PODRAVSKA BANKA

Annual report

2006

general data

PODRAVSKA BANKA d.d.

head office
48000 Koprivnica,
Opatička 3

tel
00385 48 65 50

fax
00385 48 622 542

call center
00385 062 20 20 20

e-mail
info@poba.hr

Annual Report 2006

Letter from the President of Supervisory Board and letter from the Chairman of the Board

Letter from the President of Supervisory Board

I have the pleasure of informing you, on behalf of the Supervisory Board and myself, that in a string of good business years, the year 2006 was one of the most important and most successful.

In 2006, the bank's operations were carried out in an environment where the Croatian economy grew steadily. Annual GDP growth rate was 4.8, there was an increase in interest of foreign investors and foreign capital inflow, whereas negotiations concerning accession to the EU and screening process continued in their due course. In conditions of restrictive monetary policy and fierce competition in banking market, the bank's net profit increased by 15.8%, assets increased by 41%, and the number of clients by nearly 50%.

Investments made over the past five years in the network of offices, professional staff, information support, and the development of various financial services, resulted in healthy organic growth of the Bank. Steady growth of the Bank was additionally boosted by Požeška Bank, which was merged with in early July 2006. That first acquisition marks the beginning of the Bank's speedier growth, to be continued by further network expansion and new acquisitions. The Bank directed its expansion toward Požega and Slavonija, opening at the same time two major commercial centres in Sisak and Pula. Further growth and development, as well as greater stability resulted from the Bank's capital stock increase. The shareholders participating in the General Assembly held in August 2006 passed the resolution to perform financial restructuring by own means - transforming the Bank's reserves and issuing new share emission. The same resolution provided for transformation of all preferred shares into ordinary shares. The potential of Podravska Bank was recognized by one of the world leading insurance companies - Generali Insurance, which became a part of the Bank's ownership structure. Pursuant to statutory obligations, in 2006, the Supervisory Board carried out permanent control of all Bank's operations, which was in accordance with statutory regulations, by-laws, and resolutions of the General Assembly. The management and the staff showed a high level of professionalism and dedicated work, enabling the Bank's plan to be realized in virtually all segments, and justifying our trust. I am also convinced that the staff and the management are ready for new challenges the following year has in store for them. On behalf of the Supervisory Board of Podravska Bank, I wish to thank all clients and shareholders for the trust they show in us, to all employees and management of the Bank for good business results achieved, and to the National Bank of Croatia for their co-operation and advice.

Finally, special thanks to members of the Supervisory Board for their active support and contribution to the development of the Bank.

Miljan Todorovic

President of Supervisory Board

Letter from the Chairman of the Board

Year 2006 is yet another successful year for Podravska Bank. It has a special meaning because it is the 135th anniversary of the Bank's existence.
Given highly dynamic financial markets and tough competition, the results achieved in 2006 stand out even more.
So do the assets of the bank, which grew to kuna 2.5 billion, accounting for an increase of nearly 41% compared to the previous year.
Net profit amounts to kuna 18.6 million, having grown by 15.8% compared to the previous year, whereas total operational income rose by 11.1%, to kuna 122 million in the same period. Remuneration receipts increased by 37.1% compared to the previous year. The client base grew by nearly 50% compared to the previous year, and totals more than 140.000 clients.
A meaningful credit offer and responsiveness in client approach, combined with conservative approach to risk management, resulted in a 35.2% growth in the quality credit portfolio, whereas client trust resulted in 48.6% deposit increase compared to 2005.
Apart from good financial results presented in 2006, some important projects were realized: a company for fund management was established, one of the world leading insurance companies - Generali Insurance joined the ownership structure, and the Bank remained the exclusive partner of ICBPI from Milan for payment of Italian pensions in Croatia.
However, the most important project was certainly the merger of Požeška Bank in July 2005, which enabled POBA to boost its market position in Požega and Slavonija County.
The Bank proved its social responsibility through numerous sponsorships and donations to various programs and segments of general interest, such as health, culture, sport and various humanitarian projects.
Dear clients and business partners, we are aware of the motivation your trust and co-operation give us; however, they also oblige us to continuous improve, aiming for even more successful new operations, ideas and projects. We are faced with a period of increasingly tougher competition, which demands rationalization, efficiency, and wisdom.
In conclusion, I wish to thank all members of the Supervisory Board for their suggestions and ideas for improvement of the business. Furthermore, I wish to thank all employees whose effort helped us to meet the set objectives.

Julio Kuruc
Chairman of the Board

BALANCE SHEET

HRK'000	2006	2005	2004	CHANGES 2006/05	CHANGES 2005/04
Assets					
Cash and accounts with banks	173.406	157.334	157.075	10,2%	0,2%
Statutory reserves with the National Bank of Croatia	221.300	166.555	160.594	32,9%	3,7%
Credits with other banks	536.826	253.970	155.942	114,4%	62,9%
Securities	219.094	199.412	187.213	9,9%	6,5%
Credits to clients	1.276.426	944.074	833.391	35,2%	13,3%
Public debt of the Republic of Croatia	0	0	4.697	0%	-100,0%
Investment in branches	0	21.892	2.939	-100,0%	644,9%
Tangible and intangible assets	84.179	39.300	44.225	114,2%	-11,1%
Other assets	30.049	19.742	9.956	52,2%	98,3%
Total assets	**2.541.280**	**1.802.279**	**1.556.032**	**41,0%**	**15,8%**
Liabilities					
Deposits from banks	61.189	89.175	49.811	68,6%	79,0%
Deposits from clients	2.045.611	1.376.810	1.183.573	48,6%	16,3%
Old foreign currency savings	0	0	712	0%	-100,0%
Loans taken	151.951	133.816	141.593	13,5%	-5,5%
Reservations for liabilities and costs	4.794	1.357	1.104	253,3%	22,9%
Other liabilities	50.174	28.576	23.816	75,6%	20,0%
Stock capital and reserves	227.561	172.545	155.423	31,9%	11,0%
Total liabilities	**2.541.280**	**1.802.279**	**1.556.032**	**41,0%**	**15,8%**

PROFIT AND LOSS ACCOUNT

HRK'000	2006	2005	2004	CHANGES 2006/05	2005/04
Net return interest	69.780	58.711	57.302	18,6%	2,5%
Net remuneration receipts	29.923	21.822	17.508	37,1%	24,6%
Net exchange rate differentials receipts	14.011	15.349	14.199	-8,7%	8,1%
Net purchase and sale profit and profit from consolidating financial instruments at fair value	4.673	12.697	4.109	-63,2%	209,0%
Other regular operations income	3.733	1.334	839	179,8%	59,0%
Operational income	**122.120**	**109.913**	**93.957**	11,1%	17,0%
Operating costs	(99.552)	(83.103)	(72.982)	19,8%	13,9%
Costs of decreased value and reservations	(4.364)	(6.763)	(5.446)	35,5%	24,2%
Profit before tax	**18.204**	**20.047**	**15.529**	-9,2%	29,1%
Profit tax	*361*	*(4.018)*	*(3.193)*	-	*25,8%*
Annual net profit	**18.565**	**16.029**	**12.336**	**15,8%**	**29,9%**

POTENTIAL AND ASSUMED LIABILITIES

HRK'000	2006	2005	2004	CHANGES 2006/05	2005/04
Guarantees and letters of credit	84.297	47.799	49.426	76,4%	-3,3%
Unused credits	134.644	84.341	68.636	59,6%	22,9%
Total	**218.941**	**132.140**	**118.062**	**65,7%**	**11,9%**

OTHER INFORMATION

HRK'000	2006	2005	2004	CHANGES 2006/05	CHANGES 2005/04
Number of employees	346	252	235	37,3%	7,2%
Number of branches	37	33	29	4	4
Capital adequacy	**10,60%**	**13,16%**	**12,78%**	**-2,56***	**0,4***

*percentage point

OTHER INDICATORS

HRK'000	2006	2005	2004	CHANGES 2006/05	CHANGES 2005/04
Stock capital / total assets	9,0%	9,6%	10,0%	-0,6**	-0,4**
Stock capital / total deposits	10,8%	11,8%	12,6%	-1,0**	-0,8**
Loans to clients / deposits by clients	62,4%	68,6%	70,4%	-6,2**	-1,8**
Profitability indicators					
Return on capital	10,8%*	13,1%	11,2%	-2,3**	1,9**
Return on assets	0,7%	1,1%	1,0%	-0,4**	0,1**
Productivity indicators					
Total assets / number of employees	7.345	7.152	6.621	2,7%	8,0%
Total deposits / number of employees	6.089	5.817	5.248	4,7%	10,8%
Total credits / number of employees	5.874	5.545	5.007	5,9%	10,7%
Regular operations income / number of employees	353	436	400	-19,0%	9,05
Gross regular operational result / number of employees	104	157	143	-33,8%	9,8%
Workforce costs / regular operations income	34,9%	28,5%	30,6%	6,4**	-2,1 **
Number of employees / number of offices	9	8	8	1	0

**return on capital without fifth emission of shares

Review of Croatian economy in 2006

Review of Croatian economy in 2006

Overall annual economic growth in 2006 amounted to 4.8%, which represents slightly faster economic growth compared to the previous two years.

In 2006, capital investment grew sharply (by 10.9%). Personal spending showed a real increase of 3.5%, whereas the previous year the increase was 3.4%. Government expenditure presented a real rise of 2.2%.

In 2006, total commodity exports grew more sharply than commodity imports; compared to growth in 2005, import and export growth is faster. In 2006, the total value of Croatian commodity exports amounted to kuna 60.4 billion, having increased by 15.6% compared to 2005. The value of commodity imports amounted to kuna 125.2 billion, having risen by 13.3% compared to 2005. In 2006, the foreign trade deficit amounted to kuna 64.7 billion, having increased by 11.2% annually. Coverage of import by export was 48.3% in 2006, amounting to 1.0 percentage point more compared to 2005.

In 2006, the growth of industrial production slowed down, amounting to 4.5% annually, whereas the previous year it amounted to 5.1%.

Registered unemployment rate amounted to 17% at the end of 2006. Average number of employed population amounted to 1.4 million in 2006, accounting for an increase of 25,000 work places compared to the previous year.

Restrictive monetary policy continued, providing for an increase of marginal statutory reserves to 55%, and introduction of 55% special statutory reserve for liabilities arising from issued securities, maintaining at the same time the measure of minimal 32% foreign currency receivables, whereas the rate of statutory reserve decreased from 18% to 17%.

At the end of the year, due to negative development in the balance of payments and growth of foreign debt and credit volume, the National Bank of Croatia announced the measure aimed at limiting credit growth, which has been in force since early 2007, and according to which the banks with annual credit growth of over 12% are obliged to register statutory treasury bonds with the National Bank of Croatia.

In 2006, annual inflation amounted to 2%, measured by the consumer price index, which is an increase of around 3.2% compared to the previous year. The growth of the rate of inflation largely resulted from higher costs of energy, water, gas, etc, which rose by 7.8% annually. The cost of food, accounting for one third of the consumer basket, rose by 2.1% in 2006.

At the end of 2006, the total credit volume of commercial banks amounted to kuna 190.1 billion, which is an increase of 22.7% compared to the previous year. The general public accounted for the major part of credit volume (kuna 95.7 billion, or 50.3%), followed by companies (kuna 78 billion, or 41.2%), and central government and local self-government (7.7%).

Concerning the type of loans, housing loans grew most sharply, by almost 34% compared to the previous year; they also account for 38.6% of total population credit volume.

At the end of 2006, total bank deposits (general public and companies) amounted to kuna 167 billion, or 18.1% more than previous year. Deposits from the general public amounted to kuna 112.6 billion and grew by 13.4% annually, whereas company deposits amounted to kuna 43.2 billion and grew by 26.1%.

In the structure of total deposits from the general public, time foreign currency deposits account form the largest share (50%), whereas the share of time kuna deposits grew from 13.3% previous year to 18.4% in 2006.

In 2006, the exchange rate of kuna to euro increased by 1%, and to American dollar by 1.9%. At the end of the year, the rate of kuna to euro was 7.35, whereas in the previous year it was 7.38 kuna to one euro. The rate of kuna to dollar was 5.58, whereas at the end of 2005, it was 6.23. Strengthening of kuna to dollar resulted from strengthening of euro to dollar in world foreign exchange markets.

As to capital markets, trade volume and value of both share indices grew (the value of Crobex index rose by 60.7%, and the value of VIN index was by 48.7% higher at the end of 2006 than in the previous year). Total trade of the Zagreb stock exchange amounted to kuna 45.3 billion (32.5% growth compared to the previous year), and total trade of Varaždin stock exchange amounted to kuna 3.7 billion (66.3% rise compared to the previous year).

