\_ Amount and nature of reclassifications are explained in notes where change in amounts reported for the year 2003 is significant.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 3. Interest Income and Expense

	2004	2003
<b>Interest income</b>		
Loans to citizens	523.744	478.948
Loans to corporate clients	387.018	321.431
State and other public sector	144.342	144.480
Banks	75.708	45.509
Croatian National Bank	34.345	32.916
Other clients	1.218	1.654
Other	1.433	1.248
	<b>1.167.808</b>	<b>1.026.186</b>
<b>Interest expenses</b>		
Deposits from citizens	197.114	170.599
- demand deposits	13.901	18.066
- term deposits	183.213	152.533
Deposits from corporate clients	88.774	62.786
- demand deposits	8.757	9.007
- term deposits	80.017	53.779
Deposits from banks	35.646	15.830
- demand deposits	789	618
- term deposit	34.857	15.212
Deposits from the public sector	3.596	4.279
- demand deposits	617	1.117
- term deposits	2.979	3.162
Deposits from other clients	741	823
- demand deposits	376	494
- term deposits	365	329
Subordinated instruments	11.240	13.151
Other borrowed funds	159.242	139.476
	<b>496.353</b>	<b>406.944</b>

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to derivatives income and expenses that are reclassified in the net amount of 4.943 thousand HRK to caption Income from trading and valuation of financial instruments.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 4. Provisions for loan losses, net of recoveries

	Note	2004			2003		
		Decrease	Increase	Total	Decrease	Increase	Total
Due from other banks	15	40.369	25.763	14.606	47.837	55.967	(8.130)
Loans and advances to customers	16	372.114	434.170	(62.056)	349.070	430.357	(81.287)
Off balance items	24	55.613	45.143	10.470	44.560	50.807	(6.247)
		<b>468.096</b>	<b>505.076</b>	<b>(36.980)</b>	<b>441.467</b>	<b>537.131</b>	<b>(95.664)</b>

## 5. Net fee and commission income

	2004	2003
<b>Fee and commission income</b>		
Payment orders	156.631	140.490
Card business	49.117	50.433
Guarantees and letters of credit	32.111	30.644
Other fees and commissions	9.721	11.201
	<b>247.580</b>	<b>232.768</b>
<b>Fee and commission expense</b>		
Payment orders	82.664	89.866
Card business	38.254	35.321
Guarantees and letters of credit	700	545
Other fees and commissions	728	2.192
	<b>122.346</b>	<b>127.924</b>

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to delay reminder fees that are reclassified in the amount of 12.104 thousand HRK from caption other operating income, and other fees that are reclassified from caption other operating expenses in the amount of 3.951 thousand HRK.

## 6. Net foreign exchange gains

	2004	2003
Income from foreign currency purchase and sale	85.729	81.349
Income from foreign currency Balance Sheet positions alignment to mid rate	(24.747)	(123.249)
Foreign currency clause effects	33.384	128.318
	<b>94.366</b>	<b>86.418</b>

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 7. Income from trading and valuation of financial instruments

	2004	2003
Income from trading equity and other securities	6.660	12.929
Income from valuation of debt securities	10.331	4.028
Loss from value adjustments of equity securities	(1.498)	-
Income from value adjustments of equity securities	3.125	4.224
Net income from valuation of derivatives	5.983	4.943
	<b>24.601</b>	<b>26.124</b>

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to derivatives income and expenses that are reclassified in net amount of 4.943 thousand HRK from caption Interest income.

## 8. Other operating income

	2004	2003
Income from leases	2.719	3.022
Income from sale of tangible fixed assets	7.867	-
Other income	5.386	12.002
	<b>15.972</b>	<b>15.024</b>

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to delay reminder fees that are reclassified to the caption Fee and commission income in amount of 12.104 thousand HRK, and decrease in provisions for severance payments to employees that is reclassified to caption General administrative expenses in the amount of 9.158 thousand HRK.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 9. General administrative expenses

	2004	2003
Employee related costs		
- Salary expenses and compensation - net	120.747	119.382
- Costs of contribution, taxes and surtaxes	103.024	106.588
- Compensation to employees	9.465	33.839
Materials and services	127.038	124.989
Administration and marketing costs	44.674	47.239
Provisions for severance payments and other fees to employees	8.986	(9.158)
Other insurance premiums	4.438	6.594
Supervisory board remuneration	413	553
	<b>418.785</b>	<b>430.026</b>

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to Savings insurance premiums that were reclassified to caption Other operating expenses in the amount of 32.106 thousand HRK, and amount of 9.158 thousand HRK refers to provisions and fees for employees that are reclassified from caption Other operating income.

## 10. Other operating expenses

	2004	2003
Savings insurance premiums	31.355	32.106
Provisions for pending legal disputes	7.694	2.705
Increase in provisions against repossessed assets	6.082	-
Taxes and contributions	3.326	1.429
Loss from disposals of tangible fixed assets	1.175	5.818
Other	2.158	12.951
	<b>51.790</b>	<b>55.009</b>

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to Savings insurance premiums that were reclassified from General and administrative expenses in the amount of 32.106 thousand HRK.

## 11. Income taxes

**Income taxes shown in Profit and Loss account can be analyzed as follows:**

	2004	2003
Use of tax asset brought forward from previous periods	(61.704)	(43.902)
Tax liability of current period	(13.159)	-
Change of estimation of tax asset from prior period	-	60.983
Income tax shown in Profit and Loss account	<b>(74.863)</b>	<b>17.081</b>

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 11. Income taxes (continued)

### Determination of tax liability / tax loss carried forward:

	2004	2003
Loss carried forward from previous periods	(308.521)	(528.033)
Net income before taxes for the current period	364.137	211.301
Non-taxable income	(10.182)	(5.300)
Non tax deductible expenses	20.360	13.511
Tax basis for the current period	374.315	219.512
Use of loss carried forward from previous periods	(308.521)	(219.512)
Tax basis after use of loss carried forward from previous periods	<b>65.794</b>	<b>(308.521)</b>
Potential tax asset (20%)	-	(61.704)
Deferred tax asset recognized in the balance sheet	-	61.704
Tax liability (20% of tax basis after use of loss carried forward)	<b>13.159</b>	-

\_\_\_\_\_ At the end of 2001 the Bank had a tax loss carried forward in the total amount of HRK 612.426 thousand. According to the estimation made in 2002, part of this loss amounting to HRK 223.115 thousand was to be used in future periods. The Bank thus formed a deferred tax asset of HRK 44.623 thousand. The Bank has during 2003 estimated that the full amount of tax losses will be utilized and a deferred tax asset in the amount of HRK 61.704 thousand was formed. Tax losses available to be carried forward were completely utilized in the year 2004.

