ERSTE & STEIERMÄRKISCHE BANK D.D.

ANNUAL REPORT 2006

ERSTE BANK

Content

Report on the supervision of the Bank's business operations performed in the year 2006.

Pursuant to Article 263 par. 3 and Article 300 c par. 2 of the Companies Law, and Article 8 par. 1 of Erste & Steiermärkische Bank d.d. Articles of Association, the Supervisory Board of Erste & Steiermärkische Bank d.d. on February 27, 2007, adopted the following

Report on the supervision performed in the year 2006

The Supervisory Board, in its present composition, was elected at the General Assembly held on June 27, 2006, with mandate until the closing of the Annual General Assembly in the year 2010.

The Supervisory Board held 4 meetings during the year 2006. At these meetings many issues relevant for the Bank's standing and operations were addressed. In compliance with the provisions of the Articles of Association and the Supervisory Board Rules of Procedure, the Supervisory Board also made decisions without convening a meeting, by the Supervisory Board members' written declarations. The Supervisory Board paid great attention to the Management Board Reports on the Bank's operations and gave approval to the Bank Management Board to make decisions and regulations for which the Supervisory Board approval is required pursuant to the Banking Act and the Bank's Articles of Association.

The Supervisory Board formed the Credit Committee and, during the year 2006, the Audit Committee. In 2006 the Credit Committee made 54 decisions in a written form, and the Audit Committee held 1 meeting. These Committees discussed and made decisions according to their authorities and responsibilities provided by the Rules of Procedure of the Supervisory Board and the Charter on the Audit Committee Work, respectively. The Committees submitted quarterly reports on their work to the Supervisory Board.

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

The Supervisory Board reviewed the Report of the independent auditor Deloitte d.o.o. za usluge revizije, Heinzelova 33, 10000 Zagreb, which had audited the annual financial statements of the Bank for the year 2006, as well as the consolidated annual financial statements of the Erste & Steiermärkische Bank's Group, and accepts the Auditor's report without remarks.

The Supervisory Board, having inspected the financial statements of the Bank and the Group submitted by the Bank's Management Board, determined that the annual financial statements of the Bank and the Group for the year 2006 complied with the records in the business books of the Bank and the Group, and accurately presented the assets and operations of the Bank and the Group, and therefore the Supervisory Board granted approval to those statements, whereby, pursuant to Article 300.d of the Company Law, those financial statements are considered to be determined.

Constituent parts of the annual financial statement of the Bank for the year 2006 are:
a) Profit and loss account
b) Balance sheet
c) Statement on changes in shareholders' equity
d) Cash flow statement
e) Notes to financial statements.

Constituent parts of the annual financial statements of the Group for the year 2006 are:
a) Profit and loss account
b) Balance sheet
c) Statement on changes in shareholders' equity
d) Cash flow statement
e) Notes to financial statements.

The Supervisory Board granted approval to the Management Board's Report on the good standing of the Bank.

The Supervisory Board received the management Board's proposal for the distribution of profit earned in 2006, whereby it was determined that in the year 2006 the Bank realized net profit in the amount of HRK 403,349,706.03, which is to be distributed as follows:
- For the legal reserves, in the amount of HRK 9,458,910.00,
- For the general bank risk reserves in the amount of HRK 67,799,839.17,

- For the retained earnings in the amount of HRK 124,502,613.66,
- For the shareholders' dividend in the amount of HRK 201,588,343.20.

so that the shareholders' dividend amounts to 13.32% of the nominal value of a share or HRK 13.32 per share.
The Supervisory Board approved the relevant Management Board proposal for the distribution of profit.

The Supervisory Board will submit this report to the General Meeting with a proposal to the General Meeting to accept the Management Board's proposal for the distribution of profit.

President of the Supervisory Board
Mag. Reinhard Ortner

Report by the President of the Management board

It is a special pleasure for me to present to you the very good performance achieved by Erste & Steiermärkische Bank d.d. (the Bank) in 2006. This performance is the continuation of our excellent results achieved throughout the recent years, which has strengthen our position of the third bank in Croatia.

Competition was stiffer in 2006 and the restrictions imposed by the monetary authorities stricter than before, aimed at slowing down the growth of bank placements, and making the sources of financing more expensive. We have nevertheless achieved good results and have fulfilled our objectives. Our focus on the client and their needs has enabled us to develop new products for the retail and the corporate segment and to further expand our channels of distribution.

At the end of 2006, the Bank's market share, in terms of assets, was 11.8%, in terms of loans it was 11.9%, and in terms of deposits it was 12.6%. The Bank balance sheet total was HRK 35.51 billion on 31 December 2006, which was an increase of 17.1% over the total of HRK 30.32 billion recorded on 31 December 2005. The net profit of the Bank increased in the same period by 15.8% to HRK 403 million.

The Bank increased its equity capital in the course of last year by means of a private issue of 1 891 782 immaterialized ordinary shares, with a total amount paid for the shares equal to HRK 756 712 800, and the equity capital now standing at HRK 1 513 426 000. New shares were subscribed and paid for by the majority shareholder Erste Bank der oesterreichischen Sparkassen AG Vienna. The shares were also offered to other shareholders at the issue price in accordance with the decision of the General Assembly. Total Group capital at the end of 2006 was HRK 2.83 billion.

Our Retail Division successfully serviced the demand for loans, while at the same time developing new savings and investment products and recording above-average deposit growth. Our business units were able to offer integrated financial services, contracting insurance, investment and pension funds, housing savings and leasing services. It is in our tradition to pay special attention to servicing small and medium-sized entrepreneurs as well as handling needs of our large partners in the regions where the Bank has a strong presence – in Towns of Rijeka, Zagreb and Bjelovar.

Our Corporate Division focused on strengthening the depositor base and educating the targeted client groups. Lending activities were slowed down considerably which had been present for a number of years. We stepped up our efforts in the area of real estate leasing and factoring, and we established the EU desk to provide support to clients on how to use EU pre-accession funds. We continued active cooperation with Croatian Bank for Reconstruction and Development (HBOR) and the governmental ministries as well as with local government and self-government in the provision of credit facilities for entrepreneurs within the program 'Local development projects - Entrepreneur 3' and 'Incentive to Success'.

The Bank has also worked on the development of alternative sales and distribution channels. In 2006, our offer of credit cards included new co-branding programmes: VISA Electron and Visa Classic Jadransko osiguranje, and both cards use the latest chip technology. The Bank web pages were redesigned, and we recorded an increase in the volume in all electronic banking segments.

Our success was recognized by the business community and the Bank was awarded for the second consecutive year – We got the Award of the Croatian Chamber of Economy «Zlatna kuna» - as the best bank in Croatia in 2006.

The Bank's success is the result of the hard work of our team of employees. At the end of 2006, we had 1 685 employees, and I would like to use this opportunity to thank all the employees and managers for their dedicated work. I would also like to thank all the Bank clients and partners for the high level of professionalism demonstrated and the trust shown.

It is our intention to continue to serve the clients and work with partners in a way which is trustworthy. We will further strengthen our market position by operating in line with professional standards and continuing to offer quality services. We are confident that our quality services, innovative products and advanced technologies, coupled with our outstanding team of employees, will guarantee success in the operations of Erste & Steiermärkische Bank d.d. in the years ahead of us.

Petar Radaković
President of the Management Board

Management Board

PETAR RADAKOVIĆ, Chairman Of The Board

- responsible For Risk Management Division, Internal Audit Department And Legal Department; Since 01 April 2006 Responsible Also For Property Management Division

TOMISLAV VUIĆ, Deputy Chairman of the Board

- responsible for Retail Division, Multi Channel Management Department, Human Resources Department, Marketing and Communication Department

SLAĐANA JAGAR, Member of the Board

- responsible for Accounting and Controlling Division and Processing Division, since 01 April 2006 responsible also for IT Division and Organization Department

BORISLAV CENTNER, Member of the Board

- responsible for Corporate Division, Treasury Division, Security Custody Department

*SAVA DALBOKOV, Member of the Board until 31 March 2006

- responsible for IT Division, and Property Management Division.

Retail Banking Division

The Retail Banking Division continued recording outstanding performance in the year 2006. The year's success was achieved due to our focus on the client and the client's needs, on further development of operations with small entrepreneurs, and continued training offered to our employees.

Towards the end of 2006, Erste Bank started preparing the development of private banking as a new service. The decision was made based on the overall financial market development, the increased level of client knowledge and understanding of banking products, and the increased need of clients to invest a part of their disposable assets and to create their own portfolio.

The year 2006 was also marked by successful cooperation with all the members of the Erste Group, thus enabling the clients to use a complete range of services offered by the business network of the Bank.

Number of clients and market share increased

During the year 2006, the number of individual clients in the Retail Division went up by more than 35,000, so that the Bank served 594,516 retail clients at the end of the year.

Retail loans granted to individual clients of the Erste Bank recorded 25.12% growth in the period between 31 December 2005 and 31 December 2006, with the market share growing by 0.32 percentage points in the same period, so that it currently stands at 12.00%.

Housing loans granted by the Erste Bank grew by 39.75% between 31 December 2005 and 31 December 2006, with the housing lending market share growing by 0.41 percentage points in the same period so that it currently stands at 9.93%.

The Erste Bank retail deposits grew in 2006 by 24.16%, which is considerably above the market growth, thus increasing the Erste Bank market share by 0.98 percentage points to 11.32% on 31 December 2006.

The number of current accounts held by individual clients went up by more than 28,000 in the course of 2006 and reached the number of 306,355 on 31 December 2006.

Sales network expanded

The year 2006 saw further expansion of our sales network as two new branches were opened, one in Split, one in Zadar and two new offices in Zagreb, providing a full range of financial services to the clients. On 31 December 2006, the Bank sales network comprised 112 branches and offices.

New products launched

The Bank launched two new products in the year 2006: short-term active savings and cash loan with residual value.

Short-term active saving is a product launched in July 2006 to meet the needs of clients who want to save by making multiple payments in line with their financial capabilities at the most convenient pace over a shorter contract period. In addition to the premium received on the total amount of interest accrued upon the maturity date, another benefit offered to clients is the recognition of the contracted interest rate even if the contract is terminated before the maturity date, provided a three-month period has expired. On 31 December 2006, the amount of short-term active savings exceeded 166 million kuna, a clear evidence of the high level of interest the new product had generated among the Bank clients.

Cash loan with residual value is a product launched by the Bank in November 2006 as a novelty on the Croatian market. This product enables the client to use a larger loan amount at a lower monthly repayment rate. The client may choose which part of the loan to repay in instalments and which part to repay at once or in monthly instalments over an extended residual value repayment period.

New tranches of structured investment products were also issued in 2006, thus enabling clients to earn returns above those earned on term savings while at the same time enjoying a guaranteed repayment of the principal amount plus a minimum fixed return. Three tranches of Erste Exclusive+ and five tranches of Erste Profit+ were launched in the course of the year, so that the total amount of structured investment products stands at 131 million kuna.

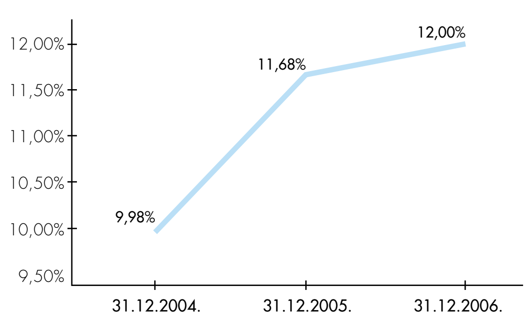
Small entrepreneurs

Following its establishment as a specialized organizational unit as the Department for Small Entrepreneurs in 2005, with the focus on business entities with a yearly turnover of up to 5 million kuna, excellent business performance was recorded in the unit in 2006. It is worth mentioning that the outstanding lending performance recorded a growth 79% higher than in 2005. The Department for Small Entrepreneurs operates from 31 locations as part of 8 entrepreneurial centers which, together with a total of 55 financial agents dedicated to small entrepreneurs, ensures that all our clients in the segment enjoy full financial and advisory support in their daily operations.

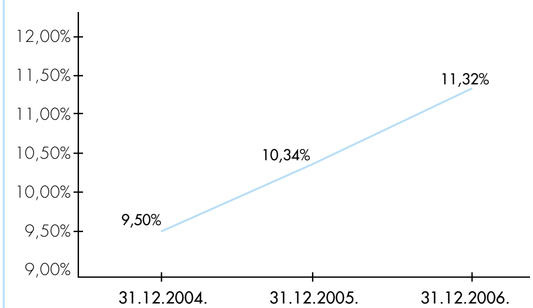
Social responsibility in business operations - cooperation with UNDP and HUB

As part of the social responsibility in business initiative, Erste Bank has, together with the United Nations Development Programme and five other banks belonging to the Croatian Bank Association (HUB), and under the coordination of the same association, participated in a pilot project aimed at teaching citizens about personal finance management. The pilot project offered the general public a series of free interactive workshops entitled "How to match your revenues and costs?".

