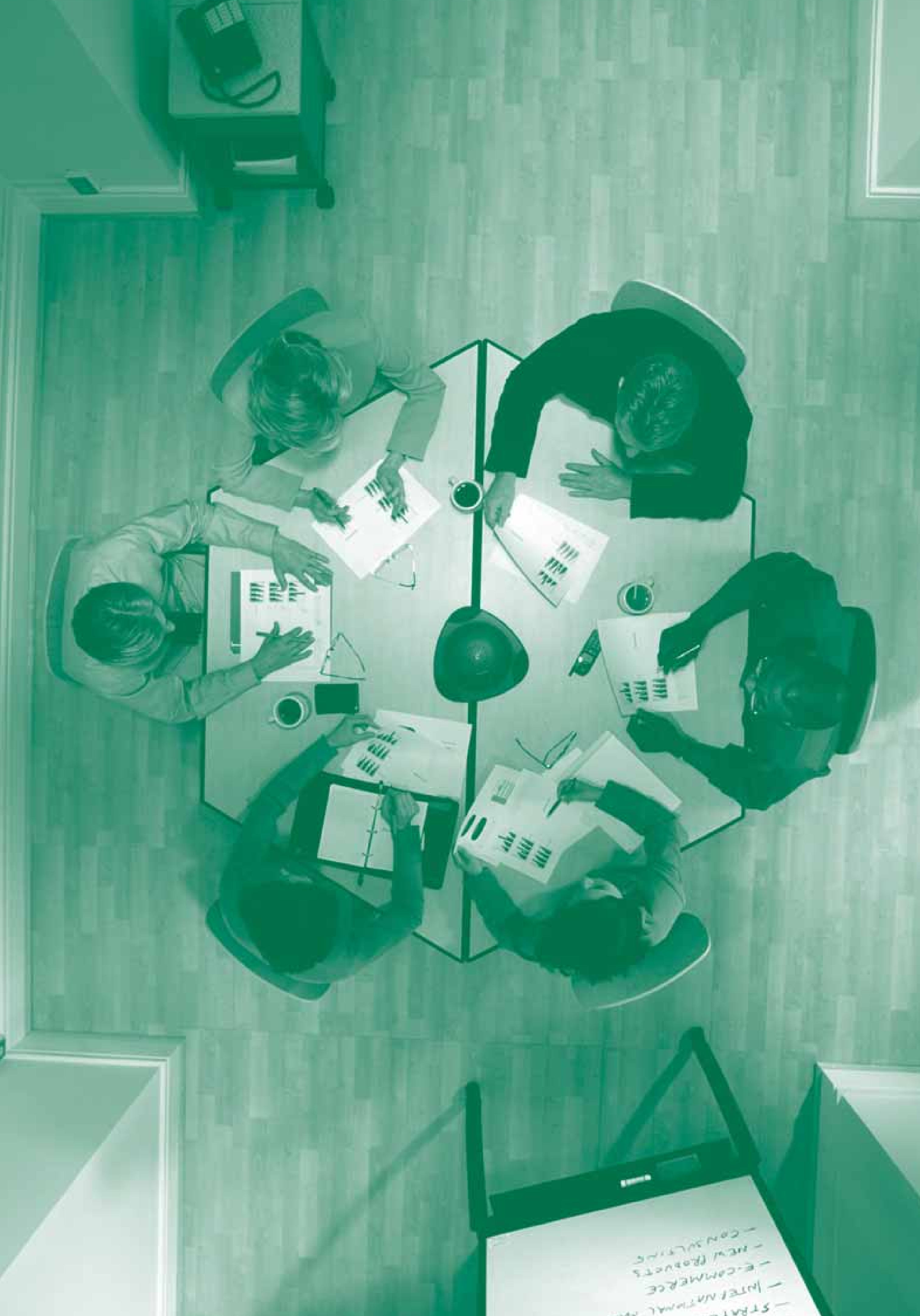
2006.
annual report

otpbanka


- CONSULTING
- NEW PRODUCTS
- E-COMMERCE

Report of the President of the Management Board

Dear customers and business partners,

It is a great pleasure to present to you the business results of OTP banka Hrvatska for the year 2006. With those achievements and continuation of the mapped out strategy, in 2006 OTP banka continued the successful development of its business operations, thus contributing to the development of the most profitable banking group in the Central and Eastern Europe. Last year was the first full year within the Hungarian OTP Group and during it we were focused on our internal development and external growth. With the support of the Group and the achievement-minded work of our employees, in 2006 we could concentrate on the expansion of our network to new regions, as well as to the development of quality and modern products and services. With such strategy we managed to keep the leading position in our traditional regions. The business results in 2006 encourage our future growth as the first choice bank of our clients in traditional regions, but also as a recognisable bank in the new markets we have been expanding to.

The 2006 business plan was achieved in all items, confirming that the strategy had been well planned. The net profit of OTP banka in 2006 amounted to HRK 101.4 million, which was less than in 2005. However, excluding the extraordinary profit from the 2005 profit (realised in real estate transactions), a profit growth of 12 % was recorded. As at the last day of 2006, the bank's assets amounted to HRK 10.38 billion, which was an increase by 20 % in comparison with 31st December 2005.

In the last year OTP banka recorded a growth of total deposit of 19 %, whilst the credit portfolio grew by 30 %. As at 31st December 2006 the total net interest income amounted to HRK 308.98 million, representing a growth of 9 % compared to the year before. The net fee income grew by 23 % and it is especially worth mentioning that the fee income from card operations grew by 43 %. The total number of loans granted in 2006 was 19,208, amounting to HRK 1.48 billion, of which HRK 758 million accounted for housing loans. The retail loan portfolio equalled HRK 3.47 billion as at 31st December 2006. In the corporate segment, OTP banka financed projects from all kinds of economic activities, but we remained strongly focused on tourism, development of infrastructure and financing of entrepreneurial projects of small and medium enterprises. Our traditionally good cooperation with the regional and local self-government and public institutions in the domicile regions was expanded to new areas where we opened our branches or strengthened our operations. We also continued the successful cooperation with the Croatian Bank for Reconstruction and Development, the Ministry of Economy, Labour and Entrepreneurship, as well as with counties, working on different financing projects through special programmes.