### Changes in tax asset

	2004	2003
Balance of tax asset on 1 January	61.704	44.623
Changes in assessment of recoverability of prior period taxes	-	60.983
Utilization of tax asset in current year (tax base x 20%)	(61.704)	(43.902)
<b>Balance of tax assets as at 31 December</b>	<b>-</b>	<b>61.704</b>

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 12. Cash and current accounts with banks

	2004		2003	
	HRK	Foreign currency	HRK	Foreign currency
Cash in hand	144.934	121.388	157.701	118.156
Current accounts and amounts on demand with domestic banks	-	8.768	-	5.456
Current accounts and amounts on demand with foreign banks	-	10.482	-	22.212
Current account with CNB	908.591	-	1.269.456	-
	<b>1.053.525</b>	<b>140.638</b>	<b>1.427.157</b>	<b>145.824</b>
	<b>1.194.163</b>		<b>1.572.981</b>	

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to checks that are reclassified to position Other assets in the amount of 9.945 thousand HRK.

## 13. Balances with Croatian National Bank

	2004	2003
Obligatory reserve in HRK	1.502.465	780.679
Obligatory reserve in foreign currency	585.879	324.008
	<b>2.088.344</b>	<b>1.104.687</b>

\_\_\_\_\_ At least 60% of the total obligatory reserve requirement must be deposited on special accounts with the Croatian National Bank and the remainder may be held in cash and/or on giro accounts, except for part of the foreign currency reserve executed in foreign currency related to non-residents and corporate clients which are in special relation with bank, for which 100% must be deposited with the Croatian national bank.

\_\_\_\_\_ The HRK portion of obligatory reserve requirement at 31 December 2004 represents 18% of the relevant HRK deposits, increased by 42% of obligatory reserve for foreign currency loans and deposits. At year end the Bank held 60% of the total requirement in a special obligatory reserve deposit account with the Croatian National Bank. Interest is calculated on a monthly basis. The rate at year-end was 1,25% p.a. (at the end of year 2003 amounted 1,25% p.a.).

\_\_\_\_\_ The foreign currency obligatory reserve requirement at 31 December 2004 represented 18% of both foreign currency personal and corporate deposits and foreign currency borrowings. Of the calculated obligatory reserve in foreign currency, 42% is executed in Croatian Kuna, while the remaining 58% is executed in foreign currency.

\_\_\_\_\_ At 31 December 2004 71,74% of this foreign currency obligatory reserve was deposited with the Croatian National Bank in accordance with requirements with the remainder placed with foreign banks in accordance with Croatian National Bank selection criteria. Interest is calculated on a monthly basis. The rate at year-end was 1,50% p.a. for USD, and 1,50% p.a. for EUR (at year end 2003 1,04% and 2,05% respectively).

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 14. Securities

	2004	2003
<b>Assets available for sale</b>		
Bonds of the Republic of Croatia in HRK	528.433	243.150
Bonds of foreign countries	389.817	-
Treasury bills of the Ministry of Finance	349.460	138.316
Bonds of the Republic of Croatia in foreign currency	267.319	366.169
Corporate bills of exchange	106.746	106.759
Bonds issued by DAB (Deposit Insurance Agency)	56.668	77.473
Investments in investment funds	45.913	4.000
Bonds of the Croatian Bank for Reconstruction and Development (HBOR) 2012	42.651	-
Corporate bonds	25.664	647
Municipality bonds	10.215	-
Bonds issued by banks	7.027	-
Bonds of the Croatian Health Insurance Institute (HZZO)	-	12.776
	<b>1.829.913</b>	<b>949.290</b>
<b>Assets held to maturity</b>		
Replacement bonds	259.876	286.662
Rehabilitation bonds	152.213	196.615
Bonds of the Republic of Croatia	123.423	106.903
Public debt		
- Bonds of the Republic of Croatia for frozen foreign currency deposits	37.817	112.928
- Bonds of the Republic of Croatia for payment in foreign currency for the purchase of flats	4.935	4.932
Bonds of the Croatian Health Insurance Institute (HZZO)	-	26.764
Bonds issued by DAB	90.261	87.939
Other securities		
- Bonds of Plava laguna d.d.	-	2.367
- Bonds of Belišće	5.370	5.353
- Commercial bills of Belišće	-	4.957
Obligatory Treasury bills of the Croatian National Bank	-	8.996
Factoring	46.682	49.455
	<b>720.577</b>	<b>893.871</b>
Provisions	(4.186)	(2.965)
	<b>2.546.304</b>	<b>1.840.196</b>



# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 14. Securities (continued)

### Changes in provisions

	2004	2003
Balance as at 1 January	2.965	1.273
Acquired by the merger	-	1.514
New provisions	5.912	3.719
Collected	(4.601)	(3.541)
Written off	(96)	-
Foreign exchange revaluation	6	-
<b>Balance as at 31 December</b>	<b>4.186</b>	<b>2.965</b>

\_\_\_\_\_ Republic of Croatia bonds are of various issues, some denominated in foreign currency and others in Kuna. They mature between 2005 and 2019. Interest rate of these bonds ranges from 3,875% p.a. to 7,375% p.a. These bonds are traded on an active market.

\_\_\_\_\_ DAB bonds are foreign currency denominated bonds issued in December 2000. DAB is the State Agency for Deposit Insurance and Bank Rehabilitation which issued bonds for the servicing of insured citizens' savings deposited in Croatian banks that are in bankruptcy procedure. The bonds carry interest of 8,375% per annum.

\_\_\_\_\_ The Public debt refers to foreign currency savings of citizens which have been deposited with the former National Bank of Yugoslavia, and which were frozen on 27 April 1991. On 23 December 1991, all deposits were converted into public debt of the Republic of Croatia.

\_\_\_\_\_ These bonds are foreign currency denominated bonds and carry a fixed interest rate of 5% p.a., payable semi-annually. The principal is repaid in 20 semi-annual installments starting from 30 June 1995.

\_\_\_\_\_ Rehabilitation bonds are foreign currency denominated bonds issued in 1997 and repayable in twenty semi-annual installments at the interest rate of 6% per annum. The first installment fell due on 20 May 1998.

\_\_\_\_\_ The fair value of rehabilitation, restructuring and public debt (frozen deposits) bonds included in the held to maturity portfolio cannot be reliably measured as they are not traded on an active market.

\_\_\_\_\_ The fair value of assets held to maturity that are actively traded is HRK 11.485 thousand higher than its book value as at 31 December 2004.

\_\_\_\_\_ Securities available for sale include 2.915 thousand HRK of securities sold on repurchase arrangements, and 45.628 thousand HRK which are given as collaterals for borrowings.