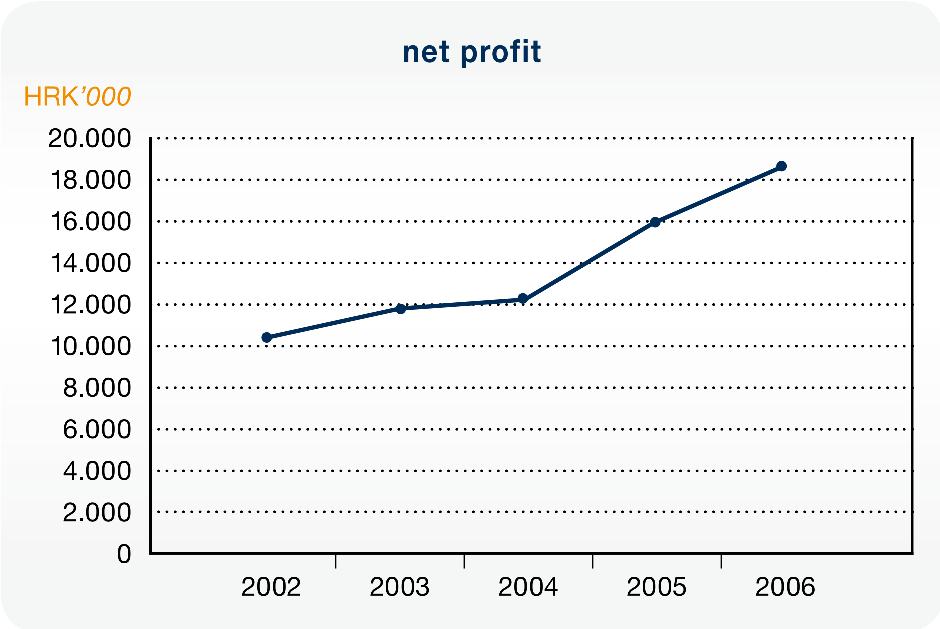
At the end of the year, the merger of Varaždin and Zagreb stock exchanges was initiated; therefore, since March 2007, overall security trade has taken place in the only stock exchange - in Zagreb.

macroeconomic indicators in 2006

Indicator	Value
Gross domestic product, growth rate, % changes related to the previous year	4,8
Industrial production, growth rate, % changes related to the previous year	4,5
Consumer prices, % changes related to the previous year	3,2
Production prices, % changes related to the previous year	2,9
Retail trade, real, % changes related to the previous year	2,1
Building industry, % changes related to the previous year	9,3
Tourist room/nights, % changes related to the previous year	3,1
Commodity exports, USD million	10.376
Commodity imports, USD million	21.488
Balance-of-payments current account EUR million	-2.617
Average net pay in kunas	4.602
Unemployment rate, %	17,0
Number of unemployed, Croatian Employment Office	293.153
kuna/USD exchange rate, average	5,84
kuna/EUR exchange rate, average	7,32
Foreign debt, EUR billion	28,9

Description of Bank's operations

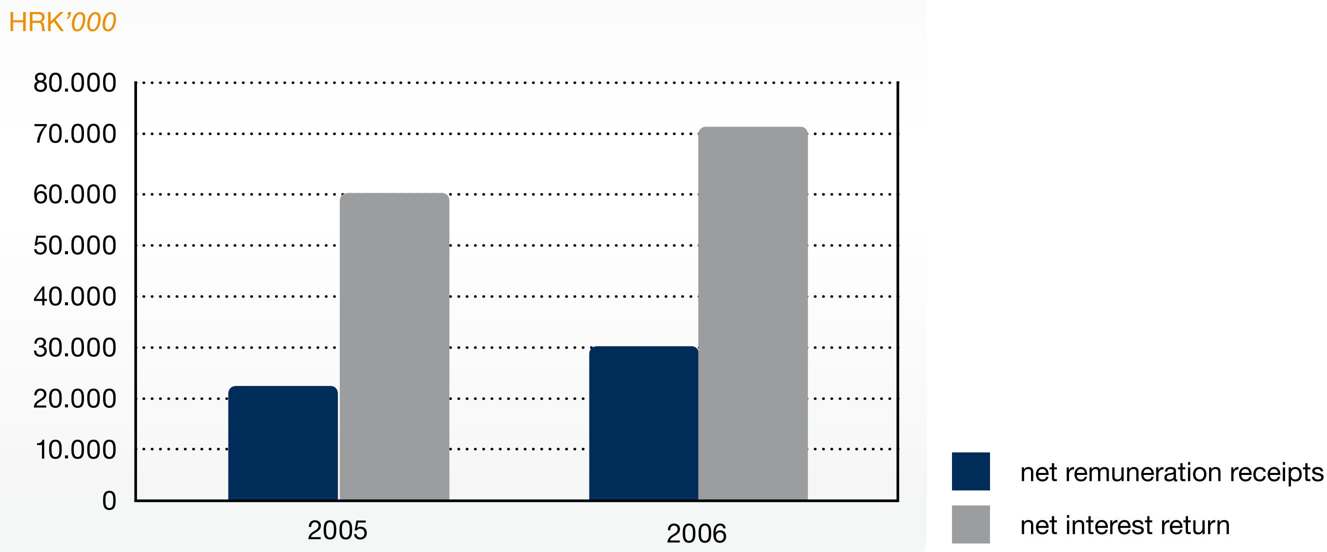
Podravska Bank is one of the oldest banks in the Republic of Croatia, and it originated from Koprivnica Stock Savings Bank dating back in 1872. After 2002, being supported by new ownership structure, the Bank spread from Koprivnica region and grew into a strong medium-sized bank, recognised throughout the Croatian market. Podravska Bank is a bank of universal type, targeting mostly the segments of natural persons, craftsmen, and small and medium-sized entrepreneurs. At the end of 2006, its operations are conducted through a network comprising 37 branches and other distribution channels (44 ATM machines and 774 EFT POS terminals). As a leading medium-sized bank, in 2006, Podravska Bank holds the 10th place according to assets, among 33 banks in Croatia (concerning banking groups). Its strategic goals are to strengthen its position among the top 10 banks, achieve acquisitions in wider area, develop investment banking, adjust to Basel II regulations, and strengthen recognizability and profitability. In 2006, the Bank's assets reached kuna 2.5 billion, having grown by 41% compared to the previous year. Total deposits grew by 48.6%, credit volume rose by 35.2%, whereas net profit increased by 15.8% compared to the previous year, and amounts to kuna 18.6 million.



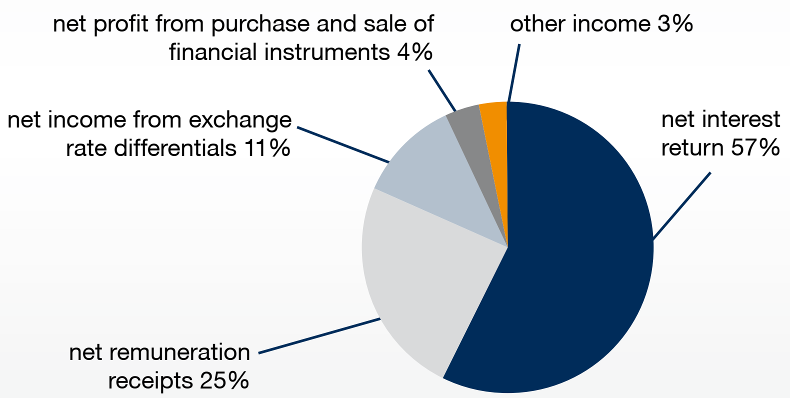
Total operational income amounted to kuna 122 million, having grown by 11.1% compared to the previous year. Net receipts from interest account for the biggest share of operational income, amounting to 57% of total income. However, the share of remuneration receipts grew sharply by 37% compared to the previous year.

The client base increased by 48% in 2006, compared to the previous year, and numbers over 140.000 clients.

structure of operational income from 1/1/2006 to 31/12/2006



structure of operational income from 1/1/2006 to 31/12/2006



In 2006, the Bank became a cofounder of the company for investment fund management (POBA ICO Invest Plc). The potential of Podravska Bank was recognised by foreign business partners, enabling the bank to remain the exclusive partner of ICBPI from Milan for payment of Italian pensions in Croatia. Furthermore, one of the world leading insurance companies, Generali Insurance, became part of its ownership structure. The projects that marked 2006 were financial restructuring and merger of Požeška Bank, which enabled Podravska Bank to further strengthen its market position in Požega and Slavonija County. The vision of Podravska Bank is to be a creative, modern, propulsive and stable leading medium-sized bank in Croatia, with proved quality and innovation of the highest levels.

Deposits

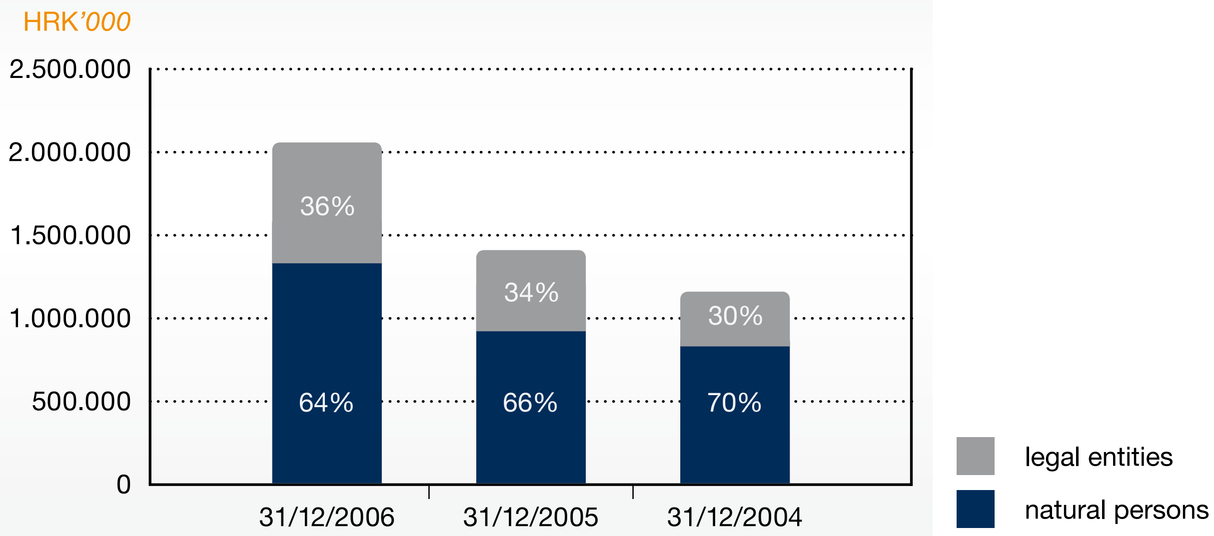
At the end of 2006, total client deposits amounted to kuna 2.0 billion, having grown by 48.6% compared to the previous year. Legal entity deposits rose by 58.4%, whereas natural person deposits increased by 43.6% compared to the previous year. The structure of deposits changed slightly compared to 2005, so that natural person deposits account for 64% (in 2005 they accounted for 66%), whereas legal entity deposits account for 36% of total client deposits.

By having a major share of natural person deposits in total client deposits, the Bank avoids deposit concentration and ensures stable resources for the Bank's operations. In time structure of total deposits, time deposits account for 69%, and account for the biggest share. In currency structure, kuna deposits account for 40%, currency clause deposits account for 20%, and foreign currency deposits account for 40%. Deposits at sight of legal entities grew sharply, as well as total foreign currency deposits of natural persons, which increased by 71% in 2006. Time deposits of legal entities grew by 44% compared to the previous year. Such deposit increase resulted from promoting the brand of the Bank, expanding the business network to almost the whole of Croatia, and increasing the number of clients that put their trust in the Bank.

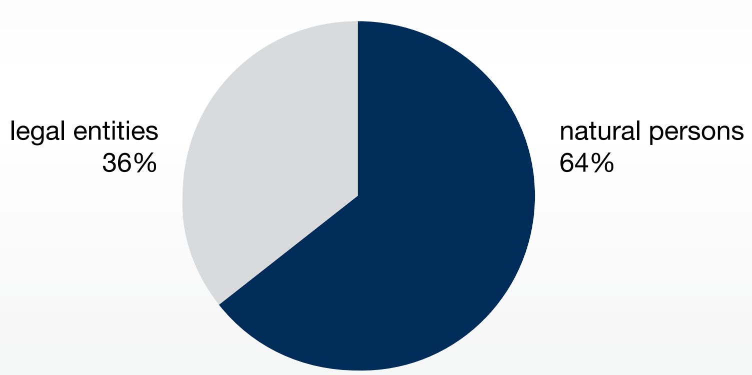
total deposits

				CHANGES	
HRK'000	2006	2005	2004	2006/05	2005/04
Natural persons	1.312.911	914.398	830.734	43,58%	10,07%
Legal entities	732.700	462.412	352.839	58,4%	31,05%
Total deposits	**2.045.611**	**1.376.810**	**1.183.573**	**48,57%**	**16,33%**