In 2006 OTP banka continued developing the internet and telephone banking segment within the special service package called OTP direkt. The number of internet transactions performed by corporate customers grew by 300 %, with the volume of such transactions going up by 228 %. During the same time the internet transactions performed by retail customers increased by 301 %, whilst the turnover went up by 334 %. The number of eLEMENT@ Internet banking retail users increased by as much 55 %, thus reaching the figure of 13,261 users.

In accordance with the network expansion strategy, in 2006 we opened the branch in Knin, completed all preparatory works for opening of the Business Centre Slavonia with the central office in Osijek, as well as in the first branch in the Krapina - Zagorje County, located in Zabok, both of which started their operations at the beginning of 2007. In the meantime, OTP banka has continued the intensive development of its network. We have planned to refurbish the biggest branches in the Business Centres, as well as to open ten new branches, especially in the Zagreb area and in the Business Centre Osijek. Together with new branches, we expanded our ATM network, so at the moment OTP banka Hrvatska has over one hundred ATMs in operation, and the network has been continuously modernised and expanded.

The OTP Group Croatia also includes OTP leasing, OTP invest and OTP nekretnine.

OTP leasing was established in 2006 by a member of the Group - Merkantil bank, immediately starting a successful development in cooperation with OTP banka.

In 2006 OTP invest carried out a complete restructuring. They launched three new products and commenced their intensive sale in cooperation with OTP banka. As a relative latecomer in the open investment funds market, it achieved excellent yields and high growth rates.

OTP nekretnine provided a significant support in the restructuring process within the Group, putting to a commercial use the real properties of the Group that had not been utilised before.

Finally, same as in the previous years, within its social responsibility programme titled "Green light to" OTP banka continued to contribute to the welfare of the communities we are operating in, assisting in projects that were in some way important for the economic and social development of those areas. As a part of the Croatian Banking Association, OTP banka provided supported and its employees were included in the programmes intended for education and counselling of citizens in connection with personal finance management.