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to factoring which was reclassified from caption Loans and advances to customers in the amount of 46.721 thousand HRK.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 15. Due from other banks

	2004	2003
HRK denominated	356.107	748.757
Foreign currency denominated	5.471.651	3.965.415
	<b>5.827.758</b>	<b>4.714.172</b>
Provisions	(12.927)	(32.735)
	<b>5.814.831</b>	<b>4.681.437</b>

### Geographical analysis

	2004	2003
Croatia	428.972	799.705
France	892.932	625.372
Italy	727.233	248.662
Switzerland	675.567	373.885
Belgium	504.771	151.023
Holland	500.931	191.173
Sweden	378.192	397.678
Germany	352.877	438.168
Denmark	327.144	94.822
Austria	323.039	542.931
Ireland	268.493	612
Great Britain	219.015	114.704
Spain	145.753	258.815
Serbia and Montenegro	33.045	10.796
Norway	26.946	133
Czech Republic	21.000	32.422
Others	1.848	433.271
	<b>5.827.758</b>	<b>4.714.172</b>
Provisions	(12.927)	(32.735)
	<b>5.814.831</b>	<b>4.681.437</b>

### Changes in provisions

	2004	2003
Balance as at 1 January	32.735	23.292
Acquired by the merger	-	2.277
New provisions	25.763	55.967
Collected	(40.369)	(47.837)
Written off	(4.585)	(715)
Foreign exchange revaluation	(617)	(249)
<b>Balance as at 31 December</b>	<b>12.927</b>	<b>32.735</b>

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 15. Due from other banks (continued)

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to Interest that is reclassified from Other assets in the amount of 7.493 thousand HRK and reclassification of non banking financial institutions to caption Loans and advances to customers in the amount of 15.959 thousand HRK.

## 16. Loans and advances to customers

	2004	2003
Companies		
- in HRK	5.075.842	3.216.700
- in foreign currency	2.176.608	1.736.844
Citizens	6.524.469	4.970.407
Public sector	559.856	568.714
Other clients	22.450	25.362
	<b>14.359.225</b>	<b>10.518.027</b>
Provisions	(912.058)	(872.202)
	<b>13.447.167</b>	<b>9.645.825</b>
There of partly recoverable and irrecoverable loans amount	868.851	1.286.324

### Changes in provisions

	2004	2003
Balance as at 1 January	872.202	445.301
Acquired by the merger	-	410.285
New provisions	434.170	430.357
Collected	(372.114)	(349.070)
Written off	(19.108)	(76.107)
Foreign exchange revaluation	(3.092)	11.436
<b>Balance as at 31 December</b>	<b>912.058</b>	<b>872.202</b>

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to reclassification of interest from caption Other assets in the amount of 84.059 thousand HRK and Factoring which is reclassified to Securities in the amount of 46.721 thousand HRK.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 16. Loans and advances to customers (continued)

\_\_\_\_\_ The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by borrower and product are approved on a regular basis by the Supervisory Board. Where appropriate, and in the case of most loans, the Bank obtains collateral. Credit risk management is defined in the credit policy of the Bank, approved by the Management board and supervisory board. Credit risks are monitored on a continuous basis and are reported to the Management board and Supervisory board on a quarterly basis.

\_\_\_\_\_ **The concentration of risk by industries** within the customer's loan portfolio was as follows (in HRK thousand and percentage):

	2004		2003	
		%		%
Agriculture, hunting, forestry and fishery	191.910	1,3%	185.071	1,8%
Mining industry	15.237	0,1%	28.467	0,3%
Manufacture of food and beverages	305.042	2,1%	232.537	2,2%
Textile industry	87.884	0,6%	74.080	0,7%
Publishing and printing industry	85.470	0,6%	56.304	0,5%
Manufacture of coke, petroleum products and nuclear fuel	5.136	0,0%	464	0,0%
Manufacture of chemicals and chemical products	47.156	0,3%	44.141	0,4%
Manufacture of other non-metal and mineral products	132.817	0,9%	78.886	0,8%
Manufacture of metal products, except of machinery and equipment	104.941	0,7%	79.438	0,8%
Manufacture of other transport vehicles	545.213	3,8%	87.466	0,8%
Other manufacturing industry	631.125	4,4%	510.643	4,9%
Electricity, gas and water supply	268.437	1,9%	303.196	2,9%
Construction industry	544.732	3,8%	316.782	3,0%
Retail and wholesale trade, repair of motor vehicles and home appliances	2.331.803	16,2%	1.743.905	16,6%
Hotels and restaurants	608.557	4,2%	491.140	4,7%
Financial mediation	213.293	1,5%	24.697	0,2%
Transport, storage and communication	551.309	3,8%	371.591	3,5%
Real estate business operations, leases and business services	432.534	3,0%	245.374	2,3%
Public administration and defense	519.361	3,6%	545.926	5,2%
Education	27.723	0,2%	29.112	0,3%
Health and social services	38.021	0,3%	24.164	0,2%
Personnel services and other service business	113.578	0,8%	71.414	0,7%
Foreign customers	33.477	0,2%	2.822	0,0%
Citizens	6.524.469	45,7%	4.970.407	47,2%
	<b>14.359.225</b>	<b>100,0%</b>	<b>10.518.027</b>	<b>100,0%</b>
Provisions	(912.058)		(872.202)	
	<b>13.447.167</b>		<b>9.645.825</b>	

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 17. Other assets

	2004	2003
Accrued interest receivable	91.634	68.361
Assets held for sale	30.418	36.766
Derivatives valuation	17.265	1.823
Receivables from fees and commissions	13.102	13.992
Costs paid in advance	8.181	716
Checks	7.050	9.945
Inventories of office and other supplies	2.196	2.446
Coin collections	684	677
	<b>170.530</b>	<b>134.726</b>
Provisions	(17.986)	(12.411)
	<b>152.544</b>	<b>122.315</b>

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to reclassification of Interest and other receivables to caption Loans and advances to customers and Due from Banks in the amount of 93.251 thousand HRK, and reclassification of Checks from Cash and current account in the amount of 9.945 thousand HRK.

### Changes in provisions

	2004	2003
Balance at 1 January	12.411	975
Acquired by the merger	-	9.607
Acquired by the merger for repossessed assets	-	7.667
New provisions made	15.688	4.489
Collected	(9.992)	(9.803)
Written-off	(121)	(327)
Foreign exchange revaluation	-	(197)
<b>Balance as at 31 December</b>	<b>17.986</b>	<b>12.411</b>

## 18. Equity securities

\_\_\_\_\_ Investments in equity securities may be analyzed as follows:

	2004	2003
Investments in subsidiaries and associated companies	47.226	31.012
Investments in companies	343	341
Investments in financial institutions	15.282	14.733
	<b>62.851</b>	<b>46.086</b>

\_\_\_\_\_ The only subsidiary of the Bank as at 31 December 2004 is 100% owned Erste DMD d.o.o., a fund management company founded during 2004. The company did not start operating during 2004. The investment of the Bank in this subsidiary amounts to 15.000 thousand HRK.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 18. Equity securities (continued)

\_\_\_\_\_ The changes of the investments in equity securities are analyzed in the table below:

	Stakes in associated comp. and subsidiaries	Other investments (less than 20%)	Total
Balance as at 1 January 2003	25.565	9.898	35.463
Participations' value adjustments	3.428	796	4.224
Sale/purchase of participations	151	(1.571)	(1.420)
Acquired by the merger	1.868	5.859	7.727
Exchange rate revaluation	-	92	92
<b>Balance as at 31 December 2003</b>	<b>31.012</b>	<b>15.074</b>	<b>46.086</b>
Participations' value adjustments	1.202	425	1.627
Acquisition	15.012	100	15.112
Exchange rate revaluation	-	26	26
<b>Balance as at 31 December 2004</b>	<b>47.226</b>	<b>15.625</b>	<b>62.851</b>