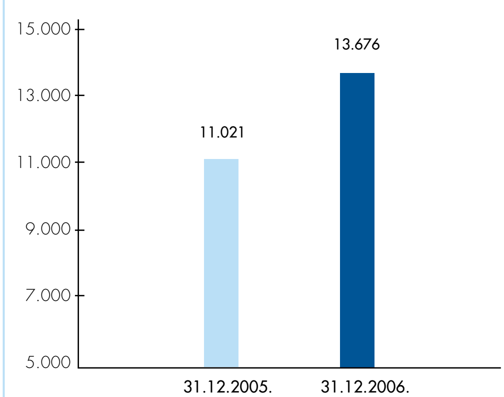
Retail loans - Market share



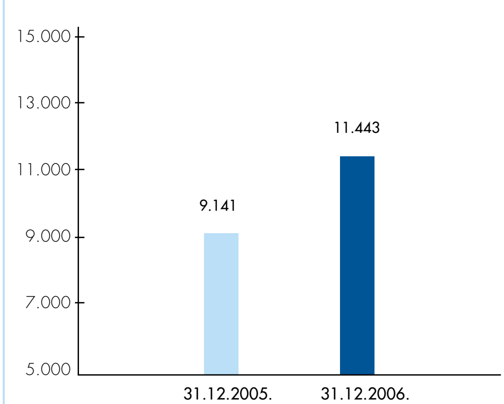
Retail deposits - Market share



Retail deposits in HRK mil



Retail loans in HRK mil



Corporate Division

The Corporate Division operations in 2006 were heavily impacted by the measures introduced by the Croatian National Bank, that is the increase in marginal mandatory reserves to 55%. That is why the Division focused on attracting deposits, while its lending activity slowed considerably, and the upward trend marked by high placement growth rates, which had started several years earlier, was discontinued.

The planned sales volumes of quasi-banking products, i.e. leasing products, offered by the Erste Bank Group companies, were actually achieved, while the year 2006 saw a more active role taken by the Corporate Division in the sale of real estate leasing and factoring products.

No new commercial centers were opened in the year 2006. At the end of the year, the Corporate Division employed 170 employees, 10 more than at the end of 2005.
The Division continued to be strategically focused on small and medium-sized companies, so that Erste & Steiermärkische Bank d.d. was in 2006 very much involved in all the subsidized and specially designed loan facilities aimed at financing the SMEs. This is why the Bank loan portfolio, using the facilities issued by the Croatian Bank for Reconstruction and Development, increased in 2006 by 22%, i.e. from the total of 936 million kuna on 31 December 2005 to 1,144 billion kuna on 31 December 2006. Of the total amount of CBRD loans granted, 43% were facilities related to export and export preparing activities.

Erste & Steiermärkische Bank d.d. was also very active related to the facility „Local development projects – Entrepreneur" set up in cooperation with the Ministry of Economy. As part of the facility, the Bank signed contracts with 18 counties, and the total amount placed via the facility in the period between 2004 and 2006 was 842 million kuna.

The facility „Incentive to succeed", created in cooperation with the Ministry of Tourism, allowed the Erste & Steiermärkische Bank d.d. to grant 30% of the total financing placed and the loans granted of the 17 banks participating in the facility.

The long term strategy of Erste & Steiermärkische Bank has been to serve its clients, entrepreneurs in the tourism industry, not only with top-quality banking services, but also as a partner and counsellor in the performance of their core activity. That is why the fourth quarter of 2006 saw the Bank organize, in cooperation with the Ministry of Tourism and the national Association of family and small hotels, a series of successful training seminars organized for current and potential investors in small and family hotels. Seminars were held in 6 locations where they were attended by more than 600 potential investors in small and family hotels.

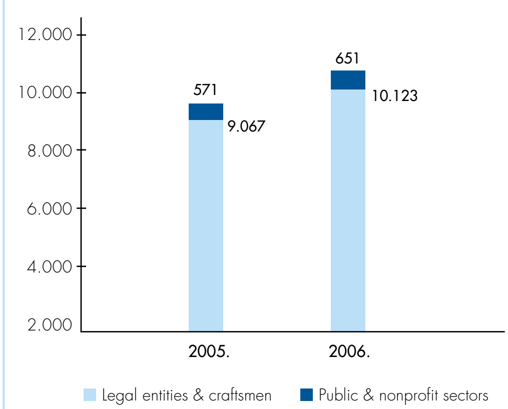
The Bank Corporate Division continued to participate in the process of education and transformation of Erste Bank Novi Sad, which was started in 2005.

In 2006, the Sales Support Department opened the EU desk service to provide information and counselling to clients regarding the financing options made available by the EU. Special lending and guarantee products were designed for the purpose: Blue-green loan and the EU guarantee activities.

Loans

The total gross loan portfolio of the Corporate Division grew in 2006 by 11.81%, while the market share dropped from 13% on 31 December 2005 to 11.9% on 31 December 2006.

Gross loan portfolio of the Corporate Division in HRK mil



Most of the lending growth in the year 2006 came from small and medium-sized clients where the planned 22% growth was actually achieved, whereas the rigid measures introduced by the Croatian National Bank brought about a considerable deviation from the planned lending to the Group Large Corporate (GLC) clients.

The rating distribution of the corporate portfolio was improved on 31 December 2006 compared with the situation on 31 December 2005 as the participation of rating groups 7, 8 and R went down by 3.31%.

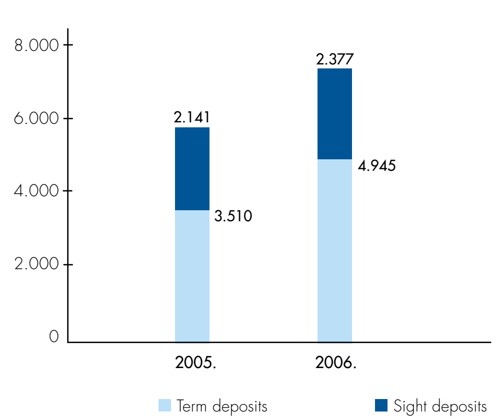
The industry distribution of the portfolio on 31 December 2006 showed increased exposure to the construction industry compared with the situation at the start of the year, but overall industry exposure remained in line with the Bank credit policy.

Deposits

Total corporated deposits went up by 28.44%, with term deposits going up by as much as 40.34%. Sight deposits were 12.09% higher than at the start of the year.

The market share held by corporate deposits increased from 13.1% to 15.2% in the period between 31 December 2005 and 31 December 2006.

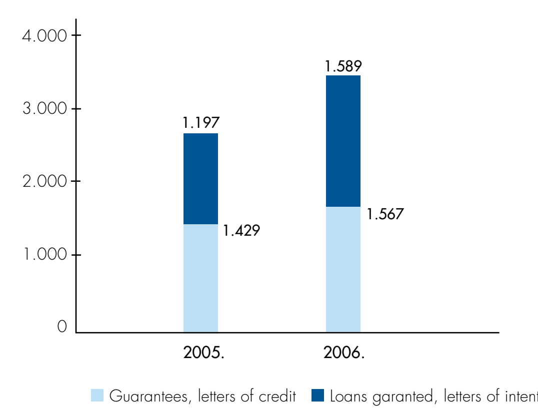
Corporate Division deposits in HRK mil



Off-balance sheet items

Total off-balance sheet items recorded an increase of 20.18%, and guarantees and letters of credit recorded an increase of 11.20%.

Off-balance sheet items in the Corporate Division in HRK mil



Treasury

The Treasury Division makes deals on the domestic and international money market, forex market and capital market and is responsible for operational liquidity management and the management of the Bank FX risk.

FX market

The EUR/HRK exchange rate moved in 2006 within the range 7.225 - 7.425. All through the year the kuna was under intense pressure to appreciate. A number of factors contributed to the appreciation of the kuna against the euro: increased demand for the kuna due to a new issue of Government bonds on the domestic market, capital increases in banks, increased interest of foreign investors to invest in domestic securities, and continued financing of domestic lending with financial assets acquired abroad.

The CNB intervened 13 times in the course of 2006, and only one of the interventions made the CNB sell euro. The CNB purchased 1.297 billion euro and made almost 9.50 billion kuna enter the banking system.

EUR/HRK exchange rate

The cash trading office was able last year to increase its sales of foreign currency abroad by 15% over the year 2005.

An important segment of the Division's operations involves buying and selling foreign currency both on the spot and in the forward markets. In order to improve service quality, we have set up a new desk responsible for performing these transactions with corporate clients.

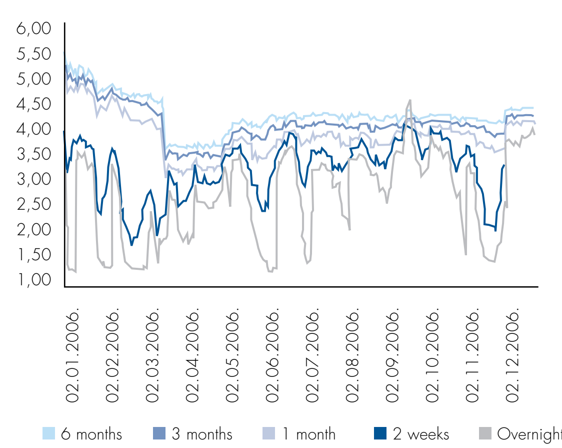
Money market

The money market was relatively stable in 2006, free of pronounced fluctuations in interest rates, which was the consequence of the direct involvement of the CNB, aimed at maintaining stable liquidity levels. For that purpose, the CNB used reverse repo auctions to allow the system to have additional liquidity. The total of 53.4 bn kuna was placed in this way on the market. The average amount of the CNB financing used by the banks was 898 million kuna.

With the increase in reverse repo auctions as an additional source of bank financing, Treasury Bills issued by the Ministry of Finance gained in importance. The increased demand resulted in falling returns irrespective of maturity. Thus returns on 91 day maturity moved within the range 2.80% to 3.70%, with the average at 3.09%. Treasury Bills with 182 day maturity moved within the range 3.05% to 3.80%, with the average at 3.41%, and the 364 day maturity moved in the range 3.40% to 4.00%, with the average at 3.87%. For comparison, in 2005 the average return on one-year Treasury Bills was as high as 5.00%.

Average ZIBOR O/N interest rate was 2.895%, which shows that the system liquidity was considerably above the level prevailing in the previous years. Among the reasons for improved liquidity were also the forex interventions of the CNB.

Chart - ZIBOR rates



2006 saw an increase in the marginal mandatory reserve related to additional foreign borrowing, and as a result there was an increase in the demand for foreign currency in the country. A decision was made in March on a special mandatory reserve equal to 55% on liabilities resulting from securities issued. As a result it became unattractive for banks to provide financing by issuing securities due to increased costs. In October modifications were made to the measure on minimum foreign currency receivables requirements through the introduction of a foreign currency clause into the basis for the calculation of the minimum required percentage, which resulted in reduction of the ratio.

The money market service was able to efficiently manage the Bank's liquidity throughout 2006 while at the same time enabling the Bank to meet all the internal and external regulations.

Bond market

The key factors behind the market changes in 2006 were the following: kuna denominated Government bond issues and growth in corporate bond issues, changes in regulations, and public debt.

The domestic market showed an adequate level of demand for the 6 billion kuna-denominated Government bond issue, mostly due to the fast growth of investment funds and stable inflow of money into pension funds. The total value of corporate bonds issued was 3.8 billion kuna, of which 2.7 were kuna-denominated issues, while the total value of such issues in 2005 amounted to 180 million kuna. The total amount of kuna bonds issued in 2006, if the 6 billion Government bonds are added, was 9.8 billion. Erste & Steiermärkische Bank was the arranger in 18% of the total amount issued, thus being among the four largest Government bond issue agents.

The bond market was marked by two events: the acquisition of Pliva by the American pharmaceutical giant Barr and the initial public offering of the domestic oil company INA, which attracted more than 40,000 private investors as well as institutional ones.

The Treasury Division was an active player in securities trading activities, and its market share in securities trading went up from 24% in 2005 to 27% in 2006. Furthermore, the INA IPO was used to encourage trading in shares.

IT Division and Organization Departments

The Bank continued throughout 2006 with the efforts geared towards reorganization of operations and processes in the areas of IT and organization and their harmonization with the structures and processes in place in the Erste Group. That was the reason why IT and organization were set up as two organizational units: IT Division and Organization Department. The IT Division consists of three functional units (departments) responsible in turn for the software application support development, centralised operating function and a decentralized technical function providing support to end users.

The spin off of IT Services into a new business entity was prepared, and the unit is to take over the operations of centralized IT at the start of 2007. The Bank will establish contractual cooperation with the new company based on a set of Service Level Agreements with the expected level of management and coordination, enabling it to arrive at improved quality of performance and specialization in the field of IT operations. These IT activities have been carried out by the Erste & Steiermärkische Bank in Croatia and will result in the harmonization of the operations of all the Group business entities responsible for IT services.

While undergoing restructuring, both the IT Division and the Organization Department were strengthened in terms of human capital in order to be ready to carry out the tasks that the new organization requires from them.

The NORGIT Project

The NORGIT project marked the year behind us and consumed a sizeable amount of IT development resources. The project was about preparation and migration of data from the Erste Bank a.d. Novi Sad IT system into a special version of the IBIS banking system adapted to the needs of the banking market in Serbia, thus making it possible for the Bank to operate with the support of the IT solution that has proved successful in supporting the operations of Erste Bank in Croatia. The project required the analysis and specification of differences in the operations on the two markets as well as development and adaptation of the IT solution and migrations programmes, and system and migration testing.

Simultaneously, ESB IT participated and provided help to Erste Bank Novi Sad in the process of modernization of technical support, introduction of centralized and decentralized parts of the IT system, upgrading of the equipment used, network facilities and server environment. All the key systems have been set up in a redundant working mode, the entire project was implemented in accordance with the Erste Group standards, and the best practices of the Erste Bank from Croatia operating systems were made use of.