In the name of the Management Board of OTP banka, I take this occasion to thank our customers and business partners for their trust. Following its values, the bank will continue to develop its business operations aimed at meeting the financial requirements of its customers and the communities it operates in. We share our satisfaction about the results achieved with our employees, who we wish to thank for their committed work on improvement of the bank's business operations. Likewise, I wish to thank the Supervisory Board members for their support and cooperation.

Damir Odak
President of the Management Board
18 May 2007

Responsibility for the financial statements

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

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

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

Signed on behalf of the Management Board

Damir Odak
President of the Management Board

OTP banka Hrvatska d.d.
Domovinskog rata 3
23000 Zadar
Republic of Croatia

21 March 2007

Independent Auditors' Report

To the shareholders of OTP Bank d.d.

We have audited the accompanying financial statements of OTP Bank d.d.. (the 'Bank') and of OTP 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 a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 management, as well as evaluating the overall presentation of the financial statements.

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

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.

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia
21 March 2007

All amounts are expressed in thousands of HRK

Income Statements

For the year ended 31 December 2006

		Group		Bank	
	Notes	2006	2005	2006	2005
Interest income	3	515,306	445,217	513,994	445,217
Interest expense	3	(206,505)	(161,166)	(205,016)	(161,167)
Net interest income		308,801	284,051	308,978	284,050
Fee and commission income	4	112,132	97,709	111,264	95,785
Fee and commission expense	4	(40,883)	(38,418)	(40,884)	(38,418)
Net fee and commission income		71,249	59,291	70,380	57,367
Net profit on financial operations	5	35,248	36,293	35,247	36,293
Other operating income	6	19,562	9,779	16,697	54,717
Operating income		434,860	389,414	431,302	432,427
Operating expenses	7	(281,335)	(262,255)	(275,752)	(258,293)
Profit before provisions, impairment allowance and income tax		153,525	127,159	155,550	174,134
Decrease/(Increase) in provisions and impairment allowance	8	(28,432)	(13,788)	(28,432)	(13,788)
Profit before tax		125,093	113,371	127,118	160,346
Income tax expense	9	(25,746)	(26,549)	(25,724)	(33,248)
Net profit for the year		99,347	86,822	101,394	127,098
EARNINGS PER SHARE (expressed in HRK)					
- basic and diluted (in HRK)	10	43.64	38.14		

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

All amounts are expressed in thousands of HRK

Balance Sheets

As at 31 December 2006

		Group		Bank	
	Notes	2006	2005	2006	2005
ASSETS					
Cash and balances with Croatian National Bank	11	1,618,165	1,271,010	1,618,165	1,271,010
Amounts due from other banks	12	1,862,253	1,373,811	1,717,645	1,373,811
Assets at fair value through profit or loss	13	9,552	7,995	7,777	7,500
Loans and receivables	14	5,655,909	4,354,605	5,657,983	4,354,605
Assets available for sale	15	958,331	1,181,931	958,331	1,181,931
Investments held to maturity	16	57,139	48,458	57,139	48,458
Investments in subsidiaries	17	-	-	77,262	75,562
Tangible and intangible assets	18	221,368	206,099	208,058	194,121
Investment property	19	72,562	72,562	-	-
Deferred tax asset		5,045	32,446	7,410	34,833
Other assets	20	74,667	76,003	73,533	76,114
Total assets		10,534,991	8,624,920	10,383,303	8,617,945
LIABILITIES					
Amounts due to other banks	21	244,465	198,833	244,465	198,833
Amounts due to customers	22	8,102,826	6,809,597	8,104,289	6,810,592
Other borrowed funds	23	1,214,365	655,421	1,067,480	655,314
Provisions	24	40,892	28,079	40,892	28,079
Other liabilities	25	79,114	82,010	78,084	81,430
Total liabilities		9,681,662	7,773,940	9,535,210	7,774,248
SHAREHOLDERS' EQUITY					
Share capital	26	455,280	455,280	455,280	455,280
Share premium		171,260	171,260	171,260	171,260
Statutory reserves	26	48,792	70,375	48,792	70,375
Other reserves		75,719	68,925	39,269	32,475
Retained profits/(Accumulated losses)		102,278	85,140	133,492	114,307
Total shareholders' equity		853,329	850,980	848,093	843,697
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,534,991	8,624,920	10,383,303	8,617,945

