

Annual report

2020

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MILJAN TODOROVIC

DJURO PREDOVIC

MAURIZIO DALLOCCIO

FILIPPO DISERTORI

DOLLY PREDOVIC

SIGILFREDO MONTINARI

Letter of the Chairman of the Supervisory Board

On behalf of the Supervisory Board, it is my pleasure to present the results of another successful business year for Podravska Bank, and for the first time, consolidated financial statements of the Group, made up of Podravska and Požeška Banks.

In 2005, Podravska Bank strengthened its position in Croatian banking market and ranked among the leading ten Croatian banks. We can be proud with such result, even more so given that it was achieved in the conditions of tough competition in Croatian financial market and a growingly restrictive monetary policy.

Podravska Bank reinforced its market position and recognizable brand in the Croatian banking market; furthermore, carrying out planned acquisitions will lead to creating preconditions for taking over the leading position among middle-sized banks.

The first acquisition, undertaken in 2005 by the takeover of Požeška Bank, was the beginning of the planned accelerated growth and development of Podravska Bank.

Having the above goals in mind, we will continue to expand our business network and develop new financial services, following modern banking trends, in order to meet our client's needs to the maximum extent, increase profitability and efficiency, and meet the shareholders' expectations.

Business profit gained in 2005 will mostly be allocated for the Bank's reserves, in order to strengthen the Bank's capital.

Existing team of qualified employees, high quality information systems, a growing and well-organized business network, and diverse offer that satisfies the needs of even the most demanding clients, guarantee further development and success of Podravska Bank.

Finally, on behalf of the Supervisory Board, I wish to thank all clients for their trust in us, the shareholders, employees and management of Podravska Bank for achieved results, the National Bank of Croatia and the members of the Supervisory Board for their effort and cooperation.



A stylized handwritten signature in black ink, consisting of the letters 'Mt' in a cursive script.

MILJAN TODOROVIC
Chairman of the Supervisory Board



SANDA FUČEK ŠANJIC

MORENO MARSON

MARIJAN MARUSIC

JULIO KURUC

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

We take great honour and pleasure in presenting 2005 business results of Podravka Bank.

In conditions of growing competition in financial market, and continuation of restrictive monetary policy, in 2005 assets of banking sector increased by 13.64%, and annual credit volume by 20%.

In such environment, Podravka Bank achieved above-average 15.7% balance growth, as well as 29.9% increase of profit after taxation, as compared to previous year.

Increase in the number of clients that accepted Podravka Bank as safe and flexible financial institution with state-of-the-art technology and qualified and competent personnel resulted in 16.3% deposit growth, and 10.1% increase in banking sector.

Developed business network, as well as developed ATM and EFTPOS networks, strengthened the Bank's position in the market, making it available for clients in almost entire Croatian banking market and offering richer and more recognizable banking and other financial services.

Last year, the Bank strengthened its market position by entering the market of Požega and Slavonija County achieved by acquiring majority share in Požeška Bank.

By the middle of 2006, we plan to merge Požeška and Podravka Banks, and strengthen the commercial activities in that area, with considerable potential in small and middle-sized businesses.

We hereby wish to give credit to all employees of Podravka Bank for exceptional effort and diligence, and for additional effort they put into integration of Požeška Bank into Podravka Bank system.

We thank our valuable clients and business partners for their professional cooperation and trust.

We extend special thanks to the members of the Supervisory Board for exceptional cooperation and support in 2005.



MORENO MARSON
Chief
Executive Officer



JULIO KURUC
Chairman
of the Management Board



Markets



- 08** Croatian economy
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Croatian economy

- > Macroeconomic indicators of Croatian economy achieved in 2005 can be deemed encouraging.
- In the third quarter of 2005, the growth of gross domestic product amounted to the unexpected 5.2%, which was the largest growth rate since 2002, resulting from large capital investment growth rate, and export of commodities and services.
- Annual growth of gross domestic product was 4.1%, as was planned at the beginning of 2005.
- Last year, Croatia's export amounted to USD 8.9 billion, whereas import amounted to USD 18.5 billion; therefore, overall deficit of commodity trade reached USD 9.6 billion, which is 13.7% increase as compared to 2004 deficit.
- At the same time, average coverage of imports by exports fell compared to previous year and amounted to 47.5%.
- At the end of 2005, Croatia's gross foreign debt rose by 12% as compared to previous year, and mounted to € 25.5 billion. Increase in overall foreign debt mostly resulted from foreign debt accumulation of economy, with 22.5% growth, and debt accumulation of banks, with 16.7% growth, whereas the government decreased foreign debt accumulation by 2.6%, by orientation towards debt accumulation in domestic money and capital market. The share of foreign direct investment increased to 9.2%, as compared to 8.8% at the end of 2004.
- A long-standing high rate of price stability continued in last year. Average inflation rate thus amounted to 3.3%.
- Overall industrial production achieved positive trends, with 5.1% growth in 2005. Manufacturing industry accounts for more than 80% of industrial production, with food and beverage production holding the largest share.
- Labour market in Croatia continued to be significantly influenced by seasonal movements in economy. Thus in August there was an all-time low 16.9% unemployment rate, resulting from the peak of tourist and construction seasons. At the end of 2005, there were 308,000 officially unemployed, with 18% unemployment rate, which is by 0.5% less than previous year.
- Tourist season achieved record results: the number of tourists increased by 6% and the total of overnights by 8%, as compared to previous year.
- In 2006, Croatia is facing intensive accession negotiations for the accession to the European Union, which will have enormous influence on speeding up economic reform and transforming macroeconomic system and the mechanisms that regulate it. It is anticipated that in 2006 Croatian economy will grow by 4.1%, levelling last year's growth. Continuing changes in the prices of power sources in the global market result in greater inflation risks in Croatia; however, inflation measured by consumer prices is expected to fall to 3.2% in 2006. A relatively high unemployment rate still remains a problem in Croatia in 2006; however, further decrease in the number of the unemployed is anticipated compared to previous year.
- In February 2006, D&B world solvency assessors changed its assessment of Croatian credit rating to DB4c, after five years. During that period their assessment was DB4d.

As negotiations on Croatian accession to the European Union develop, we can expect further improvement in credit rating and lower risk investment in Croatia, which is in line with experiences of other transition countries.

Restrictive monetary policy continued in 2005.

In order to decrease foreign debt, marginal statutory reserves rose from 24% at the beginning of 2005 to 30% in February, and 40% in the middle of the year. At the end of 2005 and the beginning of 2006, marginal statutory reserves rose to 55%. At the same time, statutory reserves fell from 18% to 17%.

At the end of 2005, the banks' total credit volume reached HRK 154.9 billion, a rise of more than 20% compared to the end of 2004. At that, credits to citizens grew faster than to corporate entities.

At the end of 2005, savings deposits and deposits in banks were HRK 114.8 billion, which is by 10.1% higher than at the end of 2004.

Six largest banks, that is banking groups, hold 82.7% market share according to assets, whereas at the moment there are 34 banks in the market. In 2005, assets of the banking sector rose by 13.6%; in 2004 the assets grew by 11%.

Increase of kuna at the end of 2005, as compared to 2004, led to faster growth of kuna deposits than foreign-exchange deposits. During the year, the rate of kuna to euro increased; at the end of the year it was 7.38 kunas to euro, whereas at the end of 2004, it was 7.67 kunas to euro. Increase of dollar to euro in the global market resulted in decrease of kuna to dollar by 10.6%. At the end of 2005, the rate was 6.23 kunas to dollar, and at the end of 2004 it was 5.64 kunas to dollar.

In the fourth quarter of 2005, there was a severalfold increase in treasury bills and bonds trade. At the end of the year, twenty bonds were admitted at domestic stock exchanges, the most important being currency clause and kuna treasury bonds, four corporate and two municipal bonds.

Since the establishment of Zagreb and Varaždin stock exchanges, last year there was an all-time sharp growth in prices and trade, leading to sharp stock exchange indices growth. Total trade of Zagreb stock exchange was HRK 34.2 billion, which is a 44% rise compared to 2004. At that, stock trade increased by 81%, and bond trade by almost 40% as compared to 2004, reaching HRK 29.5 billion. Total trade of Varaždin stock exchange was HRK 2.2 billion, which is by 65% higher than previous year.

In 2006, measures of monetary policy of the National Bank of Croatia are expected to have strong influence on banks. The measures are based on maintaining price stability and exchange rate stability, decreasing balance-of-payments deficit, and slowing down foreign debt.





Business overview

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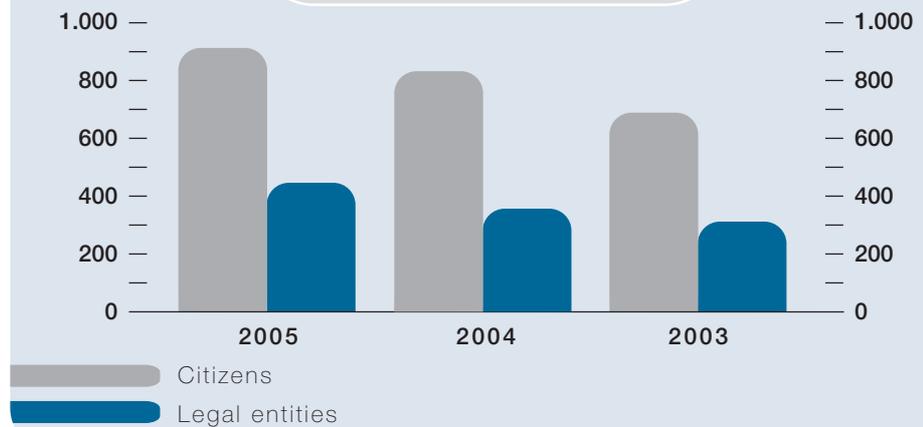
Deposits

- > At the end of 2005, total deposits amount to HRK 1.38 billion, which is 16.3% rise compared to previous year. Deposits of legal entities rose by 31%, whereas deposits of citizens rose by 10% compared to previous year. The structure of deposits changed slightly compared to 2004, so that deposits of citizens accounted for 66%, and deposits of legal entities accounted for 34% of the Bank's total deposits, whereas in 2004 deposits of the citizens accounted for 70% of the total deposits.

TOTAL DEPOSITS

HRK'000	2005	2004	2003	CHANGE	
				2005/04	2004/03
Citizens	914.398	830.734	701.337	10,07%	18,45%
Legal entities	462.412	352.839	300.990	31,43%	16,89%
Total deposits	1.376.810	1.183.573	1.002.327	16,42%	17,98%

TOTAL DEPOSITS

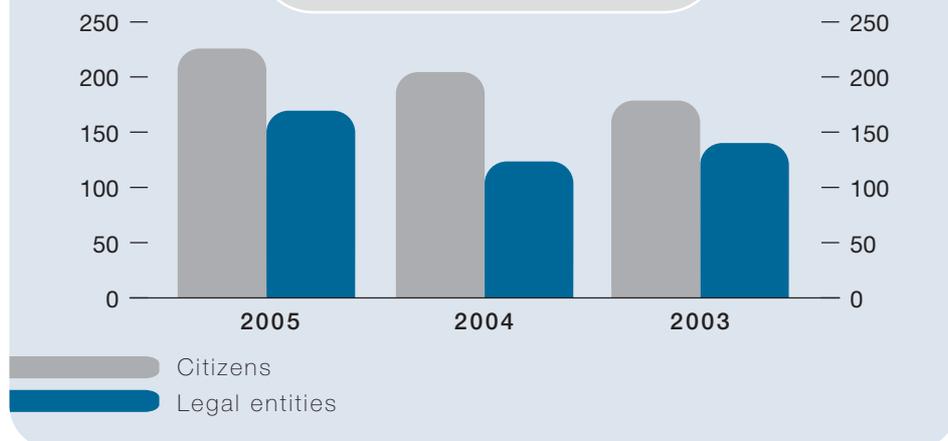


In time structure of the Bank's total deposits, time deposits account for 71%. In currency structure of deposits of citizens, kuna deposits account for 34%, kuna deposits with currency clause account for 31%, whereas foreign currency deposits account for 35%. Kuna time deposits with currency clause of legal entities rose sharply by 111%.

DEMAND DEPOSITS

HRK '000	CHANGE				
	2005	2004	2003	2005/04	2004/03
Citizens	228.210	200.420	178.601	13,87%	12,22%
Legal entities	170.840	125.072	145.617	36,59%	-14,11%
Total demand deposits	399.050	325.492	324.218	22,60%	0,39%

DEMAND DEPOSITS



Citizens have majority share in total deposits, so that concentration of deposits is avoided and steady funding for the Bank's business provided.

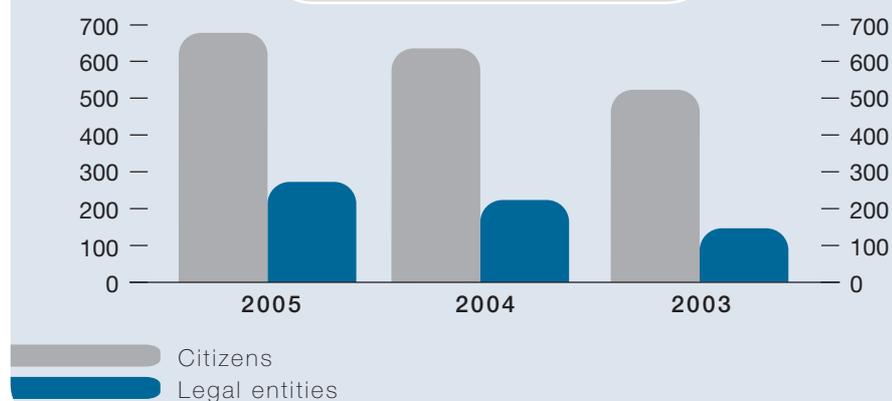
At the end of the year, total depoFIX savings (kuna or foreign currency savings with fixed interest rate) amounted to HRK 179 billion. Time deposits of business entities rose by 28% compared to previous year.

Deposit growth referred to results from stronger brand of the Bank, expansion of business network to almost all Croatia, and growing number of clients placing their trust in the Bank.

TIME DEPOSITS

HRK'000	CHANGE				
	2005	2004	2003	2005/04	2004/03
Citizens	686.188	630.314	522.736	8,86%	20,58%
Legal entities	291.572	227.767	155.373	28,01%	46,59%
Total time deposits	977.760	858.081	678.109	13,95%	26,54%

TIME DEPOSITS



Credit volume

- > In credit policy, strategic orientation of Podravaska Bank is to credit citizens, crafts, and small and middle businesses. Total gross credits to clients rose from HRK 873 million in 2004 to HRK 989 million in 2005. Credits to citizens rose by 10%, so that they accounted for 74.3% of total volume credit volume. Share of gross credits to citizens and legal persons in total assets of the Bank is slightly lower than at the end of 2004, accounting for 55%. The Bank pays special attention to cooperation with business

entities, providing them complete banking-financial service as well as short and long-term credits.

In 2005, credits to business entities rose by 22.4%.

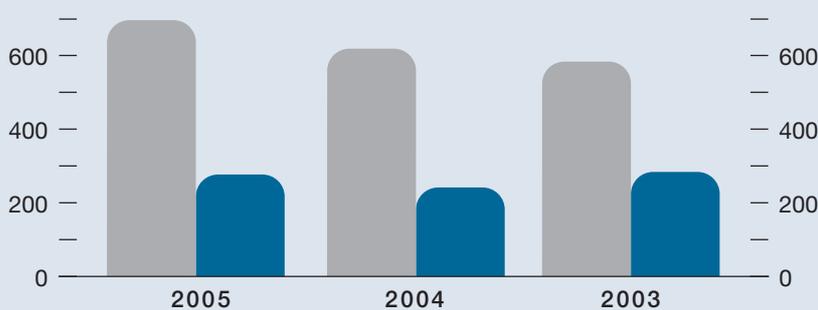
During the year credit offer was expanded with new types of credits and adjustment of standard credit offer to specific client groups. A wide range of attractive credits for various purposes was offered to citizens, with conditions competitive in the market. In 2005, innovative Sprint cash credits to citizens were launched, whose competitive conditions made them recognizable in the market. We pay special attention to safety of the credits in order to minimize credit risks, keeping in mind, however, clients' individual needs and possibilities, as well as the promptness and the quality of service. The Bank has a long-standing practice of insuring citizen's credits from the risk of non-payment with first-rate insurance companies. Thus in 2005, a total of 53% of credits was insured.

In 2005, credit offer was expanded with new forms of crediting intended for agricultural sector, for investing in current production in farming and stock breeding, and purchasing farming machinery, livestock and farmland.

CREDITS

HRK '000	CHANGE				
	2005	2004	2003	2005/04	2004/03
Credits to citizens	701.461	637.933	583.983	9,96%	9,24%
Credits to legal entities	287.549	234.913	286.037	22,41%	-17,87%
Total gross credits	989.010	872.846	870.020	13,31%	0,32%
Total credit reserves	44.936	39.455	35.828	13,89%	10,12%
Total net credits	944.074	833.391	834.192	13,28%	-0,10%

CREDITS



Credits to citizens
 Credits to legal entities

The structure of credit portfolio according to activity branches did not show greater changes as compared to previous period. Trade accounted for a slightly bigger share (7.1%), whereas other single activities accounted for less than 5%.

In 2005, as in previous years, the Bank credited development programs of small and middle business and farms, in conjunction with the Ministry of Economy, Labour and Entrepreneurship, and units of local government and self-government. The Bank thus contributes to development of activities of small and middle businesses in production industries and services, and increases considerably the number of clients using the Bank's complete financial service.

The Bank has a long-standing successful cooperation with Croatian Bank for Reconstruction and Development in seven specialist crediting programs. Using favourable crediting conditions, the Bank provides its clients financial resources for entrepreneurial projects, export of commodities and services, self-employment, and financial reconstruction.

Securities and liquidity management

> In 2005, the treasury sector expanded its activities considerably in all areas: in money market, foreign currency trade, bonds, brokerage and custody.

Restrictive monetary policy that continued in 2005 did not have major effect on liquidity management and activities of Podravska Bank.

Share of funds managed by the treasury in 2005 increased sharply in the areas of deposits, credits granted to blue-chip domestic and foreign companies, and investments in open investment funds, in accordance with valid internal limits and monetary regulations.

The rate of kuna to euro increased last year, and at the end of 2005 it was 7.38 kunas to euro, which is by 3.9% less than at the end of 2004.

At the same time, increased rate of dollar to euro in global market reflected on the rate of kuna to dollar, decreasing the rate of kuna to dollar by 10.6% by the end of 2005, and from 5.64 kunas at the end of 2004 to 6.23 kunas to dollar at the end of 2005.