total deposits

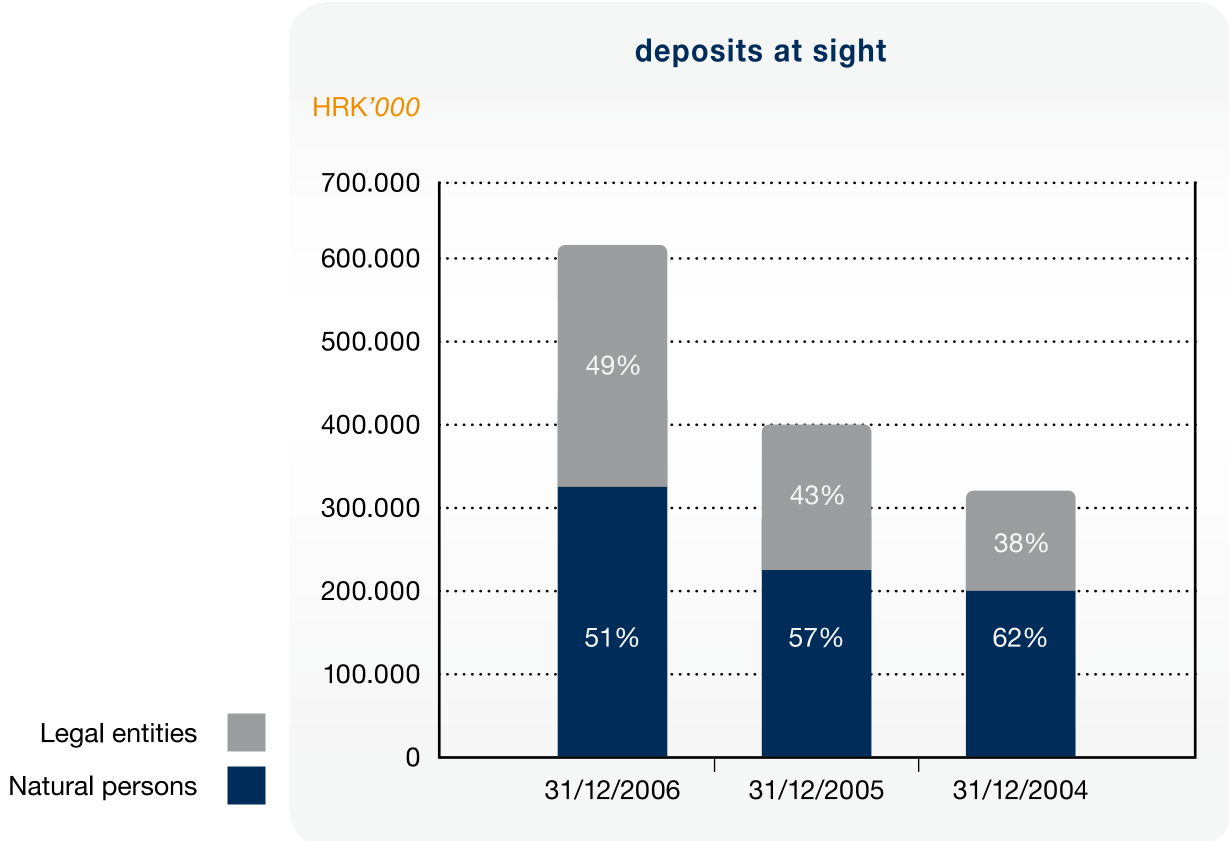


structure of total deposits on 31/12/2006



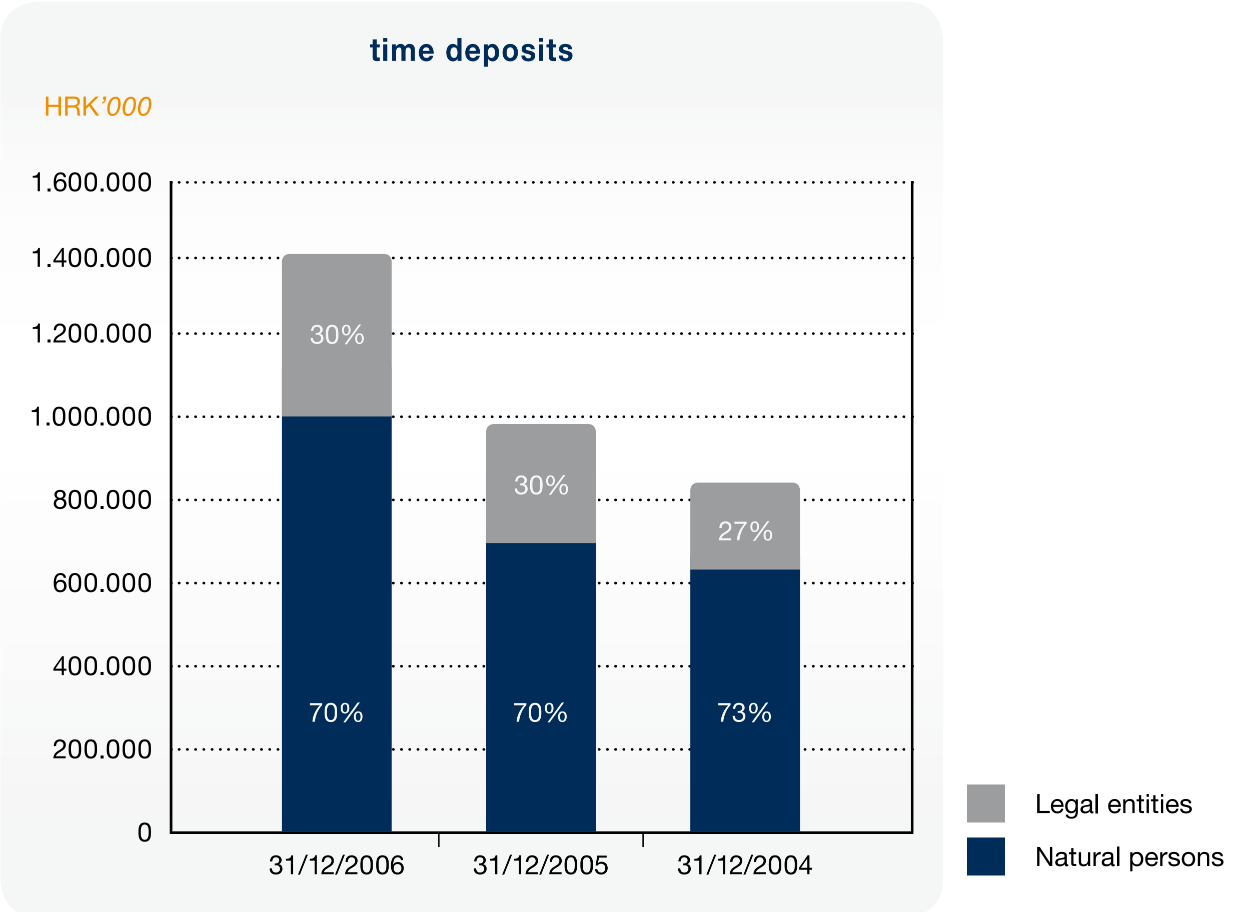
deposits at sight

HRK'000	2006	2005	2004	CHANGES 2006/05	CHANGES 2005/04
Natural persons	321.172	228.210	200.420	40,73%	13,86%
Legal entities	311.680	170.840	125.072	82,44%	36,59%
Total deposits at sight	**632.852**	**399.050**	**325.492**	**58,59%**	**22,60%**



time deposits

HRK'000	2006	2005	2004	CHANGES 2006/05	2005/04
Natural persons	991.739	686.188	630.314	44,53%	8,86%
Legal entities	421.020	291.572	227.767	44,40%	28,01%
Total time deposits	**1.412.759**	**977.760**	**858.081**	**44,49%**	**13,95%**



Credit volume

In credit policy, Podravska Bank maintains a satisfactory level of credit risk dispersion, having strategically targeted the general public, craftsmen, and small and medium-sized entrepreneurs.

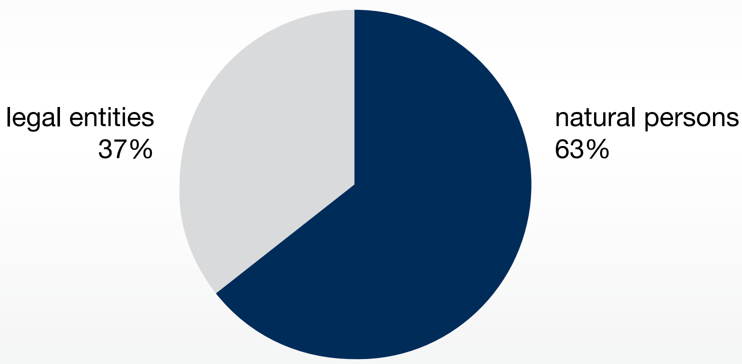
In 2006, total gross loans to clients rose by nearly 40%, having reached kuna 1.38 billion. At that, loans to the general public grew by 24.1%, and accounted for as much as 63% of total credit volume. The share of gross loans to the general public and legal entities in total assets of the Bank remained the same as at the end of 2005, and account for 55%.

In 2006, loans to business entities increased by 77.4%. Cash loans account for 55% of total loans to the general public. Paying attention to credit safety in order to minimise credit risk, the Bank has been insuring some kinds of loans to the general public from non-payment risk with first-rate insurance companies for several years now.

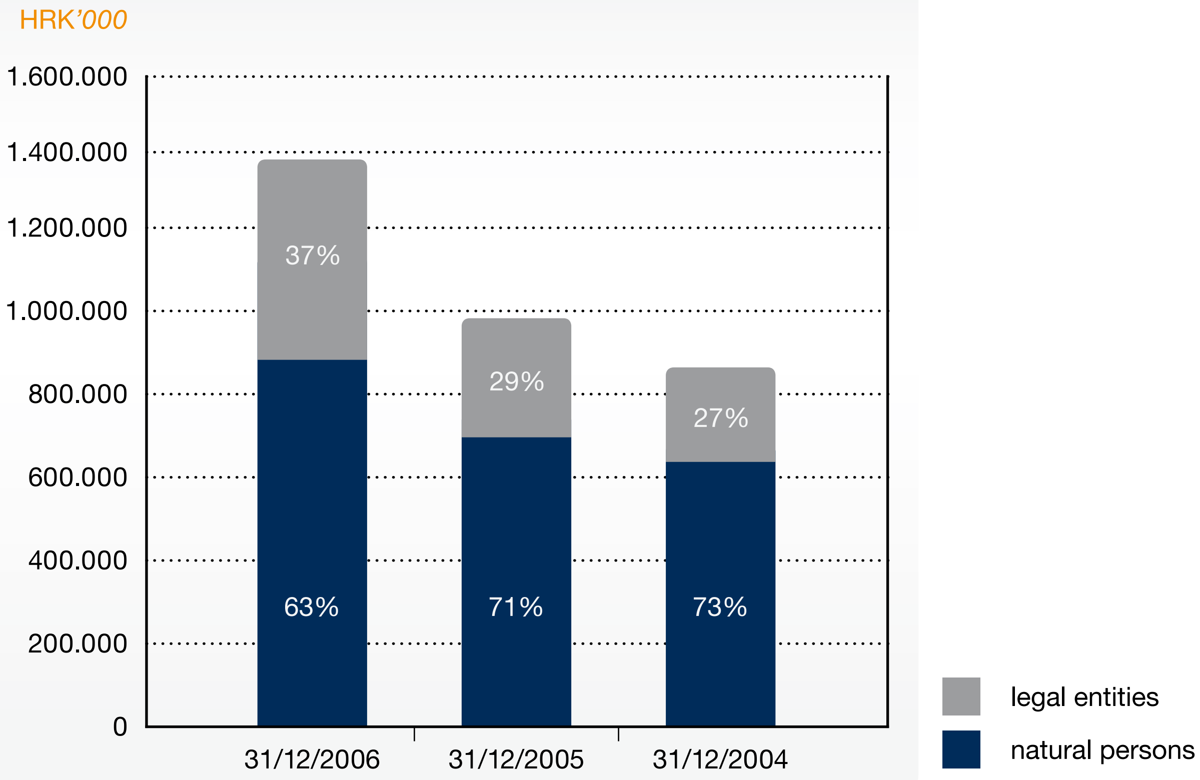
loans

HRK'000	2006	2005	2004	CHANGES 2006/05	CHANGES 2005/04
Loans to natural persons	870.574	701.461	637.933	24,10%	9,96%
Loans to legal entities	510.242	287.549	234.913	77,45%	22,41%
Total gross loans	**1.380.816**	**989.010**	**872.846**	**39,62%**	**13,31%**
Total loan reserves	104.390	44.936	39.455	132,31%	13,89%
Total net loans	1.276.426	944.074	833.391	35,20%	13,28%

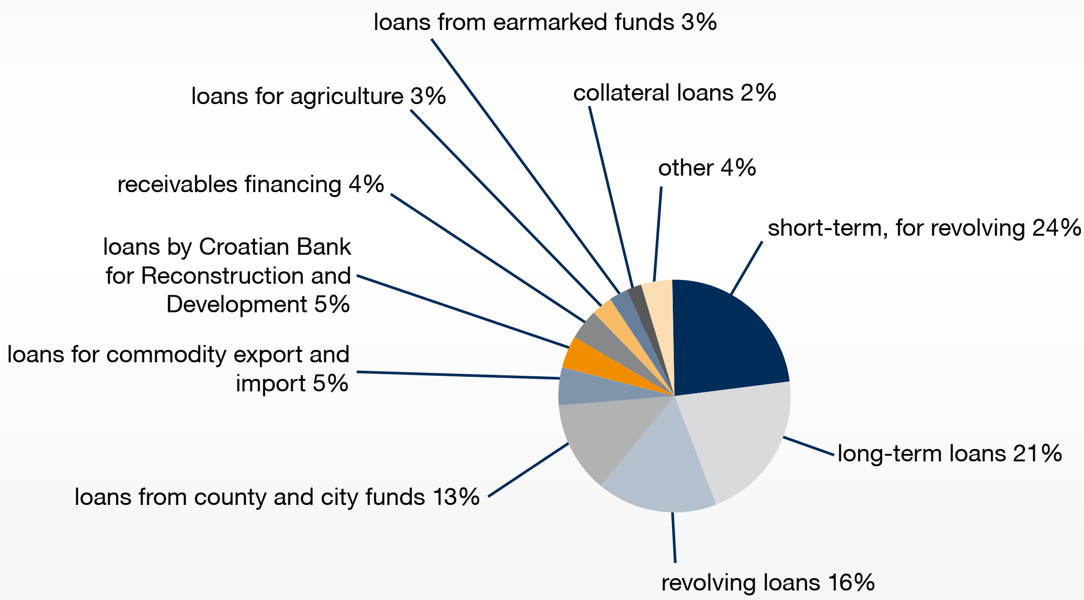
structure of total gross loans on 31/12/2006



total gross loans



structure of loans to legal entities according to types of loans (the 10 most used)



The credit portfolio structure according to activity branches showed no dramatic changes compared to the previous period. The share of trade is slightly larger (8%); whereas the shares of other separate activities are below 5%.

In 2006, as well as in previous years, the Bank provided credits jointly with the Ministry of Economy, Labour and Entrepreneurship, and units of local government and self-government. The credits were provided to development programs of small and medium-sized enterprises and private farms. The Bank thus contributes to the development of economic activities of small and medium-sized enterprises operating in production and services, which results in sharp increase in the number of clients using the complete financial service offered by the Bank. The Bank has a long-standing and successful co-operation with the Croatian Bank for Reconstruction and Development in ten specialist crediting programs. Offering very favourable loan conditions, the Bank provides its clients sources for financing entrepreneurial projects, export of commodities and services, self-employment, and financial reconstruction.

Business network and distribution channels

In accordance with defined strategy of business expansion to the whole of Croatia, and ensuring closer contact with clients, in 2006 the Bank expanded its network of branches to the following Counties: Istria, Sisak and Moslavina, and Požega and Slavonija. Two commercial centres were opened in Pula and Sisak, and in mid 2006, the merger with Požeška Bank was completed, which resulted in further expansion of business network to commercial centre Požega that comprises two affiliates and four branches, designed according to recognisable visual identity of Podravska Bank. At the beginning of 2006, commercial centre Rijeka was relocated to a new, more attractive location in the very centre of the city.

At the end of 2006, Podravska Bank had a total of 37 branches, and ranked in the Croatian banking market as the 7th bank according to the size of the business network. Besides expansion of the business network, strengthening of other distribution channels continued - such as ATM machines and EFT POS terminals. Podravska Bank has 44 ATM machines, almost all of which have chip technology installed, protecting the users from misuse and skimming. The number of EFT POS terminals increased by 40%, and at the end of 2006, Podravska Bank had 774 installed EFTOS POS terminals. Total EFT POS terminal turnover increased by 33%, whereas the number of transactions grew by 32% compared to 2005. Income from EFT POS terminal turnover rose by 30%.

The number of internet banking users (POBAklik services) increased by 20% compared to previous year, whereas the number of POBAsms service users rose by 15%.

New products and services

Being focused on client requests and needs, the Bank has been continuously working to improve existing services and develop new ones, striving to maintain competitiveness

and quality at all times. The Bank offers all kinds of savings products - time, cumulative, savings with premium, etc. Among new products, FIXed savings were offered, with fixed interest rate and premium on annual interest rate.
New offers of natural person credits included loans for farmers and motor vehicle purchase; however, the most sought after credit product offered to the general public was the cash Sprint loan, recognisable in the market because of the quick realization.
Legal entities showed increased interest in all kinds of short-term financing - discounted bills, receivables buy-out and financing, etc. Therefore, a new product was created - specialized short-term framework for the above types of financing. Legal entities were also offered some new loan products - loans for investment maintenance of housing blocks, and loans for financing agricultural activities.
The Bank proved it responds to client needs by offering loans for purchase of INA shares, created precisely because of client interest and demand. Wishing to have closer contact with students, as a special interest group, the Bank created student loans.
A new and inventive MaestroSHOP service (introduced in 2005), which provides additional allowed overdraft with current account, or deferred payment and payment in instalments by Maestro debit card, was met with excellent client response. In relation with the above service, the number of EFT POS terminal transactions and its turnover increased.
Pursuant to EMV2 standards, in 2006, the process of substitution of Maestro debit cards with chip cards continued, ensuring safer client use.
Furthermore, the Bank was active in bankinsurance and developed a series of synergy products with partner insurance companies, which are sold through its business network. In investment banking, clients are offered custody and security trade. Furthermore, the Bank was among the first to offer security trade in the Monte Negro financial market; the clients are also offered margin loans for natural and legal persons, and credits on pledge of ownership securities.