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

All amounts are expressed in thousands of HRK

Statement of Changes in Equity Group

For the year ended 31 December 2006

	Share capital	Share premium	Treasury shares	Legal and statutory reserves	Other reserves	Retained profits/ (Accumulated losses)	Total
Balance at 1 January 2005 (restated)	455,280	171,178	(29)	53,455	23,679	35,814	739,377
Changes in equity for 2005							
Assets available for sale:							
Valuation gains/(losses) taken to equity	-	-	-	-	10,995	-	10,995
Property revaluation surplus transferred to investment property (Note 18)	-	-	-	-	45,563	-	45,563
Tax on items taken directly to or transferred from equity (Note 9)	-	-	-	-	(11,312)	-	(11,312)
Net income recognized directly in equity	-	-	-	-	45,246	-	45,246
Profit for the year	-	-	-	-	-	86,822	86,822
Total recognized income and expense for the period	-	-	-	-	45,246	86,822	132,068
Distribution of income for 2004:							
Transfer to reserves	-	-	-	16,924	-	(16,924)	-
Allocation to option holders (Note 26)	-	-	-	-	-	(20,572)	(20,572)
Sale of treasury shares	-	82	29	-	-	-	111
Other movements	-	-	-	(4)	-	-	(4)
Balance at 31 December 2005	455,280	171,260	-	70,375	68,925	85,140	850,980
Changes in equity for 2006							
Assets available for sale:							
Valuation gains/(losses) taken to equity					8,493	-	8,493
Tax on items taken directly to or transferred from equity (Note 9)					(1,699)	-	(1,699)
Net income recognized directly in equity					6,794	-	6,794
Profit for the year					-	99,347	99,347
Total recognized income and expense for the period					6,794	99,347	106,141
Distribution of income for 2005:					-	-	-
Transfer to reserves				15,227	-	(15,227)	-
Dividends paid					-	(103,788)	(103,788)
Transfers to retained profits	-	-	-	(36,806)	-	36,806	-
Other movements	-	-	-	(4)	-	-	(4)
Balance at 31 December 2006	455,280	171,260		48,792	75,719	102,278	853,329

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

All amounts are expressed in thousands of HRK

Statement of Changes in Equity Bank

For the year ended 31 December 2006

	Share capital	Share premium	Treasury shares	Legal and statutory reserves	Other reserves	Retained profits/ (Accumulated losses)	Total
Balance at 1 January 2005 (restated)	455,280	171,178	(29)	53,455	23,679	24,705	728,268
Changes in equity for 2005							
Assets available for sale:							
Valuation gains/(losses) taken to equity	-	-	-	-	10,995	-	10,995
Tax on items taken directly to or transferred from equity (Note 9)	-	-	-	-	(2,199)	-	(2,199)
Net income recognized directly in equity	-	-	-	-	8,796	-	8,796
Profit for the year	-	-	-	-	-	127,098	127,098
Total recognized income and expense for the period	-	-	-	-	8,796	127,098	135,894
Distribution of income for 2004:							
Transfer to reserves	-	-	-	16,924	-	(16,924)	-
Allocation to option holders (Note 26)	-	-	-	-	-	(20,572)	(20,572)
Sale of treasury shares	-	82	29	-	-	-	111
Other movements	-	-	-	(4)	-	-	(4)
Balance at 31 December 2005	455,280	171,260	-	70,375	32,475	114,307	843,697
Changes in equity for 2006							
Assets available for sale:							
Valuation gains/(losses) taken to equity	-	-	-	-	8,493	-	8,493
Tax on items taken directly to or transferred from equity (Note 9)	-	-	-	-	(1,699)	-	(1,699)
Net income recognized directly in equity	-	-	-	-	6,794	-	6,794
Profit for the year	-	-	-	-	-	101,394	101,394
Total recognized income and expense for the period	-	-	-	-	6,794	101,394	108,189
Distribution of income for 2005:	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	15,227	-	(15,227)	-
Dividends paid	-	-	-	-	-	(103,788)	(103,788)
Transfers to retained profits	-	-	-	(36,806)	-	36,806	-
Other movements	-	-	-	(4)	-	-	(4)
Balance at 31 December 2006	455,280	171,260		48,792	39,269	133,492	848,093