Monitoring carefully the movements in foreign currency market, balancing the Bank's foreign currency position, and bearing in mind its clients' needs, the Bank had HRK 15.4 million net profit from exchange rate differentials, an 8% increase as compared to previous year.

2005 was the year of domestic capital market and its dramatic growth that resulted from increased investment and growing demand for various types of securities.

Therefore, the Treasury contributed largely to profit the Bank had from trade in owners' and debt securities, purchase and sale of securities providing HRK 12.7 million profit, which is by HRK 8.6 million more than previous year.

Payment transactions Business network of the Bank formed throughout Croatia, better cooperation with clients from neighbouring countries, and the beginning of

independent payment transactions for business entities, characterize activities of this segment of the Bank in 2005.

High-quality information system enabled the development and the offer of a whole wide range of new products and services provided to clients in payment transactions. At the same time, giving kuna and foreign currency payment orders, as well as cash and cashless payment orders within the Bank's business network, or via Internet banking that provides payment transaction services around the clock, SMS services and speech information on account balance and transactions, are just some of the new possibilities provided for payment transactions.

Increase in the number of accounts, volume and value of transactions is the best indicator of quality, promptness and simplicity of payment transactions provided by the Bank.

The number of kuna transactions rose by 18% in 2005, and the number of Internet banking users increased by 78%.

Kuna payment transactions in 2005 total HRK 23 billion.

The Bank established business cooperation with blue-chip banks in around fifteen countries for purposes of international payment transactions. The number of domestic and foreign banks with which correspondent relations are established grows continually, in accordance with the clients' demands and needs.

In 2005, average balance of foreign currency demand deposits of the business entities rose by 38%, compared to previous year.

The number of financial swift messages exchanged last year increased by 12%.

The amount of payments from abroad to business entities grew by 11%, as compared to 2004, whereas the amount of citizens' orders for payments abroad rose by 12% as compared to previous year.

Total value of payment transactions with foreign countries through Podravska Bank increased by 14% as compared to 2004, and the sharpest increase (17%) was in non-resident payment transactions.

In 2005, the Bank was responsive to the demands and needs of its clients, which resulted in continuing expansion of its business network and the range of products and services it provides to citizens and business entities. In 2005, new affiliates were open in Zagreb - Miramarska Street, and in Koprivnica - Molve. The affiliate operating in Zagreb Mercatone mall was transferred to Zagreb - Lučko, which is an area with high concentration of businesses and crafts, whereas the affiliate from Osijek Mercatone mall transferred to more attractive location at the centre of Osijek.

With the goal of improving competitiveness of current accounts, at the beginning of 2005, new, even more attractive package arrangements were launched, related to citizens' current accounts - Orange Packages, with even wider range of additional facilities.

< **Products and services**

Sale of citizens' current account package arrangements resulted in sharp increase in cross selling index.

For new clients that decided to transfer their monthly income to Podravska Bank, a new credit product was created, intended for refinancing existing obligations with former bank - Welcome Present, aimed at stimulating transfer of clients to Podravska Bank.

Sprint cash credits for citizens met with excellent reception in the market, due to both their promptness and possibility of deferred first payment up to three months.

ATM and EFTPOS network is continuously being expanded. At the end of 2005, the Bank had 40 ATMs and 564 EFTPOS appliances.

In September 2005, the Bank started to issue MBCard/Maestro cards with CHIP technology (smart cards), which provides increased reliability and safety from card abuse, as well as multifunctional use. At the end of 2005, transfer of ATMs to EMV-chip technology started, aimed at improving safe card use.

With the goal of presenting its offer to present and potential clients, the Bank participated in International Construction and Craftsmanship Fair at Zagreb Fair, and in International Stockbreeding, Business and Craftsmanship Fair in Bjelovar - Gudovac.

In conjunction with the Ministry of Economy, Labour and Entrepreneurship, and the counties, the Bank credits development programs for small and middle businesses, contributing to development of production industries and services and increasing the number of clients using other financial services it provides. Apart from banking services, other financial services are developed; thus, in conjunction with insurance companies, the Bank activated bank insurance sale through its business network.

The Bank also provides custody of securities, trade of securities, and investment counselling, which are recognized in the market and well-accepted by the clients.

Podravska Bank was awarded "Zlatna Kuna" plaque for the most successful county bank by the Croatian Chamber of Commerce, Koprivnica County Chamber.

Wishing to improve the services it provides to its clients, at the turn of 2005, Podravska Bank invested in new applications of the Info Centre, which enable better operation of the centre and continuous monitoring of service provision.

The Bank was increasing quality of services through continuing training of employees, focusing on offer of products intended for small and middle businesses. Podravska Bank already has a well-established system of continuous stimulation of product and service sales.

The takeover of Požeška Bank resulted in Podravska Bank's improved market position and its continued growth and development throughout Croatia. Active introduction of the range of products and services provided by Podravska Bank into Požeška Bank was followed by intensive staff training, and integration of operational procedures and information system.

Promotion In 2005, Podravska Bank invested considerable resources into promotion, especially into commercials broadcast on three national televisions and

twenty top radio stations covering the area of the Bank's business network. Marketing campaigns targeted all segments of the Bank's operations, especially products intended for citizens.

Sponsorships and Donations Podravska Bank is developing recognizable policy of sponsoring and donating various programs of public interest, such as health, culture, sports, and humanitarian projects. When entering new markets and opening new affiliates, the Bank always pays special attention to occasional donations that depend on specific needs of the area and the time they are given.

In business environment with fierce market competition, and increasingly demanding clients, the key to successful operations of Podravska Bank is maximum orientation to clients, meeting their needs and requirements, and improving quality of products and services.

The year 2005 was characterized by continuing internal changes in organization, processes and ways of conducting business, focusing on human resources, their training and motivation through monitoring and assessment of their achievements.

Last year's organizational changes resulted from the need for further improvement of business network support that will provide for its better and faster operating, increased efficiency and promptness of service provision, improved coordination and communication with logistic organizational units, and improved information system.

In 2005, the process continued aiming at completing existing information programs in the area of citizen, credit, foreign exchange, card, and financial operations, as well as at developing new information applications for securities operations, payment transactions, and Internet banking; thus staff education and training was required in various internal and external forms.

Various professional seminars, courses, and trainings in banking, finances, accounting, auditing and control, payment transactions, marketing, communication, sales, time and staff management, foreign languages, and other areas, were attended by 180 employees, including mostly the overall management structure of the Bank on all levels.

The process aimed at improving staff qualification structure by taking on new employees due to the expansion of the business network and the introduction of new operations, continued in 2005.

In 2005, over 1000 CVs and job applications were received, 315 interviews were conducted, and work contracts were concluded with 41 candidates.

Compared with previous years the number of employees has increased by 7.2%, so that at the turn of 2005, the Bank had 252 employees, 60% of whom engage in direct work with clients ("front office").

Average age of the staff is 37.

< Organizational structure and staff

Capital

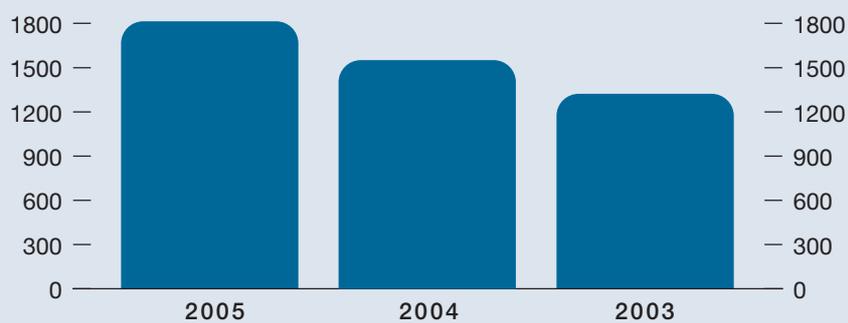
- > **The Bank's capital**, without profit gained during the year, increased by HRK 13.5 million in 2005, 9.5 million of which relates to an increase in retained profit, and 3.9 million relates to an increase in profit from the sales of own shares and unrealized profit entered directly into equity, on the basis of consolidated securities available for sale at fair value.

Foreigners hold 85.97% of total owners' equity, whereas the remaining capital is owned by domestic legal entities and natural persons.

CAPITAL

HRK'000	CHANGE				
	2005	2004	2003	2005/04	2004/03
Liabilities	1.629.734	1.400.609	1.179.868	16,36%	18,71%
Capital	156.516	143.087	131.461	10,09%	9,39%
Retained profit	16.029	12.336	11.773	29,94%	4,78%
Total	1.802.279	1.556.032	1.323.102	15,83%	17,60%

CAPITAL



Capital

In 2005, there was a fierce banking competition in Croatian financial market, and further growth of non-banking financial institutions.

Despite the drop in interest rates, in 2005, the Bank's profit before taxation amounted to HRK 20.0 million, a 29.1% increase compared to previous year. It resulted from expanded offer of products and services ensuring non-interest return, increased volume of operations, and restrictive cost management policy.

Income from ordinary operations was HRK 109.9 million, a 17% increase compared to previous year (in 2004 it was HRK 94.0 million).

The trend of decreasing net interest return and increasing non-interest return in the structure of total income, continued in 2005.

The sharpest increase in income was net profit from securities sale, which accounted for 11.6% of total income in 2005 (in 2004, it accounted for 4.4%).

Ordinary operating costs, including amortization, amount to HRK 83.1 million, accounting for 75.6% of income (in 2004, for 77.7%). In 2005, operating costs continued to increase (13.9%) at rates lower than the rates of income and balance of the Bank; therefore, the share of costs in overall operating income continued to decrease.

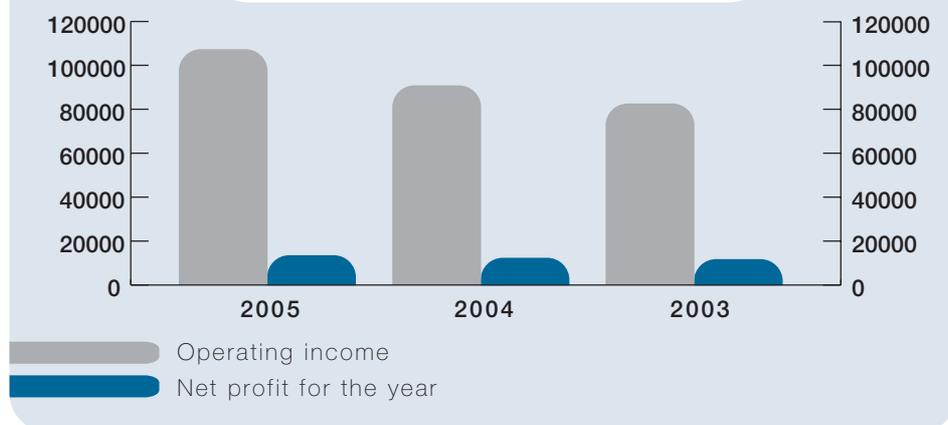
Credit risk assessment and establishment of reserves for risk credits and potential liabilities are based on the principles of conservative policy and strict application of valid regulations, so that in 2005, the Bank allocated additional HRK 6.8 million for decreasing value and reserves.

< Profit and loss account

NET PROFIT FOR THE YEAR

HRK '000	2005	2004	2003	CHANGE	
				2005/04	2004/03
Operating income	109.913	93.957	84.512	17,0%	11,2%
Net profit for the year	16.029	12.336	11.773	29,94%	4,78%

NET PROFIT FOR THE YEAR



BALANCE

HRK'000	CHANGE				
	2005	2004	2003	2005/04	2004/03
Assets					
Cash money and accounts with banks	157.334	157.075	117.512	0,2%	33,7%
Statutory reserves with the National Bank of Croatia	166.555	160.594	140.285	3,7%	14,5%
Credits with other banks	253.970	155.942	74.885	62,9%	108,2%
Securities	199.412	187.213	83.854	6,5%	123,3%
Loans to clients	944.074	833.391	834.192	13,3%	-0,1%
Public debt of the Republic of Croatia	0	4.697	14.048	-100,0%	-66,6%
Investment in affiliate	21.892	2.939	2.939	644,9%	0,0%
Tangible and intangible assets	39.300	44.225	46.917	-11,1%	-5,7%
Other assets	19.742	9.956	8.470	98,3%	17,5%
Total assets	1.802.279	1.556.032	1.323.102	15,8%	17,6%
Liabilities					
Deposits by banks	89.175	49.811	11.567	79,0%	330,6%
Deposits by clients	1.376.810	1.183.573	1.002.327	16,3%	18,1%
Old foreign currency savings	0	712	2.183	-100,0%	-67,4%
Loans taken	133.816	141.593	149.756	-5,5%	-5,5%
Reservations for liabilities and costs	1.357	1.104	1.322	22,9%	-16,5%
Other liabilities	28.576	23.816	12.713	20,0%	87,3%
Bank stock and reserves	172.545	155.423	143.234	11,0%	8,5%
Total liabilities	1.802.279	1.556.032	1.323.102	15,8%	17,6%

PROFIT AND LOSS ACCOUNT

HRK'000	CHANGE				
	2005	2004	2003	2005/04	2004/03
Net interest return	58.711	57.302	53.828	2,5%	6,5%
Net income from fees	21.822	17.508	13.960	24,6%	25,4%
Net profit from foreign exchange differentials	15.349	14.199	12.591	8,1%	12,8%
Net profit from financial instruments purchases and sale and consolidation to fair values	12.697	4.109	2.280	209,0%	80,2%
Other income from ordinary operations	1.334	839	1.853	59,0%	-54,7%
Income from operations	109.913	93.957	84.512	17,0%	11,2%
Operating costs	(83.103)	(72.982)	(67.702)	13,9%	7,8%
Costs of decreased values and reservations	(6.763)	(5.446)	(4.432)	24,2%	22,9%
Profit before taxation	20.047	15.529	12.378	29,1%	25,5%
Profit tax	(4.018)	(3.193)	(605)	25,8%	427,8%
Net profit for the year	16.029	12.336	11.773	29,9%	4,8%

POTENTIAL AND TAKEN OVER LIABILITIES

HRK'000	CHANGE				
	2005	2004	2003	2005/04	2004/03
Guarantees and Letters of Credit	47.799	49.426	38.622	-3,3%	28,0%
Unused credits	84.341	68.636	92.648	22,9%	-25,9%
Total	132.140	118.062	131.270	11,9%	-10,1%

OTHER INFORMATION

HRK'000	CHANGE				
	2005	2004	2003	2005/04	2004/03
employees	252	235	212	7,2%	10,8%
number of Bank's affiliates	33	29	25	4	4
capital adequacy	13,16%	12,78%	13,08%	0,4*	-0,3*

* percentage point

INDICATORS

HRK'000	CHANGE				
	2005	2004	2003	2005/04	2004/03
Structural indicators					
Stock capital / total assets	9,6%	10,0%	10,8%	-0,4*	-0,8*
Stock capital / total deposits	11,8%	12,6%	14,1%	-0,8*	-1,5*
Credits to clients / deposits by clients	68,6%	70,4%	83,2%	-1,8*	-12,8*
Profitability indicators					
Return on capital	13,1%	11,2%	9,7%	1,9*	1,5*
Return on assets	1,1%	1,0%	0,9%	0,1*	0,1*

HRK'000	CHANGE				
	2005	2004	2003	2005/04	2004/03
Productivity indicators					
Total assets / number of employees	7.152	6.621	6.241	8,0%	6,1%
Total deposits / number of employees	5.817	5.248	4.783	10,8%	9,7%
Total credits / number of employees	5.545	5.007	4.684	10,7%	6,9%
Income from ordinary operations / number of employees	436	400	390	9,0%	2,6%
Gross result of ordinary operations / number of employees	157	143	137	9,8%	4,4%
Ordinary operating costs / Income from ordinary operations	63,9%	64,3%	66,7%	-0,4*	-2,4*
Ordinary operating costs + amortization / Income from ordinary operations	75,6%	77,7%	80,1%	-2,1*	-2,4*
Costs of employees / Income from ordinary operations	28,5%	30,6%	29,7%	-2,1*	0,9*
Number of employees / number of affiliates	8	8	8	0	0

* percentage point

Profit distribution > **The Board of Directors and the Supervisory Board of the Bank** recommend to the General Assembly that total profit gained in 2005 be used for dividend payment to priority shareowners, profit sharing payment to employees in own shares, and the remaining part for the Bank's reserves. Dividend per priority share amounts to HRK 28.00.

In 2005, the Bank not only invested in its organic growth, but also invested in acquiring a share in the capital of Požeška Bank, aiming at faster acquisition of larger market share.

Požeška Bank is a local bank with long-standing tradition, which faced evident difficulties in last years, which resulted in loss of clients, reduced assets, and losses. According to the estimates, the Bank needed a strategic partner to recover from the crisis, and keep the remaining potentials, consisting of its clients, staff, and assets.

In February 2005, Podravska Bank bought 33.3% share in the capital of Požeška Bank, and in accordance with regulations, issued public bidding for the takeover of Požeška Bank. At the end of the year, the Bank had 50.2% share in the capital of Požeška Bank, and at the beginning of 2006, the share increased to 85.2%.

Having acquired over 50% qualified share in the capital of Požeška Bank, and entered management structure in the middle of the year, a project of development of Požeška Bank was defined, the aim of which was to revive its operations.

Project achievements:

- refocusing organizational structure of the bank towards market needs, and introducing breakthrough in commercial operations of the bank
- reorganizing and introducing cost control and containment, staff training, management and risk control
- introducing flexibility in hiring employees, reducing their number at the same time
- incorporating Požeška Bank in the system of Podravska Bank in order to benefit from synergy of joint operations.

New organization of Požeška Bank was established, that met the requirements of the volume and the type of activities, and was compatible with organization of Podravska Bank. Operational and decision-making procedures patterned on Podravska Bank were implemented in the bank, which contributed to improved efficiency, quality and promptness of service provision.

With the help from expert team, projects for development of new products and services were set up, along with appropriate promotion activities and training of staff responsible for development of products and sales staff in Požeška Bank.

At the end of 2005, integration of information systems and migration of data base of Požeška Bank to information system of Podravska Bank was successfully completed. Despite all actions taken so far, resulting in high-level functional integration of Požeška Bank into the system of Podravska Bank, the state of Požeška Bank is not satisfactory; therefore, the merger of Požeška and Podravska Bank, planned in 2006, is estimated as justified and logical sequence of events.

Last year was the beginning of a period in which Podravska Bank ranked among the leading ten banks in Croatia.