## 19. Tangible and intangible assets

	Land and buildings	Computers	Furniture & fittings	Motor vehicles	Assets in course of construction	Intangible assets	Total
<i>Purchase value</i>							
<b>Balance as at 1 January 2004</b>	<b>285.196</b>	<b>167.176</b>	<b>102.267</b>	<b>7.067</b>	<b>143.620</b>	<b>36.279</b>	<b>741.605</b>
Transfer to the current investments	154.610	35.189	32.443	131	(226.154)	3.781	-
Increase	-	-	182	-	106.823	-	107.005
Disposals	(17.461)	(8.977)	(18.903)	(2.321)	-	(1.810)	(49.472)
<b>Balance as at 31 December 2004</b>	<b>422.345</b>	<b>193.388</b>	<b>115.989</b>	<b>4.877</b>	<b>24.289</b>	<b>38.250</b>	<b>799.138</b>
<i>Depreciation</i>							
<b>Balance as at 1 January 2004</b>	<b>103.970</b>	<b>99.928</b>	<b>71.425</b>	<b>6.103</b>	-	<b>18.206</b>	<b>299.632</b>
Eliminated on disposals	(1.286)	(8.635)	(17.453)	(2.316)	-	(1.468)	(31.158)
Depreciation in 2004	8.691	32.751	10.901	532	-	7.061	59.936
<b>Balance as at 31 December 2004</b>	<b>111.375</b>	<b>124.044</b>	<b>64.873</b>	<b>4.319</b>	-	<b>23.799</b>	<b>328.410</b>
<i>Net Book Value</i>							
<b>Balance as at 31 December 2004</b>	<b>310.970</b>	<b>69.344</b>	<b>51.116</b>	<b>558</b>	<b>24.289</b>	<b>14.451</b>	<b>470.728</b>
<i>Net Book Value</i>							
<b>Balance as at 31 December 2003</b>	<b>181.226</b>	<b>67.248</b>	<b>30.842</b>	<b>964</b>	<b>143.620</b>	<b>18.073</b>	<b>441.973</b>
<b>Assets fully written off used by the Bank</b>							
<b>- as at 31 December 2004</b>	<b>4.261</b>	<b>27.345</b>	<b>12.219</b>	<b>837</b>	-	-	<b>44.662</b>

\_\_\_\_\_ Capital commitments related to investments in tangible and intangible assets entered into by the Bank amount to 13.534 thousand HRK for which payment will be made in the year 2005.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 20. Due to other banks

	2004	2003
Demand deposits - in HRK	15.890	24.788
- in foreign currency	48.960	164.671
Term deposits - in HRK	694.803	261.401
- in foreign currency	3.998.471	1.168.855
<b>Total</b>	<b>4.758.124</b>	<b>1.619.715</b>

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to reclassification of items from other liabilities that refer to banks to Due to banks in amount of 6.357 thousand HRK, and reclassification of amounts owed to non banking financial institutions from position Due to banks to Due to customers in amount of 340.244 thousand HRK.

## 21. Due to customers

	2004	2003
<b>Demand deposits</b>		
Citizens		
- in HRK	984.617	967.145
- in foreign currency	1.969.315	1.912.419
Corporate clients		
- in HRK	1.233.021	1.193.691
- in foreign currency	475.670	450.342
Public sector		
- in HRK	166.817	138.024
- in foreign currency	3.537	4.338
Other clients		
- in HRK	67.438	84.646
- in foreign currency	14.131	12.954
<b>Total demand deposits</b>	<b>4.914.546</b>	<b>4.763.559</b>
<b>Term deposits</b>		
Citizens		
- in HRK	3.178.796	1.840.779
- in foreign currency	2.698.316	2.613.309
Corporate clients		
- in HRK	2.057.075	1.460.261
- in foreign currency	590.890	384.415
Public sector		
- in HRK	59.587	63.865
Other clients		
- in HRK	4.582	9.202
<b>Total term deposits</b>	<b>8.589.246</b>	<b>6.371.831</b>
<b>Total due to customers</b>	<b>13.503.792</b>	<b>11.135.390</b>

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 21. Due to customers (continued)

\_\_\_\_\_ Term deposits include the funds of HRK 2.915 thousand received under repurchase agreements.

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to reclassification of other liabilities and interest from position Other liabilities in the amount of 12.036 thousand HRK, and reclassification of amounts received from non banking institutions from position Due to banks to Due to customers in the amount of 340.244 thousand HRK.

## 22. Other borrowed funds

	2004	2003
Foreign borrowings	4.119.072	3.779.924
Domestic borrowings	702.358	455.461
Refinanced borrowings - public sector	201.102	223.168
Refinanced borrowings - banks	37.244	45.725
Other borrowings	70.915	25.103
	<b>5.130.691</b>	<b>4.529.381</b>

## 23. Other liabilities

	2004	2003
Accrued interest	130.304	106.121
Prepayments received from borrowers	102.379	83.821
Amounts due to suppliers	35.029	34.278
Derivative valuation	21.948	1.702
Salaries payable	17.021	15.984
Liabilities from the employment contracts	14.267	6.149
Income tax payable	13.159	-
Liabilities towards corporate customers	10.943	10.505
Deferred income	968	4.022
Other taxes payable	737	379
Liabilities for advances received	131	1.235
Other	1.980	3.661
	<b>348.866</b>	<b>267.857</b>

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to other liabilities and interest which were reclassified to caption Due to customers and Due to banks in the amount of 18.393 thousand HRK, and provisions for other liabilities are reclassified into caption Provisions in the amount of 4.474 thousand HRK.



# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 24. Provisions

	2004	2003
Provisions for off balance items	29.838	40.308
Other provisions	12.159	4.474
	<b>41.997</b>	<b>44.782</b>

The changes of provisions for off balance items were as follows:

	2004	2003
Balance as at 1 January	40.308	23.681
Acquired by the merger	-	10.903
New provisions made	45.143	50.807
Disposals	(55.613)	(44.560)
Foreign exchange revaluation	-	(523)
<b>Balance as at 31 December</b>	<b>29.838</b>	<b>40.308</b>

Changes for other provisions were as follows:

	Other provisions
Balance as at 1 January 2003	2.326
Acquired by the merger	763
New provisions made	16.994
Disposals	(15.407)
Foreign exchange revaluation	(202)
<b>Balance as at 31 December 2003</b>	<b>4.474</b>
New provisions made	9.484
Disposals	(921)
Foreign exchange revaluation	(878)
<b>Balance as at 31 December 2004</b>	<b>12.159</b>

\_\_\_\_\_ The difference of reported caption in the Financial Statements published for the year 2003 and comparative figures in this report is mostly related to reclassification of provisions for other liabilities from Other liabilities in the amount of 4.474 thousand HRK.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 25. Subordinated instruments

\_\_\_\_\_ In 2002 Erste Bank der oesterreichischen Sparkassen AG, Wien granted the Bank funds in the amount of EUR 20 million, based on a subordinated uncollateralized long-term loan for the formation of supplementary capital. The loan has been granted for a period of 15 years, and at an agreed interest rate of 1,20% per annum in excess of EURIBOR.