In addition to the above, support was provided in the process of reorganization of processes and procedures and in the training of end users, while the project was also used to restructure IT and organization. Migration of data and transition to the new system were carried out with the start of the year 2007 following the closure of books for 2006.

This project has made it possible to use the IBIS system on the international market served by the Erste Bank Group.

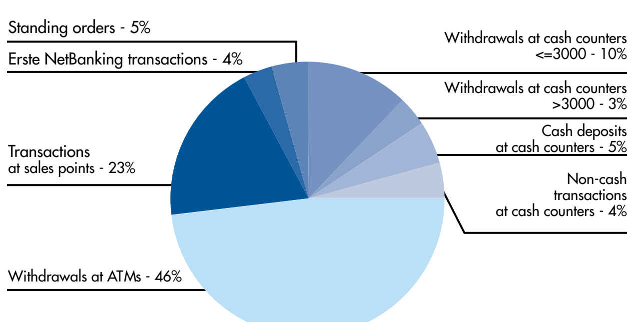
Multi Channel Management Department

In 2006, Multi Channel Management Department expanded the Bank range of services by the introduction of new co-branding cards with Jadransko osiguranje, redesign of the Bank pages on the Internet and its Intranet portal, while bringing them in line with the Erste Group standards. The Bank clients grew accustomed to the mobile banking service mBanking, which was launched towards the end of 2005.

Erste & Steiermärkische Bank boasts 65,976 users of credit cards and 488,090 users of debit cards, 71,430 users of SMS, 7,715 users of telephone banking, 47,561 users of NetBanking, and 7,483 users of mBanking.

The number of transactions across all distribution channels grew in 2006 by 23% over the previous year. Distribution channels comprise 365 ATMs, 3 967 POS terminals, SMS services (Erste SMS), Internet (Erste NetBanking), mobile (Erste mBanking) and telephone (Erste Fon) banking.

Number of client transactions by distribution channel



In 2006, there were 3,773,390 visitors to the Bank Internet portal www.erstebank.hr, which is an increase of 33% over 2005. Visitors opened 19,981,926 pages and clicked 121,035,917 times on the pages opened. The Internet pages enable visitors to carry out transactions, use calculators, make orders to the Bank, and download the «DOH» tax return form.

The year 2006 saw the expansion of the Bank services to new co-branding programmes: VISA Electron and VISA Classic with Jadransko osiguranje. Both cards use chips with state-of-the-art technology. In addition to that, the existing VISA Classic and MasterCard Standard programme has successfully been migrated to the chip.

The toll-free telephone number 0800 7890 for the call center registered 236 356 calls in 2006, which is an increase of 25 % over the previous year.

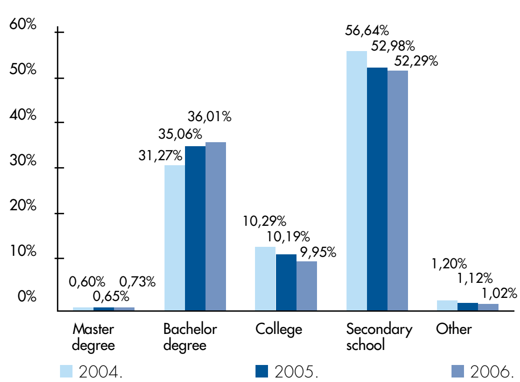
Human Resources

The total number of Bank's FTEs on 31 December 2006 was 1,685, while the average number of FTEs in 2006 was 1,668.

The analysis of the qualifications held by employees made on 31 December 2006 shows that there is an increase in the number of employees with university degrees and a decrease in the number of employees with secondary-school education.

Human Resources had 10 employees on 31 December 2006.

The Bank employees by qualification on 31 December 2006



Employment

The Human Resources Department focused in 2006 on the improvement of the employee selection process. Employees responsible for recruitment were pursuing internal specialization to be able to adopt a specific approach to each of the Bank organizational structure in order to recruit employees that are best suited to meet the needs of each organizational unit.

When selecting new employees, the process of internal selection is the first step. The basic goal is to offer development and promotion opportunities to the Bank employees within the Bank, while at the same time catering for employee satisfaction as this process of selection enables the Bank employees to be transferred to jobs that are best suited to them and enable them to become specialists in the field of their special interest. In 2006 there were 114 such internal selection processes which enabled 49 Bank employees to change their jobs.

Training and development

Intensive activity in the area of training and education was continued in 2006, with the stress put on the models of monitoring of training which should help the Bank assess the usefulness of training and the quality of education.

Two development programmes for future managers were running parallel in the Erste Group in 2006. They included participation of internal and external lecturers specializing in different fields. The program has now been completed and some of the participants have already appointed to managerial positions during the programme. As part of the manager development programme, a two-year education cycle was started involving 288 directors of the 3rd and 4th management level.

A large number of internal and external business education and training programmes was delivered in 2006, with the adoption of a standardized internal education concept for employees responsible for sales in the Retail and the Corporate Divisions.

The Human Resources Department cooperated in 2006 with all the Bank organizational units to design and implement a system of performance management, which became operational at the beginning of 2007. Among the key goals to be achieved with the help of the system is to define goals and to monitor implementation by means of agreements on the performance and by making employee bonuses dependent on their individual performance and on the meeting of the Bank business plan targets, i.e. the so-called company performance.

The Bank has established long-term cooperation with the Faculty of Economics in Zagreb and as part of it, the Danubia summer school was organized in 2006. It lasted for four weeks and its participants came from Vienna, Prague, Bratislava, Budapest, Belgrade and Zagreb. Training was organized in each of the above-mentioned cities for a few days and it included a visit to the Erste Bank in each of the countries hosting the event.

Responsibility for the financial statements

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

After making enquiries, the Management Board has a reasonable expectation that the Group and the Bank have 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 Group and the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and 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

Slađana Jagar
Erste & Steiermärkische Bank d.d.
Jadranski trg 3a
51 000 Rijeka
Republic of Croatia
24 January 2007

Independent auditors´ report

Deloitte.

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

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

To the shareholders of Erste & Steiermärkische Bank d.d.:

We have audited the accompanying financial statements of Erste & Steiermärkische Bank d.d. (the 'Bank') and of Erste & Steiermärkische Bank d.d. and its subsidiaries (the 'Group'), which comprise the balance sheet as at 31 December 2006, and the related income statement, statement of changes in equity and cash flow statement for the year then ended, and 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.

Auditor´s 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 assesment 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 entity´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 entities´ internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by managment, 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.

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

Deloitte d.o.o.

Deloitte
d.o.o.
Heinzelova 33
10000 ZAGREB
m.b. 0700851

Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia
24 January 2007

Income Statements

FOR THE YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

	Notes	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Interest income	3	1,755	1,420	1,752	1,420
Interest expense	4	(876)	(628)	(874)	(628)
Net interest income		**879**	**792**	**878**	**792**
Fee and commission income	5	329	282	325	282
Fee and commission expense	6	(112)	(109)	(113)	(109)
Net fee and commission income		**217**	**173**	**212**	**173**
Net profit on financial operations	7	137	165	136	165
Other operating income	8	35	8	35	10
Operating income		**1,268**	**1,138**	**1,261**	**1,140**
General administrative expenses	9	(575)	(527)	(569)	(525)
Depreciation of tangible fixed assets	22	(76)	(62)	(75)	(62)
Amortization of intangible fixed assets	22	(10)	(8)	(9)	(8)
Operating Expenses		**(661)**	**(597)**	**(653)**	**(595)**
PROFIT BEFORE PROVISION FOR IMPAIRMENT LOSSES, SHARE OF RESULTS OF ASSOCIATES AND INCOME TAX		607	541	608	545
Provision for impairment losses on loans and advances	10	(83)	(99)	(83)	(99)
Other provisions	26	(19)	(10)	(19)	(10)
PROVISION FOR LOAN LOSSES AND OTHER PROVISIONS		(102)	(109)	(102)	(109)
Share of profit of associates	21	8	3	-	-
PROFIT BEFORE INCOME TAX		513	435	506	436
Income taxes	11	(103)	(88)	(103)	(88)
NET PROFIT FOR THE PERIOD		410	347	403	348
Attributable to:					
Equity holders of the Bank		410	347		
Minority interests		-	-		
EARNINGS PER SHARE					
Basic and diluted (HRK)	31	29.25	26.21	28.77	26.26

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

Balance sheets

AS AT 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

	Notes	GROUP 2006	GROUP 2005 (restated)	BANK 2006	BANK 2005 (restated)
ASSETS					
Cash and balances with the Croatian National Bank	12	6,348	6,784	6,347	6,784
Amounts due from other banks	13	4,295	1,940	4,143	1,939
Assets at fair value through profit or loss	14	178	529	168	517
Non-current assets held-for-sale	15	24	-	23	-
Receivables on financial derivative transactions	16	33	7	33	7
Loans and advances to customers, net	17	21,902	18,387	21,902	18,387
Assets available-for-sale	18	1,603	1,472	1,603	1,472
Investments held to maturity	19	571	488	571	488
Tax assets	11	36	23	36	23
Other assets	20	70	68	69	68
Investments in subsidiaries and associates	21	22	42	44	57
Tangible and intangible fixed assets, net	22	605	580	575	580
Total Assets		**35,687**	**30,320**	**35,514**	**30,322**
LIABILITIES					
Amounts due to the Croatian National Bank	23	-	608	-	608
Amounts due to other banks	24	9,418	9,696	9,270	9,696
Amounts due to customers	25	22,257	17,089	22,258	17,090
Payables on financial derivative transactions	16	20	7	20	7
Provisions	26	71	52	71	52
Tax liabilities	11	33	87	32	87
Other liabilities	27	340	292	334	293
Subordinated debt	28	704	714	704	714
Total liabilities		**32,843**	**28,545**	**32,689**	**28,547**
Shareholders' equity					
Share capital	29	1,513	1,324	1,513	1,324
Share premium	29	568	-	568	-
Reserves and retained earnings	30	751	451	744	451
Equity attributable to equity holders of the Bank		**2,832**	**1,775**	**2,825**	**1,775**
Minority interest		12	-	-	-
Total equity		**2,844**	**1,775**	**2,825**	**1,775**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		35,687	30,320	35,514	30,322
FINANCIAL COMMITMENTS AND CONTINGENCIES	34	4,181	3,445	4,181	3,445

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

Signed on behalf of Erste & Steiermärkische Bank d.d. on 24 January 2007:

President of the Management Board
Petar Radaković

Member of the Management Board
Slađana Jagar

Consolidated Statement of changes in shareholders' equity

FOR THE YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

GROUP	Attributable to the equity holders of the Bank							
	Share capital	Share premium	Statutory and legal reserves	Other reserves	Retained Earnings	Total	Minority interest	Total equity
Balance as at 1 January 2005	**1,324**	**-**	**63**	**(2)**	**291**	**1,676**	**-**	**1,676**
Changes in equity for 2005								
Gains on assets available-for-sale	-	-	-	2	-	2	-	2
Net income recognized directly in equity	**-**	**-**	**-**	**2**	**-**	**2**	**-**	**2**
Net profit for the period	-	-	-	-	347	347	-	347
Total recognized income and expense for the period	**-**	**-**	**-**	**2**	**347**	**349**	**-**	**349**
Distribution of income for 2004:								
Transfer to reserves	-	-	39	-	(39)	-	-	-
Dividends	-	-	-	-	(250)	(250)	-	(250)
Balance as at 31 December 2005	**1,324**	**-**	**102**	**-**	**349**	**1,775**		**1,775**
Changes in equity for 2006								
Losses on assets available-for-sale	-	-	-	(7)	-	(7)	-	(7)
Related income tax	-	-	-	1	-	1	-	1
Net expense recognized directly in equity	**-**	**-**	**-**	**(6)**	**-**	**(6)**	**-**	**(6)**
Net profit for the period	-	-	-	-	410	410	-	410
Total recognized income and expense for the period	**-**	**-**	**-**	**(6)**	**410**	**404**	**-**	**404**
Share capital increase	189	568	-	-	-	757	-	757
Distribution of income for 2005:								
Transfer to reserves	-	-	23	6	(29)	-	-	-
Dividends	-	-	-	-	(104)	(104)	-	(104)
Acquisition of subsidiaries	-	-	-	-	-	-	12	12
Balance as at 31 December 2006	**1,513**	**568**	**125**	**-**	**626**	**2,832**	**12**	**2,844**

The accompanying notes form an integral part of these financial statements

Statement of changes in shareholders' equity

FOR THE YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

BANK	Share capital	Share premium	Statutory and legal reserves	Other reserves	Retained Earnings	Total equity
Balance as at 1 January 2005	1,324	-	63	(2)	291	1,676
Changes in equity for 2005						
Gains on assets available-for-sale	-	-	-	2	-	2
Net income recognized directly in equity	-	-	-	2	-	2
Net profit for the period	-	-	-	-	347	347
Total recognized income and expense for the period	-	-	-	2	347	349
Distribution of income for 2004:						
Transfer to reserves	-	-	39	-	(39)	-
Dividends	-	-	-	-	(250)	(250)
Balance as at 31 December 2005	1,324	-	102	-	349	1,775
Changes in equity for 2006						
Losses on assets available-for-sale	-	-	-	(7)	-	(7)
Related income tax	-	-	-	1	-	1
Net expense recognized directly in equity	-	-	-	(6)	-	(6)
Net profit for the period	-	-	-	-	403	403
Total recognized income and expense for the period	-	-	-	(6)	403	397
Share capital increase	189	568	-	-	-	757
Distribution of income for 2005:						
Transfer to reserves	-	-	23	6	(29)	-
Dividends	-	-	-	-	(104)	(104)
Balance as at 31 December 2006	1,513	568	125	-	619	2,825