Sponsorships and donations

Podravska Bank sponsors and donates to numerous programs and segments of general interest, such as health, culture, sports, and various humanitarian projects. When we enter new markets and open new branches, we pay special attention to occasional donations. Podravska Bank, as a socially responsible business entity, shall continue to further develop its sensibility toward the environment it operates in, providing timely and adequate financial support.

Organization and staff

On 31/12/2006, Podravska Bank had 346 employees. More than 60% of the total number of employees is engaged in direct work with clients (front office). The average

age of the Bank's employees is 38. We have been working intensively on improving organization, and enhancing and developing new information technology solutions to meet the Bank's business requirements.

Given that organization structure should respond to the development of new trends, the Bank has separated the sector of investment banking from the treasury sector. The investment sector is now a separate organizational unit responsible for brokerage and investment transactions, and security custody.

Various professional seminars, courses, trainings, and other education programs have been adjusted to the requirements of operations and skills of employees.

In 2006, the employees, including the management structure, spent over 1000 work days on various internal and external courses in accounting, auditing, control, payment transactions, foreign languages, communication, etc.

In order for the employees to gain new knowledge and develop investment banking, the Bank provided additional training to interested employees; fifteen of them successfully passed exams for brokers, i.e. investment adviser. Furthermore, given the Bank's strategic orientation toward intensive bankinsurance sale, the Bank trained around thirty employees, who were granted licences for insurance representation.

In relation to human resources, the Bank's policy is to continue increasing motivation, define clear professional goals and employee development possibilities.

Investment banking operations

Investment banking, being one of strategic points of the Bank's operations, intensified in 2006.

Podravska Bank was among the first banks in Croatia to offer security trade in the Monte Negro market. Next year, the Bank will extend the service to financial markets of Bosnia and Herzegovina and Macedonia.

Besides brokerage operations and security custody, the Bank offers its clients margin loans for natural and legal persons, as well as collateral loans based on pledge of securities. Among new products and investment banking services, the Bank will offer its clients investment possibilities in the investment funds of the POBA ICO Invest Plc company.

Treasury operations

In 2006, the treasury ensured liquidity required for unhindered operations of the Bank and its clients, and managed successfully time and foreign currency structure of the Bank.

The Bank met all regulations of the National Bank of Croatia, as a regulatory institution. Although in 2006, restrictive measures provided by the National Bank of Croatia had an important effect on banking operations, they had no significant effect on business operations and liquidity management of Podravska Bank.

The Bank optimised exposure to currency risk and interest rate change risk, and had good business results.

Treasury operations expanded in all areas, increasing the funds managed by the treasury by kuna 509 million; they account for 54.8% of the total assets of the Bank (in 2005, they accounted for 49.2%).

Receivables from banks increased by kuna 283 million compared to previous year. In the structure of total assets managed by the Treasury, receivables from banks account for 38.4%.

Such increase mostly results from the decision passed by the National Bank of Croatia providing for inclusion of deposits with currency clause as a basis for coverage of short-term foreign currency liabilities with short-term foreign currency receivables.

Active currency policy enabled the Bank to profit from exchange rate differentials amounting to kuna 14 million.

The year 2006 will be remembered as a year of further strong growth of domestic capital market resulting from increased investment and demand for various types of securities. Increase in prices and trade led to sharp stock exchange indices growth.

Therefore, the treasury contributed to the Bank's profit with kuna 4.7 million – in the segment of ownership and debtor security trade.

Payment transactions

In 2006, clients recognized Podravska Bank and merged Požeška Bank as a first-rate payment transactions institution.

The quality, the speed, and the reliability of payment transactions of the Bank are best shown by numerical indicators relating to the number of accounts, volume, and value of transactions.

The number of transaction accounts of legal entities grew by 42%, whereas the number of transaction accounts of natural persons rose by 87% compared to 2005.

Foreign payment transactions amounted to over € 285 million, having increased by 51% compared to 2005; the number of exchanger financial swift messages increased by 20% previous year.

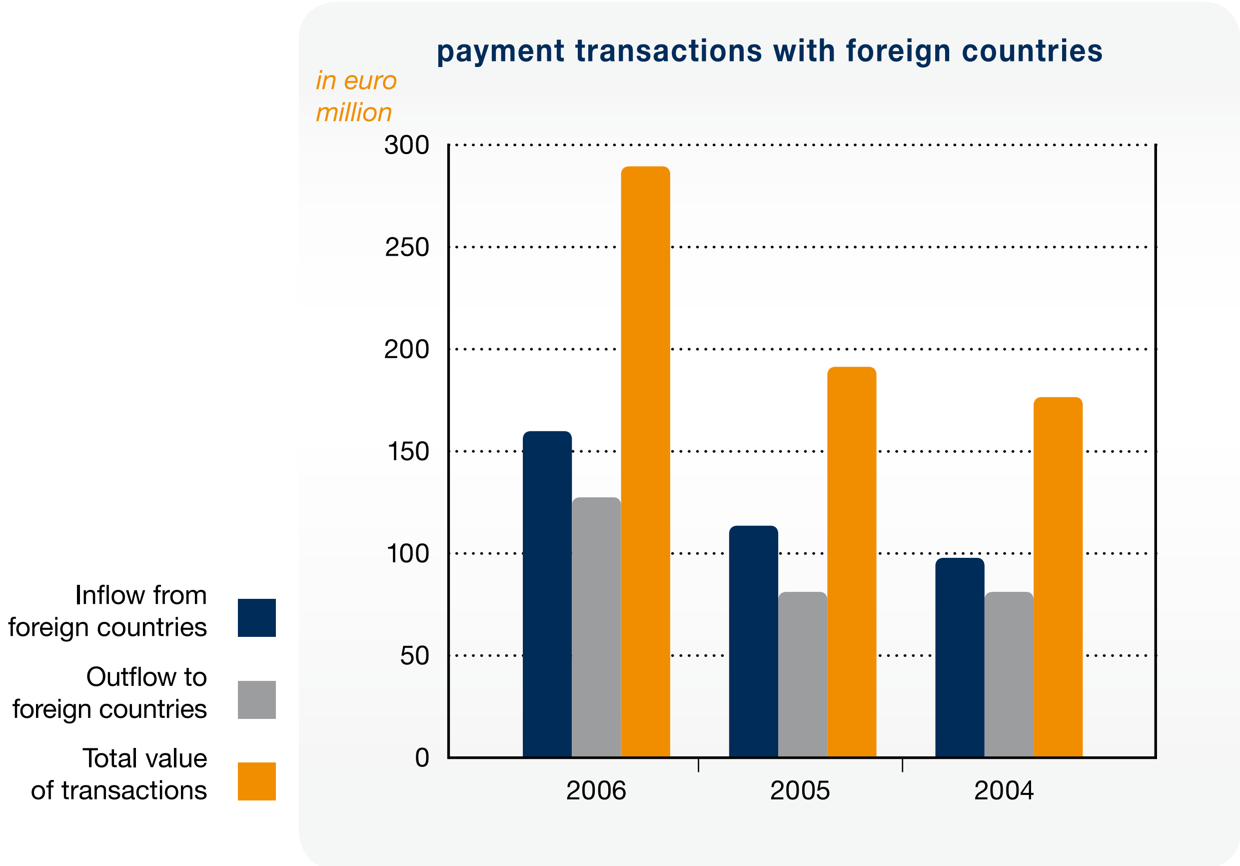
The total value of domestic payment transactions is over € 4.3 billion, having increased by 39% compared to 2005.

In 2006, electronic banking accounted for 20% of total payment transactions.

In 2006, we continued good co-operation with international financial institutions, with the aim of enhancing services to our clients, cutting payment transaction costs, and expanding the network of correspondents.

payment transactions with foreign countries

in euro million	2004	2005	2006
Inflow from foreign countries	97	115	161
Outflow to foreign countries	78	74	124
Total value of transactions	**175**	**189**	**285**



Capital

The Bank's capital, without profit during 2006, increased by kuna 52.5%, out of which kuna 44.3 million relates to the increase from capital restructuring, and the remaining part to the increase from distribution of a part of the profit gained in 2005.
Foreign nationals account for 83.38% of owner's equity, whereas the rest of the capital is owned by domestic legal and natural persons.
On 31 December 2006, stock capital was split into 420,726 ordinary registered shares, with nominal value of kuna 400.00.

Profit and loss account

In 2006, the Bank's net profit amounted to kuna 18.6 million, having increased by almost 16% compared to the previous year.
The above profit results from increased volume of operations and rational cost management. In 2006, regular operations income increased by more than 11% compared to the previous year, and amount to kuna 122 million.
In the structure of total income, the trend of decreasing net interest return and increasing non-interest return continued. Net interest return accounts for 57% of total regular operational income, whereas remuneration receipts grow sharply and account for 24.5% of regular operational income. In 2006, remuneration receipts grew by 37% compared to the previous year.
Regular operational expenditure, including amortization, amounts to kuna 99.6 million, having grown by around 19.8%. Increased expenditure results from the merger of Požeška Bank, investment in business network expansion, and technology modernization.
Evaluation of credit risks and formation of reserves for risky credits and potential liabilities are based on conservative policy principles and implementation of regulations in force, so that in 2006 the Bank allocated kuna 4.4 million for decreased values and reservations.

Profit use

The Board of Directors and the Supervisory Board of the Bank suggest to the General Assembly that total profit realized in 2006 be used for reserves for general banking risks, reserves for own shares, and payment to employees based on profit sharing by assignation of own shares. The remaining amount shall be allocated to the Bank's legal reserves.

Future operations

The 2007 business and economic plan is based on strengthening the market recognition of the Bank, and increasing production capacities and the Bank's balance. The following are expected to have an impact on the Bank's business in 2007: macroeconomic situation, amendments and passage of new legislation, restrictive monetary policy, aligning with the regulation for Basel capital treaty implementation

(Basel II), and increasingly fierce competition in the banking market.

Podravska Bank shall continue conducting future operations using its comparative advantages (expanded network of branches, speed, personal approach, and adaptability in service provision). That also includes active responsiveness to market conditions, and improvement and enhancement of existing products and services and development of new ones. The above, along with intensive sales personnel training, shall result in strengthening the Bank's brand at a national level.

The development of future various specialized services shall be intensified in all sectors of natural and legal persons operations; however, the Bank shall also focus intensively on investment banking.

Besides brokerage and custody the Bank already offers, at the beginning of the year, it shall offer shares in funds, especially those managed by the company the Bank co-founded (POBA ICO Invest Plc, company for investment fund management). The Bank shall use the above funds in offer of various savings-investment products, which it intends to develop.

In relation to investment banking, the Bank shall strengthen its sales network with investment advisors, in order to have closer contact with clients. Among new investment banking services, the Bank shall offer security trading in financial markets of Serbia, Macedonia, and Bosnia and Herzegovina.

Given that over the last few years new branches all over Croatia have been opened, next year, the Bank shall optimise and consolidate existing capacities; it shall increase the number of clients and the volume of existing network operations, whereas among new ones, it shall open a large branch in Split, and a representative office in Milan.

Aiming to ensure as favourable credit conditions as possible, the Bank shall intensify its co-operation with the institutions supporting small and medium-sized enterprises (Croatian Bank for Reconstruction and Development, Ministry of Economy, Labour, and Entrepreneurship, as well as cities, municipalities, and counties), and expand it to some other institutions (ex. Istria Development Agency).

In bankinsurance, the Bank shall continue developing joint products with partner insurance companies, and the sale thereof, through the diversified network of its branches.

The main guidelines of the Bank's operations in 2007 shall be to improve and develop competitive and innovative products, to provide quick and professional support and personal approach to clients. The Bank shall establish long-term partnership relations with clients, and maintain a high level of clients' satisfaction with services and products achieved by competence and cooperation of the Bank's staff.

Financial statements for the year ended 31 December 2006 together with the Independent Auditors' report

Responsibilities of the Management Board

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements of Podravska banka d.d. ('Bank') 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. (the 'Bank') for that 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

8 March 2007

Mr. Julio Kuruc	*Marijan Marušić*	*Davorka Jakir*
Predsjednik Uprave	Član Uprave	Član Uprave

Deloitte.

Deloitte d.o.o.
Heinzelova 33
10 000 Zagreb
Hrvatska
Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 900
www.deloitte.com/hr

Independent Auditors' report

To the Shareholders of Podravska banka d.d., Koprivnica:

We have audited the accompanying financial statements of Podravska banka d.d. (the "Bank"), set out on pages 5 to 58, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Matters affecting the opinion

As described in Note 11, the Bank has unused tax losses in the amount of HRK 30,045 thousand based on which it did not recognise any deferred tax assets and the related income in the amount of HRK 6,009 thousand in respect of tax losses carried forward. As such, the assets in the balance sheet as of 31 December 2006 and the income in the income statement for the year then ended are understated by HRK 6,009 thousand.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte d.o.o.
Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia
8 March 2007

income statement

HRK'000	Notes	2006	2005
Interest and similar income	3	131.551	106.862
Interest and similar expense	3	(61.771)	(48.151)
Net interest income		**69.780**	**58.711**
Fee and commission income	4	43.087	32.920
Fee and commission expense	4	(13.164)	(11.098)
Net fee and commission income		**29.923**	**21.822**
Net foreign exchange gains	5	14.011	15.349
Net trading and valuation gains on financial instruments	6	4.673	12.697
Other operating income	7	3.733	1.334
Operating income		**122.120**	**109.913**
Operating expenses	8	(99.552)	(83.103)
Profit before loss provisions and income tax		**22.568**	**26.810**
Impairment losses and provisions	10	(4.364)	(6.763)
Profit before taxation		**18.204**	**20.047**
Income tax benefit / (expense)	11	361	(4.018)
Net profit for the year		**18.565**	**16.029**
Earnings per share - basic		44	107

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

balance sheet

HRK'000	Notes	31 DECEMBER 2006	2005
Assets			
Cash and amounts due from banks	12	173.406	157.334
Obligatory reserve with Croatian National Bank	13	221.300	166.555
Placements with other banks	14	536.826	253.970
Financial assets at fair value through profit or loss	15	30.657	29.781
Available-for-sale financial assets	16	122.774	159.345
Held-to-maturity financial assets	17	65.663	10.286
Loans and advances to customers	18	1.276.426	944.074
Investments in subsidiaries	19	-	21.892
Tangible assets	20	58.999	32.401
Goodwill	21	16.867	-
Intangible assets	22	8.313	6.899
Deferred tax assets	11	1.521	1.160
Other assets	23	28.528	18.582
Total assets		**2.541.280**	**1.802.279**
Liabilities and shareholders' equity			
Deposits from banks	24	61.189	89.175
Amounts due to customers	25	2.045.611	1.376.810
Borrowings	26	151.951	133.816
Provisions for liabilities and charges	27	4.794	1.357
Other liabilities	28	50.174	28.576
Total liabilities		**2.313.719**	**1.629.734**

balance sheet

HRK'000	Notes	31 DECEMBER 2006	2005
Share capital	29	168.305	62.902
Less: treasury shares		(4.850)	(616)
Legal reserves		31.331	82.224
Other reserves		13.875	9.116
Fair value reserve		335	2.890
Retained earnings		18.565	16.029
Total shareholders' equity		**227.561**	**172.545**
Total liabilities and shareholders' equity		**2.541.280**	**1.802.279**