\_\_\_\_\_ The Bank has acquired through merger a subordinated uncollateralized long-term loan in the amount of EUR 20 million granted by Erste Bank. Maturity of 50% of this loan is at 24 April 2011, and of the other 50% at 24 April 2012. The interest rate is 1,5% in excess of EURIBOR.

\_\_\_\_\_ The Bank also acquired through the merger bonds with a status of tier 2 capital issued during the year 1998. The bonds were issued for a period of 8 years with an interest rate of 6% per annum. The Bank has issued 8.626 bonds, each carrying a value of EUR 156,45 payable at the middle exchange rate of the Croatian National Bank at the day of repayment. Interest is paid quarterly.

## 26. Share capital

\_\_\_\_\_ At 31 December 2004 Share capital is made of 13.242.478 shares each with nominal value of HRK 100. The Bank has during Year 2004 sold its own treasury bills that were acquired during the merger.

\_\_\_\_\_ Shareholders of the Bank as at 31 December are as follows:

	SHARES			
	2004		2003	
	Shareholding	No. of shares	Shareholding	No. of shares
Erste Bank der oesterreichischen Sparkassen AG, Wien	59,8%	7.920.014	77,3%	10.235.671
Die Steiermärkische Bank und Sparkassen AG, Graz	35,0%	4.634.867	15,1%	2.002.494
President of Management Board - Petar Radaković	0,4%	50.172	0,4%	50.172
Member of Management Board - Borislav Centner	0,0%	6.605	0,0%	6.605
Member of Management Board - Sladana Jagar	0,0%	235	0,0%	235
Other shareholders:	4,8%	630.585	7,2%	947.301
- of which treasury shares	0,0%	-	0,0%	110
<b>Total</b>	<b>100,0%</b>	<b>13.242.478</b>	<b>100,0%</b>	<b>13.242.478</b>

### Share nominal value

	2004	2003
- by the share	100	100
- total number of shares	13.242.478	13.242.478
Total share nominal value in HRK 000	1.324.248	1.324.248
Treasury shares	-	(11)
	<b>1.324.248</b>	<b>1.324.237</b>

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 26. Share capital (continued)

### Reconciliation of shares outstanding for the period:

	No. of shares	Amount (HRK thousand)
Opening balance as at 1 January 2003	8.382.435	838.244
Issuing new shares	4.860.043	486.004
Treasury shares acquired in the merger	(110)	(11)
<b>Closing balance as at 31 December 2003</b>	<b>13.242.368</b>	<b>1.324.237</b>
Sold treasury shares	110	11
<b>Closing balance as at 31 December 2004</b>	<b>13.242.478</b>	<b>1.324.248</b>

## 27. Commitments and contingencies

\_\_\_\_\_ The total volume of issued guarantees, granted letters of credit and commitments taken over at the end of the year amounted to:

	2004	2003
HRK guarantees	195.138	157.019
- short-term	111.510	83.354
- long-term	83.628	73.665
Foreign currency guarantees	268.814	332.169
Performance guarantees	462.554	310.162
Foreign currency letters of credit	195.739	152.777
- short-term	138.803	136.885
- long-term	56.936	15.892
Guaranteed and accepted bills of exchange	20.433	17.587
Commitments to lend	1.704.370	1.209.696
	<b>2.847.048</b>	<b>2.179.410</b>

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 28. Derivative instruments

\_\_\_\_\_ Unsettled Derivative transactions as of Year end 2004, and can be analyzed as follows:

	up to 1 year	1 to 3 years	over 3 years	Total	Present value	
					positive	negative
<b>Exchange rate agreements</b>						
Currency options						
- purchase	153.079	211.697	242.768	<b>607.544</b>	16.536	-
- sell	247.803	79.905	202.328	<b>530.036</b>	-	(12.141)
Currency swaps						
- purchase	348.432	-	-	<b>348.432</b>	231	-
- sell	350.332	-	-	<b>350.332</b>	-	(2.917)
Currency forwards						
- purchase	456.864	-	-	<b>456.864</b>	424	-
- sell	462.562	-	-	<b>462.562</b>	-	(6.478)
<b>Securities - related agreements</b>						
Securities forwards						
- purchase	169.903	-	-	<b>169.903</b>	74	-
- sell	169.903	-	-	<b>169.903</b>	-	(412)
<b>TOTAL</b>	<b>2.358.878</b>	<b>291.602</b>	<b>445.096</b>	<b>3.095.576</b>	<b>17.265</b>	<b>(21.948)</b>

\_\_\_\_\_ Unsettled Derivative transactions as of Year end 2003, and can be analyzed as follows:

	up to 1 year	1 to 3 years	over 3 years	Total	Present value	
					positive	negative
<b>Exchange rate agreements</b>						
Currency options						
- purchase	217.293	377.501	325.800	<b>920.594</b>	27.570	-
- sell	28.563	52.899	253.598	<b>335.060</b>	-	(9.490)
Currency swaps						
- purchase	101.262	-	-	<b>101.262</b>	1.082	-
- sell	101.086	-	-	<b>101.086</b>	-	(868)
Currency forwards						
- purchase	27.384	-	-	<b>27.384</b>	741	-
- sell	27.619	-	-	<b>27.619</b>	-	(834)
<b>TOTAL</b>	<b>503.207</b>	<b>430.400</b>	<b>579.398</b>	<b>1.513.005</b>	<b>29.393</b>	<b>(11.192)</b>

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 29. Cash and cash equivalents

\_\_\_\_\_ For the purposes of the cash flow statement, cash and cash equivalents include the following balances:

	2004	2003
Cash	266.322	275.856
Current accounts in Croatia and abroad	927.841	1.297.125
Placements to banks with a remaining maturity of up to 3 months	5.783.751	4.658.769
Treasury bills with a remaining period of up to 3 months	9.880	79.655
	<b>6.987.794</b>	<b>6.311.405</b>

## 30. Funds managed on behalf of third parties

\_\_\_\_\_ The Bank manages funds on behalf of third parties

	2004	2003
Companies	90.336	509.494
Other legal entities	76	320
Citizens	20.198	108.271
Less: assets	(110.237)	(614.710)
Funds in transit	<b>373</b>	<b>3.375</b>

## 31. Related party transactions

\_\_\_\_\_ Transactions with related parties represent a part of the Bank's ordinary operations. As at 31 December 2004 the related parties included Erste Bank der oesterreichischen Sparkassen AG, Wien, Steiermärkische Bank und Sparkassen AG, Graz, members of Erste Bank Group and Bank employees.