The accompanying notes form an integral part of these financial statements

Cash flow Statements

FOR THE YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

	Notes	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Operating Activities					
Loss from operating activities before changes in operating assets and liabilities	33	*(224)*	*(188)*	*(224)*	*(184)*
Changes in operating assets and liabilities:					
Obligatory reserves with the Croatian National Bank		(393)	(2,193)	(393)	(2,193)
Amounts due from other banks		(131)	(6)	(18)	(6)
Loans and advances to customers, net of write-offs		(3,569)	(4,929)	(3,571)	(4,929)
Net increase/(decrease) in assets at fair value through profit and loss		342	(522)	340	(522)
Other assets		6	(3)	(1)	(3)
Amounts due to the Croatian National Bank		(608)	608	(608)	608
Amounts due to other banks		(296)	38	(438)	38
Amounts due to customers		5,095	3,210	5,095	3,210
Other liabilities		41	87	41	87
Cash from/(used in) operations		*263*	*(3,898)*	*223*	*(3,894)*
Interest paid		(787)	(586)	(787)	(586)
Interest received		1,755	1,390	1,756	1,390
Income taxes paid		(169)	(37)	(170)	(37)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES		**1,062**	**(3,131)**	**1,022**	**(3,127)**
Investing Activities					
Acquisition of subsidiaries		(3)	-	(6)	-
Purchase of fixed assets		(158)	(361)	(152)	(361)
Disposals of fixed assets		73	183	73	183
Purchase of assets available-for-sale		(107)	646	(107)	644
Increase in investments in associates		(4)	(7)	(4)	(10)
Redemption of securities held-to-maturity		(83)	239	(83)	239
NET CASH (USED IN)/PROVIDED BY INVESTING ACTIVITIES		**(282)**	**700**	**(279)**	**695**
Financing Activities					
		(12)	393	(12)	393
Subordinated borrowings		757	-	757	-
Share capital increase		(104)	(250)	(104)	(250)
Dividends paid					
NET CASH PROVIDED BY FINANCING ACTIVITIES		**641**	**143**	**641**	**143**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,421**	**(2,288)**	**1,384**	**(2,289)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**4,700**	**6,988**	**4,699**	**6,988**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**6,121**	**4,700**	**6,083**	**4,699**

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

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

1. GENERAL

History and incorporation

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

Principal activities of the Bank

The Bank is licensed to conduct commercial banking activities in the Republic of Croatia. The Bank's main operations are as follows:

1. accepting deposits from the public and placing of deposits,
2. providing current and term deposit accounts,
3. 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,
4. treasury operations in the interbank market,
5. trust management and investment banking services,
6. performing local and international payments,
7. providing banking services through an extensive branch network in the Republic of Croatia.

Supervisory Board

Mag. Reinhard Ortner	President
Mag. Franz Kerber	Deputy President
Dr. Kristijan Schellander	Member
Mag. Peter Nemschak	Member
Andreas Klingen	Member
Herbert Juranek	Member
Mag. Helmut Payer	Member
Mag. Gerhard Maier	Member since 27 June 2006
Claudia Hoeller	Member since 27 June 2006
Dr. Manfred Wimmer	Member until 26 June 2006
Josip Stanković	Member until 26 June 2006

Management Board

The Bank is represented jointly by two members of the Management Board, or by one member of the Management Board together with the procurator.

Petar Radaković	President
Tomislav Vuić	Deputy President
Borislav Centner	Member
Slađana Jagar	Member
Sava Dalbokov	Member until 31 March 2006

Procurators:

Ivan Vuk
Marko Krajina
Damir Bronić
Zdenko Matak
Dragutin Bohuš

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

1. GENERAL (CONTINUED)

The shareholding structure of the Bank is as follows:

	2006		2005	
	Number of shares	Ownership, %	Number of shares	Ownership, %
Erste Bank der oesterreichischen Sparkassen AG, Wien	8,286,192	54.7%	6,810,441	51.4%
Die Steiermärkische Bank und Sparkassen AG, Graz	6,202,591	41.0%	5,821,344	44.0%
Member of Management Board - Slađana Jagar	235	0.0%	235	0.0%
Other shareholders	645,242	4.3%	610,458	4.6%
Total	**15,134,260**	**100.00%**	**13,242,478**	**100.00%**

The Bank's ordinary shares are listed on the Zagreb Stock Exchange as a public stock company.

Definition of the consolidated group

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

Name of subsidiary	Ownership interest	Principal activity	Audited By	Registered office
Erste DMD d.o.o. za upravljanje dobrovoljnim mirovinskim fondom	100%	Management company for voluntary pension fund	Deloitte d.o.o.	Varšavska 3-5, Zagreb
Erste nekretnine d.o.o.	90%	Real estate business	Deloitte d.o.o.	Ruđera Boškovića 12, Zagreb
MBU d.o.o. za informatički inženjering i međubankarske usluge	55.88%	IT engeneering and interbank services	Deloitte d.o.o.	Andrije Žaje 61, Zagreb

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

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of presentation

The financial statements are presented for the Group ('consolidated financial statements') and the Bank only ('separate financial statements').

The financial statements are prepared in accordance with International Financial Reporting Standards *('IFRS')* as published by the International Accounting Standards Board, under the historical cost convention, as modified by the revaluation of appropriate financial assets and liabilities. The financial statements are presented in millions of Local Currency – Croatian Kuna ("HRK"), unless otherwise indicated.

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

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

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 and its subsidiaries, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with *IFRS*.

2.2. Basis of consolidation

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

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

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

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Accounting for investments in subsidiaries in the separate financial statements of the Bank

Investments in subsidiaries are accounted at cost in the separate financial statements of the Bank.

2.3. Business combinations

Acquisitions of subsidiaries and businesses 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 Group 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 recognized 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 recognized and measured at fair value less costs to sell.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Group'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 recognized 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 recognized.

2.4. Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with *IFRS* 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss. Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Accounting for investments in associates in the separate financial statements of the Bank

Investments in associates are accounted at cost in the separate financial statements of the Bank.

2.5. Goodwill

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

2.6. Adoption of new and revised International Financial Reporting Standards

In the current year, the Bank and the Group have 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 Group's accounting policies in the following areas:

- investments classified as 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.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 management 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 and the Group.

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

Following 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 amortized cost, or at fair value with changes in fair value recognized 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 recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

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.

2.7. Leasing

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 and the Group as lessee

Assets held under finance leases are recognized as assets of the Bank and the Group 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.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8. Non-current assets held-for-sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

2.9. Interest Income and Expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly 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.

2.10. Fee and Commission Income and Expense

Fees and commissions consist mainly of fees on domestic and foreign payments, guarantees, letters of credit, card business and other credit instruments issued by the Bank and the Group. Such fees and commissions are generally recognized as income when due.

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.

2.11. 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 and the Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank and the Group have the ability and intention to settle on a net basis.

The Bank and its subsidiaries are subject to various indirect taxes which are included in general administrative expenses.

2.12. Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include 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

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YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

day to day operations. The obligatory reserve with the CNB is a required reserve to be held by all commercial banks licensed in Croatia.

2.13. Financial assets

Financial assets held by the Bank and the Group are categorized into portfolios in accordance with the Bank's and the Group's intent on the acquisition and pursuant to the 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 settlement 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 and the Group measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, 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 asset 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 and the Group manage 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 and the Group include realized and unrealized gains and losses in 'Net profit/ (loss) on financial operations.' Interest earned on assets at fair value through profit or loss representing coupons on debt securities is accrued on a daily basis and reported within 'Net profit/(loss) on financial operations' in the statement of income.

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

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

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 and the Group have 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 and the Group assess 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

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YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and the Group recognize 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 recognized 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 profit/(loss) on financial operations' in the profit and loss statement. 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 and the Group intend 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 and the Group upon initial recognition designate as available for sale; or (c) those for which the Bank and the Group 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 carried 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

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and the Group will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. 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 no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank and the Group include 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.
Penalty interest are charged to borrowers when a portion of the loan falls overdue. Penalty interest is accounted for on a cash received basis in the caption ‘Interest income’.

2.14. Financial liabilities
Financial liabilities of the Bank and the Group like ‘Amounts due to other banks’, ‘Amounts due to customers’, ‘Subordinated debt’ are stated at amortized costs using the effective interest rate method. Interest expense arising on the issue of certificated debts is included in the income statement line ‘Interest expense’.

2.15. Financial guarantee contract liabilities
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 recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

2.16. Derivative financial instruments
In the normal course of business the Bank and the Group enter into derivative financial instruments to manage currency, liquidity and interest rate risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Bank and the Group include forwards, foreign currency and equity options and futures.
Derivative financial instruments are initially recorded at cost (including transaction costs) and subsequently re-measured at their fair value. Fair values are principally obtained from discounted cash flow models and option pricing models as appropriate. The results of the valuation of derivatives are reported in assets (aggregate of positive fair values) or liabilities (aggregate of negative fair values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise in the income statement line ‘Net profit/(loss) from financial operations’.

In case of equity options, when the underlying equity instrument is not publicly traded and its fair value can not be measured reliably, the fair value of the options is not determined and such options are disclosed in the financial statements.

Certain derivative transactions, while providing effective economic hedges under the Bank’s and the Group’s risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in the income statement line ‘Net profit/(loss) from financial operations’.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17. 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 and the Group retain 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 and the Group reclassify 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 Croatian National Bank.' The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

2.18. Tangible and intangible fixed assets

Fixed and intangible assets are stated at historical cost less accumulated depreciation. 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	40 years	40 years
Computers	4 years	4 years
Furniture and equipment	3-10 years	3-10 years
Motor vehicles	4 years	4 years
Software	4 years	4 years
Other intangible assets	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. An 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.

2.19. 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.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and the Group have assets and liabilities originated in HRK, which are linked to foreign currency with one-way currency clause. Due to this clause the Bank and the Group have an option to revalue the asset by higher of: foreign exchange rate valid as of the date of maturity, or foreign exchange rate valid as of the date of origination of the financial instrument. In case of liability linked to this clause the counterparty has this option. Due to the specific conditions of the market in 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 and the Group value its assets and liabilities related to this clause by the agreed contract rate 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 Croatian National Bank and used in the preparation of the Bank's and the Group's balance sheet at the reporting dates were as follows:

31 December 2006	EUR 1=HRK 7.345081	USD 1=HRK 5.578401
31 December 2005	EUR 1=HRK 7.375626	USD 1=HRK 6.233626

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20. Off-Balance-Sheet Commitments

In the ordinary course of business, the Bank and the Group enter 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 and the Group's balance sheet if and when they become payable.

2.21. Provisions

Provisions are recognized when the Bank and the Group have a present obligation as a result of a past event, and it is probable that the Bank and the Group will be required to settle that obligation. 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.

2.22. Long-term employee benefits

For defined retirement benefit and jubilees, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognized in full in the period in which they occur. They are recognized outside profit or loss and presented in the statement of changes in equity.

Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

2.23. Fiduciary activities

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

2.24. Critical accounting judgments and key sources of estimation uncertainty

In the application of the 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 recognized 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 and the Group 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.

Due to absence of recently observed market prices for the derivative financial instruments the management has decided to measure the derivatives using discounted cash flow models. Discount factors used in these models are derived from the smooth interest rates and volatility curves constructed with predefined interpolation methods and market interest rates contributed by Reuters which are valid as at 31 December 2006 for each currency and corresponding maturity dates.

In the ordinary course of business, the Bank and the Group are subject to legal actions and complaints. The management 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 and the Group. As of 31 December 2006 the

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YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

management established, based on advice of the legal counsel, provisions for these risks amounting to HRK 1 million. For the rest of the legal cases where the Bank or its subsidiaries act as a defendant no provisions were created as the management, based on the advice of legal counsel is of the opinion that the Bank's and the subsidiaries cases will prevail and the probability of the adverse outcome of the litigations is remote.

2.25. Reclassification

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.

2.26. Regulatory requirements

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

3. INTEREST INCOME

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Interest on loans and advances to customers	1,556	1,210	1,556	1,210
Interest income on assets available-for-sale and investments held to maturity	95	119	95	119
Interest on amounts due from other banks	75	60	72	60
Interest on balances due from the Croatian National Bank	28	30	28	30
Other interest income	1	1	1	1
	1,755	**1,420**	**1,752**	**1,420**

4. INTEREST EXPENSE

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Interest on customer deposits	531	385	531	385
Interest on amounts due to other banks	306	219	304	219
Interest on subordinated debt	29	14	29	14
Interest on other borrowed funds	8	9	8	9
Other interest expense	2	1	2	1
	876	**628**	**874**	**628**

5. FEE AND COMMISSION INCOME

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Payments and money transfers	181	167	179	167
Bank cards services	79	60	77	60
Guarantees and letters of credit	25	25	25	25
Other fee and commission income	44	30	44	30
	329	**282**	**325**	**282**

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

6. FEE AND COMMISSION EXPENSE

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Payments and money transfers	57	63	56	63
Bank cards services	52	45	54	45
Other fee and commission expense	3	1	3	1
	112	109	113	109

7. NET PROFIT ON FINANCIAL OPERATIONS

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Gains on spot foreign exchange transactions	100	102	100	102
Gains/losses on other derivative financial instruments	5	(3)	5	(3)
Realized gains on assets available for-sale	14	16	14	16
Net gain on assets at fair value through profit or loss	7	25	6	25
Dividend income	2	1	2	1
Net foreign exchange gain	9	24	9	24
	137	165	136	165

8. OTHER OPERATING INCOME

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Rental income	3	3	3	3
Income from sale of tangible fixed assets	-	1	-	1
Other	32	4	32	6
	35	8	35	10

9. GENERAL ADMINISTRATIVE EXPENSES

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Employee related costs				
- Wages, salaries and compensations	173	164	173	163
- Payroll taxes and contributions	141	125	139	125
Materials and services	172	154	170	154
Savings insurance premiums	31	28	31	28
Marketing and advertising cost	38	36	37	35
Other taxes and contributions	5	5	4	5
Other	15	15	15	15
	575	527	569	525

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

9. GENERAL ADMINISTRATIVE EXPENSES (CONTINUED)

The Group and the Bank do not have pension arrangements separate from the State pension system of Croatia. This system requires that current contributions by the employer be calculated as a percentage of current gross salary payments; these expenses are charged to the profit and loss statement in the period the related compensation is earned by the employee.