In 2006, the Bank intends to strengthen its position in financial market, through internal and external development. Internal development means development through its own

< **The group**

< **Future operations**

structures, whereas external means merger with Požeška Bank and recapitalization of the Bank, along with possible new acquisitions, even abroad.

Further strengthening of the Bank in financial market is planned through: promotional activities; optimisation and consolidation of existing business network capacity; staff training, and especially provided for the staff in contact with clients; expansion of business network by opening new affiliates in the regions that are potentially interesting markets for banking and financial services.

Istria is especially interesting even due to Podravska Bank being exclusive partner of ICBPI from Milan for payment of Italian pensions in the Republic of Croatia. Sisak-Moslavina and Požega-Slavonija regions stand out as interesting markets for capitalization of the position and the image Podravska Bank created in these regions, thanks to activities related to the takeover of Požeška Bank in 2005 and the beginning of 2006.

In new affiliates, clients will be provided complete financial service based on personal approach to each client, flexibility and promptness of service provision, as the Bank's standard in existing business network.



Financial statements

- 31** Unconsolidated financial statements
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Unconsolidated financial statements

Responsibilities of the Management Board

Pursuant to the Croatian Accounting, the Management Board is responsible for ensuring that financial statements of Podravka bank (the "Bank") are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board that give a true and fair view of the state of affairs and results of the Bank for the period.

After making enquiries, the Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

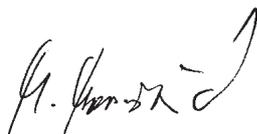
The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank, and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding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

Signed on behalf of the Management Board

20 March 2006



Mr. Julio Kuruc
**Chairman
of the Management Board**



Marijan Marušić
**Management
Board Member**

Deloitte.

Deloitte d.o.o.
Heinzelova 33
10 000 Zagreb
Croatia
MB 0700851

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Independent Auditors' Report

To the shareholders of Podravska banka d.d.:

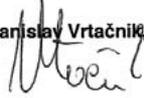
We have audited unconsolidated financial statements of Podravska banka d.d. Koprivnica (the "Bank") which comprise accompanying unconsolidated balance sheet as at 31 December 2005, and the related unconsolidated statement of income, changes in shareholders' equity and cash flows for the years then ended, and summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

In our opinion unconsolidated financial statements present fairly, in all material respects, the financial position of Podravska banka d.d. Koprivnica as at 31 December 2005, the results of its operations, cash flows, and changes in shareholders' equity for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw your attention to the fact that the Bank has prepared these unconsolidated financial statements as required by Croatian law and that investment in associates and subsidiaries are presented in these financial statements at cost. The Bank has also prepared consolidated financial statements and for a better understanding of the Group as a whole, users should read the consolidated financial statements.

Deloitte d.o.o.

 Branislav Vrtačnik, Certified Auditor

Zagreb, Croatia
20 March 2006

INCOME STATEMENT

HRK'000	Notes	2005	2004
Interest and similar income	3	106.862	100.075
Interest and similar expense	3	(48.151)	(42.773)
Net interest income		58.711	57.302
Fee and commission income	4	32.920	30.376
Fee and commission expense	4	(11.098)	(12.868)
Net fee and commission income		21.822	17.508
Net foreign exchange gains	5	15.349	14.199
Net trading and valuation gains on financial instruments	6	12.697	4.109
Other operating income	7	1.334	839
Operating income		109.913	93.957
Operating expenses	8	(83.103)	(72.982)
Impairment losses and provisions	10	(6.763)	(5.446)
Profit before taxation		20.047	15.529
Income tax	11	(4.018)	(3.193)
Net profit for the year		16.029	12.336
Earnings per share - basic		107	82

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

BALANCE SHEET

HRK'000	Notes	31 DECEMBER	
		2005	2004
Assets			
Cash and amounts due from banks	12	157.334	157.075
Obligatory reserve with Croatian National Bank	13	166.555	160.594
Placements with other banks	14	253.970	155.942
Financial assets at fair value through profit or loss	15	29.781	11.277
Available-for-sale financial assets	16	159.345	167.842
Held-to-maturity financial assets	17	10.286	8.094
Loans and advances to customers	18	944.074	833.391
Public debt of the Republic of Croatia	19	-	4.697
Investments in subsidiaries	20	21.892	2.939
Tangible assets	21	32.401	36.605
Intangible assets	22	6.899	7.620
Other assets	23	19.742	9.956
Total assets		1.802.279	1.556.032
Liabilities and shareholders' equity			
Deposits from banks	24	89.175	49.811
Amounts due to customers	25	1.376.810	1.183.573
Frozen deposits		-	712
Borrowings	26	133.816	141.593
Provisions for liabilities and charges	27	1.357	1.104
Other liabilities	28	28.576	23.816
Total liabilities		1.629.734	1.400.609
Share capital	29	62.902	62.902
Less: Treasury shares		(616)	(1.059)
Legal reserves		82.224	72.730
Other reserves		9.116	7.604
Fair value reserve		2.890	910
Retained earnings		16.029	12.336
Total shareholders' equity		172.545	155.423
Total liabilities and shareholders' equity		1.802.279	1.556.032

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

These financial statements were approved by the Management Board on 20 March 2006 and signed by:



Mr. Julio Kuruc

Chairman of the Management Board



Marijan Marušić

Management Board Member

STATEMENT OF CASH FLOWS

HRK '000	Notes	31 DECEMBER	
		2005	2004
Operating activities			
Profit before taxation		20.047	15.529
Adjustment of net result to net cash from operations			
Depreciation and amortization		12.824	12.556
Net income from sale of tangible assets		(616)	(28)
Net book value of fixed assets disposed of or retired		381	252
Increase in other assets		(8.875)	(1.348)
Increase in other liabilities		5.315	8.759
Impairment of financial assets		6.585	5.731
Provisions contingencies and commitments		253	(218)
Gains from sale and revaluation of securities for trading		(3.892)	(3.267)
(Gains)/losses and revaluation of securities available for sale		(8.783)	139
Collection of written-off loans		(75)	(57)
Profit before changes on operating assets and liabilities		23.164	38.048
Changes on operating assets and liabilities			
Increase in amounts due from the Croatian National Bank		(5.961)	(20.309)
Increase in loans and other assets originated by the Bank		(116.541)	(4.758)
Decrease of Public debt		4.697	9.351
Increase in amounts due to other banks		39.364	38.244
Decrease of frozen savings		(712)	(1.471)
Increase due to customers		193.237	181.246
Income tax paid		(5.492)	(1.009)
NET INCREASE OF CASH FROM OPERATING ACTIVITIES		131.756	239.342
Investing activities			
(Increase) / decrease in financial assets at fair value through profit or loss		(14.612)	30.523
Decrease/(increase) in available-for-sale financial instruments		19.260	(159.734)
Increase in held-to-maturity financial assets		(2.733)	(8.094)
Investments in subsidiaries		(19.068)	-
Purchases of tangible and intangible fixed assets		(8.280)	(10.116)
Receipts from sale of tangible fixed assets		616	28
NET CASH (OUTFLOW) / INFLOW FROM INVESTING ACTIVITIES		(24.817)	(147.393)
Financing activities			
Decrease in borrowings		(7.777)	(8.163)
Increase in treasury shares		(607)	(884)
Dividends paid		(268)	(266)
NET CASH (DECREASE)/INCREASE FROM FINANCING ACTIVITIES		(8.652)	(9.313)
NET INCREASE IN CASH AND CASH EQUIVALENTS		98.287	82.636
Cash and cash equivalents at beginning of year		313.017	230.381
CASH AND CASH EQUIVALENTS AT END OF YEAR	31	411.304	313.017

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Treasury shares	Legal reserves	Other reserves	Retained earnings	Proposed dividend	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
At 31 December 2003	62.902	(175)	61.237	7.497	11.773	-	143.234
Effect of changes in accounting policy (Note 2)	-	-	-	(8)	8	-	-
Restated balance at 1 January 2004	62.902	(175)	61.237	7.489	11.781	-	143.234
Changes in equity during 2004							
Assets available for sale							
Transferred to profit or loss on sale	-	-	-	8	-	-	8
Fair value reserves	-	-	-	910	-	-	910
Profit for the year	-	-	-	-	12.336	-	12.336
Total recognized income and expense for the period	-	-	-	910	12.336	-	13.246
Purchase of treasury shares	-	(1.196)	-	-	-	-	(1.196)
Sale of treasury shares	-	312	-	99	-	-	411
Distribution of income for 2003	-	-	11.493	8	(11.781)	280	0
Dividends	-	-	-	-	-	(280)	(280)
At 31 December 2004	62.902	(1.059)	72.730	8.514	12.336	-	155.423
Changes in equity for 2005							
Assets available for sale							
Transferred to profit or loss on sale	-	-	-	(910)	-	-	(910)
Fair value reserves	-	-	-	2.890	-	-	2.890
Profit for the year	-	-	-	-	16.029	-	16.029
Total recognized income and expense for the period	-	-	-	2.890	16.029	-	18.919
Purchase of treasury shares	-	(607)	-	-	-	-	(607)
Distribution of income for 2004	-	1.050	9.494	1.512	(12.336)	280	-
Dividends	-	-	-	-	-	(280)	(280)
At 31 December 2005	62.902	(616)	82.224	12.006	16.029	-	172.545

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

1. General



Notes

History and incorporation Podravska bank, Koprivnica (the "Bank") is incorporated in the Republic of Croatia and was registered as a joint stock company at the Commercial Court in Bjelovar on 12 July 1995. The registered seat of the Bank is in Koprivnica, Opatička 3.

Principal activity As at 31 December 2005, the Bank was operating a total of 33 office branches throughout the Republic of Croatia.

The Bank's main areas of operation include:

- providing current and term deposit accounts;
- granting short-term and long-term loans and guarantees to the State Treasury, local municipalities, corporate customers, private individuals and other credit institutions dealing with finance lease and foreign exchange transactions;
- treasury operations in the interbank market;
- trust management and investment banking services;
- performing local and international payments;
- providing banking services through an extensive branch network in the Republic of Croatia.

2. Summary of significant accounting policies

a) Basis of presentation These financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as published by the International Accounting Standards Board. The financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial instruments at fair value. The financial statements are presented in thousands of Croatian Kuna (HRK'000) which is the functional currency of the Bank.

The financial statements are prepared on an accrual basis of accounting, under the going concern assumption.

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

The Bank has prepared these unconsolidated financial statements as required by Croatian law and its investments in associates and subsidiaries are presented in these financial statements at cost. The Bank has also prepared consolidated financial statements, which were approved by the Management Board and issued on 31 March 2006. For a better understanding of the Group as a whole, users should read the consolidated financial statements.

The Bank maintains its books of accounts and prepares financial statements for regulatory purposes in accordance with the regulations of the Croatian National Bank ('CNB'). The accompanying financial statements are based on the accounting records of the Bank, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

b) Adoption of new and revised International Financial Reporting Standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Bank's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- financial instruments: Recognition and Measurement (IAS 39 (Revised));
- application of cost method for valuation of investments in associates and subsidiaries in separate financial statements (IAS 27). The impact of these changes in accounting policies is discussed in detail later in this note. The impact on basic and diluted earnings per share is disclosed in note 30.

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 6 - Exploration for and Evaluation of Mineral Resources
- IFRIC 3 - Emission Rights
- IFRIC 4 - Determining whether an Arrangement contains a Lease
- IFRIC 5 - Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

The Management of the Bank anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank.

IAS 39 (Revised) Financial instruments: Measurement and Recognition In accordance with the changes of IAS 39 (Revised) Financial Instruments: Recognition and Measurement the designation of financial assets and liabilities of the Bank was changed. The securities which were presented in portfolio 'Loans originated by the Bank' prior to the adoption of the revised standard were reclassified to portfolio 'Securities at fair value through profit or loss' and 'Held-to-maturity financial instruments'.

Recognition of gains and losses on available-for-sale assets The gains and losses on 'Available for sale assets' prior to the adoption of the revised standard were recognized in income statement. Under the revised standards the gains and losses on available for sale assets are recognized in equity in other reserve. The Bank recognizes all cumulative changes in fair value of 'Available for sale assets' in equity until subsequent derecognizing or impairment, when the entity shall transfer that cumulative gain or loss to profit or loss.

This change in accounting policy has been applied retrospectively. The adjustment required at 1 January 2004, therefore, is an increase in other reserves in equity of HRK 8 thousand and (transferred in respect of net profit for the year 2003). The change in accounting policy has reduced the profit for the year 2004 by HRK 918 thousand (HRK 8 of realized losses taken from equity to the income statement and HRK 910

thousand of unrealized gains taken from the income statement to equity) and increased the profit for the year 2005 by HRK 910 thousand of realized gains transferred from equity, with unrealized gains and losses on securities being recognized in other reserves in equity.

Application of cost method for valuation of investments in associates and subsidiaries in separate financial statements IAS 27 and IAS 28 (Revised)

Investments in subsidiaries are presented in the unconsolidated financial statements of the Bank at cost less impairment losses, if any. In 2004 the Bank carried its only investment in a subsidiary under liquidation at cost less impairment losses. Therefore, there was no need to apply the new requirements of the standards retrospectively. The Bank has no investments in associates.

Critical accounting judgments and key sources of estimation uncertainty

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

Set out below are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have the potential of causing a material adjustments to the carrying amounts of assets and liabilities in the future:

- the Bank monitors permanently the recoverable amount of its loans and receivables, as well as the collection time, which serves as the basis for estimating future cash flows. As the assumed amounts and time of collection are subject to assumptions regarding the elements beyond the Bank's control (duration of litigation, selling price of collateral, future performance of its customers...), the total actual losses may differ significantly from those currently estimated;
- the Bank is involved in various legal actions, the outcome of which is uncertain. Based on consultation with legal counsel, Management estimates that no losses will be incurred in regard of those legal actions. It should be noted that, despite that estimation, there is possibility of costs in the future.

Interest income and expense

Interest income is recognized on accrual basis, by reference to the principal outstanding and at the effective interest rate applicable. Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments. Penalty interest is accounted for when received.

When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognized based on the rate of interest that was used

to discount the future cash flows for the purpose of measuring the recoverable amount.

Fee and commission income and expense Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for credit instruments issued by the Bank except loan origination fee. Fees for payment transactions are recognized in the period when services are rendered.

Loan origination fees, after approval and drawdown of loans, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan over its life.

Taxation Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis. The Bank is subject to various indirect taxes which are included in administrative expenses.

Cash and cash equivalents For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Croatian National Bank ('CNB') and current accounts with other banks, and treasury bills.

Cash and cash equivalents excludes the compulsory minimum reserve with the CNB as these funds are not available for the Bank's day to day operations. The compulsory minimum reserve with the CNB is a required reserve to be held by all commercial banks licensed in Croatia.

Financial assets and liabilities Financial assets held by the Bank are categorized into portfolios in accordance with the Bank's intent on the acquisition and pursuant to the Bank's investment strategy. Financial assets and liabilities are classified as 'At fair value through profit and loss', 'Held to maturity', 'Assets available for sale' or as 'Loans and receivables'. The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements.

All financial assets and liabilities are recognized and derecognized on a trade date basis, where the purchase or sale of financial asset or liability is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

When a financial asset or financial liability is recognized initially, the Bank measures it at its cost increased for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Assets at fair value through profit or loss

Classified as held for trading:

Assets held for trading are financial assets (equity and debt securities, treasury bills, participation certificates) acquired or incurred principally for the purpose of selling or repurchasing it in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivative financial instruments (except for derivatives that are a designated and effective hedging instrument) are classified as held for trading.

Upon initial recognition are designated by the Bank as instruments at fair value through profit or loss.

In accordance with the Bank's investment policy any financial asset within the scope of IAS 39 can be classified as designated at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Measurement:

Subsequent to initial recognition, financial assets at fair value through profit or loss are accounted for and stated at fair value which approximates the price quoted on recognized stock exchanges or acceptable valuation models. The Bank includes unrealized gains and losses in 'Net profit/(loss) on financial operations.' Interest earned on assets at fair value through profit or loss is accrued on a daily basis based on

effective interest method and reported as 'Interest income' in the profit and loss statement.

Dividends on trading securities are recorded when declared and included as a receivable in the balance sheet line 'Other assets' and in 'Net profit/(loss) on financial operations' in the profit and loss statement.

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

Assets Available-for-sale Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

This portfolio comprises equity and debt securities. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price / cash flow ratios refined to reflect specific circumstances of the issuer.

For available-for-sale assets, unrealized gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Interest earned whilst holding available-for-sale securities is accrued on a daily basis and reported as "Interest income" in the income statement.

Dividends on securities available for sale are recorded as declared and included as a receivable in the balance sheet line "Other assets" and in "Net profit/(loss) on financial operations" in the profit and loss statement. Upon payment of the dividend, the receivable is offset against the collected cash.

Loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loan and receivables are initially recognized at cost, and are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are

treated as part of the cost of the transaction as well as fees received from customers. Loan origination fees are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Specific allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Objective evidence of impairment for financial assets assessed collectively for impairment are adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments) or national or local economic conditions that correlate with defaults on the assets in the group.

When a loan is uncollectible, it is written off against the related allowance for impairment; subsequent recoveries are credited to the 'Impairment losses on loans and advances' line in the income statement.

The Bank charges penalty interest to borrowers when a portion of the loan falls overdue. Penalty interest is accounted for on a cash received basis in the caption 'Interest income'.

Retirement benefit costs The Bank has no defined post-retirement benefit plans for its employees or management. The Bank makes contributions on behalf of its employees to mandatory state pension plans, which are charged as expense in the period to which they relate. Any future payments to employees are the responsibility of the Republic of Croatia.

Sale and repurchase agreements If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognized because the Bank retains substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the balance sheet lines of assets in original classification or the Bank reclassifies the asset on its balance sheet, as a 'Repurchase receivable' if the

transferee obtains the right to sell or pledge the asset. The counterparty liability is included in 'Amounts due to banks' or 'Amounts due to customers' as appropriate. Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets in the balance sheet line 'Due from banks' or 'Loans and receivables' as appropriate, with the corresponding decrease in cash being included in 'Cash and balances with the central bank.' The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

Tangible and intangible assets Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Small equipment with value less than HRK 1,000 is expensed when put into use.

Significant improvements and replacement of assets are capitalized. Gains or losses on the write-offs or disposal of property and equipment are included in the statement of income in the period in which they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets, which are as follows:

	2005	2004
Buildings	10 - 40 years	10 - 40 years
Furniture and fixture	4 - 5 years	4 - 5 years
Motor vehicles	5 years	5 years
Intangible assets	5 years	5 years

Foreign currency translation Transactions in currencies other than Croatian Kuna are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the balance sheet date. Profits and losses arising on translation are included in the statement of income for the period.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the statement of income for the period.