	Receivables as at 31.12.2004	Payables as at 31.12.2004	Income for 2004	Expenses for 2004
<b>Related parties</b>				
Erste Bank der oesterreichischen Sparkassen AG, Wien	30.869	7.445.768	34.364	143.754
Steiermärkische Bank und Sparkassen AG, Graz	217	88.158	144	5.147
Other members of Erste Bank Group	98.947	23.859	8.258	8.828

\_\_\_\_\_ The employees of the Bank have HRK 160.223 thousand of loans at 31 December 2004. The deposits of employees amount to HRK 91.446 thousand.

\_\_\_\_\_ The terms under which the mentioned transactions were agreed do not differ significantly from prevailing market terms.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 32. Fair values of financial assets and liabilities

\_\_\_\_\_ Fair value represents the amount for which an asset could be exchanged or a liability settled on an arm's length basis. As market prices are not available for a portion of the Bank's financial assets and liabilities, fair values have been based on management assumptions according to the profile of the respective assets and liabilities. The Management Board believes that the fair values of assets and liabilities are not significantly different from book values.

\_\_\_\_\_ The following methods and assumptions are used by the Bank to estimate the fair value of these financial instruments:

### Amounts Due from and to Banks

\_\_\_\_\_ For assets and liabilities maturing within three months, the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term deposits, the interest rates applicable approximate market rates and, consequently, the fair value approximates the carrying amounts.

### Loans and advances to Customers

\_\_\_\_\_ As practically all loans to customers are agreed with variable interest rates that re-price within up to 3 months, and value of impaired loans was arrived at by discounting future cash flows at interest rates valid at the balance sheet date, the management estimates that the total book value of the entire portfolio, after deduction of provisions, approximates fair value.

### Investment Securities

\_\_\_\_\_ Available for sale securities are presented in the balance sheet at their fair values. Investment securities held-to-maturity include rehabilitation, restructuring and public debt (frozen deposits) bonds whose fair value cannot be reliably measured as they are not traded on an active market. The fair value of assets held to maturity that are actively traded is HRK 11.485 thousand higher than its book value as at 31 December 2004.

### Amounts Due to Customers

\_\_\_\_\_ For balances maturing within three months the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. As significant portion of longer term deposits is contracted with variable interest rates, the management believes that total book value of the entire deposit base approximates fair value.

### Other borrowed funds

\_\_\_\_\_ For balances maturing within three months the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. Furthermore, a significant portion of longer term funds received is contracted with variable interest rates, and, consequently, the fair value approximates the carrying amounts. For longer term funds with fixed interest rates, the interest rates applicable approximate market rates and, consequently, the fair value approximates the carrying amounts.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 33. Interest rate risk

### Interest sensitivity of assets and liabilities

\_\_\_\_\_ The Bank is exposed to various risks associated with the effects of fluctuations in prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts categorized by the earlier of contractual re-pricing or maturity dates.

#### Balance as at 31 December 2004

	Up to 1 month	From 1 month to 3 months	From 3 months to 12 months	From 1 to 3 years	Over 3 years	Non-interest bearing	Total
<b>Assets</b>							
Cash and current accounts with banks	19.250	-	-	-	-	1.174.913	1.194.163
Balances with Croatian National Bank	2.085.915	-	-	-	-	2.429	2.088.344
Securities	1.847.712	19.350	130.349	182.295	337.619	28.979	2.546.304
Due from other banks	5.775.232	12.282	-	656	-	26.661	5.814.831
Loans and advances to customers	12.927.397	20.313	142.139	92.745	183.779	80.794	13.447.167
Other assets	-	-	-	-	-	152.544	152.544
Deferred tax asset	-	-	-	-	-	-	-
Equity securities	-	-	-	-	-	62.851	62.851
Tangible and intangible assets	-	-	-	-	-	470.728	470.728
<b>Total assets</b>	<b>22.655.506</b>	<b>51.945</b>	<b>272.488</b>	<b>275.696</b>	<b>521.398</b>	<b>1.999.899</b>	<b>25.776.932</b>
<b>Liabilities</b>							
Due to other banks	4.512.715	10.000	223.767	20	173	11.449	4.758.124
Due to customers	12.578.342	272.791	209.196	12.433	90.595	340.435	13.503.792
- Demand deposits	4.864.353	-	-	-	-	50.193	4.914.546
- Term deposits	7.713.989	272.791	209.196	12.433	90.595	290.242	8.589.246
Other borrowed funds	874.150	2.252.149	1.391.327	355.727	256.649	689	5.130.691
Other liabilities	-	-	-	-	-	348.866	348.866
Provisions	-	-	-	-	-	41.997	41.997
Subordinated instruments	10.352	153.425	153.425	-	-	-	317.202
<b>Total liabilities</b>	<b>17.975.559</b>	<b>2.688.365</b>	<b>1.977.715</b>	<b>368.180</b>	<b>347.417</b>	<b>743.436</b>	<b>24.100.672</b>
<b>Shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.676.260</b>	<b>1.676.260</b>
<b>Total equity and liabilities</b>	<b>17.975.559</b>	<b>2.688.365</b>	<b>1.977.715</b>	<b>368.180</b>	<b>347.417</b>	<b>2.419.696</b>	<b>25.776.932</b>
<b>Interest rate risk</b>	<b>4.679.947</b>	<b>(2.636.420)</b>	<b>(1.705.227)</b>	<b>(92.484)</b>	<b>173.981</b>	<b>(419.797)</b>	<b>-</b>

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 33. Interest rate risk (continued)

Balance as at 31 December 2003

	Up to 1 month	From 1 month to 3 months	From 3 months to 12 months	From 1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Assets</b>							
Cash and current accounts with banks	27.862	-	-	-	-	1.545.119	1.572.981
Balances with Croatian National Bank	1.102.988	-	-	-	-	1.699	1.104.687
Securities	994.429	19.288	135.602	301.697	386.201	2.979	1.840.196
Due from other banks	4.464.757	178.735	30.357	-	-	7.588	4.681.437
Loans and advances to customers	8.561.947	102.917	324.183	356.592	216.104	84.082	9.645.825
Other assets	-	-	-	-	-	122.315	122.315
Deferred tax asset	-	-	-	-	-	61.704	61.704
Equity securities	-	-	-	-	-	46.086	46.086
Tangible and intangible assets	-	-	-	-	-	441.973	441.973
<b>Total assets</b>	<b>15.151.983</b>	<b>300.940</b>	<b>490.142</b>	<b>658.289</b>	<b>602.305</b>	<b>2.313.545</b>	<b>19.517.204</b>
<b>Liabilities</b>							
Due to other banks	1.459.325	152.946	776	56	172	6.440	1.619.715
Due to customers	9.815.248	566.922	308.920	97.737	85.950	260.613	11.135.390
- Demand deposits	4.744.019	-	-	-	-	19.540	4.763.559
- Term deposits	5.071.229	566.922	308.920	97.737	85.950	241.073	6.371.831
Other borrowed funds	774.894	947.633	2.353.053	61.516	391.476	809	4.529.381
Other liabilities	-	-	-	-	-	267.857	267.857
Provisions	-	-	-	-	-	44.782	44.782
Subordinated instruments	-	152.938	152.938	10.320	-	-	316.196
<b>Total liabilities</b>	<b>12.049.467</b>	<b>1.820.439</b>	<b>2.815.687</b>	<b>169.629</b>	<b>477.598</b>	<b>580.501</b>	<b>17.913.321</b>
<b>Shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.603.883</b>	<b>1.603.883</b>
<b>Total equity and liabilities</b>	<b>12.049.467</b>	<b>1.820.439</b>	<b>2.815.687</b>	<b>169.629</b>	<b>477.598</b>	<b>2.184.384</b>	<b>19.517.204</b>
<b>Interest rate risk</b>	<b>3.102.516</b>	<b>(1.519.499)</b>	<b>(2.325.545)</b>	<b>488.660</b>	<b>124.707</b>	<b>129.161</b>	<b>-</b>