The number of full time employees of the Group was 1,737 and 1,546 as at 31 December 2006 and 2005, respectively. The number of full time employees of the Bank was 1,667 and 1,546 as at 31 December 2006 and 2005, respectively.

10. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Allowance for impairment loss on amounts due from banks	11	12	11	12
Allowance for impairment loss on loans and advances	1,043	978	1,041	978
Allowance for impairment loss on other assets	7	6	7	6
Total	1,061	996	1,059	996

The movement in the allowances for impairment losses on loans and advances and other assets is summarized as follows:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Balance at 1 January	996	929	996	929
Release of previously established allowances	(261)	(242)	(261)	(242)
Additional allowances	344	341	344	341
Reversal of specific allowance due to write-offs	*(18)*	*(17)*	*(18)*	*(17)*
Exchange rate differences attributable to allowances	-	*(15)*	*(2)*	*(15)*
Balance at 31 December	1,061	996	1,059	996

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

11. INCOME TAXES

The Group and the Bank provide for taxes based on the tax accounts maintained and prepared in accordance with the local tax regulations and which may differ from International Financial Reporting Standards.

The Bank and subsidiaries are subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.
Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2006 and 2005 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Relationship between tax expenses and accounting profit for the years ended 31 December 2006 and 2005 are explained as follows:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Profit before income tax	513	435	506	436
Theoretical tax calculated at a tax rate of 20% (2005: 20%)	103	87	101	87
Tax effect of permanent differences	2	1	2	1
Tax effect of temporary differences	12	23	12	23
Effect of consolidation adjustments	(2)	-	-	-
Current income tax expense	**115**	**111**	**115**	**111**
Current income tax expense	(115)	(111)	(115)	(111)
Change in deferred tax assets recognized in income statement	12	23	12	23
Income tax expense recognized in income statement	**(103)**	**(88)**	**(103)**	**(88)**

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

11. INCOME TAXES (CONTINUED)

Deferred tax assets and liabilities are attributable to the following temporary differences:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Deferred assets				
Loans origination fees	160	108	160	108
Unrealized losses on assets available-for-sale	28	6	28	6
Unrealized losses on assets held-for-trading	2	4	2	4
Negative valuation of derivative financial instruments	7	3	7	3
Employment benefits provisions	10	-	10	-
Total deferred assets	**207**	**121**	**207**	**121**
Deferred liabilities				
Unrealized gains on assets available-for-sale	21	6	21	6
Borrowings origination fees	2	2	2	2
Total deferred liabilities	**23**	**8**	**23**	**8**
Net deferred assets	184	113	184	113
Deferred tax asset at the statutory tax rate (20%)	**36**	**23**	**36**	**23**

The movement in deferred tax balances is as follows:

	GROUP AND BANK				
	Deferred loan origination fees	Unrealized gains on available-for-sale securities	Unrealized losses on trading securities	Other	Total
Balance at 1 January 2005	-	-	-	-	-
Credit to income statement	21	-	1	1	23
Balance at 31 December 2005	**21**	**-**	**1**	**1**	**23**
Credit/ (charge) to income statement	11	-	(1)	2	12
Credit to equity	-	1	-	-	1
Balance at 31 December 2006	**32**	**1**	**-**	**3**	**36**

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

11. INCOME TAXES (CONTINUED)

Income tax assets and liabilities consist of the following:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Current income tax liabilities	(33)	(87)	(32)	(87)
Deferred tax assets	37	23	37	23
Income tax assets/(liabilities)	**4**	**(64)**	**5**	**(64)**

Croatian tax legislation and practice has changed significantly in recent years. Many parts of the legislation remain untested and there is uncertainty about the interpretation that the tax authorities may apply in a number of areas. Tax positions taken by the Group are subject to examination and could be challenged by the tax authorities. As a result there is uncertainty about the potential impacts should the interpretation of the tax authorities differ from that applied by the Group. However, the Group's Management considers that the tax liability which might arise in connection with this would not be material.

12. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Cash on hand	296	279	295	279
Cash on clearing account	1,377	2,223	1,377	2,223
Obligatory reserves with the Croatian National Bank	4,675	4,282	4,675	4,282
	6,348	**6,784**	**6,347**	**6,784**

As at 31 December 2006 and 2005 obligatory reserves with the Croatian National Bank of HRK 4,675 and HRK 4,282 million, respectively, represent the permanent minimum reserve deposits, which the Bank is required to maintain at all times.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

13. AMOUNTS DUE FROM OTHER BANKS

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Demand placements with banks registered in:				
Republic of Croatia	20	14	16	14
OECD countries	24	12	24	12
Other countries	14	10	14	10
Term placements with banks registered in:				
Republic of Croatia	648	4	500	3
OECD countries	3,600	1,908	3,600	1,908
Other countries	-	4	-	4
Total gross balances due from other credit institutions	*4,306*	*1,952*	*4,154*	*1,951*
Less: Allowance for possible placement losses	(11)	(12)	(11)	(12)
	4,295	**1,940**	**4,143**	**1,939**

As at 31 December 2006 and 2005 demand placements with banks include balances at nostro accounts with correspondent banks of HRK 25 million and HRK 15 million, respectively.

14. ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP 2006	GROUP 2005 (restated)	BANK 2006	BANK 2005 (restated)
Bonds of the Republic of Croatia held-for-trading	163	529	153	517
Bonds of foreign states held-for-trading	15	-	15	-
	178	**529**	**168**	**517**

Bonds of the Republic of Croatia are fixed income debt securities denominated in HRK and EUR and listed on stock exchanges. These bonds have maturities between 2007 and 2019 and bear a coupon interest from 3.5875% to 6.875% p.a. Bonds of foreign states held-for-trading are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2016 and bear a coupon interest of 4.00% p.a.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

15. NON-CURRENT ASSETS HELD-FOR-SALE

At 31 December 2006 and 2005 the Bank owns 191,095 ordinary shares in Kvarner banka d.d. accounted for in the 2005 consolidated financial statements as an associate. On 6 October 2006 the Bank entered into a sale agreement with BKS Bank AG, Austria, under which it intends to sell its investment. The sale transaction is subject to approval by the Croatian National Bank. The management of the Bank expects that the sale transaction will be completed during the first half 2007.
The Group and the Bank have reclassified the investment in associate to non-current assets held for sale in 2006. As at 31 December 2006 the investment in associate is carried at the book value of HRK 24 million in financial statements of the Group, and at the book value of HRK 23 million in financial statements of the Bank.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP AND BANK 2006			GROUP AND BANK 2005		
		Fair Value			*Fair Value*	
	National Amount	Assets	Liabilities	National Amount	Assets	Liabilities
Interest rate instruments:						
Interest rate swaps	147	8	-	155	-	(1)
Subtotal - Interest rate instruments	*147*	*8*	*-*	*155*	*-*	*(1)*
Foreign currency instruments:						
Currency swaps						
Purchase	*1,560*	*6*	*-*	*962*	*2*	*-*
Sell	*1,560*	*-*	*(7)*	*960*	*-*	*(1)*
Forwards						
Purchase	*1,510*	*7*	*-*	*120*	*-*	*-*
Sell	*1,503*	*-*	*-*	*121*	*-*	*(1)*
Call options	3	1	-	6	3	-
Put options	3	-	(2)	6	-	(3)
Subtotal - Foreign currency instruments	*6,139*	*14*	*(9)*	*2,175*	*5*	*(5)*
Other instruments:						
Call options for stock index	37	11	-	7	2	-
Put options for stock index	37	-	(11)	7	-	(1)
Call options for equity instruments	10	-	-	10	-	-
Put options for equity instruments	10	-	-	10	-	-
Future contracts with securities sold	-	-	-	221	-	-
Subtotal - Other instruments	*94*	*11*	*(11)*	*255*	*2*	*(1)*
	6,380	33	(20)	2,585	7	(7)

The fair value of these transactions reflects the credit risk and other types of economic risks for the Group and the Bank.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The maturity of derivative financial instruments as at 31 December 2006 is as follows:

	GROUP AND BANK			
	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments:				
Interest rate swaps	-	-	147	147
Foreign currency instruments:				
Currency swaps				
Purchase	*1,560*	-	-	*1,560*
Sell	*1,560*	-	-	*1,560*
Forwards				
Purchase	*1,510*	-	-	*1,510*
Sell	*1,503*	-	-	*1,503*
Call options	3	-	-	3
Put options	3	-	-	3
Other instruments:				
Call options for stock index	-	37	-	37
Put options for stock index	-	37	-	37
Call options for equity instruments	-	10	-	10
Put options for equity instruments	-	10	-	10
	6,139	94	147	6,380

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

17. LOANS AND ADVANCES TO CUSTOMERS, NET

Loans and advances to customers as at 31 December 2006 and 2005 are summarized as follows:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Short-term loans:				
Companies	2,589	1,951	2,587	1,951
Individuals	648	555	648	555
Public sector	153	154	153	154
Other institutions	5	5	5	5
Total short-term loans	*3,395*	*2,665*	*3,393*	*2,665*
Long-term loans:				
Companies	7,842	7,219	7,842	7,219
Individuals	10,821	8,645	10,821	8,645
Public sector	862	818	862	818
Other institutions	25	18	25	18
Total long-term loans	*19,550*	*16,700*	*19,550*	*16,700*
Total loans before allowance for impairment	*22,945*	*19,365*	*22,943*	*19,365*
Less: Allowance for loan impairment	*(1,043)*	*(978)*	*(1,041)*	*(978)*
	21,902	18,387	21,902	18,387

Loans and advances to customers are made principally within Croatia.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

17. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

An industry analysis of the gross portfolio of loans and advances to customers is summarized as follows:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Citizens	11,470	9,200	11,469	9,200
Retail and wholesale trade, repair of motor vehicles and home appliances	2,808	2,424	2,808	2,424
Manufacture of other transport vehicles	623	1,092	623	1,092
Construction industry	1,378	966	1,378	966
Hotels and restaurants	1,071	858	1,071	858
Other manufacturing industry	839	826	839	826
Public administration and defence	759	779	759	779
Real estate business operations, leases and business services	1,229	707	1,229	707
Transport, storage and communication	526	610	526	610
Manufacture of food and beverages	447	364	447	364
Electricity, gas and water supply	187	264	186	264
Agriculture, hunting, forestry and fishery	302	237	302	237
Financial mediation	314	189	314	189
Manufacture of other non-metal and mineral products	151	155	151	155
Manufacture of metal products, except of machinery and equipment	140	134	140	134
Personnel services and other service business	167	123	167	123
Publishing and printing industry	83	99	83	99
Textile industry	90	84	90	84
Health and social services	95	77	95	77
Manufacture of chemicals and chemical products	106	77	106	77
Education	32	28	32	28
Mining industry	35	25	35	25
Manufacture of coke, petroleum products and nuclear fuel	28	18	28	18
Foreign customers	65	29	65	29
	22,945	**19,365**	**22,943**	**19,365**

As at 31 December 2006 and 2005, the credit exposures to 10 largest customers accounted for 7.9% and 11.5% of the gross loan portfolio, respectively.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

17. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

Average effective interest rates on loans and advances to customers are summarized as follows:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Companies	6.2%	5.8%	6.2%	5.8%
Individuals	8.2%	8.6%	8.2%	8.6%

As at 31 December 2006 and 2005 loans and advances to customers include loans under reverse repurchase agreements of HRK 132 million and HRK 100 million, respectively, with maturity up to 1 month. Such agreements are secured with the debt securities of the Republic of Croatia and corporate bonds with the fair value of HRK 135 million and HRK 102 million as at 31 December 2006 and 2005, respectively.