The accompanying notes form an integral part of these financial statements.
These financial statements were approved by the Management Board on 8 March 2007 and signed by:

Mr. Julio Kuruc
President of the Management Board

Marijan Marušić
Management Board Member

Davorka Jakir
Management Board Member

statement of cash flows

HRK'000	Notes	31 DECEMBER 2006	2005
Operating activities			
Profit before taxation		18.204	20.047
Adjustment of net result to net cash from operations:			
Depreciation and amortization		13.319	12.824
Net income from sale of tangible assets		-	(616)
Net book value of fixed assets disposed of or retired		416	381
Increase in other assets		1.533	(8.875)
Increase in other liabilities		19.317	5.315
Impairment of loans and receivables		4.672	6.585
Provisions for risks and charges		362	253
Gains on sale and revaluation of securities at fair value through P&L		(4.826)	(3.892)
(Gains)/losses on revaluation of available-for-sale securities		261	(8.783)
Income from collection of written-off loans		-	(75)
Profit before changes in operating assets and liabilities		**53.258**	**23.164**
Changes in operating assets and liabilities:			
Increase in amounts due from the Croatian National Bank		(22.841)	(5.961)
Increase in placements with other banks		1.965	-
Increase in loans and receivables		(154.490)	(116.541)
Decrease of public debt		-	4.697
Increase in amounts due to other banks		(27.986)	39.364
Decrease of frozen savings		-	(712)
Increase in amounts due to customers		396.188	193.237
Income tax paid		(6.621)	(5.492)
NET INCREASE OF CASH FROM OPERATING ACTIVITIES		**239.473**	**131.756**

statement of cash flows

HRK'000	Notes	31 DECEMBER 2006	2005
Investing activities			
(Increase) / decrease in financial assets at fair value through profit or loss		3.950	(14.612)
Decrease/(increase) of financial assets available for sale		46.369	19.260
Increase of financial assets held to maturity		(29.415)	(2.733)
Investments in subsidiaries		(24.397)	(19.068)
Inflow from acquisition		81.893	-
Purchases of tangible and intangible assets		(9.885)	(8.280)
Proceeds from sale of tangible fixed assets		-	616
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**68.515**	**(24.817)**
Financing activities			
(Decrease)/increase in borrowings		(45.791)	(7.777)
Purchase of treasury shares		(4.967)	(607)
Dividends paid		(267)	(268)
Increase in share capital		40.000	-
NET DECREASE IN CASH FROM FINANCING ACTIVITIES		**(11.025)**	**(8.652)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**296.963**	**98.287**
Cash and cash equivalents at 1 January		**411.304**	**313.017**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**31**	**708.267**	**411.304**

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

statement of changes in equity

HRK'000	Share capital	Treasury shares	Legal reserves	Other reserves	Profit for the year	Proposed dividend	Total
At 31 December 2004	**62.902**	**(1.059)**	**72.730**	**8.514**	**12.336**	**-**	**155.423**
Changes in equity during 2005							
Assets available for sale:							
Transferred to profit or loss on sale	-	-	-	(910)	-	-	(910)
Fair value reserve	-	-	-	2.890	-	-	2.890
Profit for the year	-	-	-	-	16.029	-	16.029
Total recognised income and expense for the period	**-**	**-**	**-**	**2.890**	**16.029**	**-**	**18.919**
Purchase of treasury shares	-	(607)	-	-	-	-	(607)
Sale of treasury shares	-	-	-	-	-	-	-
Allocation of 2004 profit	-	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**

statement of changes in equity

HRK'000	Share capital	Treasury shares	Legal reserves	Other reserves	Profit for the year	Proposed dividend	Total
Changes in equity during 2006 *Assets available for sale:*							
Transferred to profit or loss on sale	-	-	-	(2.890)	-	-	(2.890)
Fair value reserve	-	-	-	335	-	-	335
Profit for the year	-	-	-	-	18.565	-	18.565
Total recognised income and expense for the period	**-**	**-**	**-**	**335**	**18.565**	**-**	**18.900**
Issue of shares	105.403	-	(64.152)	3.015	-	-	44.266
Purchase of treasury shares	-	(4.967)	-	-	-	-	(4.967)
Sale of treasury shares	-	-	-	-	-	-	-
Allocation of 2005 profit	-	733	13.259	1.744	(16.029)	280	(13)
Dividends	-	-	-	-	-	(280)	(280)
At 31 December 2006	**168.305**	**(4.850)**	**31.331**	**14.210**	**18.565**	**-**	**227.561**

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

1. General

History and incorporation

Podravska banka d.d., 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 2006, the Bank was operating a total of 37 branches throughout the Republic of Croatia.

The Bank's main areas of operation include:

- providing current and term deposit accounts
- providing and granting deposits
- granting short- 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.

Governance and Management

The operations of the Bank are governed by the Supervisory Board and the Management Board. The members of the Supervisory Board of Podravska banka d.d. Koprivnica, during 2006 were as follows:

Miljan Todorovic, President
Sigilfredo Montinari, Vice President
Dario Montinari, Member
Djuro Predovic, Member
Dolly Predovic, Member
Maurizio Dallocchio, Member
Filippo Disertori, Member

The members of the Management Board during 2006:
Julio Kuruc, M.Sc., Chairman
Marijan Marušić, Member
Davorka Jakir, Member since 14 June 2006

2. Summary of significant accounting policies

2.1. 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.

The financial statements are presented in thousands of Croatian kuna ('HRK'), unless stated otherwise.

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

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.

2.2. 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 (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006.

The adoption of these new and revised Standards and Interpretations has resulted in changes to the Bank's accounting policies in the following areas:

- investments classified at fair value through profit and loss, and
- financial guarantee contracts.

The impact of these changes in accounting policies is discussed in detail later in this note.

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

IFRS 7 *Financial Instruments: Disclosures* (Effective for annual periods beginning on or after 1 January 2007);

Amendment to IAS 1 *Presentation of financial statements: Capital Disclosures* (Effective for annual periods beginning on or after 1 January 2007);

IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies* (Effective for annual periods beginning on or after 1 March 2006);

IFRIC 8 *Scope of IFRS 2* (Effective for annual periods beginning on or after 1 May 2006);

IFRIC 9 *Reassessment of Embedded Derivatives* (Effective for annual periods beginning on or after 1 June 2006)

IFRIC 10 *Interim Financial Reporting and Impairment* (Effective for annual periods beginning on or after 1 November 2006)

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

Limitation of ability to designate financial assets and financial liabilities through profit or loss

Following the amendments to IAS 39 Financial Instruments: Recognition and Measurement in June 2005, the ability of entities to designate any financial asset or financial liability as 'at fair value through profit or loss' (FVTPL) has been limited.

Financial assets that can no longer be designated as at FVTPL are now classified as either loans and receivables, held-to-maturity or available-for-sale financial assets, as appropriate, and measured at amortised cost, or at fair value with changes in fair value recognised in equity, according to their classification.

Accounting for financial guarantee contracts

The IASB has also amended IAS 39 Financial Instruments: Recognition and Measurement to require certain financial guarantee contracts issued by the Bank to be accounted for in accordance with that Standard. Financial guarantee contracts that are accounted for in accordance with IAS 39 are measured initially at their fair values, and subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out in note 3 below.

The management has assessed that the adoption of these accounting policies does not have an effect on the amounts reported in current or prior periods.

2.3. Interest income and expense

Interest income is recognized on accrual basis, by reference to the principal outstanding at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments.

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.

2.4. Fee and commission income and expense

Fees and commissions consist mainly of fees on domestic and foreign payments, fees for issuing guarantees and letters of credit, fees and commissions on card operations and other credit instruments issued by the Bank. Fees and commissions are generally recognized when service is provided.

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.

2.5. 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.

2.6. Business combinations

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Bank in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.
Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.
The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

2.7. Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

2.8. 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'), current accounts with other banks and term placements with other banks with residual maturity up to 3 months, and treasury bills with residual maturity up to 3 months.

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

2.9. Financial assets

Financial assets held by the Bank are categorized into portfolios in accordance with the Bank's intent at the acquisition and pursuant to the Bank's investment strategy. Financial assets and liabilities are classified as 'At fair value through profit or 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.

a) Assets at fair value through profit or loss

Financial assets are classified as at FVTPL where the financial assets are held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Measurement:

Subsequent to the 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 trading valuation gains on financial instruments.' Interest earned on assets at fair value through profit or loss representing coupons on debt securities is accrued on a daily basis and reported as 'Net trading valuation gains on financial instruments' in the income statement.

Dividends on trading securities are recorded when declared and included as a receivable in the balance sheet line ‘Other assets’ and in ‘Net trading valuation gains on financial instruments’ in the profit and loss account.

All purchases and sales of securities held for trading that require delivery within the timeframe 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.

b) Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity.

This portfolio comprises fixed income debt securities. Held to maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

The Bank assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument’s original effective interest rate. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset’s carrying amount and the present value of the expected future cash flows discounted at the financial instrument’s original effective interest rate. When an impairment of assets is identified, the Bank recognizes allowances through the profit and loss statement line ‘Allowance for losses on securities’.

Impairment losses are reversed in subsequent periods when an increase in the investment’s recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognized.

c) 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, gains and losses arising from changes in fair value are recognised directly in equity under the caption 'Other reserves', 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 using the effective interest rate method and reported as "Interest income" in the income statement.

Foreign exchange differences related to available-for-sale equity instruments held in foreign currency are reported together with fair value gains and losses in equity until the financial asset is sold. Foreign exchange differences related to available-for-sale debt instruments held in foreign currency are reported in income statements.

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 trading valuation gains on financial instruments' in the profit and loss account. Upon payment of the dividend, the receivable is offset against the collected cash.

d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

This portfolio comprises loans provided to customers.

Loans and receivables are measured at initial recognition at fair value, 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 for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

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.

Loan loss 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.

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 basis in the caption 'Interest income'.

2.10. Financial liabilities

Financial liabilities of the Bank including 'Amounts due to other banks', 'Amounts due to customers', 'Subordinated debt' are stated at amortized costs using the effective interest rate method.

2.11. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessee

Assets held under finance leases are recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged to income statement. Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease.

2.12. Liabilities under financial guarantee contracts

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

2.13. 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 as 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 corresponding liability towards the counterparty 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 CNB'. 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.

2.14. Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at cost less accumulated depreciation/ amortization. Depreciation is calculated on a straight-line basis to write down the cost

of such assets to their residual values over their estimated useful lives. Land and assets in the course of construction are not depreciated.
The estimated economic useful lives are set out below:

	2006	2005
Buildings	10 – 40 years	10 – 40 years
Office equipment	4 – 5 years	4 – 5 years
Motor vehicles	5 years	5 years
Operating software	5 years	5 years

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Any impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss, the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

2.15. Foreign currency translation

Transactions denominated in foreign currencies are translated into HRK at the prevailing exchange rates on the date of the transaction.
Monetary items denominated in foreign currencies are retranslated into HRK at the appropriate spot rates of exchange prevailing at the balance sheet date. 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.
Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period in 'Net profit/loss on financial operations'. Exchange differences arising on the retranslation of non-monetary assets carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary assets available-for-sale in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

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 the 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 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 CNB valid at the date of balance sheet or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher.

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

31 December 2006	1 EUR = 7,345081 kn	1 USD = 5,578401 kn
31 December 2005	1 EUR = 7,375626 kn	1 USD = 6,233626 kn

2.16. 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 lending commitments. Such financial commitments are recorded in the Bank's balance sheet if and when they become payable.

2.17. 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. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors at the balance sheet date. Provisions are discounted to present value where the effect is material.

2.18. Retirement benefit costs

The Bank has no 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 an expense in the period to which they relate. Any future payments to employees are the responsibility of the Republic of Croatia.

2.19. Fiduciary activities

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

2.20. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

While it is possible that in particular periods the Bank may sustain losses, which are substantially relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

In the ordinary course of business, the Bank is subject to legal actions and complaints. The Management Board of the Bank believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial situation or the results of future operations of the Bank.

2.21. 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.

2.22. Reclassifications

Certain reclassifications have been made to the financial statements as at 31 December 2005 and for the year then ended to conform to the presentation as at 31 December 2006 and for the year then ended.

2.23. Regulatory requirements

The Bank is subject to the regulatory requirements of the CNB. 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	2006	2005
a) Interest and similar income		
Analysis by source		
Individuals	83.146	69.430
Companies	34.971	24.613
State and public sector	5.073	6.574
Domestic banks	4.648	4.321
Foreign banks	3.713	1.924
Total	**131.551**	**106.862**
Analysis by product		
Debt securities	10.587	9.902
Obligatory reserve with Croatian National Bank	1.734	1.849
Placements with other banks	6.546	4.100
Loans and advances to customers	112.684	91.011
Total	**131.551**	**106.862**

3. interest and similar income and expense

HRK'000	2006	2005
b) Interest and similar expense Analysis by source		
Individuals	36.029	28.260
Companies	15.230	9.894
State and public sector	3.821	4.343
Domestic banks	3.306	2.444
Foreign banks	1.025	1.303
Other foreign entities	2.360	1.907
Total	**61.771**	**48.151**

Analysis by product		
Deposits from banks	1.110	734
Deposits from companies	15.230	9.894
Deposits from public sector	3.821	4.343
Deposits from individuals	36.029	28.260
Deposits from other foreign entities	2.360	1.907
Borrowings	3.221	3.013
Total	**61.771**	**48.151**

4. fee and commission income and expense

HRK'000	2006	2005
a) Fee and commission income **Analysis by source**		
Individuals	24.064	19.295
Companies	16.759	11.529
Domestic banks	1.480	1.644
State and public sector	420	337
Foreign legal entities	364	115
Total	**43.087**	**32.920**
Analysis by product		
Lending operations	5.371	3.322
Card operations	15.502	12.656
Domestic and international payment transactions	13.848	10.498
Security dealings	4.313	2.762
Other services	4.053	3.682
Total	**43.087**	**32.920**
b) Fee and commission expense **Analysis by source**		
Companies	10.919	9.348
Domestic banks	2.055	1.564
Foreign banks	190	186
Total	**13.164**	**11.098**
Analysis by product		
Domestic payment transactions	3.920	3.951
Cash transactions	6.541	4.855
Other services	2.703	2.292
Total	**13.164**	**11.098**

5. net foreign exchange gains

HRK'000	2006	2005
Net foreign exchange gains on trading	9.306	9.080
Net gains/(losses) from translation of monetary assets and liabilities	4.705	6.269
Total	**14.011**	**15.349**

6. net trading and fair valuation gains on financial instruments

HRK'000	2006	2005
Gains net of losses on securities at fair value through profit or loss	4.826	3.892
Gains net of losses on securities available for sale	(261)	8.783
Dividend income	108	22
Total	**4.673**	**12.697**

7. other operating income

HRK'000	2006	2005
Gains on sale of tangible assets	(414)	616
Rental income	371	91
Other income	3.776	627
Total	**3.733**	**1.334**

8. operating expenses

HRK'000	2006	2005
Staff costs (Note 9)	42.574	31.306
Depreciation	10.373	10.211
Amortization	2.947	2.613
Rental costs	5.972	5.478
Administrative expenses	13.328	10.609
Service expenses	19.892	19.517
Other costs	4.466	3.369
Total	**99.552**	**83.103**

9. staff costs

HRK'000	2006	2005
Net salaries	22.665	16.645
Taxes and local taxes	6.802	4.791
Contributions	11.591	9.074
Provisions for employee benefits	56	24
Other staff costs	1.460	772
Total	**42.574**	**31.306**

At the end of 2006, the Bank had 346 employees (2005: 252 employees).