\_\_\_\_\_ The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.



# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 33. Interest rate risk (continued)

\_\_\_\_\_ The average balance of the interest bearing assets and liabilities of the Bank is shown in the table below. The average interest rates represent the effective average yield on the financial instruments for the reporting period.

	2004		2003	
	Average balance	Average interest rate	Average balance	Average interest rate
Cash and current accounts with banks	43.401	0,2%	44.862	0,1%
Balances with Croatian National Bank	2.863.076	1,2%	1.021.170	2,7%
Securities	2.149.506	6,0%	2.240.575	5,4%
Due from other banks	2.976.069	2,5%	2.843.882	1,6%
Loans and advances to customers	11.458.902	7,7%	8.955.502	9,4%
	<b>19.490.954</b>	<b>5,8%</b>	<b>15.105.991</b>	<b>6,4%</b>
Due to other banks	1.468.068	3,6%	1.071.111	2,4%
Due to customers	10.865.351	2,5%	9.961.156	2,3%
Other borrowed funds	4.996.453	3,2%	4.127.749	3,6%
Subordinated instruments	310.211	3,6%	311.873	4,2%
	<b>17.640.083</b>	<b>2,8%</b>	<b>15.471.889</b>	<b>2,7%</b>

\_\_\_\_\_ The average balance of interest-bearing assets and liabilities has been calculated as average of balance as at 1st January and balances at the end of each month during 2004 and 2003.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 34. Currency risk

### Concentration of assets and liabilities

\_\_\_\_\_ Significant foreign currency assets and liabilities are analyzed in the table below. The items in HRK with foreign currency clause are stated under the foreign currency to which they are linked.

### Balance as at 31 December 2004

	EUR & linked currencies	USD	Other foreign currency	Total foreign currency	HRK	Total
<b>Assets</b>						
Cash and current accounts with banks	106.767	14.282	19.590	140.639	1.053.524	1.194.163
Balances with Croatian National Bank	288.009	297.870	-	585.879	1.502.465	2.088.344
Securities	1.811.938	133.205	-	1.945.143	601.161	2.546.304
Due from other banks	5.137.646	292.437	193.534	5.623.617	191.214	5.814.831
Loans and advances to customers	9.996.953	633.883	901.013	11.531.849	1.915.318	13.447.167
Other assets	83.715	4.585	3.351	91.651	60.893	152.544
Deferred tax asset	-	-	-	-	-	-
Equity securities	8.260	1	-	8.261	54.590	62.851
Tangible and intangible assets	-	-	-	-	470.728	470.728
<b>Total assets</b>	<b>17.433.288</b>	<b>1.376.263</b>	<b>1.117.488</b>	<b>19.927.039</b>	<b>5.849.893</b>	<b>25.776.932</b>
<b>Liabilities</b>						
Due to other banks	3.642.796	30.403	747.653	4.420.852	337.272	4.758.124
Due to customers	7.807.347	1.216.293	269.120	9.292.760	4.211.032	13.503.792
- Demand deposits	1.898.302	456.985	134.948	2.490.235	2.424.311	4.914.546
- Term deposits	5.909.045	759.308	134.172	6.802.525	1.786.721	8.589.246
Other borrowed funds	4.649.750	103.347	34.015	4.787.112	343.579	5.130.691
Other liabilities	201.941	8.834	5.827	216.602	132.264	348.866
Provisions	1.659	8.284	407	10.350	31.647	41.997
Subordinated instruments	317.202	-	-	317.202	-	317.202
<b>Total liabilities</b>	<b>16.620.695</b>	<b>1.367.161</b>	<b>1.057.022</b>	<b>19.044.878</b>	<b>5.055.794</b>	<b>24.100.672</b>
<b>Shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.676.260</b>	<b>1.676.260</b>
<b>Total equity and liabilities</b>	<b>16.620.695</b>	<b>1.367.161</b>	<b>1.057.022</b>	<b>19.044.878</b>	<b>6.732.054</b>	<b>25.776.932</b>
<b>Net balance sheet position</b>	<b>812.593</b>	<b>9.102</b>	<b>60.466</b>	<b>882.161</b>	<b>(882.161)</b>	<b>-</b>
<b>Net off balance sheet position</b>	<b>(602.057)</b>	<b>(1.776)</b>	<b>-</b>	<b>(603.833)</b>	<b>603.833</b>	<b>-</b>

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 34. Currency risk (continued)

Balance as at 31 December 2003

	EUR & linked currencies	USD	Other foreign currency	Total foreign currency	HRK	Total
<b>Assets</b>						
Cash and current accounts with banks	99.157	18.715	27.953	145.825	1.427.156	1.572.981
Balances with Croatian National Bank	5.858	318.150	-	324.008	780.679	1.104.687
Securities	1.318.120	153.796	-	1.471.916	368.280	1.840.196
Due from other banks	3.447.181	498.658	207.181	4.153.020	528.417	4.681.437
Loans and advances to customers	8.144.191	204.565	66.522	8.415.278	1.230.547	9.645.825
Other assets	68.327	4.700	951	73.978	48.337	122.315
Deferred tax asset	-	-	-	-	61.704	61.704
Equity securities	8.234	-	-	8.234	37.852	46.086
Tangible and intangible assets	-	-	-	-	441.973	441.973
<b>Total assets</b>	<b>13.091.068</b>	<b>1.198.584</b>	<b>302.607</b>	<b>14.592.259</b>	<b>4.924.945</b>	<b>19.517.204</b>
<b>Liabilities</b>						
Due to other banks	1.343.738	7.695	2.489	1.353.922	265.793	1.619.715
Due to customers	6.356.164	1.056.262	225.121	7.637.547	3.497.843	11.135.390
- Demand deposits	1.786.401	489.224	114.143	2.389.768	2.373.791	4.763.559
- Term deposits	4.569.763	567.038	110.978	5.247.779	1.124.052	6.371.831
Other borrowed funds	4.237.546	136.832	37.652	4.412.030	117.351	4.529.381
Other liabilities	156.638	8.679	2.091	167.408	100.449	267.857
Provisions	7.621	2.150	1.377	11.148	33.634	44.782
Subordinated instruments	316.196	-	-	316.196	-	316.196
<b>Total liabilities</b>	<b>12.417.903</b>	<b>1.211.618</b>	<b>268.730</b>	<b>13.898.251</b>	<b>4.015.070</b>	<b>17.913.321</b>
<b>Shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.603.883</b>	<b>1.603.883</b>
<b>Total equity and liabilities</b>	<b>12.417.903</b>	<b>1.211.618</b>	<b>268.730</b>	<b>13.898.251</b>	<b>5.618.953</b>	<b>19.517.204</b>
<b>Net balance sheet position</b>	<b>673.165</b>	<b>(13.034)</b>	<b>33.877</b>	<b>694.008</b>	<b>(694.008)</b>	<b>-</b>
<b>Net off balance sheet position</b>	<b>(66.520)</b>	<b>3.793</b>	<b>-</b>	<b>(62.727)</b>	<b>62.727</b>	<b>-</b>