The Bank has assets and liabilities originated in HRK, which are linked to foreign

currency with one-way currency clause. Due to this clause the Bank has an option to revalue the asset by higher of: foreign exchange rate valid as of the date of maturity, or foreign exchange rate valid as of the date of origination of the financial instrument. In case of liability linked to this clause the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia the fair value of this option can not be calculated as the forward rates for HRK for periods over 6 months are not available. As such the Bank values its assets and liabilities related to this clause by middle rate of Croatian National Bank valid at the date of balance sheet or foreign exchange rate agreed by the option (rate valid at origination) if higher.

The principal rates of exchange set forth by the Croatian National Bank and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

31 December 2005	1 EUR = HRK 7.38	1 USD = HRK 6.23
31 December 2004	1 EUR = HRK 7.67	1 USD = HRK 5.64

Off-Balance-Sheet Commitments In the ordinary course of business, the Bank enters into credit related commitments which are recorded in off-balance-sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Such financial commitments are recorded in the Bank's balance sheet if and when they become payable.

Provisions Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation. Management Board estimates the provisions based at the best estimate of expenditure to settle the Bank's obligation. Provisions are discounted to present value where the effect is material.

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

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

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

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

Reclassification Certain amounts in the previous year financial statements have been reclassified to conform with the current year presentation.

Regulatory requirements The Bank is subject to the regulatory requirements of the Croatian National Bank. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and forming allowances to cover credit risk, liquidity, interest rate and foreign currency position. At year end the Bank was substantially in compliance with all regulatory requirements.

3. INTEREST AND SIMILAR INCOME AND EXPENSE

HRK'000	2005	2004
a) Interest and similar income		
Analysis by source		
Individuals	69.280	64.486
Companies	24.936	24.848
State and public sector	6.574	4.164
Domestic banks	4.331	4.579
Foreign banks	1.741	1.998
Total	106.862	100.075
Analysis by product		
Debt securities	9.902	8.031
Treasury bills	-	85
Obligatory reserve with Croatian National Bank	1.849	2.316
Placements with other banks	3.927	3.505
Public debt due from the Republic of Croatia	-	331
Loans and advances to customers	91.184	85.807
Total	106.862	100.075
b) Interest and similar expense		
Analysis by source		
Individuals	28.130	25.540
Companies	10.024	8.614
State and public sector	4.343	3.017
Domestic banks	2.444	1.990
Foreign banks	1.303	1.689
Other foreign entities	1.907	1.923
Total	48.151	42.773
Analysis by product		
Deposits from banks	734	515
Deposits from companies	10.024	8.527
Deposits from public sector	4.343	3.016
Deposits from individuals	28.130	25.540
Deposits from other foreign entities	1.907	1.923
Borrowings	3.013	3.252
Total	48.151	42.773

4. FEE AND COMMISSION INCOME AND EXPENSE

HRK '000	2005	2004
a) Fee and commission income		
Analysis by source		
Individuals	19.295	15.945
Companies	11.529	11.340
Domestic banks	1.644	2.181
State and public sector	337	358
Foreign legal entities	115	552
Total	32.920	30.376
Analysis by product		
Lending operations	2.872	2.071
Card operations	12.656	10.471
Domestic payment transactions	8.399	8.531
Other services	8.993	9.303
Total	32.920	30.376
b) Fee and commission expenses		
Analysis by source		
Companies	9.348	11.124
Domestic banks	1.564	1.609
Foreign banks	186	135
Total	11.098	12.868
Analysis by product		
Domestic payment transactions	3.951	5.629
Cash transactions	4.855	5.154
Other services	2.292	2.085
Total	11.098	12.868

5. NET FOREIGN EXCHANGE GAINS

HRK '000	2005	2004
Net foreign exchange gain on trading	9.080	12.282
Net gains/(losses) from translation of monetary assets and liabilities	6.269	1.917
Total	15.349	14.199

6. NET TRADING AND VALUATION GAINS ON FINANCIAL INSTRUMENTS

HRK'000	2005	2004
Gains reduced by losses on securities at fair value through profit or loss	3.892	3.267
Gains reduced by losses on securities available for sale	8.783	771
Dividend income	22	71
Total	12.697	4.109

7. OTHER OPERATING INCOME

HRK'000	2005	2004
Gains on sale of tangible assets	616	28
Rental income	91	130
Other income	627	681
Total	1.334	839

8. OPERATING EXPENSES

HRK'000	2005	2004
Staff costs (Note 8)	31.306	28.760
Depreciation	10.211	10.114
Amortization	2.613	2.442
Rental costs	5.478	3.852
Administrative expenses	10.609	8.710
Service expenses	19.517	15.514
Other costs	3.369	3.590
Total	83.103	72.982

9. STAFF COSTS

HRK '000	2005	2004
Net salaries	16.669	15.043
Taxes and local taxes	4.791	3.936
Contributions	9.074	8.008
Provisions for employee benefits	-	1.010
Other staff costs	772	763
Total	31.306	28.760

At the end of 2005, the Bank had 252 employees (2004: 235 employees).

10. IMPAIRMENT LOSSES AND PROVISIONS

HRK '000	Notes	2005	2004
Loans and advances to customers	15	5.933	5.616
Factoring		541	-
Subsidiaries	17	115	-
Other assets	21	(4)	105
Off-balance sheet items	24	253	(218)
		6.838	5.503
Collected receivables previously written off		(75)	(57)
Total		6.763	5.446

11. INCOME TAX EXPENSE

Income tax liability is determined by applying the tax rate of 20% to taxable base, in accordance with Croatian law.

HRK'000	2005	2004
Adjustment of income tax is as follows		
Current income tax	4.925	3.446
Deferred income tax	(907)	(253)
Income tax expense	4.018	3.193
The movement in the deferred income tax account is provided as follows		
Balance at 1 January	253	-
Deferred tax assets recognized	940	253
Utilization of tax assets from prior periods	(33)	-
Balance at 31 December	1.160	253
Deferred tax assets are attributable to the following temporary differences		
Unrealized gains on available-for-sale assets	23	253
Deferred loan origination fee	915	-
Other	2	-
Net deferred income tax asset (liability)	940	253

The movement in the deferred income tax account is as follows

HRK'000	Gains/losses on available for sale assets	Deferred loan origination fee	Other	Total
Balance at 1 January 2004	-	-	-	-
Charge to income statement	253	-	-	253
Balance at 1 January 2005	253	-	-	253
Charge to income statement	(10)	915	2	907
Balance at 31 December 2005	243	915	2	1.160

HRK'000	2005	2004
The reconciliation of the income tax expense for the period		
Accounting profit before tax	19.137	16.447
Non-deductible expense, net permanent differences	954	792
Taxable income of future period (deferred fees), temporary differences	4.586	-
Tax disallowable expense, temporary differences	115	168
Non-taxable income, temporary difference	(168)	(174)
Income tax base	24.624	17.233
Income tax rate	20%	20%
Income tax liability	4.925	3.446

12. CASH AND AMOUNTS DUE FROM BANKS

HRK'000	31 DECEMBER	
	2005	2004
Cash in hand	38.541	37.221
Items in course of collection	5.363	4.275
Current accounts with domestic banks	6.498	2.745
Current accounts with foreign banks	61.162	43.235
Current accounts with the Croatian National Bank	43.107	68.320
Other cash reserves	2.663	1.279
Total	157.334	157.075

13. OBLIGATORY RESERVE WITH CROATIAN NATIONAL BANK

HRK'000	31 DECEMBER	
	2005	2004
- in HRK	135.322	118.995
- in foreign currencies	31.233	41.599
Total	166.555	160.594

Obligatory reserves in HRK and in foreign currency are calculated at the rate of 18% (2004: 18%) on HRK and foreign currency deposits, and foreign currency loans.

At 31 December 2005, the Bank had the obligation to hold at least 70% (2004: 60%) of such reserves on its account with the Croatian National Bank. The portion of the reserve funds denominated in HRK include 50% of the foreign currency reserve funds. Obligatory deposit funds bear interest at a rate of 0.75% per annum (2004: 1,25%). The foreign-currency reserve is allocated on the foreign-currency accounts with the Croatian National Bank to the full extent of deposits of non-residents and legal entities with a specific relationship with the Bank (related parties) and at 60% for the remaining portion. Obligatory reserve funds denominated in USD bear interest at a rate of 2.125 % (2004: 1.50%) and those denominated in EUR 1.125% (2004: 1.50%). The additional mandatory reserve funds in foreign currency were allocated at a rate of 40% (2004: 24%) on the increase of deposits of foreign entities and related parties compared to June 2004. At 31 December 2005 the entire additional obligatory reserve were to be held with the Croatian National Bank with no interest.

14. PLACEMENTS WITH OTHER BANKS

HRK'000	31 DECEMBER	
	2005	2004
Deposits with other banks, due within one year		
- With domestic banks in HRK	32.790	4.776
- With foreign banks in foreign currency	109.932	101.074
Loans to other banks, due within one year		
- To domestic banks in HRK	105.164	50.092
- To foreign banks in foreign currency	6.084	-
Total	253.970	155.942

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

HRK'000	31 DECEMBER	
	2005	2004
Debt securities, investments in open end investment funds	25.074	7.376
Equity securities	4.707	3.901
Total	29.781	11.277

At 31 December 2005 equity securities can be analysed as follows

Equity securities at fair value through profit or loss

HUP Zagreb d.d.	1.087	-
Podravka d.d. Koprivnica	954	287
Franck d.d. Zagreb	845	-
Pliva d.d. Zagreb	830	-
Končar d.d. Zagreb	715	620
Kraš d.d. Zagreb	276	276
Adris grupa d.d. Rovinj	-	1.050
Ericsson Nikola Tesla d.d. Zagreb	-	296
Slavonski zatvoreni investicijski fond d.d. Osijek	-	220
Koka d.d. Varaždin	-	200
Plava laguna d.d. Poreč	-	187
Anita d.d. Vrsar	-	166
Institut građevinarstva d.d. Zagreb	-	160
Privredna banka d.d. Zagreb	-	150
Istraturist Umag d.d. Umag	-	142
Other	-	147
Total	4.707	3.901

The Bank has no significant influence on the operations of any of the entities in which it has equity investments.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

HRK '000	31 DECEMBER	
	2005	2004
Debt securities	153.739	162.311
Equity securities	5.606	5.531
Total	159.345	167.842

a) Debt securities

At 31 December 2005 debt securities can be analyzed as follows:

Bonds of the Republic of Croatia	96.679	83.746
Bonds of the City of Koprivnica	9.589	9.960
Bonds of the Croatian Bank for Reconstruction and Development	-	7.949
Corporate bills of exchange	47.469	60.653
Other securities	2	3
	153.739	162.311
Debt securities		
- listed	106.268	101.655
- unlisted	47.471	60.656
Total debt securities	153.739	162.311

Bonds of the Republic of Croatia include securities issued by the Ministry of Finance.

b) Equity securities

At 31 December 2005 equity securities can be analyzed as follows:

Equity securities available for sale

Bilokalnik d.d. Koprivnica	5.377	5.377
HROK d.o.o. Zagreb	75	-
Zagrebačka burza d.d. Zagreb (Zagreb Stock Exchange)	60	60
MBU d.o.o. Zagreb	49	49
Varaždinska burza d.d. Varaždin (Varaždin Stock Exchange)	40	40
S.W.I.F.T. S.c.r.l.	5	5
Total equity securities	5.606	5.531

The Bank has no significant influence on the operations of any of the entities in which it has equity investments. Most equity securities held by the Bank at the year-end include corporate equity acquired as a result of debt-to-equity conversion.

17. HELD-TO-MATURITY FINANCIAL ASSETS

HRK'000	31 DECEMBER	
	2005	2004
Factoring, purchased receivables		
- in HRK	8.188	4.511
- in foreign currency	2.639	3.583
	10.827	8.094
Impairment allowance	(541)	-
Total	10.286	8.094
Movements in provisions for impairment		
At 1 January	-	-
Charged during the year	541	-
At 31 December	541	-

18. LOANS AND ADVANCES TO CUSTOMERS

HRK'000	31 DECEMBER	
	2005	2004
Loans and advances to customers		
- in HRK	943.776	815.932
- in foreign currency	45.234	56.914
	989.010	872.846
Impairment allowance	(44.936)	(39.455)
Total	944.074	833.391

Analysis by lending portfolio

HRK'000	31 DECEMBER	
	2005	2004
HRK denominated		
Loans to corporate customers	250.846	188.472
Loans to individuals	692.930	627.460
Total	943.776	815.932
Foreign currency denominated		
Loans to corporate customers	36.703	46.441
Loans to individuals	8.531	10.473
	45.234	56.914
Total gross loans and advances to customers	989.010	872.846
Impairment allowance	(44.936)	(39.455)
Total net loans and advances to customers	944.074	833.391

18. LOANS AND ADVANCES TO CUSTOMERS

Movements in provisions for impairment

HRK '000	2005	2004
At 1 January	39.455	35.828
Charged during the year	5.933	5.616
Amounts written off and other adjustments	(452)	(1.989)
At 31 December	44.936	39.455

At 31 December 2005, total non-performing loans and those that did not accrue interest amounted to HRK 64,803 thousand (2004: HRK 60,610 thousand). Unrecognized interest on these loans amounted to HRK 27,688 thousand at 31 December 2005 (2004: HRK 26,689 thousand). Accrued interest outstanding for 2005 in respect of impaired loans amounted to HRK 1,160 thousand (2004:HRK 1,136 thousand) at 31 December 2005.

Concentration of credit risk by industry

The Bank has a diversified portfolio within Croatia covering all sectors of the economy. All commercial lending is to companies domiciled in Croatia. At 31 December 2005 the Bank had the following gross credit risk concentration by industry:

HRK '000	31 DECEMBER	
	2005	2004
Trade	85.977	73.716
Agriculture	38.543	29.134
Textile and leather industry	13.589	13.699
Food industry	17.847	14.306
Wood industry	14.441	12.043
Metal industries	21.347	19.039
Paper industry	11.825	3.242
Publishing	4.350	4.394
Other industries	21.559	20.938
Construction	22.803	21.938
Real estate operations	13.138	9.614
Transportation and communications	11.122	9.409
Health and social care	2.618	1.635
Hotels and restaurants	3.094	892
Other	5.296	914
Individuals	701.461	637.933
Total	989.010	872.846

19. PUBLIC DEBT OF THE REPUBLIC OF CROATIA

HRK'000	31 DECEMBER	
	2005	2004
Due within one year	-	4.697
Total	-	4.697

At the end of 2004 last installment had become due and collected in 2005.

20. INVESTMENTS IN SUBSIDIARIES

At 31 December 2005, the Bank controlled the following subsidiaries:

	Nature of business	Country of incorporation	Direct holding at
			31 DECEMBER 2005
Brokeri 21 d.o.o. in liquidation	Brokerage	Croatia	100,00%
Požeška bank Požega	Banking	Croatia	50,34%

These Banks' investments in subsidiaries can be analyzed as follows:

HRK'000	31 DECEMBER	
	2005	2004
Investments	23.108	4.040
Impairment	(1.216)	(1.101)
Total	21.892	2.939

21. TANGIBLE ASSETS

HRK '000	Land and buildings	Office equipment and motor vehicles	Computers	Tangible assets under construction	Total
Cost					
At 31 December	38.263	31.025	26.087	2.615	97.990
Transfer	-	-	-	-	-
Additions	-	-	-	8.280	8.280
Disposals and write-offs	(486)	(843)	(417)	-	(1.746)
Transfers from assets in progress	1.575	4.508	1.806	(9.995)	(2.106)
At 31 December 2005	39.352	34.690	27.476	900	102.418
Accumulated depreciation					
At 31 December 2004	25.281	19.287	16.817	-	61.385
Transfer	-	-	-	-	-
Charge for the year	852	4.457	4.902	-	10.211
Disposals and write-offs	(455)	(724)	(400)	-	(1.579)
At 31 December 2005.	25.678	23.020	21.319	-	70.017
Net book value					
At 31 December 2005	13.674	11.670	6.157	900	32.401
At 31 December 2004	12.982	11.738	9.270	2.615	36.605

Property with a net book value of HRK 11.9 million has been pledged as a collateral for corporate deposits received in the amount of HRK 25.0 (50.7) million.

22. INTANGIBLE ASSETS

HRK'000	Software	Leasehold improvements (rights)	Total
Cost			
At 31 December 2004	5.880	9.727	15.607
Transfers	-	2.106	2.106
Additions	-	-	-
Disposals and write-offs	-	(789)	(789)
At 31 December 2005	5.880	11.044	16.924
Accumulated amortization			
At 31 December 2004	3.809	4.178	7.987
Charge for the year	969	1.644	2.613
Disposals and write-offs	-	(575)	(575)
At 31 December 2005	4.778	5.247	10.025
Net book value			
At 31 December 2005	1.102	5.797	6.899
At 31 December 2004	2.071	5.549	7.620

23. OTHER ASSETS

HRK'000	31 DECEMBER	
	2005	2004
Accrued fees and commissions	2.232	2.116
Foreclosed assets	57	308
Deferred tax assets	1.160	253
Receivables from credit cards operations	8.315	3.034
Receivables from brokerage operations	2.017	-
Other assets	7.904	6.270
Total, gross	21.685	11.981
Impairment allowance	(1.943)	(2.025)
Total, net	19.742	9.956

24. DEPOSITS FROM BANKS

HRK'000	31 DECEMBER	
	2005	2004
Term deposits from banks, due within one year		
- in HRK	3.501	-
- in foreign currency	85.674	49.811
Total	89.175	49.811

25. AMOUNTS DUE TO CUSTOMERS

HRK'000	31 DECEMBER	
	2005	2004
Companies		
<i>Demand deposits</i>		
- in HRK	137.217	102.957
- in foreign currency	33.623	22.115
<i>Subtotal</i>	170.840	125.072
<i>Time deposits</i>		
- in HRK	113.039	138.032
- in HRK, with a currency clause	167.409	79.208
- in foreign currency	11.124	10.527
<i>Subtotal</i>	291.572	227.767
Total companies	462.412	352.839
Individuals		
<i>Demand deposits</i>		
- in HRK	115.069	89.455
- in foreign currency	113.141	110.965
<i>Subtotal</i>	228.210	200.420
<i>Time deposits</i>		
- in HRK	101.013	82.909
- in HRK, with a currency clause	258.840	215.243
- in foreign currency	326.335	332.162
<i>Subtotal</i>	686.188	630.314
Total individuals	914.398	830.734
Total deposits	1.376.810	1.183.573

26. BORROWINGS

HRK'000	31 DECEMBER	
	2005	2004
Repo loans from domestic banks, in foreign currency	29.589	46.027
Repo loans from domestic banks, in HRK	20.008	-
Short-term borrowings from domestic banks (money market)	20.007	30.013
CBRD loans	39.537	26.049
Borrowings from foreign banks	24.675	39.504
Total	133.816	141.593

Repo loans from domestic banks and other legal entities relate to loans for which the Bank has pledged securities with the obligation to repurchase them on a certain future date (see Note 35). The loan received in 2005 pays interest at a rate from 3.3 % up to 4.5 % (2004: 2.7 % - 3.45 %).