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

All amounts are expressed in thousands of HRK

Cash Flow Statements

For the year ended 31 December 2006

	Notes	Group Year ended 31 December 2006	Group Year ended 31 December 2005	Bank Year ended 31 December 2006	Bank Year ended 31 December 2005
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxes		125,093	113,371	127,118	160,346
Adjustments to reconcile profit before taxes to net cash from operating activities					
Provisions for loans and receivables		11,495	4,730	11,495	4,730
Provision for equity securities available-for-sale		-	5,010	-	5,010
Provision for other assets		-	(2,801)	-	(2,801)
Provisions for litigations and off-balance sheet items		16,937	6,849	16,937	6,849
Depreciation and amortization		19,698	17,209	18,926	16,537
Gain on disposal of fixed tangible assets		(6,682)	(4,932)	(6,682)	(50,496)
Interest income		(513,994)	(445,217)	(513,994)	(445,217)
Interest expense		205,016	161,166	205,016	161,167
Operating loss before changes in operating assets and liabilities		(142,437)	(144,615)	(141,184)	(143,875)
(Increase)/decrease in operating assets:					
Decrease in obligatory reserves with the CNB		(274,836)	87,636	(274,836)	87,636
Amounts due from other banks		(141,882)	(29)	2,726	(29)
Loans and receivables		(1,303,923)	(601,039)	(1,305,997)	(601,039)
Assets at fair value through profit and loss		(1,557)	(5,384)	(277)	(7,500)
Other assets		1,464	(21,301)	2,579	(19,233)
Increase/(decrease) in operating liabilities:					
Amounts due to other banks		235,243	(2,100)	45,485	(2,100)
Amounts due to customers		1,089,614	601,627	1,278,377	602,150
Other liabilities		(3,924)	13,111	(4,374)	12,813
Provisions		(4,124)	(1,748)	(4,124)	(1,748)
Other borrowed funds		555,828	13,737	410,513	13,630
Net cash used in operating activities before interests and income tax paid		9,466	(60,105)	8,888	(59,295)
Income tax paid		-	-		-
Interests received		506,511	439,560	505,199	439,560
Interests paid		(188,357)	(156,865)	(186,868)	(156,866)
Net cash generated from operating activities		327,620	222,590	327,219	223,399
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of fixed tangible and intangible assets		(35,679)	(14,294)	(33,577)	(13,802)
Proceeds from sales of fixed tangible and intangible assets		7,395	10,300	7,395	10,300
(Purchase)/ Redemption of securities held to maturity		(8,675)	31,983	(8,676)	31,983
Investments in subsidiaries		-	-	(1,700)	(1,300)
Sale / (Purchase) of securities available for sale		230,626	(43,356)	230,626	(43,356)
Net cash used in (generated from) investing activities		193,667	(15,367)	194,068	(16,175)
CASH FLOWS FROM FINANCING ACTIVITIES					
Sale of treasury shares		-	111	-	111
Allocation to option holders		(103,788)	(20,576)	(103,788)	(20,576)
Net cash used in financing activities		(103,788	(20,465)	(103,788)	(20,465)
Net increase in cash and cash equivalents		417,499	186,758	417,499	186,759
Cash and cash equivalents at beginning of year	28	1,722,080	1,535,322	1,722,080	1,535,321
Cash and cash equivalents at end of year	28	2,139,579	1,722,080	2,139,579	1,722,080

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

notes to financial statements

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Notes to financial statements

For the year ended 31 December 2006

1. GENERAL

The consolidated group of OTP Banka Hrvatska d.d. (the "Group") consists of parent OTP Banka Hrvatska d.d. (the "Bank") and 2 subsidiaries fully owned by the Bank (OTP Invest d.o.o. and OTP Nekretnine d.o.o.). The Bank is headquartered in Zadar, Domovinskog rata 3, and was incorporated in the Republic of Croatia. The Bank provides retail and corporate banking services. The Bank is registered at the Commercial Court in Zadar, with the registered share capital in the amount of HRK 455,279,600 at 1 October 2004.