10. impairment losses and provisions

HRK'000	Notes	2006	2005
Loans and advances to customers	15	4.672	5.933
Factoring		(1)	541
Bills of exchange		(580)	-
Subsidiaries	17	-	115
Other assets	21	42	(4)
Off-balance sheet items	24	362	253
Total		**4.495**	**6.838**
Collection of receivables previously written off		(131)	(75)
Total		**4.364**	**6.763**

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	2006	2005
Adjustment of income tax is as follows:		
Current income tax	-	4.925
Deferred income tax	(361)	(907)
Income tax expense	**(361)**	**4.018**

11. income tax expense

HRK'000	2006	2005
The movement in the deferred income tax account is provided as follows:		
Balance at 1 January	1.160	253
Deferred tax assets recognised	604	940
Utilisation of tax assets from prior periods	(243)	(33)
Balance at 31 December	**1.521**	**1.160**

The reconciliation of the income tax expense for the period:

Unrealised gains on assets carried at fair value through profit or loss	3	23
Deferred loan origination fees	1.516	915
Other	2	2
Net deferred tax assets/(liabilities)	**1.521**	**940**

Movements in deferred tax assets were as follows:

	Gains/losses on FVTPL investments and assets	Deferred loan origination fees	Other	Total
Balance at 31 December 2004	**253**	**-**	**-**	**253**
Credit/(charge) to the income statement	(10)	915	2	907
Balance at 31 December 2005	**243**	**915**	**2**	**1.160**
Credit/(charge) to the income statement	(240)	601	-	361
Balance at 31 December 2006	**3**	**1.516**	**2**	**1.521**

11. income tax expense

HRK'000	2006	2005
The reconciliation of the income tax expense for the period is presented below:		
Accounting profit before tax	18.204	20.047
Theoretical tax liability calculated at tax rate of 20%	3.641	4.009
Non taxable income	(243)	(215)
Expenses not deductible for tax purposes	356	214
Taxable income of future period	498	917
Use of tax loss carry forward	(4.252)	-
Income tax liability	**-**	**4.925**
Effective tax rate	**0%**	**24,57%**

Tax losses		
Tax losses brought forward	-	-
Increase on acquisition	51.306	-
Utilised in the year	(21.261)	-
Tax loss available for carry forward	30.045	-

Tax losses available for carry forward expire in year 2010 and relate to tax losses of Požeška banka d.d. from the year 2005.

12. cash and amounts due from banks

HRK'000	31 DECEMBER 2006	2005
Cash in hand	45.102	38.541
Items in course of collection	9.112	5.363
Current accounts with domestic banks	7.810	6.498
Current accounts with foreign banks	60.334	61.162
Current accounts with the Croatian National Bank	45.368	43.107
Other cash reserves	5.680	2.663
Total	**173.406**	**157.334**

13. obligatory reserve with Croatian National Bank

HRK'000	31 DECEMBER 2006	2005
In HRK	180.335	135.322
In foreign currencies	40.965	31.233
Total	**221.300**	**166.555**

Obligatory reserves in HRK and in foreign currency are calculated at the rate of 17% (2005: 18%) on HRK and foreign currency deposits, and foreign currency loans. At 31 December 2006, the Bank had the obligation to hold at least 70% (2005: 70%) of such reserves on its account with the Croatian National Bank. 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 (2005: 0.75%). 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 2.625 % (2005: 2.125 %) and those denominated in Euro 1.75 % (2005: 1.125%). The marginal required reserves in foreign currency were allocated at a rate of 55% (2005: 40%) on the increase of deposits of foreign entities and related parties compared to the opening accounting period. At 31 December 2006 the entire marginal required reserve was to be held with the Croatian National Bank with no interest.

14. placements with other banks

HRK'000	31 DECEMBER 2006	2005
Deposits with other banks, due within one year		
- With domestic banks in HRK	4.541	32.790
- With foreign banks in foreign currency	350.140	109.932
Loans to other banks, due within one year		
- To domestic banks in HRK	185.490	105.164
- To foreign banks in foreign currency	-	6.084
Total	**540.171**	**253.970**
Impairment allowance	(3.345)	-
Total	**536.826**	**253.970**

HRK'000	31 DECEMBER 2006	2005
Movement in impairment allowance		
At 1 January	-	-
Increase on acquisition	3.345	-
At 31 December	**3.345**	-

15. financial assets at fair value through profit or loss

HRK'000	31 DECEMBER 2006	2005
Investments in open-end investment funds	12.369	25.074
Equity securities	18.288	4.707
Total	**30.657**	**29.781**

15. financial assets at fair value through profit or loss

Investments in open-end investment funds at 31 December 2006 can be analysed as follows:

Securities at fair value through profit or loss	Cost	Unrealised gains/ (losses)	Fair value at 31 December 2006	Share in the total assets in %
PBZ Invest	12.356	13	12.369	-

Equity securities at 31 December 2006 can be analysed as follows:

Equity securities at fair value through profit or loss	Cost	Unrealised gains/ (losses)	Fair value at 31 December 2006	Share in the total assets in %
Ina d.d. Zagreb	4.988	742	5.730	0,03
Končar d.d. Zagreb	923	1.125	2.048	0,13
HUP Zagreb d.d.	1.259	217	1.476	0,16
Podravka d.d. Koprivnica	954	456	1.410	0,06
Liburnia Riviera Hoteli d.d. Opatija	979	351	1.330	0,12
Franck d.d. Zagreb	983	328	1.311	0,12
Jamnica d.d. Zagreb	817	188	1.005	0,07
Ericsson Nikola Tesla d.d. Zagreb	779	221	1.000	0,06
Tankerska plovidba d.d. Zadar	845	146	991	0,04
Dom holding d.d. Zagreb	734	(18)	716	0,06
Kraš d.d. Zagreb	533	170	703	0,07
Đuro Đaković Montaža d.d. Slavonski Brod	492	38	530	0,40
Centralna Depozitarna Agencija AD Podgorica	38	-	38	2,00
Total equity securities:	**14.324**	**3.964**	**18.288**	

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

16. financial assets available for sale

HRK'000	31 DECEMBER 2006	2005
Debt securities	116.085	153.739
Equity securities	7.902	5.606
Total	**123.987**	**159.345**
Impairment allowance	(1.213)	-
Net Total	**122.774**	**159.345**

Movement in impairment allowancea

At 1 January	-	-
Increase on acquisition	1.213	-
At 31 December	**1.213**	-

a) Debt securities
At 31 December 2006 debt securities can be analysed as follows:

Bonds of the Republic of Croatia	-	96.679
Bonds of the City of Koprivnica	7.880	9.589
Bills of exchange	108.203	47.469
Other securities	2	2
Total	**116.085**	**153.739**
Debt securities		
- listed	7.880	106.268
- unlisted	108.205	47.471
Total	**116.085**	**153.739**

16. financial assets available for sale

Investments in debt securities at 31 December 2006 can be analysed as follows:

Debt securities- listed	Cost	Unrealised gains/ (losses)	Fair value at 31 December 2006	Share in the total assets in %
Bonds of the City of Koprivnica	7.545	335	7.880	-

HRK'000	31 DECEMBER 2006	31 DECEMBER 2005
b) Equity securities At 31 December 2006 equity securities can be analysed as follows:		
Equity securities available for sale		
Bilokalnik d.d. Koprivnica	4.816	5.377
Oroplet d.d. u stečaju, Pleternica	1.226	-
Spin Valis d.d. Požega	708	-
MBU d.o.o. Zagreb	579	49
Tržište novca d.d. Zagreb	273	-
Zagrebačka burza d.d. Zagreb (Zagreb Stock Exchange)	120	60
HROK d.o.o. Zagreb	75	75
Croatia osiguranje d.d. Zagreb	56	-
Varaždinska burza d.d. Varaždin (Varaždin Stock Exchange)	40	40
S.W.I.F.T. S.c.r.l.	5	5
Središnja depozitarna agencija d.d. Zagreb	4	-
Total equity securities, net:	**7.902**	**5.606**
Impairment allowance	(1.213)	-
Total	**6.689**	**5.606**

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. These securities are not quoted on the market and they are measured at cost less impairment allowances (if any).

17. held-to-maturity financial assets

HRK'000	31 DECEMBER 2006	2005
Bonds of the Republic of Croatia, HRK denominated	51.426	-
Corporate bills of exchange	21.785	-
Factoring, purchased receivables		
- In HRK	11.369	8.188
- In foreign currency	1.318	2.639
Total	**85.898**	**10.827**
Impairment allowance	(20.235)	(541)
Total	**65.663**	**10.286**

Movement in impairment allowance

At 1 January	541	-
Increase on acquisition	20.275	-
Charged during the year	(581)	541
At 31 December	**20.235**	**541**

18. loans and advances to customers

HRK'000	31 DECEMBER 2006	2005
Loans and advances to customers		
- In HRK	1.344.854	943.776
- In foreign currency	35.962	45.234
Total	**1.380.816**	**989.010**
Impairment allowance	(104.390)	(44.936)
	1.276.426	**944.074**
Analysis by lending portfolio		
HRK denominated		
Loans to corporate customers	480.700	250.846
Loans to individuals	864.154	692.930
Total	**1.344.854**	**943.776**
Foreign currency denominated		
Loans to corporate customers	29.542	36.703
Loans to individuals	6.420	8.531
	35.962	45.234
Total gross loans and advances to customers	**1.380.816**	**989.010**
Impairment allowance	(104.390)	(44.936)
Total net loans and advances to customers	**1.276.426**	**944.074**
Movements in provisions for impairment		
At 1 January	44.936	39.455
Increase on acquisitions	56.662	-
Charged during the year	4.672	5.933
Write-offs and other adjustments	(1.880)	(452)
At 31 December	**104.390**	**44.936**

18. loans and advances to customers

At 31 December 2006, total non-performing loans and those that did not accrue interest amounted to HRK 206,016 thousand (2005: HRK 64,803 thousand). Unrecognised interest on these loans amounted to HRK 54,022 thousand at 31 December 2006 (2005: HRK 27,688 thousand). Accrued interest outstanding for 2006 in respect of impaired loans amounted to HRK 1.434 thousand (2005: HRK 1,160 thousand) at 31 December 2006.

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 2006 the Bank had the following gross credit risk concentration by industry:

	31 DECEMBER	
HRK'000	2006	2005
Trade	141.764	85.977
Agriculture	21.032	38.543
Textile and leather industry	19.834	13.589
Food industry	20.698	17.847
Wood industry	19.611	14.441
Metal industries	32.879	21.347
Paper industry	15.575	11.825
Publishing	7.774	4.350
Other industries	23.127	21.559
Construction	37.512	22.803
Real estate operations	21.934	13.138
Transportation and communications	37.476	11.122
Health and social care	3.648	2.618
Hotels and restaurants	11.474	3.094
Other	19.223	5.296
Individuals	842.865	701.461
Total	**1.276.426**	**989.010**

19. investments in subsidiaries

At 31 December 2006, the Bank controlled the following subsidiaries:

HRK'000	Nature of business	Country of incorporation	Direct holding at 31 December 2005
Brokeri 21 d.o.o. in liquidation	Brokerage	Croatia	100,00%
Požeška banka d.d. Požega	Banking	Croatia	50,34%

The Bank's investment in Brokeri 21 d.o.o. in liquidation has not been consolidated. The liquidation proceedings were completed during 2006. The Bank's investments in subsidiaries can be presented as follows:

	31 DECEMBER	
HRK'000	2006	2005
Investments	-	23.108
Impairment allowance	-	(1.216)
Total	**-**	**21.892**

Požeška banka d.d., acquired by Podravska banka d.d. as of 30 June 2005, was merged effective 1 July 2006. At 31 December 2005, Podravska banka d.d. invested HRK 19,068 thousand to acquire 161,086 shares of Požeška banka d.d.. In 2006, additional 111,685 of Požeška banka d.d. shares were purchased. As of the date of the merger, Podravska banka d.d. had a holding of 86.18 %.

19. investments in subsidiaries

The fair values of assets and liabilities of Požeška banka are as follows:

HRK'000	30 June 2006
Cash	53.210
Balances with Croatian National Bank	31.904
Placements with other banks	28.683
Loans and advances to customers	179.634
Assets available for sale	12.614
Assets held to maturity	25.962
Other assets	11.840
Tangible and intangible assets	31.938
Amounts due to other banks	-
Amounts due to customers	(273.017)
Other borrowed funds	(63.926)
Other liabilities	(4.904)
Provisions	(3.075)
Minority interest	(4.265)
Net identified assets	26.598
Goodwill on acquisition date (Note 21)	16.867
Consideration paid	(43.465)
Cash and cash equivalents acquired	81.893
Acquisition of subsidiary, net of cash acquired	**38.428**

20. tangible assets

HRK'000	Land and buildings	Office equipment and motor vehicles	Computers	Tangible assets under construction	Total
Cost					
At 31 December 2005	39.352	34.690	27.476	900	102.418
Transferred on merger	31.855	6.924	4.563	374	43.716
Additions	-	-	-	7.183	7.183
Disposals and retirements	-	(581)	(3.456)	-	(4.037)
Transfers (from)/to	306	3.857	4.188	(8.351)	-
Other transfers	306	(203)	255	-	(339)
At 31 December 2006	**71.122**	**44.687**	**33.026**	**106**	**148.941**
Accumulated depreciation					
At 31 December 2005	25.678	23.020	21.319	-	70.017
Increase on merger	6.288	3.876	3.689	-	13.853
Charge for the year	1.258	5.068	4.046	-	10.372
Disposals and retirements	-	(534)	(3.414)	-	(3.948)
Other transfers	(380)	(200)	228	-	(352)
At 31 December 2006	**32.844**	**31.230**	**25.868**	**-**	**89.942**
Net book value					
At 31 December 2006	**38.278**	**13.457**	**7.158**	**106**	**58.999**
At 31 December 2005	13.674	11.670	6.157	900	32.401

Property with a net book value of HRK 11,900 thousand has been pledged as a collateral for corporate deposits received in the amount of HRK 25,000 thousand (2005: HRK 50,700 thousand).