18. ASSETS AVAILABLE FOR - SALE

	GROUP 2006	GROUP 2005 (restated)	BANK 2006	BANK 2005 (restated)
Equity shares and participations:				
Investments in companies	6	4	6	4
Investments in financial institutions	13	13	13	13
Subtotal equity shares and participations	*19*	*17*	*19*	*17*
Debt securities:				
Treasury bills	762	658	762	658
Listed debt securities	703	645	703	645
Unlisted debt securities - commercial bills of exchange	85	107	85	107
Subtotal - debt securities	*1,550*	*1,410*	*1,550*	*1,410*
Units in open investment funds	37	48	37	48
Total assets available-for-sale	*1,606*	*1,475*	*1,606*	*1,475*
Less: Allowance for impairment of available-for-sale assets	(3)	(3)	(3)	(3)
	1,603	**1,472**	**1,603**	**1,472**

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

18. ASSETS AVAILABLE FOR - SALE (CONTINUED)

Debt securities available-for-sale allocated by issuer comprise:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Debt securities available for sale issued by:				
State institutions in Croatia	1,374	1,266	1,374	1,266
Financial institutions in Croatia	37	20	37	20
Companies in Croatia	118	124	118	124
Foreign states	21	-	21	-
	1,550	1,410	1,550	1,410

Debt securities issued by the State institutions in Croatia include bonds and treasury bills issued by the Croatian Ministry of Finance.
Treasury bills of the Croatian Ministry of Finance are HRK denominated debt securities issued at discount to nominal. These securities are issued with original maturities of 91, 181 and 364 days.
During the year 2006 the average interest yields on the treasury bills were 3.04% for treasury bills with maturity of 91 days, 3.32% for treasury bills with maturity of 181 days, and 3.91% for treasury bills with maturity of 364 days. During the year 2005 the average interest yields on the treasury bills were 4.07% for treasury bills with maturity of 91 day, 4.84% for treasury bills with maturity of 181 days, and 4.93% for treasury bills with maturity of 364 days.
Bonds of the Republic of Croatia are HRK, EUR and USD denominated fixed income debt securities listed at stock exchanges. These bonds have maturities from 2007 to 2019 and bear a coupon interest from 3.500% to 6.875% p.a.
Bonds of foreign states are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2016 and bear a coupon interest of 3.50% p.a.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

19. INVESTMENTS HELD TO MATURITY

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Fixed income debt securities:				
Listed debt securities				
Bonds issued by the Republic of Croatia	268	120	268	120
Unlisted debt securities				
Bonds issued by the Republic of Croatia	268	333	268	333
Commercial bills of exchange	8	-	8	-
Subtotal - Fixed income debt securities	*544*	*453*	*544*	*453*
Factoring	27	35	27	35
	571	488	571	488

Listed bonds issued by the Republic of Croatia are fixed income debt securities denominated in EUR and HRK. These bonds have maturities from 2008 and 2014 and bear a coupon interest from 5.500% to 6.875%. These bonds are traded on an active market.

Unlisted bonds issued by the Republic of Croatia are foreign currency denominated bonds issued in 1997 and 2002 and repayable in twenty semi-annual instalments at the interest rate from 6% p.a. to 7.2% p.a. The bonds have maturities in 2007 and 2011.

The fair value of assets held to maturity is approximately HRK 20 million higher than their carrying value as at 31 December 2006.

20. OTHER ASSETS

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Assets acquired in lieu of uncollected receivables	14	15	14	15
Receivables from fees and commissions	18	16	18	16
Checks	8	11	8	11
Prepaid expenses	11	5	11	5
Other assets	26	27	25	27
Total gross other assets	*77*	*74*	*76*	*74*
Less: Allowance for impairment of other asset	(7)	(6)	(7)	(6)
	70	68	69	68

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

21. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Ownership Interest	Activity	Group's Share of net assets		Investment at cost	
Associates			2006	2005	2006	2005
Erste Factoring d.o.o.	44.00%	Other credit intermediation	2	-	2	-
MBU d.o.o.	41.11%	IT engineering and interbank services	-	2	-	1
Kvarner banka d.d.	31.85%	Bank services	-	23	-	23
Erste d.o.o.	27.87%	Management company for obligatory pension fund	13	10	10	10
Erste Sparkassen d.d.	26.00%	Life insurance	7	7	10	8
Total associates:			**22**	**42**	**22**	**42**
Subsidiaries						
Erste nekretnine d.o.o.	90.00%	Real estate business	-	-	1	-
Erste DMD d.o.o.	100.00%	Management company for voluntary pension fund	15	14	15	15
MBU d.o.o.	55.88%	IT engineering and interbank services	13	-	6	-
Total subsidiaries:			**28**	**14**	**22**	**15**
Total:			**50**	**56**	**44**	**57**

The Group's share of results of associates can be summarized as post acquisition profits, net of dividends received and amounted to HRK 8 million and HRK 3 million for the year 2006 and 2005, respectively.

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YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

22. TANGIBLE AND INTANGIBLE FIXED ASSETS

	GROUP					
	Land and buildings	Computers and other equipment	Furniture and motor vehicles	Construction in progress	Intangible assets	Total
COST						
At 1 January 2006	467	276	141	26	51	961
Additions	47	20	19	80	18	184
Disposals	-	(4)	(8)	(72)	(1)	(85)
At 31 December 2006	514	292	152	34	68	1,060
ACCUMULATED DEPRECIATION						
At 1 January 2006	121	152	79	-	29	381
Depreciation	11	49	16	-	10	86
Eliminated on disposals	-	(4)	(7)	-	(1)	(12)
At 31 December 2006	132	197	88	-	38	455
NET BOOK VALUE						
31 December 2006	382	95	64	34	30	605
31 December 2005	346	124	62	26	22	580

	BANK					
	Land and buildings	Computers and other equipment	Furniture and motor vehicles	Construction in progress	Intangible assets	Total
COST						
At 1 January 2006	467	276	141	26	51	961
Additions	33	17	14	80	8	152
Disposals	-	(4)	(8)	(72)	(1)	(85)
At 31 December 2006	500	289	147	34	58	1,028
ACCUMULATED DEPRECIATION						
At 1 January 2006	121	152	79	-	29	381
Depreciation	11	49	15	-	9	84
Eliminated on disposals	-	(4)	(7)	-	(1)	(12)
At 31 December 2006	132	197	87	-	37	453
NET BOOK VALUE						
31 December 2006	368	92	60	34	21	575
31 December 2005	346	124	62	26	22	580

As at 31 December 2006, the Group and the Bank had contracted capital commitments of HRK 4 million (HRK 5 million in 2005) in respect of current capital investment projects.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

23. AMOUNTS DUE TO THE CROATIAN NATIONAL BANK

As at 31 December 2005 amounts due to the Croatian National Bank include loans received under repurchase agreements of HRK 608 million with maturity up to 1 month. Such agreements are secured with the treasury bills of the Croatian Ministry of Finance included in available-for-sale portfolio at the fair value of HRK 622 million.

24. AMOUNTS DUE TO OTHER BANKS

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Demand deposits:				
In HRK	39	61	40	61
In foreign currencies	23	51	23	51
Subtotal - Demand deposits	*62*	*112*	*63*	*112*
Term deposits:				
In HRK	1,897	848	1,897	848
In foreign currencies	1,887	1,495	1,887	1,495
Subtotal - Term deposits	*3,784*	*2,343*	*3,784*	*2,343*
Other borrowings:				
Domestic borrowings	1,101	987	1,101	987
Foreign borrowings	4,446	5,931	4,297	5,931
Refinanced borrowings	25	35	25	35
Subtotal - Other borrowings	*5,572*	*6,953*	*5,423*	*6,953*
Loans under repurchase agreements	-	288	-	288
	9,418	9,696	9,270	9,696

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

24. AMOUNTS DUE TO OTHER BANKS (CONTINUED)

Other borrowings comprise:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Borrowings in HRK - short-term:				
Domestic borrowings	133	117	133	117
Foreign borrowings	20	181	19	181
Subtotal	*153*	*298*	*152*	*298*
Borrowings in HRK - long-term:				
Domestic borrowings	968	870	968	870
Foreign borrowings	4,180	5,372	4,032	5,372
Subtotal	*5,148*	*6,242*	*5,000*	*6,242*
Total borrowings in HRK	*5,301*	*6,540*	*5,152*	*6,540*
Borrowings in foreign currencies - short-term:				
Foreign borrowings	*7*	15	*7*	15
Subtotal	*7*	*15*	*7*	*15*
Borrowings in foreign currencies - long-term:				
Foreign borrowings	239	363	239	363
Refinanced borrowings	25	35	25	35
Subtotal	*264*	*398*	*264*	*398*
Total borrowings in foreign currencies	*271*	*413*	*271*	*413*
	5,572	**6,953**	**5,423**	**6,953**

As at 31 December 2005 the Group and the Bank included in amounts due to banks loans under repurchase agreements of HRK 288 million. Such agreements have maturity up to 1 month and are secured with the bonds of the Republic of Croatia included in available-for-sale and held-for-trading portfolio at the fair value of HRK 289 million.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

25. AMOUNTS DUE TO CUSTOMERS

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Demand deposits from				
Individuals:				
In HRK	1,581	1,162	1,581	1,162
In foreign currencies	2,094	2,036	2,094	2,036
Subtotal	*3,675*	*3,198*	*3,675*	*3,198*
Companies:				
In HRK	2,019	1,488	2,020	1,488
In foreign currencies	612	500	612	501
Subtotal	*2,631*	*1,988*	*2,632*	*1,989*
Public sector and other institutions:				
In HRK	299	227	299	227
In foreign currencies	15	15	15	15
Subtotal	*314*	*242*	*314*	*242*
Total demand deposits	6,620	5,428	6,621	5,429
Term deposits from				
Individuals:				
In HRK	5,539	5,234	5,539	5,234
In foreign currencies	4,029	2,706	4,029	2,706
Subtotal	*9,568*	*7,940*	*9,568*	*7,940*
Companies:				
In HRK	4,586	2,393	4,586	2,393
In foreign currencies	1,143	1,044	1,143	1,044
Subtotal	*5,729*	*3,437*	*5,729*	*3,437*
Public sector and other institutions:				
In HRK	212	96	212	96
In foreign currencies	1	-	1	-
Subtotal	*213*	*96*	*213*	*96*
Total term deposits	15,510	11,473	15,510	11,473
Other long-term borrowings	127	187	127	187
Loans under repurchase agreements	-	1	-	1
	22,257	17,089	22,258	17,090

As at 31 December 2005 the Group and the Bank included in amounts due to customers loans under repurchase agreements amounting to HRK 1 million with maturity up to 1 month. Such agreements are secured with the bonds of the Republic of Croatia included in available-for-sale and held-for-trading portfolio at the fair value of HRK 1 million as at 31 December 2005.

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

26. PROVISIONS

	GROUP				BANK			
	Litigations	Guarantees and credit commitments	Long-term employee benefits	Total	Litigations	Guarantees and credit commitments	Long-term employee benefits	Total
At 1 January 2005	1	41	-	42	1	41	-	42
Additional provisions	-	10	-	10	-	10	-	10
At 1 January 2006	1	51	-	52	1	51	-	52
Additional provisions	-	9	10	19	-	9	10	19
At 31 December 2006	1	60	10	71	1	60	10	71

The provision for guarantees and other loan commitments and contingent liabilities primarily relates to commitments stemming from guarantees and credit lines issued by the Bank (Note 34).

27. OTHER LIABILITIES

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Prepayments received from the borrowers	196	153	196	153
Salaries and bonuses payable	76	64	74	64
Amounts due to suppliers	28	28	24	28
Payables to DAB for customer deposits insurance	8	7	8	7
Other	32	40	32	41
	340	292	334	293

Notes to financial statements

YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

28. SUBORDINATED DEBT

In 2002 Erste Bank der oesterreichischen Sparkassen AG, Wien granted the Bank funds in the amount of EUR 20 million, based on a subordinated uncollateralized long-term loan for the formation of supplementary capital. The loan has been granted for a period of 15 years, and at an agreed interest rate of 1.20% per annum in excess of EURIBOR. Also in 2002 Erste Bank der oesterreichischen Sparkassen AG, Wien granted the Bank funds in the amount of EUR 20 million, based on a subordinated uncollateralized long-term loan for the formation of supplementary capital. Maturity of 50% of this loan is at 24 April 2011, and of the other 50% at 24 April 2012. The interest rate is 1.5% in excess of EURIBOR.
The Bank also issued bonds with a status of supplementary capital during the year 1998. The bonds were issued for a period of 8 years with a coupon interest of 6% per annum payable quarterly. The Bank has issued 8,626 bonds, each carrying a value of EUR 156.45 payable at the middle exchange rate of the Croatian National Bank at the date of repayment.
In 2005 Erste Bank der oesterreichischen Sparkassen AG, Wien granted the Bank funds in the amount of EUR 55 million, based on a subordinated uncollateralized long-term loan for the formation of supplementary capital. The loan has been granted for a period of 10 years, and at an agreed interest rate of 0.90% per annum in excess of EURIBOR.

29. SHARE CAPITAL

As at 31 December 2006 the share capital of the Bank comprises 15,134,260 ordinary shares with a par value of 100 HRK each (31 December 2005: 13,242,478 ordinary shares). All the ordinary shares are ranked equally and bear one vote. On 2 August 2006 the General Assembly of the Bank approved the increase of the share capital by issuing 1,891,782 ordinary shares with a par value of 100 HRK each. All the issued shares were purchased by Erste Bank der Oesterreichischen Sparkassen AG at the price of 400 HRK per share resulting in the share capital of HRK 1,513 million and the share premium of HRK 568 million as of 31 December 2006. The new shares were offered for purchase by Erste Bank der Oesterreichischen Sparkassen AG to the other shareholders of the Bank in proportion to their ownership interest. Such offer was realized during the year 2006 in accordance with the General Assembly decision.

30. RESERVES AND RETAINED EARNINGS

The Bank's distributable and non-distributable reserves are determined by regulations of the Croatian National Bank. As at 31 December 2006 the statutory and legal accounts of the Bank disclose non-distributable reserves of HRK 130 million (31 December 2005: HRK 102 million). Such reserves include the reserve for general banking risk of HRK 58 million as of 31 December 2006 (31 December 2005: HRK 35 million). The reserve for general banking risk is formed from annual profits and is not distributable within the following 3 years. The reserve becomes distributable if the growth rate of the Bank's risk assets calculated according CNB instructions does not exceed 15% on annual base.