Short-term borrowings from the money market represent funds obtained from domestic banks for liquidity purposes. Interest rates on those borrowings ranged from 2.5% to 4.0% (2004: 2% - 7%).

The funds from the Croatian Bank for Reconstruction and Development (HBOR) are designated for approving loans to end users - corporate and retail customers - under the SMEs, tourist trade and agriculture incentive programs supported by the HBOR, at an interest rate of 1% to 4% (2004: 1% to 5%).

Foreign bank borrowings comprise loan funds obtained from Adria Bank AG, Austria, LB Interfinanz, Switzerland and Banca Antoniana Padovana, Italy. These borrowings are repayable in installments and the interest rate is Euribor+2% and 1.5% or LIBOR+2%. The borrowings are repayable in 2007.

27. PROVISIONS FOR LIABILITIES AND CHARGES

HRK'000	31 DECEMBER	
	2005	2004
At 1 January	1.104	1.322
Credited/(charged) to income during the year	253	(218)
At 31 December	1.357	1.104

28. OTHER LIABILITIES

HRK'000	31 DECEMBER	
	2005	2004
Accrued fees and commissions	760	1.116
Dividends payable	135	140
Liabilities to employees	3.775	4.580
Other liabilities	23.906	17.980
Total	28.576	23.816

29. SHARE CAPITAL AND RESERVES

a) Share capital

HRK '000	31 december 2005			31 december 2004		
	Ordinary shares	Preference shares	Total shares	Ordinary shares	Preference shares	Total shares
Authorized capital fully paid in	58.902	4.000	62.902	58.902	4.000	62.902
Nominal value per share	400 kn	400 kn	400 kn	400 kn	400 kn	400 kn
Number of shares	147.256	10.000	157.256	147.256	10.000	157.256

Preference shares are cumulative, non-voting and entitle to a 7% fixed annual dividend. These shares are owed mostly by domestic individuals. The major shareholders of the Bank at 31 December 2005 were as follows:

	31 december 2005 Ordinary shares %	31 december 2004 Preference shares %
Cerere S.R.L. Trieste	9,93	6,93
Antonia Gorgoni	7,95	9,98
Lorenzo Gorgoni	9,97	9,97
Djuro Predovic	9,33	9,33
Miljan Todorovic	8,73	8,73
Andrea Montinari	5,63	5,12
Piero Montinari	5,63	5,12
Sigilfredo Montinari	5,63	5,12
Dario Montinari	5,63	5,12
Giovanni Semeraro	4,39	4,39
Luigi Liaci	5,14	4,91
Giuliano Chersi	3,06	3,06
Other shareholders (each less than 3%)	18,98	22,22
Total	100,00	100,00

b) Reserves and retained earnings

The Bank's distributable and non-distributable reserves disclosed in these financial statements are determined by Croatian regulations and decisions of the Croatian National Bank. As at 31 December 2005, the statutory accounts of the Bank disclosed non-distributable reserves in the amount of HRK 82,224 thousand (HRK 72,730 thousand at of 31 December 2004).

30. EARNINGS PER ORDINARY SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net income after tax for the period attributable to ordinary shareholders after deducting preference dividends. A reconciliation of the income after tax attributable to ordinary shareholders is provided below.

HRK'000	31 DECEMBER	
	2005	2004
Net income for the year	16.029	12.336
Less preference dividends	(280)	(280)
Profit attributable to ordinary shareholders	15.749	12.056
Average number of ordinary shares at HRK 400 each	147.256	147.256
Earnings per ordinary share	107	82

Impact of changes in accounting policy

Changes in the Bank's accounting policies during the year are described in detail in note 2. To the extent that those changes have had an impact on results reported for 2005 and 2004, they have had an impact on the amounts reported for earnings per share. The following table summarizes that impact on basic earnings per share:

HRK'000	31 DECEMBER	
	2005	2004
Changes in accordance with IAS 39 (Revised)	910	(918)
Impact on earnings per ordinary share	6	(6)

31. ANALYSIS OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement for the year ended 31 December 2005 include:

HRK'000	Bilješke	31 DECEMBER	
		2005	2004
Cash in hand	12	38.541	37.221
Items in course of collection	12	5.363	4.275
Current accounts with domestic banks	12	6.498	2.745
Current accounts with foreign banks	12	61.162	43.235
Current accounts with the Croatian National Bank	12	43.107	68.320
Other cash reserves	12	2.663	1.279
Placements with other banks up to 90 days	14	253.970	155.942
Total		411.304	313.017

32. COMMITMENTS AND CONTINGENCIES

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

HRK '000	31 DECEMBER	
	2005	2004
Guarantees	36.804	39.164
Letters of credit	10.995	10.262
Undrawn lending facilities	84.341	68.636
Total	132.140	118.062

33. COMMITMENTS FROM OPERATING LEASE ARRANGEMENTS

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

HRK '000	31 DECEMBER	
	2005	2004
Commitments due within one year	5.034	5.033
Commitments due from one to five years	17.051	17.131
Commitments due in more than five years	9.181	11.012
Total	31.266	33.176

34. CONCENTRATION OF ASSETS AND LIABILITIES

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

HRK'000	31 DECEMBER	
	2005	2004
Current accounts with Croatian National Bank	43.107	68.320
Other cash reserves	2.663	1.279
Obligatory reserve with Croatian National Bank	166.555	160.432
Bonds of the Republic of Croatia	96.679	83.745
Public debt of the Republic of Croatia	-	4.584
Other assets	2.403	4.704
Customer deposits	(15.245)	(21.292)
Total	296.162	301.772

In addition, at 31 December 2005 the Bank had indirect exposure to the Croatian State in respect of debt securities issued by public funds, loans and off balance sheet exposures as follows:

State Agency for Deposit Insurance and Bank Rehabilitation	(657)	(766)
Croatian Bank for Reconstruction and Development	-	7.949
Bonds of the City of Koprivnica	9.589	-
Loans and advances to customers guaranteed by the State	2.530	1.982
Other assets	224	52
Guarantees, letters of credit and undrawn lending facilities	-	827
Time and demand deposits	(68.043)	(52.211)
Borrowings from the Croatian Bank for Reconstruction and Development	(39.537)	(26.049)
Total	(95.894)	(68.216)

35. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

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

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

HRK'000	31 DECEMBER	
	2005	2004
Assets		
Loans to individuals	23.702	23.718
Loans to corporate customers	66.500	29.306
Cash	2.240	2.205
Total assets	92.442	55.229
Liabilities		
Public sector	20.127	19.107
Companies	64.698	28.458
Financial institutions	7.617	7.664
Total liabilities	92.442	55.229

36. MATURITY ANALYSIS

The remaining contractual maturity of the Bank's assets and liabilities as at 31 December 2005 is presented in the table below.

31 December 2005	Up to 1 month HRK'000	1-3 months HRK'000	3 months to 1 year HRK'000	Over 1 year HRK'000	Over 3 years HRK'000	Total HRK'000
Assets						
Cash and amounts due from banks	157.334	-	-	-	-	157.334
Obligatory reserve with Croatian National Bank	66.944	26.407	49.773	18.661	4.770	166.555
Placements with other banks	233.481	10.645	8.000	1.844	-	253.970
Financial assets at fair value through profit or loss	29.781	-	-	-	-	29.781
Available-for-sale financial assets	107.013	46.724	-	2	5.606	159.345
Held-to-maturity financial assets	5.122	4.228	936	-	-	10.286
Loans and advances to customers	84.452	69.511	252.423	275.350	262.338	944.074
Public debt of the Republic of Croatia	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	21.892	21.892
Tangible assets	-	-	-	-	32.401	32.401
Intangible assets	-	-	-	-	6.899	6.899
Other assets	12.755	4.158	2.829	-	-	19.742
Total assets	696.882	161.673	313.961	295.857	333.906	1.802.279
Liabilities and shareholders' equity						
Deposits from banks	78.112	11.063	-	-	-	89.175
Amounts due to customers	524.956	229.567	428.291	152.764	41.232	1.376.810
Frozen deposits	-	-	-	-	-	-
Borrowings	69.822	783	20.833	29.553	12.825	133.816
Provisions for liabilities and charges	1.357	-	-	-	-	1.357
Other liabilities	22.430	268	715	2.145	3.018	28.576
Total shareholders' equity	-	-	280	-	172.265	172.545
Total liabilities and shareholders' equity	696.677	241.681	450.119	184.462	229.340	1.802.279
Net liquidity gap	205	(80.008)	(136.158)	111.395	104.566	-

31 December 2004	Up to 1 month HRK'000	1-3 months HRK'000	3 months to 1 year HRK'000	Over 1 year HRK'000	Over 3 years HRK'000	Total HRK'000
Assets						
Assets	530.116	179.668	278.246	244.777	323.225	1.556.032
Liabilities and shareholders' equity	525.736	263.848	393.283	160.180	212.985	1.556.032
Net liquidity gap	4.380	(84.180)	(115.037)	84.597	110.240	-

37. INTEREST RATE RISK

The Bank is exposed to risk of changes in interest rates on the market which have implications on their financial position and cash flows. The table below shows the evaluation of the Management Board concerning the exposure of the Bank on 31 December 2005, which is not necessary an indicator in the long-term period. The table shows the sensitivity of the Bank's profit due to the fluctuation of interest rates. The profit also depends on currency structure and liabilities. The Bank has marketable assets which bring yield interest rates and on which interest denominated in foreign currency is paid.

31 December 2005	Up to 1 month HRK'000	1-3 months HRK'000	3 months to 1 year HRK'000	Over 1 year HRK'000	Non-interest bearing HRK'000	Total HRK'000	Fixed rate HRK'000
Assets							
Cash and amounts due from banks	22.516	-	-	-	134.818	157.334	22.516
Obligatory reserve with Croatian National Bank	66.843	26.407	49.773	23.431	101	166.555	-
Placements with other banks	232.872	10.645	8.000	1.844	609	253.970	253.361
Financial assets at fair value through profit or loss	-	-	-	-	29.781	29.781	-
Available-for-sale financial assets	106.613	46.724	-	-	6.008	159.345	153.336
Held-to-maturity financial assets	5.068	4.228	936	-	54	10.286	10.232
Loans and advances to customers	845.888	2.695	11.946	76.928	6.617	944.074	92.585
Public debt of the Republic of Croatia	-	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	21.892	21.892	-
Tangible assets	-	-	-	-	32.401	32.401	-
Intangible assets	-	-	-	-	6.899	6.899	-
Other assets	-	-	-	-	19.742	19.742	-
Total assets	1.279.800	90.699	70.655	102.203	258.922	1.802.279	532.030
Liabilities and shareholders' equity							
Deposits from banks	78.010	11.063	-	-	102	89.175	89.073
Amounts due to customers	973.513	74.530	236.192	74.210	18.365	1.376.810	442.590
Frozen deposits	-	-	-	-	-	-	-
Borrowings	69.520	783	20.833	42.378	302	133.816	133.514
Provisions for liabilities and charges	-	-	-	-	1.357	1.357	-
Other liabilities	-	-	-	-	28.576	28.576	-
Total shareholders' equity	-	-	-	-	172.545	172.545	-
Total liabilities and shareholders' equity	1.121.043	86.376	257.025	116.588	221.247	1.802.279	665.177
Interest rate sensitivity gap	158.757	4.323	(186.370)	(14.385)	37.675	-	(133.147)
31 December 2004	Up to 1 month HRK'000	1-3 months HRK'000	3 months to 1 year HRK'000	Over 1 year HRK'000	Non-interest bearing HRK'000	Total HRK'000	Fixed rate HRK'000
Assets							
Assets	1.020.319	111.672	58.573	148.606	216.862	1.556.032	440.852
Liabilities and shareholders' equity	985.530	87.238	199.544	101.471	182.249	1.556.032	538.326
Interest rate sensitivity gap	34.789	24.434	(140.971)	47.135	34.613	-	(97.474)

37. INTEREST RATE RISK

Average interest rates

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

	2005	Interest rate	2004	Interest rate
	HRK'000	%	HRK'000	%
Assets				
Cash and amounts due from banks	22.516	1,04%	20.803	2,53%
Obligatory reserve with Croatian National Bank	166.454	0,85%	160.432	1,57%
Placements with other banks	253.361	3,13%	155.941	2,81%
Available-for-sale financial assets	153.336	5,96%	162.310	7,01%
Held-to-maturity financial assets	10.232	9,15%	8.094	9,91%
Loans and advances to customers	950.837	9,89%	827.005	10,65%
Public debt of the Republic of Croatia	-	-	4.584	5,00%
Total assets	1.556.736	7,30%	1.339.169	8,06%
Liabilities				
Deposits from banks	89.073	1,96%	49.809	1,99%
Demand deposits from customer	399.051	0,68%	325.492	0,56%
Time deposits from customers	959.395	4,58%	856.178	4,42%
Frozen deposits	-	-	712	5,00%
Borrowings	133.514	3,35%	141.593	3,80%
Total liabilities	1.581.033	3,34%	1.373.784	3,35%

38. FOREIGN EXCHANGE POSITION

The Bank had the following foreign exchange position as at 31 December 2005:

	EURO and linked to EURO	USD	Other currencies	Total foreign currencies	HRK	Total
31 December 2005	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets						
Cash and amounts due from banks	62.169	18.501	9.232	89.902	67.432	157.334
Obligatory reserve with Croatian National Bank	25.257	5.976	-	31.233	135.322	166.555
Placements with other banks	111.282	-	4.747	116.029	137.941	253.970
Financial assets at fair value through profit or loss	10.073	-	-	10.073	19.708	29.781
Available-for-sale financial assets	58.510	-	-	58.510	100.835	159.345
Held-to-maturity financial assets	2.278	-	-	2.278	8.008	10.286
Loans and advances to customers	762.529	1.600	235	764.364	179.710	944.074
Public debt of the Republic of Croatia	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	21.892	21.892
Tangible assets	-	-	-	-	32.401	32.401
Intangible assets	-	-	-	-	6.899	6.899
Other assets	347	4	6	357	19.385	19.742
Total assets	1.032.445	26.081	14.220	1.072.746	729.533	1.802.279
Liabilities and shareholders' equity						
Deposits from banks	85.674	-	-	85.674	3.501	89.175
Amounts due to customers	872.094	27.483	10.895	910.472	466.338	1.376.810
Frozen deposits	-	-	-	-	-	-
Borrowings	75.588	-	-	75.588	58.228	133.816
Provisions for liabilities and charges	-	-	-	-	1.357	1.357
Other liabilities	65	21	-	86	28.490	28.576
Total shareholders' equity	-	-	-	-	172.545	172.545
Total liabilities and shareholders' equity	1.033.421	27.504	10.895	1.071.820	730.459	1.802.279
Net foreign exchange position	(976)	(1.423)	3.325	926	(926)	-
31 December 2004						
	EURO and linked to EURO	USD	Other currencies	Total foreign currencies	HRK	Total
31 December 2004	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets	913.990	18.380	14.176	946.546	609.486	1.556.032
Liabilities and shareholders' equity	895.286	21.594	12.372	929.252	626.780	1.556.032
Net foreign exchange position	18.704	(3.214)	1.804	17.294	(17.294)	-

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

It is the opinion of the management of the Bank that the fair value of the Bank financial assets and liabilities are not materially different from the amounts stated in the balance sheets as of 31 December 2005 and 31 December 2004.

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

(a) Cash and balances with central bank

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

(b) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are determined by reference to quoted market prices. Fair values of held-to-maturity investments are disclosed in Note 17.

(c) Due from banks

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

(d) Loans and advances to customers

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

(e) Amounts due to banks and customers

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

40. RELATED PARTY TRANSACTIONS

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

As at 31 December 2005 and 31 December 2004, balances outstanding with related parties comprised the following:

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
Brokeri 21 d.o.o. in liquidation	2.824	2.824	2.939	2.667
Požeška banka d.d.	39.214	-	-	-
	42.038	2.824	2.939	2.667

	2005		2004	
	Income	Expenses	Income	Expenses
Brokeri 21 d.o.o. in liquidation	-	26	-	35
Požeška banka d.d.	582	-	-	-
	582	26	-	35

The remuneration of directors and other members of key management were as follows:

	2005	2004
Salaries	6.159	4.331
Bonuses	-	3.480
	6.159	7.811

All of the transactions stated above have been made under arms-length commercial and banking conditions.

Consolidated Financial statements

Responsibilities of the Management Board

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board which give a true and fair view of the state of affairs and results of Podravska banka d.d. Koprivnica (the "Bank") and its subsidiary for that period together (the "Group").

After making enquiries, the Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

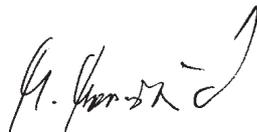
The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group, and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

20 March 2006



Mr. Julio Kuruc
Chairman
of the Management Board



Marijan Marušić
Management
Board Member

Deloitte.

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Independent Auditors' Report

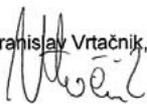
To the shareholders of Podravska banka d.d.:

We have audited consolidated financial statements of Podravska banka d.d. (the "Group") which comprise accompanying consolidated balance sheet as at 31 December 2005, and the related consolidated statement of income, changes in shareholders' equity and cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, the results of its operations, cash flows, and changes in shareholders' equity for the year then ended in accordance with International Financial Reporting Standards.

Deloitte d.o.o.