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

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

All amounts are expressed in thousands of HRK

Governance and Management

General Assembly	
Viktor Siništaj	President of the General Assembly

Supervisory Board	
László Wolf	President
Pál Kovács	Member
Antal György Kovács	Member
Akos Takáts	Member
András Michnai	Member

Management Board	
Damir Odak	President
Sanja Martinko	Member until 28 February 2006
Balazs Bekeffy	Member since 13 September 2006
Zorislav Vidović	Member

The shareholding structure of the Bank is as follows:

	31 December 2006		31 December 2005	
	Paid capital	**Ownership %**	**Paid capital**	**Ownership %**
OTP bank Rt, Hungary	455,280	100.00	455,280	100.00
Total	455,280	100.00	455,280	100.00

On 10 March 2005 OTP Bank Rt., Hungary, acquired 93.63% of the Bank's shares. Effective from 1 August 2005 the Bank name was changed from Nova banka d.d., Zadar to OTP Banka Hrvatska d.d. During the year 2005 OTP Bank Rt., Hungary, acquired the rest of the Bank's shares and became the sole owner of the Bank.

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

2. ACCOUNTING POLICIES

2.1. Basis of presentation

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

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

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

2.2. Basis of consolidation

These consolidated financial statements of the Group incorporate the financial statements of the Bank and the 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.

2.3. Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination.

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.4. 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 at fair value through profit or loss; and**
- **financial guarantee contracts;**

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

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

- **IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2007)**
- **Amendment to IAS 1 *Presentation of Financial Statements - Capital Disclosures* (effective for annual periods beginning on or after 1 January 2007)**
- **IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after 1 March 2006)**
- **IFRS 8 *Operating segments* (effective for annual periods beginning on or after 1 January 2009)**
- **IFRIC 8 *Scope of IFRS 2* (effective date annual periods beginning on or after 1 May 2006)**
- **IFRIC 9 *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006)**
- **IFRIC 10 *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006)**

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

Restrictions in the designation of financial assets and financial liabilities for recognition at fair value through profit or loss

In accordance with the amendments to IAS 39 *Financial Instruments: Recognition and Measurement*, issued in June 2005, the entities are restricted in their ability to designate financial assets and financial liabilities as carried at fair value through profit or loss.

The financial assets that may no longer be designated as carried at fair value through profit or loss are now classified as either loans and receivables, assets held to maturity or financial assets available for sale, and are carried at amortised cost or fair value, with changes in the fair value reported in equity, depending on the classification.

Accounting for financial guarantee contracts

IASB has also promulgated amendments to IAS 39 *Financial Instruments: Recognition and Measurement*, which requre that certain financial guarantee contracts issued by the Bank are accounted for in accordance with the Standard. The financial guarantee contracts accounted for under IAS 39 are initially carried at fair value and are subsequently remeasured at fair value, which is the higher of:

- **the amount of the obligation under the contract, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, or**
- **the initially recognised amount less accumulated amortisation recognised in accordance with the revenue recognition policy set out in Note 3.**

The directors anticipate that the adoption of these accounting policies will not affect the amounts reported for either current or future periods.

2.5. Leases

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

The Group as lessee

Assets held under finance leases are recognized as assets of 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, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

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

2.6. Key sources of estimation uncertainty

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.

In the ordinary course of business, the Group is subject to legal actions and complaints. As of 31 December 2006 the Management created, based on advice of the legal counsel, provisions for the related risks amounting to HRK 30,941 thousand (2005: HRK 20,559 thousand). The Management Board of the Bank believes that the ultimate liability, if any, arising from other pending legal actions or complaints will not have a material adverse effect on the financial situation or the results of future operations of the Bank. As such, no provisions were created for such passive legal actions and complaints as the management, based on the advice of legal counsel, is of the opinion that the Bank's cases will prevail and the probability of the adverse outcome of the litigations is remote.