Notes to financial statements

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31. EARNINGS PER ORDINARY SHARE

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

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Net profit for the year (in HRK)	410,143,739	347,121,851	403,349,706	347,761,944
Profit attributable to ordinary shareholders (in HRK)	410,143,739	347,121,851	403,349,706	347,761,944
Weighted average number of shares of 100 HRK each (for basic and diluted earnings per share)	14,019,923	13,242,478	14,019,923	13,242,478
Earnings per ordinary share - basic and diluted (HRK)	**29.25**	**26.21**	**28.77**	**26.26**

32. DIVIDENDS

The dividends are subject to approval by the shareholders at the Annual General Assembly which has not been maintained as of the date when these consolidated financial statements were authorized for issue.

The dividends declared by the Bank for the years 2005 and 2004 were 7.88 HRK per share (total dividend HRK 104 million) and 18.91 HRK per share (total dividend HRK 250 million), respectively.

Notes to financial statements

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33. INFORMATION FOR CASH FLOW STATEMENT

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Operating Activities				
Profit before income tax	513	435	506	436
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization expense	86	70	84	70
Impairment losses on loans and advances	83	99	83	99
Net change in valuation of derivatives	(13)	(10)	(13)	(10)
Provisions	19	10	19	10
Unrealized losses on assets held-for-trading	1	3	1	3
Interest expense	876	628	874	628
Interest income	(1,781)	(1,420)	(1,778)	(1,420)
Share of results of associates	(8)	(3)	-	-
Loss from operating activities before changes in operating assets and liabilities	*(224)*	*(188)*	*(224)*	*(184)*

Analysis of cash and cash equivalents:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Cash on hand	296	279	295	279
Cash on clearing account with the Croatian National Bank	1,377	2,223	1,377	2,223
Current accounts with other banks	30	16	25	15
Placements with banks with maturity up to 3 months	4,114	1,908	4,082	1,908
Treasury bills with maturity up to 3 months	304	274	304	274
	6,121	**4,700**	**6,083**	**4,699**
Change in cash and cash equivalents	1,421		1,384	

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YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

34. FINANCIAL COMMITMENTS AND CONTINGENCIES

The following table indicates the contractual amounts of off-balance-sheet financial instruments that commit to extend credit to customers:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
HRK guarantees - short-term	219	242	219	242
HRK guarantees - long-term	73	82	73	82
Foreign currency guarantees	376	388	376	388
Performance guarantees	717	613	717	613
Foreign currency letters of credit - short-term	148	118	148	118
Foreign currency letters of credit - long-term	-	10	-	10
Guaranteed and accepted bills of exchange	75	7	75	7
Commitments to extend credit:				
- short-term	1,298	953	1,298	953
- long-term	1,275	1,032	1,275	1,032
	4,181	3,445	4,181	3,445

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35. 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 and 31 December 2005, balances outstanding with related parties comprised:

	GROUP					
	31 December 2006			31 December 2005		
	Amounts due from banks and customers	Receivables from financial derivative transactions	Other receivables	Amounts due from banks and customers	Receivables from financial derivative transactions	Other receivables
Erste Bank der oesterreichischen Sparkassen AG, Wien	424	21	-	257	5	-
Erste Invest d.o.o. za upravljanje investicijskim fondovima	84	-	1	126	-	2
Erste & Steiermärkische S-leasing d.o.o.	75	-	-	75	-	-
Ceska sporitelna, a.s.	20	-	-	-	-	-
Erste bank Novi Sad	4	-	-	4	-	-
Other	168	-	2	27	-	-
Total assets	**775**	**21**	**3**	**489**	**5**	**2**

	GROUP					
	31 December 2006			31 December 2005		
	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables
Erste Bank der oesterreichischen Sparkassen AG, Wien	7,543	5	701	7,012	1	706
Erste Invest d.o.o. za upravljanje investicijskim fondovima	112	-	2	130	-	-
Kvarner Wiener Städtische	77	-	-	-	-	-
Steiermärkische Bank und Sparkassen AG, Graz	70	-	-	74	-	-
Immorent Aktiengesellshaft	35	-	-	-	-	-
Erste & Steiermärkische S-leasing d.o.o.	20	-	-	-	-	-
Erste vrijednosni papiri d.o.o.	13	-	-	-	-	-
Other	108	-	13	109	-	2
Total liabilities	**7,978**	**5**	**716**	**7,325**	**1**	**708**

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YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

35. RELATED-PARTY TRANSACTIONS (CONTINUED)

	BANK					
	31 December 2006			31 December 2005		
	Amounts due from banks and customers	Receivables from financial derivative transactions	Other receivables	Amounts due from banks and customers	Receivables from financial derivative transactions	Other receivables
Erste Bank der oesterreichischen Sparkassen AG, Wien	424	21	-	257	5	-
Erste Invest d.o.o. za upravljanje investicijskim fondovima	84	-	1	126	-	2
Erste & Steiermärkische S-leasing d.o.o.	75	-	-	75	-	-
Ceska sporitelna, a.s.	20	-	-	-	-	-
Erste bank Novi Sad	4	-	-	4	-	-
Other	184	-	2	27	-	-
Total assets	**791**	**21**	**3**	**489**	**5**	**2**

	BANK					
	31 December 2006			31 December 2005		
	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables
Erste Bank der oesterreichischen Sparkassen AG, Wien	7,395	5	701	7,012	1	706
Erste Invest d.o.o. za upravljanje investicijskim fondovima	112	-	2	130	-	-
Kvarner Wiener Städtische	77	-	-	-	-	-
Steiermärkische Bank und Sparkassen AG, Graz	70	-	-	74	-	-
Immorent Aktiengesellshaft	35	-	-	-	-	-
Erste & Steiermärkische S-leasing d.o.o.	20	-	-	-	-	-
Erste vrijednosni papiri d.o.o.	13	-	-	-	-	-
Other	109	-	13	111	-	2
Total liabilities	**7,831**	**5**	**716**	**7,327**	**1**	**708**

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YEAR ENDED 31 DECEMBER 2006 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

35. RELATED-PARTY TRANSACTIONS (CONTINUED)

Transactions made with related parties comprised:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Interest income				
Erste Bank der oesterreichischen Sparkassen AG, Wien	36	15	36	15
Erste & Steiermärkische S-leasing d.o.o.	4	5	4	5
Ceska sporitelna, a.s.	1	1	1	1
Erste Invest d.o.o. za upravljanje investicijskim fondovima	3	-	3	-
Other	7	-	7	-
Fee income				
Erste Bank der oesterreichischen Sparkassen AG, Wien	4	1	2	1
Erste & Steiermärkische S-leasing d.o.o.	1	-	1	-
Erste Invest d.o.o. za upravljanje investicijskim fondovima	4	-	4	-
Erste Sparkassen osiguranje d.d.	8	-	8	-
Kvarner Wiener Städtische	4	-	4	-
Other	6	-	2	-
Other operating income				
Erste Bank der oesterreichischen Sparkassen AG, Wien	1	1	1	1
Ceska sporitelna, a.s.	-	1	-	1
Erste bank Novi Sad	10	-	10	-
Erste Invest d.o.o. za upravljanje investicijskim fondovima	1	-	1	-
Other	2	-	2	-
Total income	**92**	**24**	**86**	**24**
Interest expenses				
Erste Bank der oesterreichischen Sparkassen AG, Wien	294	167	290	167
Steiermärkische Bank und Sparkassen AG, Graz	3	2	3	2
Kvarner Wiener Städtische	3	-	3	-
Other	5	-	5	-
Fee expense				
Erste Bank der oesterreichischen Sparkassen AG, Wien	1	-	1	-
MBU d.o.o.	-	-	22	17
Administrative expenses				
Erste Bank der oesterreichischen Sparkassen AG, Wien	6	6	6	6
Erste & Steiermärkische S-leasing d.o.o.	3	2	3	2
SPARDAT Sparkassen-Datendienst Gesellschaft m.b.H.	5	3	5	3
Immorent Aktiengesellschaft	-	1	-	1
OM Objektmanagement GmbH	-	1	-	1
MBU d.o.o.	-	-	3	1
Other	4	-	4	-
Total expenses	**324**	**182**	**345**	**200**

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35. RELATED-PARTY TRANSACTIONS (CONTINUED)

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Commitments and contingent liabilities				
Guarantees issued	11	17	11	17
Letters of credit	-	1	-	1
Other	2	9	4	9
	13	27	15	27

In 2005 the Bank purchased a put option from Erste-Sparinvest Kapitalanlagegesellschaft m.b.H. and sold a call option for an equity instrument. The exercise price for the put option amounts to HRK 10 million plus an interest of 11.7% p.a., the exercise price of the call option amounts to HRK 10 million plus an interest of 12.3% p.a. Both options can be realized at any time until July 2011. The underlying equity instrument is not publicly traded and its fair value can not be reliably measured, and, therefore, the fair value of the options was not determined in these consolidated financial statements. It's the opinion of the management of the Bank that exercising of any of the options would not materially impact the financial position of the Bank.

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

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Wages and salaries	13	9	10	9
Bonuses	8	10	8	10
	21	19	18	19

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

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36. ESTIMATED FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Where available, fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing techniques as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates cannot be realized in a current sale of the financial instrument. It is the opinion of the management of the Group that the fair value of the Group financial assets and liabilities are not materially different from the amounts stated in the balance sheets as at 31 December 2006 and 2005.
In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used:

(a) Cash and balances with the central bank

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

(b) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are calculated based on the market quotations. The fair values of held to maturity investments are disclosed in Note 19.

(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.

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37. ASSETS UNDER TRUST MANAGEMENT

Under IFRS, funds managed by a trustee on behalf of individuals, trusts and other institutions are not regarded as assets of the trustee and, therefore, are not included in its balance sheet.

The table below provides analysis of the funds managed on behalf of customers by investment type:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Investors:				
- Non-banking entities	70	70	70	70
- Individuals	27	29	27	29
Less assets	(96)	(99)	(96)	(99)
Funds in transit	1	-	1	-

The Bank provides custody services on securities with total fair market value that in 2006 and 2005 amounted HRK 3,275 million and HRK 2,675 million, respectively.
Fees realized under trust management in 2006 and 2005 amounted HRK 5 million and HRK 3 million, respectively.

38. FOREIGN CURRENCY RISK

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.
The table below provides an analysis of the Group's main currency exposures. The remaining currencies are shown within 'Other currencies.' The Bank monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Croatian National Bank established in respect of limits on open positions. The Group seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

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38. FOREIGN CURRENCY RISK (CONTINUED)

	GROUP				
	HRK	EUR	USD	Other currencies	Total
ASSETS					
Cash and balances with the Croatian National Bank	4,482	1,813	33	20	6,348
Amounts due from other banks	62	3,359	444	430	4,295
Assets at fair value through profit or loss	56	122	-	-	178
Non-current assets held-for-sale	24	-	-	-	24
Receivables on financial derivative transactions	6	27	-	-	33
Loans and advances to customers, net	5,399	12,216	647	3,640	21,902
Assets available for-sale	1,022	526	55	-	1,603
Investments held to maturity	25	535	11	-	571
Tax assets	36	-	-	-	36
Other assets	40	5	2	23	70
Investments in subsidiaries associates	22	-	-	-	22
Tangible and intangible fixed assets, net	605	-	-	-	605
Total Assets	11,779	18,603	1,192	4,113	35,687
LIABILITIES AND SHAREHOLDERS' EQUITY					
Amounts due to the Croatian National Bank	-	-	-	-	-
Amounts due to other banks	2,333	3,668	61	3,356	9,418
Amounts due to customers	8,436	12,211	1,232	378	22,257
Payables on financial derivative transactions	7	13	-	-	20
Provisions	54	9	8	-	71
Tax liabilities	33	-	-	-	33
Other liabilities	169	124	1	46	340
Subordinated debt	-	704	-	-	704
Equity attributable to equity holders of the Bank	2,832	-	-	-	2,832
Minority interest	12	-	-	-	12
Total Liabilities and shareholder's equity	13,876	16,729	1,302	3,780	35,687
TOTAL NET FX POSITION AT 31 DECEMBER 2006	(2,097)	1,874	(110)	333	-
Total assets at 31 December 2005	8,342	17,983	1,468	2,527	30,320
Total liabilities and shareholder's equity at 31 December 2005	8,763	17,812	1,436	2,309	30,320
TOTAL NET FX POSITION AT 31 DECEMBER 2005	(421)	171	32	218	-

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38. FOREIGN CURRENCY RISK (CONTINUED)

	BANK				
	HRK	EUR	USD	Other currencies	Total
ASSETS					
Cash and balances with the Croatian National Bank	4,482	1,812	33	20	6,347
Amounts due from other banks	62	3,207	444	430	4,143
Assets at fair value through profit or loss	46	122	-	-	168
Non-current assets held-for-sale	23	-	-	-	23
Receivables on financial derivative transactions	6	27	-	-	33
Loans and advances to customers	5,399	12,216	647	3,640	21,902
Assets available for-sale	1,022	526	55	-	1,603
Investments held to maturity	25	535	11	-	571
Tax assets	36	-	-	-	36
Other assets	39	5	2	23	69
Investments in subsidiaries associates	44	-	-	-	44
Tangible and intangible fixed assets, net	575	-	-	-	575
Total Assets	**11,759**	**18,450**	**1,192**	**4,113**	**35,514**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Amounts due to the Croatian National Bank	-	-	-	-	-
Amounts due to other banks	2,333	3,520	61	3,356	9,270
Amounts due to customers	8,437	12,211	1,232	378	22,258
Payables on financial derivative transactions	7	13	-	-	20
Provisions	54	9	8	-	71
Tax liabilities	32	-	-	-	32
Other liabilities	164	124	-	46	334
Subordinated debt	-	704	-	-	704
Equity attributable to equity holders of the Bank	2,825	-	-	-	2,825
Total Liabilities and shareholder's equity	**13,852**	**16,581**	**1,301**	**3,780**	**35,514**
TOTAL NET FX POSITION AT 31 DECEMBER 2006	**(2,093)**	**1,869**	**(109)**	**333**	**-**
Total assets at 31 December 2005	8,344	17,983	1,468	2,527	30,322
Total liabilities and shareholder's equity at 31 December 2005	8,764	17,813	1,436	2,309	30,322
TOTAL NET FX POSITION AT 31 DECEMBER 2005	**(420)**	**170**	**32**	**218**	**-**

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39. INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk. The tables below provides information on the extent of the Group's and the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in 'non-interest bearing' category.