20. 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
Additions	-	-	-	8.280	8.280
Disposals and retirements	(486)	(843)	(417)	-	(1.746)
Other transfers	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
Charge for the year	852	4.457	4.902	-	10.211
Disposals and retirements	(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

21. goodwill

Goodwill presented in the Bank's balance sheet represents goodwill generated on the acquisition of Požeška banka d.d., Požega, which was merged into Podravska banka d.d. on 1 July 2006.
The Bank's management estimates that there is no need to impair the value of goodwill as presented.

22. intangible assets

HRK'000	Software	Leasehold improvements	Assets under development	Total
Cost				
At 31 December 2005	5.880	11.044	-	16.924
Transferred on merger	3.639	-	-	3.639
Additions	-	-	2.702	2.702
Disposals and retirements	(1.345)	(1.801)	-	(3.146)
Transfers (from)/to	1.043	1.659	(2.702)	-
Other transfers	(41)	393	-	352
At 31 December 2006	**9.176**	**11.295**	**-**	**20.471**
Accumulated amortization				
At 31 December 2005	4.778	5.247	-	10.025
Increase on merger	1.564	-	-	1.564
Charge for the year	1.179	1.768	-	2.947
Disposals and retirements	(1.196)	(1.535)	-	(2.731)
Other transfers	(30)	383		353
At 31 December 2006	**6.295**	**5.863**	**-**	**12.158**
Net book value				
At 31 December 2006	**2.881**	**5.432**	**-**	**8.313**
At 31 December 2005	1.102	5.797	-	6.899

22. intangible assets

HRK'000	Software	Leasehold improvements	Total
Cost			
At 31 December 2004	5.880	9.727	15.607
Additions	-	2.106	2.106
Disposals and retirements	-	(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 retirements	-	(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 2006	2005
Accrued fees and commissions	3.421	2.232
Foreclosed assets	4.071	57
Receivables for card operations	14.248	8.315
Receivables for brokerage operations	1.530	2.017
Other assets	8.181	7.904
Total	**31.451**	**20.525**
Impairment allowance	(2.923)	(1.943)
Total	**28.528**	**18.582**

24. deposits from banks

HRK'000	31 DECEMBER 2006	2005
Term deposits from banks, due within one year		
- in HRK	6.010	3.501
- in foreign currency	55.179	85.674
Total	**61.189**	**89.175**

25. amounts due to customers

HRK'000	31 DECEMBER 2006	2005
Companies		
Demand deposits		
- in HRK	213.143	137.217
- in foreign currency	98.537	33.623
Subtotal	**311.680**	**170.840**
Time deposits		
- in HRK	248.994	113.039
- in HRK, with a currency clause	148.855	167.409
- in foreign currency	23.171	11.124
Subtotal	**421.020**	**291.572**
Total companies	**732.700**	**462.412**
Individuals		
Demand deposits		
- in HRK	184.645	115.069
- in foreign currency	136.527	113.141
Subtotal	**321.172**	**228.210**
Time deposits		
- in HRK	169.412	101.013
- in HRK, with a currency clause	253.094	258.840
- in foreign currency	569.233	326.335
Subtotal	**991.739**	**686.188**
Total individuals	**1.312.911**	**914.398**
Total deposits	**2.045.611**	**1.376.810**

26. borrowings

HRK'000	31 DECEMBER 2006	31 DECEMBER 2005
Repo loans from domestic banks, in foreign currency	-	29.589
Repo loans from domestic banks, in HRK	10.131	20.008
Short-term borrowings from domestic banks (money market)	61.576	20.007
CBRD loans	63.382	39.537
Borrowings from foreign banks	16.862	24.675
Total	**151.951**	**133.816**

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 at a certain future date (see Note 31). Interest rates on loans received in 2006 were agreed in the range from 3.7 % up to 4.5 % (2005: 3.3 % - 4.5 %).
Short-term borrowings from the money market represent funds obtained from domestic banks for liquidity purposes. Interest rates on those borrowings ranged from 2.5% to 4.0% (2005: 2.5 % - 4 %).
The funds from the Croatian Bank for Reconstruction and Development (CBRD) are designated for approving loans to end users – corporate and retail customers – under the SMEs, tourist trade and agriculture incentive programmes supported by the CBRD, at an interest rate of 1% to 5% (2005: 1% to 4%).
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 instalments 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	2006	2005
At 1 January	1.357	1.104
Increase on acquisition	3.075	-
Charged during the year	362	253
At 31 December	**4.794**	**1.357**

28. other liabilities

HRK'000	31 DECEMBER 2006	2005
Accrued fees and commissions	1.174	760
Dividends payable	140	135
Obveze prema djelatnicima	4.403	3.775
Other liabilities	44.457	23.906
Total	**50.174**	**28.576**

29. share capital and reserves

a) Share capital

HRK'000	31 DECEMBER 2006			31 DECEMBER 2005		
	Ordinary shares	Preference shares	Total shares	Ordinary shares	Preference shares	Total shares
Authorised capital fully paid in	168.305	-	168.305	58.902	4.000	62.902
Nominal value per share	400 kn	-	400 kn	400 kn	400 kn	400 kn
Number of shares	**420.762**	**-**	**420.762**	**147.256**	**10.000**	**157.256**

As at 31 December 2006 and the share capital of the Bank comprises 420,762 ordinary shares with a par value of HRK 400 each.

Until 31 December 2005, the Bank had two issues of shares, with a total of 147,256 ordinary shares and 10,000 cumulative preference shares.

In 2006, there were three issues of shares. The number of shares issued in the 3rd issue, which was carried out for the purpose of settlement of the amounts due to the shareholders of the merged Požeška, was 3,125, with a nominal value of HRK 400 each.

Pursuant to the decisions of the Extraordinary Shareholders Meeting of the Bank, held on 28 August 2006, the cumulative preference shares of the 2nd issue were converted to ordinary shares, while the share capital was increased by HRK 64,152 thousand, or 160,381 new ordinary shares of the 4th issue, out of the legal reserves converted to the share capital of the Bank.

The capital increase was completed at the end of the year by a private offering of 100,000 ordinary shares of the 5th issue.

29. share capital and reserves

The major shareholders of the Bank at 31 December 2006 were as follows:

	31 DECEMBER 2006	31 DECEMBER 2005
	Ordinary shares	Ordinary shares
	%	%
Lorenzo Gorgoni	9,50	9,97
Assicurazioni Generali S.p.A..	9,18	-
Cerere S.R.L. Trieste	9,17	9,93
Antonia Gorgoni	8,68	7,95
Djuro Predovic	-	9,33
Miljan Todorovic	8,02	8,73
Andrea Montinari	5,54	5,63
Piero Montinari	5,54	5,63
Sigilfredo Montinari	5,54	5,63
Dario Montinari	5,54	5,63
Luigi Liaci	4,51	5,14
Giovanni Semeraro	4,03	4,39
Giuliano Chersi	-	3,06
Other shareholders (with an individual holding below 3%)	24,75	18,98
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 regulations of the Croatian National Bank. As at 31 December 2006, the statutory accounts of the Bank disclosed non-distributable reserves of HRK 31,331 thousand (31 December 2005: HRK 82,224 thousand).

c) Dividends proposed
Dividends are not recognised until they have been declared at the Annual General Meeting. Based on the decision of the AGM on the allocation of 2005 profits, in 2006 the Bank paid dividends on preference shares at the rate of HRK 28 per share.

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	2006	2005
Profit for the year	18.565	16.029
Less: preference dividends	-	(280)
Profit attributable to ordinary shareholders	18.565	15.749
Average number of ordinary shares of HRK 400 each	420.762	147.256
Earnings per ordinary share	**44**	**107**

31. analysis of cash and cash equivalents

Cash and cash equivalents included in the cash flow statement for the year ended 31 December 2006 include:

		31 DECEMBER	
HRK'000	Notes	2006	2005
Cash in hand	12	45.102	38.541
Items in course of collection	12	9.112	5.363
Current accounts with domestic banks	12	7.810	6.498
Current accounts with foreign banks	12	60.205	61.162
Current accounts with the Croatian National Bank	12	45.368	43.107
Other cash reserves	12	5.680	2.663
Placements with other banks up to 90 days	14	534.990	253.970
Total		**708.267**	**411.304**

32. commitments and contingencies

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

	31 DECEMBER	
HRK'000	2006	2005
Guarantees	54.247	36.804
Letters of credit	30.050	10.995
Undrawn lending facilities	134.644	84.341
Total	**218.941**	**132.140**

33. commitments under operating lease arrangements

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

	31 DECEMBER	
HRK'000	2006	2005
Commitments due within one year	6.759	5.034
Commitments due from one to five years	23.493	17.051
Commitments due in more than five years	12.366	9.181
Total	**42.618**	**31.266**

34. subsequent events

In late 2006, the Bank made the 5th issue of shares. In early 2007, based on the complaints filed by several subscribers, the Agency passed a resolution banning free disposal of 1.7 % of the equity share recorded on the accounts of the participant in the second round of capital increase.

35. 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 2006	2005
Current accounts with Croatian National Bank	45.368	43.107
Other cash reserves	5.680	2.663
Obligatory reserve with Croatian National Bank	221.300	166.555
Bonds of the Republic of Croatia	51.427	96.679
Other assets	4.995	2.403
Customer deposits	(51.214)	(15.245)
Total	**277.556**	**296.162**

In addition, at 31 December 2006 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:

HRK'000	31 DECEMBER 2006	2005
State Agency for Deposit Insurance and Bank Rehabilitation	(907)	(657)
Bonds of the City of Koprivnica	7.880	9.589
Loans and advances to customers guaranteed by the State	4.041	2.530
Other assets	1.408	224
Time and demand deposits	(75.432)	(68.043)
Borrowings from the Croatian Bank for Reconstruction and Development	(63.382)	(39.537)
Total	**(126.392)**	**(95.894)**

36. funds managed in the name and 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 in the name and on behalf of third parties can be analysed as follows:

	31 DECEMBER	
HRK'000	2006	2005
Assets		
Loans to individuals	30.782	23.702
Loans to corporate customers	53.739	66.500
Cash	2.387	2.240
Total assets:	**86.908**	**92.442**
Liabilities		
Public sector	28.210	20.127
Companies	43.103	64.698
Financial institutions	15.595	7.617
Total liabilities:	**86.908**	**92.442**

37. risk management disclosures

This section provides details of the Bank's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.An integrated system of risk management is being established at the Bank level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Bank. The limits are set according to the amount of regulatory capital and apply to all types of risk. Methodologies and models for managing operational risk have been developed.

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 Bank on 31 December 2006, which is not necessarily 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.

HRK'000

31 December 2006	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total	Fixed rate
Assets							
Cash and amounts due from banks	20.088	-	-	-	153.318	**173.406**	20.088
Obligatory reserve with Croatian National Bank	91.748	37.788	67.038	24.581	145	**221.300**	-
Placements with other banks	533.100	1.516	-	1.836	374	**536.826**	536.452
Financial assets at fair value through profit or loss	-	-	-	-	30.657	**30.657**	-
Available-for-sale financial assets	40.886	73.326	-	-	8.562	**122.774**	114.212
Held-to-maturity financial assets	7.048	5.993	1.169	51.003	450	**65.663**	65.213
Loans and advances to customers	1.108.243	4.721	22.833	131.901	8.728	**1.276.426**	161.438
Tangible assets	-	-	-	-	58.999	**58.999**	-
Goodwill					16.867	**16.867**	-
Intangible assets	-	-	-	-	8.313	**8.313**	-
Tax assets					1.521	**1.521**	-
Other assets	-	-	-	-	28.528	**28.528**	-
Total assets	**1.801.113**	**123.344**	**91.040**	**209.321**	**316.462**	**2.541.280**	**897.403**

38. interest rate risk

HRK'000

31 December 2006	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total	Fixed rate
Liabilities and shareholders' equity							
Deposits from banks	44.126	17.018	-	-	45	**61.189**	61.144
Amounts due to customers	1.367.425	183.893	402.630	64.640	27.023	**2.045.611**	713.963
Borrowings	72.317	4.185	28.693	46.179	577	**151.951**	151.374
Provisions for liabilities and charges	-	-	-	-	4.794	**4.794**	-
Other liabilities	-	-	-	-	50.174	**50.174**	-
Total shareholders' equity	-	-	-	-	227.561	**227.561**	-
Total liabilities and shareholders' equity	**1.483.868**	**205.096**	**431.323**	**110.819**	**310.174**	**2.541.280**	**926.481**
Interest rate sensitivity gap	**317.245**	**(81.752)**	**(340.283)**	**98.502**	**6.288**	**-**	**(29.078)**

31 December 2005	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total	Fixed rate
Assets	1.279.800	90.699	70.655	102.203	258.922	1.802.279	532.030
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)**

38. interest rate risk

Average interest rates

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

HRK'000	2006	Interest rate	2005	Interest rate
		%		%
Assets				
Cash and amounts due from banks	20.088	1,47%	22.516	1,04%
Obligatory reserve with Croatian National Bank	221.155	0,96%	166.454	0,85%
Placements with other banks	536.452	3,59%	253.361	3,13%
Available-for-sale financial assets	114.212	7,99%	153.336	5,96%
Held-to-maturity financial assets	65.213	6,32%	10.232	9,15%
Loans and advances to customers	1.267.698	9,72%	950.837	9,89%
Total assets	**2.224.818**	**7,13%**	**1.556.736**	**7,30%**
Liabilities				
Deposits from banks	61.144	1,89%	89.073	1,96%
Demand deposits from customers	632.852	0,62%	399.051	0,68%
Time deposits from customers	1.385.736	4,44%	959.395	4,58%
Frozen deposits	-	-	-	-
Borrowings	151.374	3,50%	133.514	3,35%
Total liabilities	**2.231.106**	**3,22%**	**1.581.033**	**3,34%**

39. maturity analysis

The remaining contractual maturity of the Bank's assets and liabilities as at 31 December 2006 is presented in the table below.