Branislav Vrtačnik, Certified Auditor

20 March 2006

INCOME STATEMENT

HRK'000	Notes	2005	2004
Interest and similar income	3	116.375	100.075
Interest and similar expense	3	(53.511)	(42.773)
Net interest income		62.864	57.302
Fee and commission income	4	36.558	30.376
Fee and commission expense	4	(12.452)	(12.868)
Net fee and commission income		24.106	17.508
Net foreign exchange gains	5	16.566	14.199
Net trading and valuation gains on financial instruments	6	12.483	4.109
Other operating income	7	1.942	839
Operating income		117.961	93.957
Operating expenses	8	(93.899)	(72.982)
Impairment losses and provisions	10	(3.936)	(5.446)
Profit before taxation		20.126	15.529
Income tax	11	(4.018)	(3.193)
Net profit for the year		16.108	12.336
Minority interest		(39)	-
Net income of the Group		16.069	12.336
Earnings per share - basic		107	82

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

BALANCE SHEET

HRK '000	Notes	31 DECEMBER	
		2005	2004
Assets			
Cash and amounts due from banks	12	185.695	157.075
Obligatory reserve with Croatian National Bank	13	200.987	160.594
Placements with other banks	14	282.731	155.942
Financial assets at fair value through profit or loss	15	29.781	11.277
Available-for-sale financial assets	16	184.993	167.842
Held-to-maturity financial assets	17	49.317	8.094
Loans and advances to customers	18	1.129.721	833.391
Public debt of the Republic of Croatia	19	-	4.697
Investments in subsidiaries	20	2.824	2.939
Tangible assets	21	59.144	36.605
Intangible assets	22	10.271	7.620
Other assets	23	24.826	9.956
Total assets		2.160.290	1.556.032
Liabilities and shareholders' equity			
Deposits from banks	24	96.562	49.811
Amounts due to customers	25	1.669.409	1.183.573
Frozen deposits		-	712
Borrowings	26	168.858	141.593
Provisions for liabilities and charges	27	4.560	1.104
Other liabilities	28	32.138	23.816
Total liabilities		1.971.527	1.400.609
Share capital	29	62.902	62.902
Less: Treasury shares		(616)	(1.059)
Legal reserves		82.224	72.730
Other reserves		9.116	7.604
Fair value reserve		3.006	910
Retained earnings		16.069	12.336
Total shareholders' equity		172.701	155.423
Minority interests		16.062	-
Total liabilities, shareholders' equity and minority interests		2.160.290	1.556.032

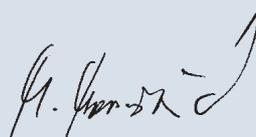
The accompanying notes form an integral part of these consolidated financial statements.

These financial statements were approved by the Management Board on 31 March 2006 and signed by:



Mr. Julio Kuruc

Chairman of the Management Board



Marijan Marušić

Management Board Member

STATEMENT OF CASH FLOWS

HRK '000	Notes	31 DECEMBER	
		2005	2004
Operating activities			
Profit before taxation		20.126	15.529
Adjustment of net result to net cash from operations			
Depreciation and amortization		13.531	12.556
Net income from sale of tangible assets		(616)	(28)
Net book value of fixed assets disposed and corrections		(402)	252
Increase in other assets		(10.053)	(1.348)
Increase in other liabilities		7.499	8.759
Impairment of financial assets		3.947	5.731
Provisions contingencies and commitments		(243)	(218)
Net gains on securities at fair value through profit and loss account		(3.892)	(3.267)
Net gains on securities available for sale		(8.548)	139
Collection of written-off loans		(75)	(57)
Profit before changes on operating assets and liabilities		21.274	38.048
Changes on operating assets and liabilities			
Increase in amounts due from the Croatian National Bank		(6.807)	(20.309)
Increase in loans and other assets originated by the Bank		(97.113)	(4.758)
Decrease of public debt		4.697	9.351
Increase in amounts due to other banks		30.428	38.244
Decrease of frozen savings		(712)	(1.471)
Increase due to customers		215.982	181.246
Income tax paid		(5.492)	(1.009)
NET INCREASE OF CASH FROM OPERATING ACTIVITIES		162.257	239.342
Investing activities			
(Increase)/decrease in financial assets at fair value through profit or loss		(14.612)	30.523
Decrease/(increase) in available-for-sale financial instruments		15.992	(159.734)
Increase in held-to-maturity financial assets		(32.612)	(8.094)
Purchase of subsidiaries decreased for cash received in acquisition		58.985	-
Purchases of tangible and intangible fixed assets		(9.119)	(10.116)
Receipts from sale of tangible fixed assets		616	28
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES		19.250	(147.393)
Financing activities			
Decrease in borrowings		(5.075)	(8.163)
Increase in treasury shares		(607)	(884)
Dividends paid		(268)	(266)
NET CASH (DECREASE)/INCREASE FROM FINANCING ACTIVITIES		(5.950)	(9.313)
NET INCREASE IN CASH AND CASH EQUIVALENTS		175.557	82.636
Cash and cash equivalents at beginning of year		313.017	230.381
CASH AND CASH EQUIVALENTS AT END OF YEAR	31	488.574	313.017

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Treasury shares	Legal reserves	Other reserves	Retained earning	Proposed dividend	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
At 31 December 2003	62.902	(175)	61.237	7.497	11.773	-	143.234
Effect of changes in accounting policy (Note 2)	-	-	-	(8)	8	-	-
Restated balance at 1 January 2004	62.902	(175)	61.237	7.489	11.781	-	143.234
Changes in equity during 2004							
Assets available for sale							
Transferred to profit or loss on sale	-	-	-	8	-	-	8
Change in fair value reserves	-	-	-	910	-	-	910
Profit for the year	-	-	-	-	12.336	-	12.336
Total recognized income and expense for the period	-	-	-	910	12.336	-	13.246
Purchase of treasury shares	-	(1.196)	-	-	-	-	(1.196)
Sale of treasury shares	-	312	-	99	-	-	411
Distribution of income for 2003	-	-	11.493	8	(11.781)	280	0
Dividends	-	-	-	-	-	(280)	(280)
At 31 December 2004	62.902	(1.059)	72.730	8.514	12.336	-	155.423
Changes in equity for 2005							
Assets available for sale							
Transferred to profit or loss on sale	-	-	-	(910)	-	-	(910)
Change in fair value reserves	-	-	-	3.006	-	-	3.006
Profit for the year	-	-	-	-	16.069	-	16.069
Total recognized income and expense for the period	-	-	-	3.006	16.069	-	19.075
Purchase of treasury shares	-	(607)	-	-	-	-	(607)
Distribution of income for 2004	-	1.050	9.494	1.512	(12.336)	280	-
Dividends	-	-	-	-	-	(280)	(280)
At 31 December 2005	62.902	(616)	82.224	12.122	16.069	-	172.701

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

1. General



Notes

History and incorporation Podravska bank, Koprivnica (the "Bank") is incorporated in the Republic of Croatia and was registered as a joint stock company at the Commercial Court in Bjelovar on 12 July 1995. The registered seat of the Bank is in Koprivnica, Opatička 3.

Principal activity of the Bank and subsidiary As at 31 December 2005, the Group was operating a total of 40 office branches throughout the Republic of Croatia.

The Group's main areas of operation include:

- providing current and term deposit accounts;
- granting short-term and long-term loans and guarantees to the State Treasury, local municipalities, corporate customers, private individuals and other credit institutions dealing with finance lease and foreign exchange transactions;
- treasury operations in the interbank market;
- trust management and investment banking services;
- performing local and international payments;
- providing banking services through an extensive branch network in the Republic of Croatia.

Definition of the consolidated group The Group is a parent company of the banking group (the "Group") which includes the following subsidiary consolidated in the financial statements:

Company name	The Bank ownership interest	Principal activity	Audited by	Registered office
Požeška bank	50,34%	Banking	Revicon Zagreb	Republike Hrvatske 1/b, Požega

The Group considers that it operates in a single business segment, and a single geographical segment, that is the provision of banking services in the Republic of Croatia.

2. Summary of significant accounting policies

a) Basis of presentation These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board, under the historical cost convention, as modified by the revaluation of appropriate financial assets and liabilities.

These financial statements are presented in thousands of Local Currency - Croatian Kuna ("HRK"), unless otherwise indicated.

These financial statements are prepared on an accrual basis of accounting, under the going concern assumption.

The Group maintains its books of accounts and prepares financial statements for regulatory purposes in accordance with the regulations of the Croatian National Bank ("CNB"). The accompanying consolidated financial statements are based on the accounting records of the Group, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

b) Basis of consolidation These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

c) Goodwill Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. The amount of goodwill recognized in these financial statements amounts to HRK 2.941 thousand. (See Note 22 - Immaterial assets).

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within intangible assets and is assessed for impairment annually. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

d) Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

Financial instruments: Recognition and Measurement IAS 39 (Revised).

The impact of these changes in accounting policies is discussed in detail later in this note. The impact on basic and diluted earnings per share is disclosed in note 30.

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC 3 Emission Rights
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Management of the Group anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

IAS 39 (Revised) Financial instruments: Measurement and Recognition In accordance with the changes of IAS 39 (Revised) Financial Instruments: Recognition and Measurement the designation of financial assets and liabilities of the Group was changed. The securities which were presented in portfolio "Loans originated by the Group" prior to the adoption of the revised standard were reclassified to portfolio "Securities at fair value through profit or loss" or "Held-to-maturity financial instruments".

Recognition of gains and losses on available-for-sale assets The gains and losses on "Available for sale assets" prior to the adoption of the revised standard were recognized in income statement. Under the revised standards the gains and losses on available for sale assets are recognized in equity in other reserve. The Group recognizes all cumulative changes in fair value of "Available for sale assets" in equity until subsequent derecognizing or impairment, when the entity shall transfer that cumulative gain or loss to profit or loss.

This change in accounting policy has been applied retrospectively. The adjustment required at 1 January 2004, therefore, is an increase in other reserves in equity of HRK 8 thousand and (transferred in respect of net profit for the year 2003). The change in accounting policy has reduced the profit for the year 2004 by HRK 918 thousand (HRK 8 thousand of realized losses taken from equity to the income statement and HRK 910 thousand of unrealized gains taken from the income statement to equity) and increased the profit for the year 2005 by HRK 910 thousand of realized gains transferred from equity, with unrealized gains and losses on securities being recognized in other reserves in equity.

Critical accounting judgments and key sources of estimation uncertainty The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of the balance sheet date and actual results could differ.

Set out below are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have the potential of causing a material adjustments to the carrying amounts of assets and liabilities in the future:

- The Group monitors regularly the recoverable amount of its loans and receivables, as well as the collection time, which serves as the basis for estimating future cash flows. As the assumed amounts and time of collection are subject to assumptions

regarding the elements beyond the Group's control (duration of litigation, selling price of collateral, future performance of its customers..), actual losses may differ significantly from estimates.

- The Group is involved in various legal actions, the outcome of which is uncertain. Based on consultation with legal counsel Management estimates that no losses will be incurred in regard of those legal actions. It should be noted that, despite that estimation, there is possibility of costs in the future.

e) Interest income and expense Interest income is recognized on accrual basis, by reference to the principal outstanding and at the effective interest rate applicable. Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments. Penalty interest is accounted for when received.

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

f) Fee and commission income and expense Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for credit instruments issued by the Bank except loan origination fee.

Fees for payment transactions are recognized in the period when services are rendered.

Loan origination fees, after approval and drawdown of loans, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan over its life.

g) Taxation Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date

and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group has the ability and intention to settle on a net basis.

The Group is subject to various indirect taxes which are included in administrative expenses.

h) Cash and cash equivalents For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Croatian National Bank ("CNB") and current accounts with other banks, and treasury bills.

Cash and cash equivalents excludes the compulsory minimum reserve with the CNB as these funds are not available for the Group's day to day operations. The compulsory minimum reserve with the CNB is a required reserve to be held by all commercial banks licensed in Croatia.

i) Financial assets and liabilities Financial assets held by the Group are categorized into portfolios in accordance with the Group's intent on the acquisition and pursuant to the Group's investment strategy. Financial assets and liabilities are classified as "At fair value through profit and loss", "Held to maturity", "Assets available for sale" or as "Loans and receivables". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements.

All financial assets and liabilities are recognized and derecognized on a trade date basis, where the purchase or sale of financial asset or liability is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

When a financial asset or financial liability is recognized initially, the Group measures it at its cost increased for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Assets at fair value through profit or loss

Classified as held for trading

Assets held for trading are financial assets (equity and debt securities, treasury bills, participation certificates) acquired or incurred principally for the purpose of selling or repurchasing it in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivative financial instruments (except for derivatives that are a designated and effective hedging instrument) are classified as held for trading.

Upon initial recognition are designated by the Group as instruments at fair value through profit or loss. In accordance with the Group's investment policy any financial asset within the scope of IAS 39 can be classified as designated at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Measurement:

Subsequent to initial recognition, financial assets at fair value through profit or loss are accounted for and stated at fair value which approximates the price quoted on recognized stock exchanges or acceptable valuation models. The Group includes unrealized gains and losses in "Net profit/(loss) on financial operations". Interest earned on assets at fair value through profit or loss is accrued on a daily basis based on effective interest method and reported as "Interest income" in the profit and loss statement.

Dividends on trading securities are recorded when declared and included as a receivable in the balance sheet line "Other assets" and in "Net profit/(loss) on financial operations" in the profit and loss statement.

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

Assets Available-for-sale Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

This portfolio comprises equity and debt securities. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect specific circumstances of the issuer.

For available-for-sale assets, unrealized gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Interest earned whilst holding available-for-sale securities is accrued on a daily basis and reported as "Interest income" in the income statement.

Dividends on securities available for sale are recorded as declared and included as a receivable in the balance sheet line "Other assets" and in "Net profit/(loss) on financial operations" in the profit and loss statement. Upon payment of the dividend, the receivable is offset against the collected cash.

Loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loan and receivables are initially recognized at cost, and are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers. Loan origination fees are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan.

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Specific allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Objective evidence of impairment for financial assets assessed collectively for impairment are adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments) or national or local economic conditions that correlate with defaults on the assets in the group.

When a loan is uncollectible, it is written off against the related allowance for impairment; subsequent recoveries are credited to the "Impairment losses on loans and advances" line in the income statement.

The Group charges penalty interest to borrowers when a portion of the loan falls overdue. Penalty interest is accounted for on a cash received basis in the caption "Interest income".

j) Retirement benefit costs The Group has no defined post-retirement benefit plans for its employees or management. The Group makes contributions on behalf of its employees to mandatory state pension plans, which are charged as expense in the period to which they relate. Any future payments to employees are the responsibility of the Republic of Croatia.

k) Sale and repurchase agreements If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognized because the Group retains substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements ("repos") are recorded as assets in the balance sheet lines of assets in original classification or the Group reclassifies the asset on its balance sheet, as a "Repurchase receivable" if the transferee obtains the right to sell or pledge the asset.

The counterparty liability is included in "Amounts due to banks" or "Amounts due to customers" as appropriate.

Securities purchased under agreements to purchase and resell ("reverse repos") are recorded as assets in the balance sheet line "Due from banks" or "Loans and receivables" as appropriate, with the corresponding decrease in cash being included in "Cash and balances with the central bank." The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

l) Tangible and intangible assets Property and equipment are started at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Small equipment with value less than HRK 1,000 is expensed when put into use. Significant improvements and replacement of assets are capitalized. Gains or losses on the write-offs or disposal of property and equipment are included in the statement of income in the period in which they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets, which are as follows:

	2005	2004
Buildings	10 - 40 years	10 - 40 years
Furniture and fixture	4 - 5 years	4 - 5 years
Motor vehicles	5 years	5 years
Intangible assets	5 years	5 years

m) Foreign currency translation Transactions in currencies other than Croatian Kuna are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the balance sheet date. Profits and losses arising on translation are included in the statement of income for the period.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the statement of income for the period.

The Group has assets and liabilities originated in HRK, which are linked to foreign currency with one-way currency clause. Due to this clause the Group has an option to revalue the asset by higher of: foreign exchange rate valid as of the date of maturity, or foreign exchange rate valid as of the date of origination of the financial instrument. In case of liability linked to this clause the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia the fair value of this option can not be calculated as the forward rates for HRK for periods over 6 months are not available. As such the Group values its assets and liabilities related to this clause by middle rate of Croatian National Bank valid at the date of balance sheet or foreign exchange rate agreed by the option (rate valid at origination) if higher.

The principal rates of exchange set forth by the Croatian National Bank and used in the preparation of the Group's balance sheet at the reporting dates were as follows:

31 December 2005	1 EUR = 7,38 HRK	1 USD = 6,23 HRK
31 December 2004	1 EUR = 7,67 HRK	1 USD = 5,64 HRK

n) Off-Balance-Sheet Commitments In the ordinary course of business, the Group enters into credit related commitments which are recorded in off-balance-sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Such financial commitments are recorded in the Group's balance sheet if and when they become payable.

o) Provisions Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Management Board estimates the provisions based at the best estimate of expenditure to settle the Group's obligation. Provisions are discounted to present value where the effect is material.

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

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

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

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

r) Reclassification Certain amounts in the previous year financial statements have been reclassified to conform to the current year presentation.

s) Regulatory requirements The Group is subject to the regulatory requirements of the Croatian National Group. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and forming allowances to cover credit risk, liquidity, interest rate and foreign currency position. At year end the Group was substantially in compliance with all regulatory requirements.

3. INTEREST AND SIMILAR INCOME AND EXPENSE

HRK'000	2005	2004
a) Interest and similar income		
Analysis by source		
Individuals	73.524	64.486
Companies	28.999	24.848
State and public sector	7.723	4.164
Domestic banks	3.915	4.579
Foreign banks	2.214	1.998
Total	116.375	100.075
Analysis by product		
Debt securities	11.450	8.031
Treasury bills	-	85
Obligatory reserve with Croatian National Bank	2.001	2.316
Placements with other banks	3.833	3.505
Public debt due from the Republic of Croatia	-	331
Loans and advances to customers	99.091	85.807
Total	116.375	100.075
b) Interest and similar expense		
Analysis by source		
Individuals	32.049	25.540
Companies	10.593	8.614
State and public sector	4.446	3.017
Domestic banks	3.072	1.990
Foreign banks	1.413	1.689
Other foreign entities	1.938	1.923
Total	53.511	42.773
Analysis by product		
Deposits from banks	849	515
Deposits from companies	10.593	8.527
Deposits from public sector	4.446	3.016
Deposits from individuals	32.049	25.540
Deposits from other foreign entities	1.938	1.923
Borrowings	3.636	3.252
Total	53.511	42.773

4. FEE AND COMMISSION INCOME AND EXPENSE

HRK '000	2005	2004
a) Fee and commission income		
Analysis by source		
Individuals	21.350	15.945
Companies	12.992	11.340
Domestic banks	1.678	2.181
State and public sector	398	358
Foreign legal entities	140	552
Total	36.558	30.376
b) Fee and commission expenses		
Analysis by source		
Companies	10.603	11.124
Domestic banks	1.611	1.609
Foreign banks	238	135
Total	12.452	12.868

5. NET FOREIGN EXCHANGE GAINS

HRK '000	2005	2004
Net foreign exchange gain on trading	9.943	12.282
Net gains/(losses) from translation of monetary assets and liabilities	6.623	1.917
Total	16.566	14.199

6. NET TRADING AND VALUATION GAINS ON FINANCIAL INSTRUMENT

HRK '000	2005	2004
Net gains on securities at fair value through profit or loss	3.892	3.267
Net gains on securities available for sale	8.548	771
Dividend income	43	71
Total	12.483	4.109

7. OTHER OPERATING INCOME

HRK'000	2005	2004
Gains on sale of tangible assets	1.057	28
Rental income	209	130
Other income	676	681
Total	1.942	839

8. OPERATING EXPENSES

HRK'000	2005	2004
Staff costs (Note 9)	38.763	28.760
Depreciation	10.643	10.114
Amortization	2.613	2.442
Rental costs	5.514	3.852
Administrative expenses	11.447	8.710
Service expenses	20.729	15.514
Other costs	4.190	3.590
Total	93.899	72.982

9. STAFF COSTS

HRK'000	2005	2004
Net salaries	19.965	15.043
Taxes and local taxes	4.865	3.936
Contributions	11.320	8.008
Provisions for employee benefits	-	1.010
Other staff costs	2.613	763
Total	38.763	28.760

At the end of 2005, the Group had 383 employees (2004: 235 employees).