\_\_\_\_\_ Out of the Bank's total assets 68% of claims refer to EUR and linked currencies, as well as 64% of total liabilities. A significant participation in EUR and currency clauses based on EUR is common practice in Croatian banks, given the economic orientation of Republic of Croatia to the EU countries.

\_\_\_\_\_ The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by individual currencies and in total. These limits also comply with the minimum requirements of the Croatian national bank.

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 35. Liquidity risk

Bank's assets and liabilities as at 31 December 2004 are presented in the table below and are analyzed by the remaining time to contractual maturities.

### Balance as at 31 December 2004

	Up to 1 month	From 1 month to 3 months	From 3 months to 12 months	From 1 to 3 years	Over 3 years	Total
<b>Assets</b>						
Cash and current accounts with banks	1.194.163	-	-	-	-	1.194.163
Balances with Croatian National Bank	2.088.344	-	-	-	-	2.088.344
Securities	1.876.691	19.350	130.349	182.295	337.619	2.546.304
Due from other banks	5.797.972	12.446	492	1.312	2.609	5.814.831
Loans and advances to customers	1.311.349	629.769	2.447.363	3.916.480	5.142.206	13.447.167
Other assets	40.762	92.040	97	16.797	2.848	152.544
Deferred tax asset	-	-	-	-	-	-
Equity securities	15.625	-	-	-	47.226	62.851
Tangible and intangible assets	-	-	-	-	470.728	470.728
<b>Total assets</b>	<b>12.324.906</b>	<b>753.605</b>	<b>2.578.301</b>	<b>4.116.884</b>	<b>6.003.236</b>	<b>25.776.932</b>
<b>Liabilities</b>						
Due to other banks	2.959.734	61.528	990.891	-	745.971	4.758.124
Due to customers	7.923.382	2.079.153	2.595.558	482.499	423.200	13.503.792
- Demand deposits	4.914.546	-	-	-	-	4.914.546
- Term deposits	3.008.836	2.079.153	2.595.558	482.499	423.200	8.589.246
Other borrowed funds	82.920	57.481	227.513	1.771.044	2.991.733	5.130.691
Other liabilities	169.008	131.381	48.477	-	-	348.866
Provisions	26.207	-	1.043	11.102	3.645	41.997
Subordinated instruments	-	-	-	10.353	306.849	317.202
<b>Total liabilities</b>	<b>11.161.251</b>	<b>2.329.543</b>	<b>3.863.482</b>	<b>2.274.998</b>	<b>4.471.398</b>	<b>24.100.672</b>
<b>Shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>289.326</b>	<b>-</b>	<b>1.386.934</b>	<b>1.676.260</b>
<b>Total equity and liabilities</b>	<b>11.161.251</b>	<b>2.329.543</b>	<b>4.152.808</b>	<b>2.274.998</b>	<b>5.858.332</b>	<b>25.776.932</b>
<b>Net liquidity mismatch</b>	<b>1.163.655</b>	<b>(1.575.938)</b>	<b>(1.574.507)</b>	<b>1.841.886</b>	<b>144.904</b>	<b>-</b>

# Notes to Financial Statements

for the year ended 31 December 2004 (all amounts expressed in HRK thousand)

## 35. Liquidity risk (continued)

Balance as at 31 December 2003

	Up to 1 month	From 1 month to 3 months	From 3 months to 12 months	From 1 to 3 years	Over 3 years	Total
<b>Assets</b>						
Cash and current accounts with banks	1.572.981	-	-	-	-	1.572.981
Balances with Croatian National Bank	1.104.687	-	-	-	-	1.104.687
Securities	997.408	19.288	135.602	301.697	386.201	1.840.196
Due from other banks	4.455.638	189.605	31.304	1.614	3.276	4.681.437
Loans and advances to customers	1.009.980	520.156	1.903.543	2.918.093	3.294.053	9.645.825
Other assets	19.192	68.361	5.663	29.099	-	122.315
Deferred tax asset	-	-	-	61.704	-	61.704
Equity securities	-	-	-	-	46.086	46.086
Tangible and intangible assets	-	-	-	-	441.973	441.973
<b>Total assets</b>	<b>9.159.886</b>	<b>797.410</b>	<b>2.076.112</b>	<b>3.312.207</b>	<b>4.171.589</b>	<b>19.517.204</b>
<b>Liabilities</b>						
Due to other banks	1.053.429	161.946	404.011	56	273	1.619.715
Due to customers	6.391.561	2.056.536	1.935.150	444.603	307.540	11.135.390
- Demand deposits	4.763.559	-	-	-	-	4.763.559
- Term deposits	1.628.002	2.056.536	1.935.150	444.603	307.540	6.371.831
Other borrowed funds	62.261	83.525	191.196	1.401.236	2.791.163	4.529.381
Other liabilities	139.114	110.853	17.890	-	-	267.857
Provisions	-	-	175	4.299	40.308	44.782
Subordinated instruments	-	-	-	10.320	305.876	316.196
<b>Total liabilities</b>	<b>7.646.365</b>	<b>2.412.860</b>	<b>2.548.422</b>	<b>1.860.514</b>	<b>3.445.160</b>	<b>17.913.321</b>
<b>Shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>228.383</b>	<b>-</b>	<b>1.375.500</b>	<b>1.603.883</b>
<b>Total equity and liabilities</b>	<b>7.646.365</b>	<b>2.412.860</b>	<b>2.776.805</b>	<b>1.860.514</b>	<b>4.820.660</b>	<b>19.517.204</b>
<b>Net liquidity mismatch</b>	<b>1.513.521</b>	<b>(1.615.450)</b>	<b>(700.693)</b>	<b>1.451.693</b>	<b>(649.071)</b>	<b>-</b>

\_\_\_\_\_ Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.