HRK'000

31 December 2006	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Over 3 years	Total
Assets						
Cash and amounts due from banks	173.406	-	-	-	-	173.406
Obligatory reserve with Croatian National Bank	91.892	37.788	67.038	18.657	5.925	221.300
Placements with other banks	533.474	1.516	-	1.836	-	536.826
Financial assets at fair value through profit or loss	30.657	-	-	-	-	30.657
Available-for-sale financial assets	41.646	74.436	-	2	6.690	122.774
Held-to-maturity financial assets	7.498	5.993	1.169	-	51.003	65.663
Loans and advances to customers	172.279	115.175	315.725	377.889	295.358	1.276.426
Public debt of the Republic of Croatia	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-
Tangible assets	-	-	-	-	58.999	58.999
Goodwill	-	-	-	-	16.867	16.867
Intangible assets	-	-	-	-	8.313	8.313
Tax assets	-	-	1.521	-	-	1.521
Other assets	10.600	6.151	7.706	-	4.071	28.528
Total assets	**1.061.452**	**241.059**	**393.159**	**398.384**	**447.226**	**2.541.280**

39. maturity analysis

HRK'000

31 December 2006	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Over 3 years	Total
Liabilities and shareholders' equity						
Deposits from banks	44.171	17.018	-	-	-	61.189
Amounts due to customers	837.070	340.630	635.051	176.735	56.125	2.045.611
Frozen deposits	-	-	-	-	-	-
Borrowings	72.894	4.185	28.693	30.838	15.341	151.951
Provisions for liabilities and charges	4.794	-	-	-	-	4.794
Other liabilities	18.765	9.343	15.279	5.055	1.732	50.174
Total shareholders' equity	-	-	-	-	227.561	227.561
Total liabilities and shareholders' equity	**977.694**	**371.176**	**679.023**	**212.628**	**300.759**	**2.541.280**
Net liquidity gap	**83.758**	**(130.117)**	**(285.864)**	**185.756**	**146.467**	**-**
31 December 2005						
Assets	696.882	161.673	313.961	295.857	333.906	1.802.279
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**	**-**

40. foreign exchange position

The Bank had the following foreign exchange position as at 31 December 2006:

31 December 2006	EURO and constituent currencies HRK'000	EURO linked HRK'000	USD HRK'000	Other currencies HRK'000	Total foreign currencies HRK'000	HRK HRK'000
Assets						
Cash and amounts due from banks	70.565	7.939	9.297	87.801	85.605	173.406
Obligatory reserve with Croatian National Bank	33.141	7.823	-	40.964	180.336	221.300
Placements with other banks	326.468	16.785	11.428	354.681	182.145	536.826
Financial assets at fair value through profit or loss	12.407	-	-	12.407	18.250	30.657
Available-for-sale financial assets	5	-	-	5	122.769	122.774
Held-to-maturity financial assets	958	-	-	958	64.705	65.663
Loans and advances to customers	868.382	2.615	4.783	875.780	400.646	1.276.426
Public debt of the Republic of Croatia	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-
Tangible assets	-	-	-	-	58.999	58.999
Goodwill	-	-	-	-	16.867	16.867
Intangible assets	-	-	-	-	8.313	8.313
Tax assets	-	-	-	-	1.521	1.521
Other assets	6.637	1.542	1.510	9.689	18.839	28.528
Total assets	**1.318.563**	**36.704**	**27.018**	**1.382.285**	**1.158.995**	**2.541.280**

40. foreign exchange position

31 December 2006	EURO and constituent currencies HRK'000	EURO linked HRK'000	USD HRK'000	Other currencies HRK'000	Total foreign currencies HRK'000	HRK HRK'000
Liabilities and shareholders' equity						
Deposits from banks	55.179	-	-	55.179	6.010	61.189
Amounts due to customers	1.170.881	37.085	21.451	1.229.417	816.194	2.045.611
Frozen deposits	-	-	-	-	-	-
Borrowings	54.824	-	-	54.824	97.127	151.951
Provisions for liabilities and charges	2.621	-	-	2.621	2.173	4.794
Other liabilities	17.435	22	50	17.507	32.667	50.174
Total shareholders' equity	**-**	**-**	**-**	**-**	**227.561**	**227.561**
Total liabilities and shareholders' equity	**1.300.940**	**37.107**	**21.501**	**1.359.548**	**1.181.732**	**2.541.280**
Net foreign exchange position	**17.623**	**(403)**	**5.517**	**22.737**	**(22.737)**	**-**
31 December 2005						
Assets	1.032.445	26.081	14.220	1.072.746	729.533	1.802.279
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)**	**-**

41. fair value of financial assets and financial 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 realisable 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's financial assets and liabilities are not materially different from the amounts stated in the balance sheet as at 31 December 2006.

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 amount of cash and amounts due from banks, obligatory reserve with the Croatian National Bank, and placements with banks, deposits from banks and deposits from companies and similar entities are deemed to reflect their fair value due to the short-term maturity of these financial instruments.

(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 at 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 2006, balances outstanding with related parties comprised the following:

HRK'000	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Brokeri 21 d.o.o. in liquidation	-	-	2.824	2.824
Požeška banka d.d.	-	-	39.214	-
Total	**-**	**-**	**42.038**	**2.824**

HRK'000	2006		2005	
	Income	Expenses	Income	Expenses
Brokeri 21 d.o.o. in liquidation	-	-	-	26
Požeška banka d.d.	-	-	582	-
Total	**-**	**-**	**582**	**26**

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

HRK'000	2006	2005
Salaries	9.775	6.159
Bonuses	1.580	3.480
Total	**11.355**	**9.639**

Pursuant to the decision of the General Assembly, a portion of profit for the year has been allocated for distribution to employees. In 2006, employees were granted 544 shares as a share in the profit of 2005 (2005: 3,000 shares).
All of the transactions stated above have been made under arms-length commercial and banking conditions.

About the Bank

Management

The Bank's operations are controlled by the Supervisory Board, and run by the Board of Directors.

Members of the Supervisory Board

Miljan Todorovic, President
Sigilfredo Montinari, Vice President
Dario Montinari, Member
Djuro Predovic, Member
Dolly Predovic, Member
Filippo Disertori, Member
Maurizio Dallocchio, Member

Members of the Board of Directors

Julio Kuruc, Chairman
Marijan Marušić, Member of the Board
Davorka Jakir, Member of the Board since 01/07/2006

Organizational structure

Board of Directors

Julio Kuruc
Marijan Marušić
Davorka Jakir

Chief Executive Officer

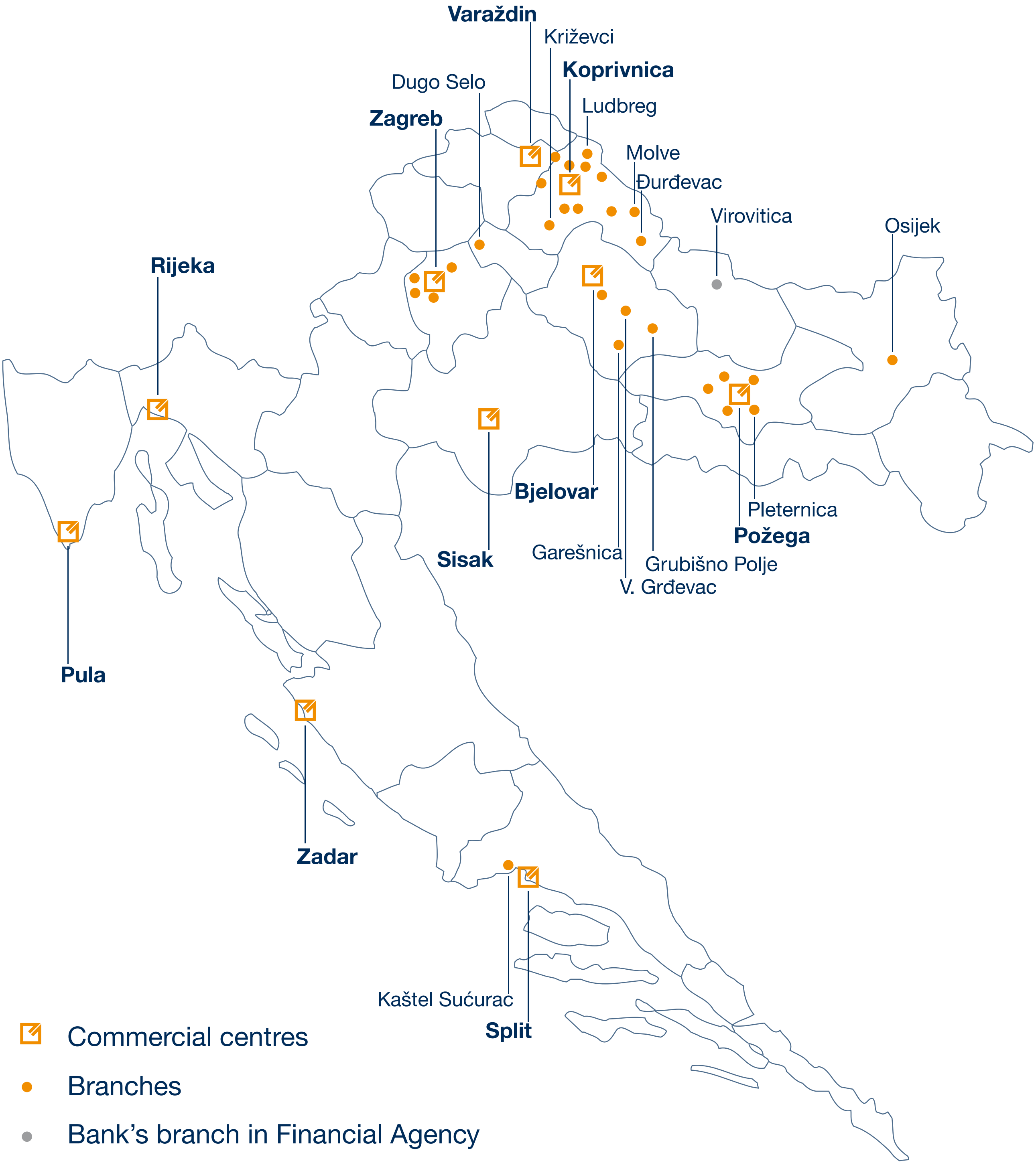
Moreno Marson

Sectors

Commercial sector - *Sanda Fuček Šanjić*
Treasury and payment transactions - *Snježana Pobi*
Investment Banking - *Željka Artner-Pavković*
Risk management - *Božica Širić*
Accounting and information technology - *Dragomir Perica*

Commercial centres

Commercial centre Bjelovar
Commercial centre Koprivnica
Commercial centre Požega
Commercial centre Pula
Commercial centre Rijeka
Commercial centre Sisak
Commercial centre Split
Commercial centre Varaždin
Commercial centre Zadar
Commercial centre Zagreb I
Commercial centre Zagreb II
Commercial centre Zagreb III


Varaždin
Križevci
Koprivnica
Ludbreg
Dugo Selo
Zagreb
Molve
Đurđevac
Virovitica
Osijek
Rijeka
Bjelovar
Pleternica
Požega
Sisak
Garešnica
Grubišno Polje
V. Grđevac
Pula
Zadar
Kaštel Sućurac
Split
Commercial centres
Branches
Bank's branch in Financial Agency

Business network

Commercial centre Bjelovar

Bjelovar, Trg Eugena Kvaternika 12, tel. 043 220 840, fax. 043 220 850
Grubišno Polje, 77. samostalnog bataljuna ZNG 1, tel. 043 485 120, fax. 043 485 550
Veliki Grđevac, Kralja Tomislava 26, tel. 043 461 032, fax. 043 461 032
Osijek, Kapucinska 38, tel. 031 252 020, fax. 031 214 909
Đurđevac, Stjepana Radića 16, tel. 048 289 080, fax. 048 280 880
Garešnica, Trg hrvatskih branitelja 7, tel. 043 445 123, fax. 043 445 137
Križevci, I. Z. Dijankovečkog 2, tel. 048 279 270, fax. 048 271 407
FINA Virovitica, Kralja Tomislava 3, tel./fax. 033 726 133

Commercial centre Koprivnica

Koprivnica, Opatička 3, tel. 048 6550, fax. 048 622 542
Koprivnica, Trg bana Jelačića 10, tel. 048 622 731, fax. 048 221 618
Koprivnica, Trg Eugena Kumičića 11, tel. 048 240 400, fax. 048 221 620
Koprivnica, Ivana Meštrovića bb, tel. 048 655 133, fax. 048 655 138
Koprivnica, Ante Starčevića 32, tel/fax. 048 621 074
Gola, Trg kardinala A. Stepinca 6b, tel. 048 833 013, fax. 048 833 320
Đelekovec, P. Kvakana bb, tel. 048 834 009, fax. 048 834 317
Novigrad Podravski, Trg M. Gupca bb, tel. 048 832 030, fax. 048 832 615
Legrad, Trg Svetog Trojstva bb, tel. 048 835 151, fax. 048 835 442
Molve, Kralja Tomislava 32, tel/fax. 048 892 300

Commercial centre Požega

Požega, Republike Hrvatske 1b, tel. 034 254 200, fax. 034 254 258
Požega, Trg Svetog Trojstva 8, tel. 034 272 736, fax. 034 312 771
Požega, Tina Ujevića 1, tel./fax. 034 291 844
Velika, Bana Josipa Jelačića 24, tel. 034 233 060, fax. 034 233 939
Pleternica, Ivana Šveara 4, tel. 034 251 060, fax. 034 311 070
Kutjevo, Kralja Tomislava 2, tel. 034 255 054, fax. 034 255 945

Commercial centre Pula

Pula, Giardini 13, tel. 052 375 630, fax. 052 522 265

Commercial centre Rijeka

Rijeka, Ivana Zajca 18, tel. 051 324 570, fax. 051 321 672

Commercial centre Sisak

Sisak, Stjepana i Antuna Radića 6, tel. 044 51 51 51, fax. 044 510 065

Commercial centre Split

Split, Obala Ante Trumbića 2, tel. 021 345 366, fax. 021 322 395
Kaštel Sućurac /TC Mercatone, Brižine bb, tel. 021 246 670, fax. 021 262 141

Commercial centre Varaždin

Varaždin, Trg slobode 2, tel. 042 215 280, fax. 042 201 990
Ludbreg, Petra Zrinskog 32, tel. 042 811 500, fax. 042 811 532

Commercial centre Zadar

Zadar, Stjepana Radića 2f, tel. 023 306 001, fax. 023 309 032

Commercial centre Zagreb

Zagreb, Miramarska cesta 23, tel. 01 6323 800, fax. 01 6043 249
Zagreb, Gajeva 5, tel. 01 4811 217, fax. 01 4811 219
Zagreb, Vlaška ulica 129, tel. 01 4686 920, fax. 01 4619 277
Lučko, Puškarićeva 15, tel. 01 6531 830, fax. 01 6531 832
Dugo Selo, Josipa Zorića 23, tel. 01 2754 210, fax. 01 2754 858

info centre 062 20 20 20
www.poba.hr - info@poba.hr

concept
Friulimmagine
Manzano (Ud), Italy

print
Bauer-grupa