As at 31 December 2006 the Bank is involved in litigations initiated by the former shareholders of Istarska Banka d.d. and Dalmatinska Banka d.d. (both legal predecessors of the Bank). From a number of disputes initiated, only in one case the judgement was reached in favour of the plaintiffs. The opinion of the Management based on advice of legal counsel is that the judgment is not exercisable due to factual and legal non-implementability, as the court decision is in conflict with the fundamental principles of legal order. The Bank has lodged an appeal, which it expects to be accepted, also expecting the final decision of the Court to be in favour of the Bank. In case the decision of court in favour of the plaintiffs would become final, the Bank would have to call the general assembly of the former Istarska banka (today represented by OTP Banka Hrvatska d.d.), which in it's turn will have to reannounce the merger and register it again with the Trade court of registration of the former Istarska Banka. In opinion of the management, based on advice of the legal counsel, no provisions are necessary to be created in respect of this legal case, as no losses are expected to be incurred.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Changes in assumptions underlying the value of the investment property, as estimated by the independent valuers, including market prices used may significantly affect the estimates. Therefore, the calculated fair market value of the investment property may not be realized in a current sale.

The estimates of loan losses involve an exercise of management's judgment. While it is possible that in particular periods 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.

2.7. 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.

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.

2.8. Fee and Commission Income and Expense

Fees and commissions consist mainly of fees on domestic and foreign payments, granted loans and other credit instruments issued by the Group.

Fees and commissions are generally recognized as income when due. Fees on foreign payments are credited to income after being collected.

2.9. Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit 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 Group's iability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.
Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.
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 profits will be available to allow all or part of the asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank and Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank and Group intends to settle its current tax assets and liabilities on a net basis. Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

2.10. Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Croatian National Bank ('CNB'), current accounts with other banks and term placements with other banks with residual maturity up to 3 months.

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

2.11. Financial assets

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

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

When a financial asset or financial liability is recognized initially, the Groups measures it at its fair value plus, in the case of a financial asset or financial liability not carried 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

Designated upon initial recognition at fair value through profit and loss.

Assets initially designated at fair value through profit and loss include units in investment funds. Such investments are not principally held for trading purposes and are designated at fair value through profit and loss on initial recognition.

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 Group includes 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 as 'Interest income' in the profit and loss statement.

All purchases and sales of securities 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 Group has the positive intent and ability to hold to maturity. This portfolio comprises treasury bills/notes and debt securities.
Held to maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment

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

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

c) Assets Available-for-sale

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

This portfolio comprises equity and debt securities. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models.
In circumstances where the quoted market prices are not available and the fair value of securities can not be measured reliably due to specific individual characteristics of such securities, they are carried at cost.

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

Interest earned whilst holding available-for-sale securities is accrued on a daily basis using the effective interest rate method and reported as “Interest income” in the income statement.

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

Dividends on securities available for sale are recorded as declared and included as a receivable in the balance sheet line ‘Other assets’ and in ‘Net profit/(loss) on financial operations’ in the income 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 Groups intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the Group upon initial recognition designates as available for sale; or (c) those for which 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 measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

An allowance for loan impairment is established if there is objective evidence that the 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 the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

All amounts are expressed in thousands of HRK

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 receivables' line in the income statement.

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

2.12. Financial liabilities

Financial liabilities of the Group, such as 'Amounts due to other banks', 'Amounts due to customers' 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'.

2.13. Sale and repurchase agreements

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

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

2.14. Tangible and intangible assets

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

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

	2006	2005
Buildings	10-40 years	10-40 years
Computers	4 years	4 years
Furniture and equipment	2.5-10 years	2.5-10 years
Motor vehicles	4 years	4 years
Intangible assets	3.3-5 years	3.3-5 years

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

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Repairs and renewals are charged to the income statement when the expenditure is incurred. Improvements are capitalised.

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

When the property occupied by the Group is transferred to investment property, any difference between the net book value of such property and its fair value at the date of transfer is recognized as surplus/(deficit) on revaluation in "Other reserves" in equity.

2.15. Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

2.16. Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Croatian kuna at the prevailing exchange rates on the date of the transaction.