	GROUP						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Croatian							
National Bank	3,480	-	-	-	-	2,868	6,348
Amounts due from other banks	4,095	157	10	-	-	33	4,295
Assets at fair value through profit or loss							
Non-current assets held-for-sale	175	-	-	-	-	3	178
Receivables on financial derivative	-	-	-	-	-	24	24
transactions	-	-	-	-	-	33	33
Loans and advances to customers, net	19,939	832	757	96	38	240	21,902
Assets available- for-sale	1,537	-	-	-	-	66	1,603
Investments held to maturity	309	16	76	157	5	8	571
Tax assets	-	-	-	-	-	36	36
Other assets	-	-	-	-	-	70	70
Investments in subsidiaries and associates	-	-	-	-	-	22	22
Tangible and intangible fixed assets, net	-	-	-	-	-	605	605
Total Assets	29,535	1,005	843	253	43	4,008	35,687
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to the Croatian							
National Bank	-	-	-	-	-	-	-
Amounts due to other banks	4,009	2,177	2,552	347	150	183	9,418
Amounts due to customers	14,884	1,846	3,832	919	83	693	22,257
Payables on financial derivative							
transactions	-	-	-	-	-	20	20
Provisions	-	-	-	-	-	71	71
Tax liabilities	-	-	-	-	-	33	33
Other liabilities	-	-	-	-	-	340	340
Subordinated debt	-	551	147	-	-	6	704
Equity attributable to equity holders							
of the Bank	-	-	-	-	-	2,832	2,832
Minority interest	-	-	-	-	-	12	12
Total Liabilities and shareholder's equity	18,893	4,574	6,531	1,266	233	4,190	35,687
TOTAL INTEREST RATE SENSITIVITY GAP							
AT 31 DECEMBER 2006	10,642	(3,569)	(5,688)	(1,013)	(190)	(182)	-
Total assets at 31 December 2005	24,777	334	142	245	120	4,702	30,320
Total liabilities and shareholder's equity							
at 31 December 2005	18,632	6,233	1,676	593	189	2,997	30,320
TOTAL INTEREST RATE SENSITIVITY GAP							
AT 31 DECEMBER 2005	6,145	(5,899)	(1,534)	(348)	(69)	1,705	-

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39. INTEREST RATE RISK (CONTINUED)

	BANK						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Croatian							
National Bank	3,479	-	-	-	-	2,868	6,347
Amounts due from other banks	4,091	11	10	-	-	31	4,143
Assets at fair value through profit or loss	165	-	-	-	-	3	168
Non-current assets held-for-sale	-	-	-	-	-	23	23
Receivables on financial derivative	-	-	-	-	-	33	33
transactions	19,939	832	757	96	38	240	21,902
Loans and advances to customers, net	1,537	-	-	-	-	66	1,603
Assets available- for-sale	309	16	76	157	5	8	571
Investments held to maturity	-	-	-	-	-	36	36
Tax assets	-	-	-	-	-	69	69
Other assets	-	-	-	-	-	44	44
Investments in subsidiaries and associates							
Tangible and intangible fixed assets, net	-	-	-	-	-	575	575
Total Assets	**29,520**	**859**	**843**	**253**	**43**	**3,996**	**35,514**
LIABILITIES AND SHAREHOLDERS'							
EQUITY							
Amounts due to the Croatian							
National Bank	-	-	-	-	-	-	-
Amounts due to other banks	3,862	2,177	2,552	347	150	182	9,270
Amounts due to customers	14,885	1,846	3,832	919	83	693	22,258
Payables on financial derivative							
transactions	-	-	-	-	-	20	20
Provisions	-	-	-	-	-	71	71
Tax liabilities	-	-	-	-	-	32	32
Other liabilities	-	-	-	-	-	334	334
Subordinated debt	-	551	147	-	-	6	704
Equity attributable to equity holders							
of the Bank	-	-	-	-	-	2,825	2,825
Total Liabilities and shareholder's equity	**18,747**	**4,574**	**6,531**	**1,266**	**233**	**4,163**	**35,514**
TOTAL INTEREST RATE SENSITIVITY GAP							
AT 31 DECEMBER 2006	10,773	(3,715)	(5,688)	(1,013)	(190)	(167)	-
Total assets at 31 December 2005	24,764	334	142	245	120	4,717	30,322
Total liabilities and shareholder's equity							
at 31 December 2005	18,633	6,233	1,676	593	189	2,998	30,322
TOTAL INTEREST RATE SENSITIVITY GAP							
AT 31 DECEMBER 2005	6,131	(5,899)	(1,534)	(348)	(69)	1,719	-

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40. AVERAGE INTEREST RATES

The average interest rates are calculated as a weighted average for each asset and liability category.

	GROUP AND BANK	
	Average interest rate 2006	Average interest rate 2005
Assets		
Cash and balances with the Croatian National Bank	0.6%	0.8%
Amounts due from banks	3.3%	2.5%
Loans and advances to customers	7.2%	7.1%
Securities	3.8%	5.0%
Total assets	35,687	30,320
Average interest earning assets	29,190	24,260
Liabilities		
Amounts due to Croatian National Bank	3.8%	3.5%
Amounts due to other banks	3.1%	2.6%
Amounts due to customers	2.8%	2.7%
Subordinated debt	4.1%	3.6%
Total liabilities	32,843	28,545
Average interest bearing liabilities	29,211	23,230

41. LIQUIDITY RISK

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the Croatian National Bank. The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Those assets and liabilities that do not have a contractual maturity date are grouped together under 'maturity undefined' category.
Assets available-for-sale are classified in accordance with their secondary liquidity characteristics as maturing within one month.

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

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41. LIQUIDITY RISK (CONTINUED)

	GROUP						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity undefined	Total
ASSETS							
Cash and balances with the Croatian National Bank	1,698	1,790	910	1,818	132	-	6,348
Amounts due from other banks	4,153	14	126	2	-	-	4,295
Assets at fair value through profit or loss	178	-	-	-	-	-	178
Non-current assets held-for-sale	24	-	-	-	-	-	24
Receivables on financial derivative transactions	33	-	-	-	-	-	33
Loans and advances to customers, net	2,017	812	3,340	9,760	5,973	-	21,902
Assets available-for-sale	1,603	-	-	-	-	-	1,603
Investments held to maturity	123	24	72	193	159	-	571
Tax assets	36	-	-	-	-	-	36
Other assets	53	-	-	17	-	-	70
Investments in subsidiaries and associates	-	-	-	-	-	22	22
Tangible and intangible fixed assets, net	-	-	-	223	382	-	605
Total Assets	**9,918**	**2,640**	**4,448**	**12,013**	**6,646**	**22**	**35,687**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to the Croatian National Bank	-	-	-	-	-	-	-
Amounts due to other banks	753	156	1,303	6,951	255	-	9,418
Amounts due to customers	9,781	3,657	6,854	1,444	521	-	22,257
Payables on financial derivative transactions	20	-	-	-	-	-	20
Provisions	23	4	25	17	2	-	71
Tax liabilities	-	-	33	-	-	-	33
Other liabilities	255	-	63	22	-	-	340
Subordinated debt	-	6	-	74	624	-	704
Equity attributable to equity holders of the Bank	-	-	202	-	-	2,630	2,832
Minority interest	-	-	-	-	-	12	12
Total Liabilities and shareholder's equity	**10,832**	**3,823**	**8,480**	**8,508**	**1,402**	**2,642**	**35,687**
TOTAL LIQUIDITY GAP AT 31 DECEMBER 2006	**(914)**	**(1,183)**	**(4,032)**	**3,505**	**5,244**	**(2,620)**	**-**
Total assets at 31 December 2005	8,607	2,255	4,197	10,844	4,358	59	30,320
Total liabilities and shareholder's equity at 31 December 2005	11,054	2,913	5,450	8,072	1,404	1,427	30,320
TOTAL LIQUIDITY GAP AT 31 DECEMBER 2005	**(2,447)**	**(658)**	**(1,253)**	**2,772**	**2,954**	**(1,368)**	**-**

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41. LIQUIDITY RISK (CONTINUED)

	BANK						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity undefined	Total
ASSETS							
Cash and balances with the Croatian National Bank	1,698	1,790	910	1,817	132	-	6,347
Amounts due from other banks	4,115	14	12	2	-	-	4,143
Assets at fair value through profit or loss	168	-	-	-	-	-	168
Non-current assets held-for-sale	23	-	-	-	-	-	23
Receivables on financial derivative transactions	33	-	-	-	-	-	33
Loans and advances to customers, net	2,016	812	3,340	9,760	5,974	-	21,902
Assets available-for-sale	1,603	-	-	-	-	-	1,603
Investments held to maturity	123	24	72	193	159	-	571
Tax assets	36	-	-	-	-	-	36
Other assets	53	-	-	16	-	-	69
Investments in subsidiaries and associates	-	-	-	-	-	44	44
Tangible and intangible fixed assets, net	-	-	-	207	368	-	575
Total Assets	**9,868**	**2,640**	**4,334**	**11,995**	**6,633**	**44**	**35,514**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to the Croatian National Bank	-	-	-	-	-	-	-
Amounts due to other banks	753	155	1,303	6,804	255	-	9,270
Amounts due to customers	9,782	3,657	6,854	1,444	521	-	22,258
Payables on financial derivative transactions	20	-	-	-	-	-	20
Provisions	23	4	25	17	2	-	71
Tax liabilities	-	-	32	-	-	-	32
Other liabilities	249	-	63	22	-	-	334
Subordinated debt	-	6	-	74	624	-	704
Equity attributable to equity holders of the Bank	-	-	202	-	-	2,623	2,825
Total Liabilities and shareholder's equity	**10,827**	**3,822**	**8,479**	**8,361**	**1,402**	**2,623**	**35,514**
TOTAL LIQUIDITY GAP AT 31 DECEMBER 2006	**(959)**	**(1,182)**	**(4,145)**	**3,634**	**5,231**	**(2,579)**	**-**
Total assets at 31 December 2005	8,594	2,255	4,197	10,844	4,358	74	30,322
Total liabilities and shareholder's equity at 31 December 2005	11,072	2,918	5,486	8,036	1,406	1,404	30,322
TOTAL LIQUIDITY GAP AT 31 DECEMBER 2005	**(2,478)**	**(663)**	**(1,289)**	**2,808**	**2,952**	**(1,330)**	**-**

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42. CREDIT RISK

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

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

As at 31 December 2006 the Group has a potential credit exposure of HRK 26,197 million (2005: HRK 20,327 million) in the event of non-performance by counterparties in relation to loans provided by the Group not considering any fair value of collateral.

Commitments arising from the issuance of letters of credit

Documentary letters of credit, which are written irrevocable undertakings by the Bank on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under open letters of credit are considerably less than the commitments under issued guarantees or stand-by letters of credit. However, the Bank records provisions against these instruments on the same basis as is applicable to loans.

Commitments to extend credit, undrawn loan commitments, unutilised overdrafts and approved overdraft loans

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

Credit risk of financial derivatives

Credit exposure or replacement cost of financial derivative instruments represents the Bank's credit exposure from contracts with a positive fair value, that is, it indicates the estimated maximum potential losses of the Bank in the event that counterparties fail to perform their obligations. It is usually a small fraction of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent calculated pursuant to generally applicable methodology using the current exposure method and involves the fair market value of the contract (only if positive, otherwise a zero value is taken into account). The credit equivalent is established depending on the type of contract and its maturity. The Bank assesses credit risks of all financial instruments on a regular basis.
As at 31 December 2006 and 2005, the Bank has a potential credit exposure of HRK 33 million and HRK 7 million, respectively, in the event of non-performance by counterparties to its financial derivative instruments. This represents the gross replacement cost at market rates as at 31 December 2006 and 2005 of all outstanding agreements in the event of all counterparties defaulting and does not allow for the effect of netting arrangements.

Bank is selective in its choice of counterparties. Interbank foreign exchange and money market transactions are subject to counterparty limits and limits on group of related entities.
In general non-bank customers, which enter into derivative transactions with Bank are required to keep a collateral with the Bank. The collateral is set by Bank according to the risk profile of the customer's position and is regularly reviewed.

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43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements are signed and authorised for issue on 24 January 2007.

These financial statements were approved by the Management Board on 24 January 2007.

Signed on behalf of the Management Board:

Petar Radaković	Slađana Jagar
President of the Management Board	Member of the Management Board