10. IMPAIRMENT LOSSES AND PROVISIONS

HRK '000	Notes	2005	2004
Loans and advances to customers	15	3.602	5.616
Factoring		541	-
Subsidiaries	17	115	-
Other assets	21	(4)	105
Off-balance sheet items	24	(243)	(218)
		4.011	5.503
Collected receivables previously written off		(75)	(57)
Total		3.936	5.446

11. INCOME TAX EXPENSE

Income tax liability is determined by applying the tax rate of 20% to taxable base, in accordance with Croatian law for parent and subsidiary.

HRK'000	2005	2004
Tax expense is generated as follows		
Current income tax	4.925	3.446
Deferred income tax	(907)	(253)
Income tax expense	4.018	3.193
The movement in the deferred income tax account is provided as follows		
Balance at 1 January	253	-
Deferred tax assets recognized	940	253
Utilization of tax assets from prior periods	(33)	-
Balance at 31 December	1.160	253
Deferred tax assets are attributable to the following temporary differences		
Unrealized gains on available-for-sale assets	23	253
Deferred loan origination fee	915	-
Other	2	-
Net deferred income tax asset (liability)	940	253

The movement in the deferred income tax account is as follows

HRK'000	Gains/losses on available for sale assets	Deferred loan origination fee	Other	Total
Balance at 1 January 2004	-	-	-	-
Charge to income statement	253	-	-	253
Balance at 1 January 2005	253	-	-	253
Charge to income statement	(10)	915	2	907
Balance at 31 December 2005	243	915	2	1.160

HRK'000	2005	2004
The reconciliation of the income tax expense for Podravka banka d.o.o. for the period		
Accounting profit before tax	19.137	16.447
Non-deductible expense, permanent differences	954	792
Taxable income of future period (deferred fees), temporary differences	4.586	-
Non deductible expense, temporary differences	115	168
Non-taxable income, temporary differencee	(168)	(174)
Income tax base	24.624	17.233
Income tax rate	20%	20%
Income tax liability	4.925	3.446

Total available loss carry forwards of HRK 69,540 relate entirely to Požeška bank, of which HRK 50,072 relates to 2005, and HRK 19,468 to 2004. As income tax is not calculated on consolidated basis but for each Group member separately benefits of these tax losses carry forward are not recognized as deferred tax assets in these consolidated financial statements due to uncertain future profits in Požeška bank based on which these tax losses carry forward would be utilized. These tax losses carry forward expire after 5 years (in 2009 and 2010).

12. CASH AND AMOUNTS DUE FROM BANKS

HRK '000	31 DECEMBER	
	2005	2004
Cash in hand	44.648	37.221
Items in course of collection	5.508	4.275
Current accounts with domestic banks	21.574	2.745
Current accounts with foreign banks	63.524	43.235
Current accounts with the Croatian National Bank	45.778	68.320
Other cash reserves	4.663	1.279
Total	185.695	157.075

13. OBLIGATORY RESERVE WITH CROATIAN NATIONAL BANK

HRK '000	31 DECEMBER	
	2005	2004
- In HRK	145.684	118.995
- In foreign currencies	55.303	41.599
Total	200.987	160.594

Obligatory reserves in HRK and in foreign currency are calculated at the rate of 18% (2004: 18%) on HRK and foreign currency deposits, and foreign currency loans.

At 31 December 2005, the Group had the obligation to hold at least 70% (2004: 60%) of such reserves on its account with the Croatian National Group. The portion of the reserve funds denominated in HRK includes 50% of the foreign currency reserve funds. Obligatory deposit funds bear interest at a rate of 0.75% per annum (2004: 1.25%). The foreign-currency reserve is allocated on the foreign-currency accounts with the Croatian National Group to the full extent of deposits of non-residents and legal entities with a specific relationship with the Group (related parties) and at 60% for the remaining portion. Obligatory reserve funds denominated in USD bear interest at a rate of 2.125 % (2004: 1.50%) and those denominated in EUR 1.125% (2004: 1.50%).

The additional mandatory reserve funds in foreign currency were allocated at a rate of 40% (2004: 24%) on the increase of deposits of foreign entities and related parties compared to June 2004. At 31 December 2005 the entire additional obligatory reserve has to be held with the Croatian National Bank with no interest.

14. PLACEMENTS WITH OTHER BANKS

HRK'000	31 DECEMBER	
	2005	2004
Deposits with other banks, due within one year		
- With domestic banks in HRK	32.790	4.776
- With foreign banks in foreign currency	151.839	101.074
Loans to other banks, due within one year		
- To domestic banks in HRK	95.363	50.092
- To foreign banks in foreign currency	6.084	-
Total	286.076	155.942
Impairment allowances	(3.345)	
Total	282.731	155.942
Movements in impairment allowances		
1 January	-	-
Increase due to acquisition	3.345	-
31 December	3.345	-

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

HRK'000	31 DECEMBER	
	2005	2004
Debt securities, investments in open end investment funds	25.074	7.376
Equity securities	4.707	3.901
Total	29.781	11.277
At 31 December 2005 equity securities can be analyzed as follows:		
Equity securities at fair value through profit or loss		
HUP Zagreb d.d.	1.087	-
Podravka d.d. Koprivnica	954	287
Franck d.d. Zagreb	845	-
Pliva d.d. Zagreb	830	-
Končar d.d. Zagreb	715	620
Kraš d.d. Zagreb	276	276
Adris grupa d.d. Rovinj	-	1.050
Ericsson Nikola Tesla d.d. Zagreb	-	296
Other	-	1.372
Total equity securities	4.707	3.901

The Group has no significant influence on the operations of any of the entities in which it has equity investments.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

HRK '000	31 DECEMBER	
	2005	2004
Debt securities	178.257	162.311
Equity securities	7.949	5.531
Total	186.206	167.842
Impairment allowances	(1.213)	-
Total	184.993	167.842

a) Debt securities

At 31 December 2005 debt securities can be analyzed as follows:

Bonds of the Republic of Croatia	120.402	83.746
Bonds of the City of Koprivnica	9.589	9.960
Bonds of the HBOR	-	7.949
Corporate bills of exchange	48.264	60.653
Other securities	2	3
Total	178.257	162.311
Debt securities		
- listed	129.991	101.655
- unlisted	48.266	60.656
Total	178.257	162.311

Bonds of the Republic of Croatia include securities issued by the Ministry of Finance.

b) Equity securities

At 31 December 2005 equity securities can be analyzed as follows

Equity securities available for sale:

Bilokalnik d.d. Koprivnica	5.377	5.377
Oroplet d.d. Pleternica	1.226	-
Spin Valis d.d. Požega	707	-
Tržište novca d.d. Zagreb	273	-
Zagrebačka burza d.d. Zagreb	120	60
Other	246	94
Total	7.949	5.531
Impairment allowances	(1.213)	-
Total	6.736	5.531

The Group does not have significant influence on the operations of any of the entities in which it has equity investments. Most equity securities held by the Group at the year-end include shares acquired as a result of debt-to-equity conversion.

Movements in impairment allowances

1 January	-	-
Increase due to acquisition	1.213	-
31 December	1.213	-

17. HELD-TO-MATURITY FINANCIAL ASSETS

HRK'000	31 DECEMBER	
	2005	2004
Factoring, purchased receivables		
- in HRK	10.594	4.511
- in foreign currency	3.971	3.583
Bills of exchange	32.718	-
Bonds	23.151	-
Total	70.434	8.094
Impairment allowance	(21.117)	-
Total	49.317	8.094
Movements in impairment allowances		
At 1 January	-	-
Increase due to acquisition	20.576	-
Charge for the year	541	-
At 31 December	21.117	-

18. LOANS AND ADVANCES TO CUSTOMERS

HRK'000	31 DECEMBER	
	2005	2004
Loans and advances to customers		
- in HRK	1.185.805	815.932
- in foreign currency	45.592	56.914
Total	1.231.397	872.846
Impairment allowance	(101.676)	(39.455)
Total	1.129.721	833.391
Analysis by lending portfolio		
HRK denominated		
Loans to corporate customers	384.800	188.472
Loans to individuals	801.005	627.460
	1.185.805	815.932
Foreign currency denominated		
Loans to corporate customers	37.061	46.441
Loans to individuals	8.531	10.473
	45.592	56.914
Total gross loans and advances to customers	1.231.397	872.846
Impairment allowance	(101.676)	(39.455)
Total net loans and advances to customers	1.129.721	833.391

18. LOANS AND ADVANCES TO CUSTOMERS

HRK'000	31 DECEMBER	
	2005	2004
Movements in provisions for impairment		
At 1 January	39.455	35.828
Increase due to acquisition	59.262	-
Charged during the year	3.602	5.616
Amounts written off and other adjustments	(643)	(1.989)
At 31 December	101.676	39.455

At 31 December 2005, total non-performing loans and those that did not accrue interest amounted to HRK 197,635 thousand (2004: HRK 60,610 thousand). Unrecognized interest on these loans amounted to HRK 35,784 thousand at 31 December 2005 (2004: HRK 26,689 thousand). Accrued interest outstanding for 2005 in respect of impaired loans amounted to HRK 1,160 thousand (2004: HRK 1,136 thousand) at 31 December 2005.

Concentration of credit risk by industry

The Group has a diversified portfolio within Croatia covering all sectors of the economy. All commercial lending is to companies domiciled in Croatia. At 31 December 2005 the Group had the following gross credit risk concentration by industry:

HRK'000	31 DECEMBER	
	2005	2004
Trade	125.796	73.716
Agriculture	49.304	29.134
Textile and leather industry	26.919	13.699
Food industry	23.109	14.306
Lumber industry	20.325	12.043
Metal industries	32.053	19.039
Paper industry	11.825	3.242
Publishing	4.351	4.394
Other industries	22.378	20.938
Construction	36.255	21.938
Real estate	18.622	9.614
Transportation and communications	15.587	9.409
Health and social care	2.898	1.635
Hotels and restaurants	13.670	892
Other	15.875	914
Individuals	812.430	637.933
Total	1.231.397	872.846

19. PUBLIC DEBT OF THE REPUBLIC OF CROATIA

HRK'000	31 DECEMBER	
	2005	2004
Due within one year	-	4.697
Total	-	4.697

At the end of 2004 last installment had become due and was collected in 2005.

20. INVESTMENTS IN SUBSIDIARIES

At 31 December 2005, the Bank controlled the following subsidiaries:

	Nature of business	Country of incorporation	Direct holding at 31 December 2005
Brokeri 21 d.o.o. in liquidation	Brokerage	Croatia	100,00%
Požeška bank Požega	Banking	Croatia	50,34%

Investment in Brokeri d.d. has not been consolidated as this company is in the process of liquidation and value of this investment can be analyzed as follows:

HRK'000	31 DECEMBER	
	2005	2004
Investments	4.040	4.040
Allowances for Impairment	(1.216)	(1.101)
Total	2.824	2.939

Požeška bank, which had been taken over by Podravska bank from 30 June 2005 for HRK 19,068 thousand, has been consolidated. Fair value of assets and liabilities of Požeška bank was calculated at the date of acquisition and acquisition had following impact on assets and liabilities of the Group:

HRK'000	30 June 2005
Cash balances	34.135
Balances with Croatian National Bank	33.586
Due from other banks	43.917
Loans and advances to customers	182.671
Available for sale assets	22.499
Held - to - maturity assets	8.611
Other assets	4.821
Tangible and intangible assets	26.257
Due to other bank	(16.323)
Due to customers	(269.854)
Other borrowed funds	(32.340)
Other liabilities	(2.245)
Provisions for commitments and contingencies	(3.699)
Minority interests	(15.909)
Net identified assets	16.127
Goodwill at acquisition date (Note 22)	2.941
Paid amount	(19.068)
Acquired cash and cash equivalents	78.053
Net cash and cash equivalents acquired	58.985

21. TANGIBLE ASSETS

HRK'000	Land and buildings	Office equipment and motor vehicles	Computers	Tangible assets under construction	Total
Cost					
At 31 December 2004	38.263	31.025	26.087	2.615	97.990
Increase from acquisition	30.056	5.430	6.107	900	42.493
Additions	-	-	-	9.119	9.119
Disposals and write-offs	(486)	(981)	(2.626)	-	(4.093)
Transfers in use and on intangible assets	2.317	4.927	2.344	(11.734)	(2.147)
At 31 December 2005	70.150	40.401	31.912	900	143.363
Accumulated depreciation					
At 31 December 2004	25.281	19.287	16.817	-	61.385
Increase from acquisition	6.088	4.419	5.338	-	15.845
Charge for the year	897	4.675	5.341	-	10.913
Disposals and write-offs	(455)	(862)	(2.607)	-	(3.924)
At 31 December 2005	31.811	27.519	24.889	-	84.219
Net book value					
At 31 December 2005	38.339	12.882	7.023	900	59.144
At 31 December 2004	12.982	11.738	9.270	2.615	36.605

Property with a net book value of HRK 11.9 million has been pledged as collateral for corporate deposits received in the amount of HRK 25.0 million.

22. INTANGIBLE ASSETS

HRK'000	Software	Leasehold improvements (right)	Goodwill	Total
Cost				
At 31 December 2004	5,880	9,727	-	15,607
Increase from acquisition	1,759	-	2,941	4,700
Transfers from tangible assets	41	2,106	-	2,147
Disposals and write-offs	-	(789)	-	(789)
At 31 December 2005	7,680	11,044	2,941	21,665
Accumulated amortization				
At 31 December 2004	3,809	4,178	-	7,987
Increase from acquisition	1,364	-	-	1,364
Charge for the year	974	1,644	-	2,618
Disposals and write-offs	-	(575)	-	(575)
At 31 December 2005	6,147	5,247	-	11,394
Net book value				
At 31 December 2005	1,533	5,797	2,941	10,271
At 31 December 2004	2,071	5,549	-	7,620

23. OTHER ASSETS

HRK'000	31 DECEMBER	
	2005	2004
Accrued fees and commissions	3.185	2.116
Foreclosed assets	3.980	308
Deferred tax assets	1.160	253
Receivables from credit card operations	8.315	3.034
Receivables from brokerage operation	2.017	-
Other assets	8.932	6.270
Total, gross	27.589	11.981
Impairment allowance	(2.763)	(2.025)
Total, net	24.826	9.956

24. DEPOSITS FROM BANKS

HRK'000	31 DECEMBER	
	2005	2004
Term deposits from banks, due within one year		
- in HRK	3.501	-
- in foreign currency	93.061	49.811
Total	96.562	49.811

25. AMOUNTS DUE TO CUSTOMERS

HRK'000	31 DECEMBER	
	2005	2004
Companies		
Demand deposits		
- in HRK	162.348	102.957
- in foreign currency	35.742	22.115
Subtotal	198.090	125.072
Time deposits		
- in HRK	127.590	138.032
- in HRK, with a currency clause	175.721	79.208
- in foreign currency	23.870	10.527
Subtotal	327.181	227.767
Total companies	525.271	352.839
Individuals		
Demand deposits		
- in HRK	146.578	89.455
- in foreign currency	124.853	110.965
Subtotal	271.431	200.420
Time deposits		
- in HRK	125.949	82.909
- in HRK, with a currency clause	260.607	215.243
- in foreign currency	486.151	332.162
Subtotal	872.707	630.314
Total individuals	1.144.138	830.734
Total deposits	1.669.409	1.183.573

26. BORROWINGS

HRK'000	31 DECEMBER	
	2005	2004
Repo loans from domestic banks, in foreign currency	29.589	46.027
Repo loans from domestic banks, in HRK	38.523	-
Short-term borrowings from domestic banks (money market)	20.007	30.013
CBRD loans	56.064	26.049
Borrowings from foreign banks	24.675	39.504
Total	168.858	141.593

Repo loans from domestic banks and other legal entities relate to loans for which the Group has sold securities with the obligation to repurchase them on a certain future date (see Note 35). The loan received in 2005 pays interest at a rate from 3.3 % up to 4.5 % (2004: 2.7 % - 3.45 %). Short-term borrowings from the money market represent funds obtained from domestic banks for liquidity purposes. Interest rates on those borrowings ranged from 2.5% to 4.0% (2004: 2% - 7%).

The funds from the Croatian Bank for Reconstruction and Development (HBOR) are designated for approving loans to end users - corporate and retail customers - under the SMEs, tourist trade and agriculture incentive programs supported by the HBOR, at an interest rate of 1% to 4% (2004: 1% to 5%).

Foreign bank borrowings comprise loan funds obtained from Adria Bank AG, Austria, LB Interfinanz, Switzerland and Banca Antoniana Padovana, Italy. These borrowings are repayable in installments and the interest rate is Euribor+2% and 1.5% or LIBOR+2%. The borrowings are repayable in 2007.

27. PROVISIONS FOR LIABILITIES AND CHARGES

HRK'000	31 DECEMBER	
	2005	2004
At 1 January	1.104	1.322
Increase due to acquisition	3.699	-
Credited/(charged) to income during the year	(243)	(218)
At 31 December	4.560	1.104

28. OTHER LIABILITIES

HRK'000	31 DECEMBER	
	2005	2004
Accrued fees and commissions	950	1.116
Dividends payable	135	140
Liabilities to employees	4.465	4.580
Other liabilities	26.588	17.980
Total	32.138	23.816

29. SHARE CAPITAL AND RESERVES

a) Share capital

HRK '000	31 December 2005.			31 December 2004.		
	Ordinary shares	Preference shares	Total shares	Ordinary shares	Preference shares	Total shares
Authorized capital fully paid in	58.902	4.000	62.902	58.902	4.000	62.902
Nominal value per share	400 HRK	400 HRK	400 HRK	400 HRK	400 HRK	400 HRK
Number of shares	147.256	10.000	157.256	147.256	10.000	157.256

Preference shares are cumulative, non-voting and entitle to a 7% fixed annual dividend. These shares are owed mostly by domestic individuals. The major shareholders of the Bank at 31 December 2005 were as follows:

	Ordinary shares %	Preference shares %
	2005	2004
Cerere S.R.L. Trieste	9,93	6,93
Antonia Gorgoni	7,95	9,98
Lorenzo Gorgoni	9,97	9,97
Djuro Predovic	9,33	9,33
Miljan Todorovic	8,73	8,73
Andrea Montinari	5,63	5,12
Piero Montinari	5,63	5,12
Sigilfredo Montinari	5,63	5,12
Dario Montinari	5,63	5,12
Giovanni Semeraro	4,39	4,39
Luigi Liaci	5,14	4,91
Giuliano Chersi	3,06	3,06
Other shareholders (less than 3% each)	18,98	22,22
Total	100,00	100,00

b) Reserves and retained earnings

The Group's distributable and non-distributable reserves disclosed in these financial statements are determined by Croatian regulations and decisions of the Croatian National Bank. As of 31 December 2005, the statutory accounts of the Group disclosed non-distributable reserves in the amount of HRK 82,224 thousand (HRK 72,730 thousand as at 31 December 2004).

30. EARNINGS PER ORDINARY SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net income after tax for the period attributable to ordinary shareholders after deducting preference dividends. A reconciliation of the income after tax attributable to ordinary shareholders is provided below.

HRK'000	31 DECEMBER	
	2005	2004
Net income for the year	16.108	12.336
Minority interest	(39)	-
Less preference dividends	(280)	(280)
Profit attributable to ordinary shareholders	15.789	12.056
Average number of ordinary shares	147.256	147.256
Earnings per ordinary share	107	82

Impact of changes in accounting policy

Changes in the Group's accounting policies during the year are described in detail in note 2. To the extent that those changes have had an impact on results reported for 2005 and 2004, they have had an impact on the amounts reported for earnings per share. The following table summarizes that impact on basic earnings per share:

HRK'000	31 DECEMBER	
	2005	2004
Changes in accordance with IAS 39 (Revised)	910	(918)
Impact on earnings per ordinary share	6	(6)

31. MINORITY INTEREST

HRK'000	31 DECEMBER	
	2005	2004
Balance as at 1 January	-	-
Acquisition of subsidiary	15.909	-
Share in the profit for the period	39	-
Share in unrealized profit reported in the equity of the subsidiary	114	-
Balance as at 31 December	16.062	-

32. ANALYSIS OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement for the year ended 31 December 2005 include:

HRK '000	Notes	31 DECEMBER	
		2005	2004
Cash in hand	12	44.648	37.221
Items in course of collection	12	5.508	4.275
Current accounts with domestic banks	12	8.860	2.745
Current accounts with foreign banks	12	76.238	43.235
Current accounts with the Croatian National Bank	12	45.778	68.320
Other cash reserves	12	4.663	1.279
Placements with other banks up to 90 days	14	302.879	155.942
Total		488.574	313.017

33. COMMITMENTS AND CONTINGENCIES

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

HRK '000	31 DECEMBER	
	2005	2004
Guarantees	52.546	39.164
Letters of credit	14.978	10.262
Undrawn lending facilities	111.943	68.636
Total	179.467	118.062

34. COMMITMENTS UNDER OPERATING LEASE ARRANGEMENTS

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

HRK '000	31. PROSINCA	
	2005	2004
Commitments due within one year	5.034	5.033
Commitments due from one to five years	17.051	17.131
Commitments due in more than five years	9.181	11.012
Total	31.266	33.176

35. CONCENTRATION OF ASSETS AND LIABILITIES

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

HRK'000	31 DECEMBER	
	2005	2004
Current accounts with Croatian National Bank	45.778	68.320
Other cash reserves	4.663	1.279
Obligatory reserve with Croatian National Bank	200.987	160.432
Bonds of the Republic of Croatia	142.113	83.745
Public debt of the Republic of Croatia	-	4.584
Other assets	2.414	4.704
Customer deposits	(24.030)	(21.292)
Total	371.925	301.772

In addition, at 31 December 2005 the Group had indirect exposure to the Croatian State in respect of debt securities issued by public funds, loans and off balance sheet exposures as follows:

HRK'000	31 DECEMBER	
	2005	2004
State Agency for Deposit Insurance and Bank Rehabilitation	(856)	(766)
Croatian Bank for Reconstruction and Development	-	7.949
Bonds of the City of Koprivnica	9.589	-
Loans and advances to customers guaranteed by the State	2.530	1.982
Other assets	224	52
Guarantees, letters of credit and undrawn lending facilities	-	827
Time and demand deposits	(85.404)	(52.211)
Borrowings from the Croatian Bank for Reconstruction and Development	(56.067)	(26.049)
Total	(129.984)	(68.216)

36. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

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

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

HRK'000	31 DECEMBER	
	2005	2004
Assets		
Loans to individuals	32.405	23.718
Loans to corporate customers	66.500	29.306
Cash	2.240	2.205
Total assets	101.145	55.229
Liabilities		
Public sector	20.890	19.107
Companies	64.698	28.458
Financial institutions	15.557	7.664
Total liabilities	101.145	55.229

37. MATURITY ANALYSIS

The remaining contractual maturity of the Group's assets and liabilities as at 31 December 2005 is presented in the table below.

31 December 2005	Up to 1 month HRK'000	1-3 months HRK'000	3 months to 1 year HRK'000	Over 1 year HRK'000	Over 3 years HRK'000	Total HRK'000
Assets						
Cash and amounts due from banks	185.695	-	-	-	-	185.695
Obligatory reserve with Croatian National Bank	66.964	60.819	49.773	18.661	4.770	200.987
Placements with other banks	247.487	25.400	8.000	1.844	-	282.731
Financial assets at fair value through profit or loss	29.781	-	-	-	-	29.781
Available-for-sale financial assets	107.013	46.724	-	2	31.254	184.993
Held-to-maturity financial assets	9.998	6.673	10.936	-	21.710	49.317
Loans and advances to customers	133.806	78.985	293.861	329.211	293.858	1.129.721
Investments in subsidiaries	-	-	-	-	2.824	2.824
Tangible assets	-	-	-	-	59.144	59.144
Intangible assets	-	-	-	-	10.271	10.271
Other assets	14.144	4.158	2.840	0	3.684	24.826
Total assets	794.888	222.759	365.410	349.718	427.515	2.160.290
Liabilities and shareholders' equity						
Deposits from banks	85.499	11.063	-	-	-	96.562
Amounts due to customers	613.933	322.182	491.296	183.217	58.781	1.669.409
Borrowings	88.832	1.414	24.657	39.939	14.016	168.858
Provisions for liabilities and charges	1.357	-	3.203	-	-	4.560
Other liabilities	25.747	513	715	2.145	3.018	32.138
Total shareholders' equity	-	-	280	-	172.421	172.701
Minority interests	-	-	-	-	16.062	16.062
Total liabilities and shareholders' equity	815.368	335.172	520.151	225.301	264.298	2.160.290
Net liquidity gap	(20.480)	(112.413)	(154.741)	124.417	163.217	-
31 December 2004						
	Up to 1 month HRK'000	1-3 months HRK'000	3 months to 1 year HRK'000	Over 1 year HRK'000	Over 3 years HRK'000	Total HRK'000
Assets	530.116	179.668	278.246	244.777	323.225	1.556.032
Liabilities and shareholders' equity	525.736	263.848	393.283	160.180	212.985	1.556.032
Net liquidity gap	4.380	(84.180)	(115.037)	84.597	110.240	-

38. INTEREST RATE RISK

The bank is exposed to risk of changes in interest rates on the market which have implications on their financial position and cash flows. The table below shows the evaluation of the Management Board concerning the exposure of the Group on 31 December 2005, which is not necessarily an indicator in the long-term period. The table shows the sensitivity of the Group's profit due to the fluctuation of interest rates. The profit also depends on currency structure and liabilities. The Group has marketable assets which bring yield interest rates and on which interest denominated in foreign currency is paid.

	Up to 1 month HRK'000	1-3 months HRK'000	3 months to 1 year HRK'000	Over 1 year HRK'000	Non-interest bearing HRK'000	Total HRK'000	Fixed rate HRK'000
31 December 2005							
Assets							
Cash and amounts due from banks	39.955	-	-	-	145.740	185.695	33.439
Obligatory reserve with Croatian National Bank	66.843	60.830	49.773	23.431	110	200.987	-
Placements with other banks	261.568	10.645	8.000	1.844	674	282.731	253.361
Financial assets at fair value through profit or loss	-	-	-	-	29.781	29.781	-
Available-for-sale financial asset	108.677	46.724	-	23.584	6.008	184.993	154.131
Held-to-maturity financial assets	5.068	4.228	936	21.710	17.375	49.317	31.942
Loans and advances to customers	1.005.983	2.695	11.946	76.928	32.169	1.129.721	92.585
Investments in subsidiaries	-	-	-	-	2.824	2.824	-
Tangible assets	-	-	-	-	59.144	59.144	-
Intangible assets	-	-	-	-	10.271	10.271	-
Other assets	1.007	-	-	-	23.819	24.826	-
Total assets	1.489.101	125.122	70.655	147.497	327.915	2.160.290	565.458
Liabilities and shareholders' equity							
Deposits from banks	85.385	11.063	-	-	114	96.562	96.448
Amounts due to customers	1.261.823	74.530	236.192	74.210	22.654	1.669.409	446.317
Borrowings	80.346	1.414	32.644	53.954	500	168.858	188.505
Provisions for liabilities and charges	-	-	-	-	4.560	4.560	-
Other liabilities	1.577	-	-	-	30.561	32.138	-
Total shareholders' equity	-	-	-	-	172.701	172.701	-
Minority interests	-	-	-	-	16.062	16.062	-
Total liabilities and shareholders' equity	1.429.131	87.007	268.836	128.164	247.152	2.160.290	731.270
Interest rate sensitivity gap	59.970	38.115	(198.181)	19.333	80.763	(0)	(165.812)
31 December 2004							
Assets							
Assets	1.020.319	111.672	58.573	148.606	216.862	1.556.032	440.852
Liabilities and shareholders' equity	985.530	87.238	199.544	101.471	182.249	1.556.032	538.326
Interest rate sensitivity gap	34.789	24.434	(140.971)	47.135	34.613	-	(97.474)

39. AVERAGE INTEREST RATES

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

	2005	Interest rate	2004	Interest rate
	HRK'000	%	HRK'000	%
Assets				
Cash and amounts due from banks	33.438	1,03%	20.803	2,53%
Obligatory reserve with Croatian National Bank	200.886	0,85%	160.432	1,57%
Placements with other banks	282.204	2,85%	155.941	2,81%
Available-for-sale financial assets	178.984	5,80%	162.310	7,01%
Held-to-maturity financial assets	45.414	8,66%	8.094	9,91%
Loans and advances to customers	1.108.498	9,92%	827.005	10,65%
Public debt of the Republic of Croatia	-	-	4.584	5,00%
Total assets	1.849.424	7,27%	1.339.169	8,06%
Liabilities				
Deposits from banks	96.448	2,02%	49.809	1,99%
Demand deposits from customers	469.522	0,69%	325.492	0,56%
Time deposits from customers	1.175.366	4,49%	856.178	4,42%
Frozen deposits	-	-	712	5,00%
Borrowings	168.505	2,80%	141.593	3,80%
Total liabilities	1.909.841	3,28%	1.373.784	3,35%

40. FOREIGN EXCHANGE POSITION

The Group had the following foreign exchange position as at 31 December 2005:

	EURO and linked to EURO	USD	Other currencies	Total foreign currencies	HRK	Total
31 December 2005	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets						
Cash and amounts due from banks	73.057	19.744	16.883	109.684	76.011	185.695
Obligatory reserve with Croatian National Bank	33.012	8.583	-	41.595	159.392	200.987
Placements with other banks	143.419	3.121	11.396	157.936	124.795	282.731
Financial assets at fair value through profit or loss	10.073	-	-	10.073	19.708	29.781
Available-for-sale financial assets	82.233	-	-	82.233	102.760	184.993
Held-to-maturity financial assets	3.610	-	-	3.610	45.707	49.317
Loans and advances to customers	859.038	1.600	7.011	867.649	262.072	1.129.721
Investments in subsidiaries	-	-	-	-	2.824	2.824
Tangible assets	-	-	-	-	59.144	59.144
Intangible assets	-	-	-	-	10.271	10.271
Other assets	519	12	6	537	24.289	24.826
Total assets	1.204.961	33.060	35.296	1.273.317	886.973	2.160.290
Liabilities and shareholders' equity						
Deposits from banks	93.061	-	-	93.061	3.501	96.562
Amounts due to customers	1.039.945	34.997	31.367	1.106.309	563.100	1.669.409
Borrowings	92.115	-	-	92.115	76.743	168.858
Provisions for liabilities and charges	-	-	-	-	4.560	4.560
Other liabilities	670	43	51	764	31.374	32.138
Total shareholders' equity	-	-	-	-	172.701	172.701
Minority interests	-	-	-	-	16.062	16.062
Total liabilities and shareholders' equity	1.225.791	35.040	31.418	1.292.249	868.041	2.160.290
Net foreign exchange position	(20.830)	(1.980)	3.878	(18.932)	18.932	-
31 December 2004						
	EURO and linked to EURO	USD	Other currencies	Total foreign currencies	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets	913.990	18.380	14.176	946.546	609.486	1.556.032
Liabilities and shareholders' equity	895.286	21.594	12.372	929.252	626.780	1.556.032
Net foreign exchange position	18.704	(3.214)	1.804	17.294	(17.294)	-

41. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. Where available, fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing techniques as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates may not be realizable in a current sale of the financial instrument. It is the opinion of the management of the Group that the fair value of the Group financial assets and liabilities are not materially different from the amounts stated in the balance sheets as at 31 December 2005 and 31 December 2004.

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

(a) Cash and balances with central bank

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

(b) Investments held to maturity

Fair values of securities carried in the "Held to maturity" portfolio are determined by reference to quoted market prices. Fair values of held-to-maturity investments are disclosed in Note 17.

(c) Due from banks

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

(d) Loans and advances to customers

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

(e) Amounts due to banks and customers

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

42. RELATED PARTY TRANSACTIONS

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

As at 31 December 2005 and 31 December 2004, balances outstanding with related parties comprised the following:

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
Brokeri 21 d.o.o. in liquidation	2.824	2.824	2.939	2.667

	2005		2004	
	Income	Expenses	Income	Expenses
Brokeri 21 d.o.o. in liquidation	-	26	-	35

All of the transactions stated above have been made under arms-length commercial and banking conditions.

The remuneration of directors and other members of key management were as follows:

	2005	2004
Salaries	7.015	4.331
Bonuses	-	3.480
	7.015	7.811



Bank organization

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Governance and management



The Bank's operations are controlled by the Supervisory Board and the Management Board. The officers of the Bank serving during the 2005 year, were as follows:

Supervisory Board

Miljan Todorovic, Chairman
Sigilfredo Montinari, Vice Chairman
Dario Montinari, Member
Djuro Predovic, Member
Dolly Predovic, Member
Maurizio Dallochio, Member
Filippo Disertori, Member

Management Board

Mr. Julio Kuruc, Chairman
Marijan Marušić, Member

Management of the Bank

Julio Kuruc
Marijan Marušić

< Organizational
chart of the Bank

Chief Executive Officer

Moreno Marson

Division

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

Departments

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

Commercial centers

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



Legend

- Commercial centers
- Branch offices
- Joint offices with the FINA
- Požeška bank

Commercial center Zagreb

Zagreb, Miramarska cesta 23, tel. 01 6323 800
 Zagreb, Gajeva 5, tel. 01 4811 217
 Zagreb, Vlaška ulica 129, tel. 01 4686 920
 Lučko, Puškarićeva 15, tel. 01 6531 830
 Dugo Selo, J. Zorića 23, tel. 01 2754 210

Commercial center Split

Split, Obala Ante Trumbića 2, tel. 021 345 366
 Kaštel Sućurac /TC Mercatone, Brižine bb, tel. 021 246 670

Commercial center Rijeka

Rijeka, Ivana Zajca 18, tel. 051 324 570
 Crikvenica, Vinodolska 6, tel. 051 242 322

Commercial center Zadar

Zadar, S. Radića 2f, tel. 023 306 001

Commercial center Bjelovar

Bjelovar, Trg Eugena Kvaternika 12, tel. 043 220 840
 Grubišno Polje, 77. samostalnog bataljuna ZNG 1, tel. 043 485 120
 Veliki Grđevac, Kralja Tomislava 26, tel. 043 461 032
 Osijek, Kapucinska 36, tel. 031 252 020
 Đurđevac, Stjepana Radića 16, tel. 048 289 080
 Garešnica, Trg hrvatskih branitelja 7, tel. 043 445 123
 Križevci, I. Z. Dijankovečkog 2, tel. 048 279 270
 FINA Virovitica, Kralja Tomislava 3, tel. 033 726 133

Commercial center Varaždin

Varaždin, Trg Slobode 2, tel. 042 215 280
 Ludbreg, Petra Zrinskog 32, tel. 042 811 500

Commercial center Koprivnica

Koprivnica, Opatička 3, tel. 048 6550
 Koprivnica, Trg bana Jelačića 10, tel. 048 622 731
 Koprivnica, Trg Eugena Kumičića 11, tel. 048 240 400
 Koprivnica, Ivana Meštrovića bb, tel. 048 655 133
 Koprivnica, Ante Starčevića 32, tel. 048 621 074
 Gola, Trg kardinala A. Stepinca 6b, tel. 048 833 013
 Đelekovec, P. Kvakana bb, tel. 048 834 009
 Novigrad Podravski, Trg M. Gupca bb, tel. 048 832 030
 Legrad, Trg Svetog Trojstva bb, tel. 048 835 151
 Molve, Kralja Tomislava 32, tel. 048 892 300

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