Monetary items denominated in foreign currencies are retranslated into HRK at the appropriate spot rates of exchange prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period in 'Net profit/loss on financial operations'. Exchange differences arising on the retranslation of non-monetary assets carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary assets available-for-sale in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

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

All amounts are expressed in thousands of HRK

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

31 December 2006	EUR 1= HRK 7.375626	USD 1=HRK 6.233626
31 December 2005	EUR 1= HRK 7. 345081	USD 1=HRK 5. 578401

2.17. Off-Balance-Sheet Commitments

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

2.18. Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Management Board 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.

2.19. Fiduciary activities

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

2.20. Regulatory requirements

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

All amounts are expressed in thousands of HRK

3. NET INTEREST INCOME

	Group		Bank	
	2006	2005	2006	2005
Interest and similar income				
Cash reserves and placements with other banks	58,862	41,039	57,550	41,039
Balances with Croatian National Bank	9,727	11,021	9,727	11,021
Corporate loans	114,072	88,294	114,072	88,294
Retail loans	271,111	229,474	271,111	229,474
Debt securities	61,373	74,385	61,373	74,385
Other	161	1,004	161	1,004
	515,306	445,217	513,994	445,217
Interest and similar expense				
Current accounts and deposits of retail customers	136,895	111,856	136,895	111,856
Current accounts and deposits of corporate customers	33,205	27,601	33,205	27,602
Borrowings from, current accounts and deposits of other banks	34,584	19,047	33,096	19,047
Other	1,821	2,662	1,820	2,662
	206,505	161,166	205,016	161,167

4. NET FEE AND COMMISSION INCOME

	Group		Bank	
	2006	2005	2006	2005
Fee and commission income				
Corporate customers	43,696	40,706	42,828	39,947
Banks	1,526	1,116	1,526	1,116
Retail customers	66,910	55,887	66,910	54,722
	112,132	97,709	111,264	95,785
Fee and commission expense				
Corporate customers	15,521	26,546	15,521	26,546
Banks	1,843	7,185	1,844	7,185
Retail customers	23,519	4,687	23,519	4,687
	40,883	38,418	40,884	38,418

5. NET PROFIT ON FINANCIAL OPERATIONS

	Group		Bank	
	2006	2005	2006	2005
Net gains on foreign currency spot transactions	30,781	33,882	30,781	33,882
Realized gains on securities available-for-sale	3,675	3,474	3,675	3,474
Net result on translation of foreign currency assets and liabilities	792	(1,063)	791	(1,063)
	35,248	36,293	35,247	36,293

All amounts are expressed in thousands of HRK

6. OTHER OPERATING INCOME

	Group		Bank	
	2006	2005	2006	2005
Gains on sale and disposal of property and equipment	7,395	5,070	7,399	50,633
Income on closing of dormant accounts	3,189	-	3,184	-
Write-off on inventory listing	3,166	-	3,166	-
Dividend income	-	275	-	275
Other income	5,812	4,434	2,948	3,809
	19,562	9,779	16,697	54,717

Other income of the Group include investment funds managing fee in the amount of HRK 869 thousand (2005: HRK 538 thousand).

7. OPERATING EXPENSES

	Group		Bank	
	2006	2005	2006	2005
Staff costs	122,211	113,588	120,244	112,608
Provisions for retirement benefits and bonuses to employees	7,514	15,189	7,514	15,189
Professional services and cost of material	82,093	70,743	79,277	68,785
Savings deposit insurance premiums	17,655	17,164	17,655	17,164
Marketing	11,519	12,460	11,145	12,460
Depreciation	19,698	17,209	18,926	16,537
Administrative expenses	12,805	9,747	12,683	9,747
Other taxes and contributions	1,313	2,198	1,313	2,198
Write-off of receivables	3,257	1,170	3,257	1,170
Other costs	3,270	2,787	3,738	2,435
	281,335	262,255	275,752	258,293

Staff costs are summarized as follows:

	Group		Bank	
	2006	2005	2006	2005
Gross salary	95,091	93,346	93,413	92,366
- Net salaries	66,130	65,406	64,787	64,569
- Taxes, surtaxes and contributions	28,961	27,940	28,626	27,797
Contributions on salaries	16,384	15,888	16,095	15,888
Other payments to employees	10,736	4,354	10,736	4,354
	122,211	113,588	120,244	112,608

At year-end, the Group had 1,014 (2005: 1,048) and the Bank 1,007 (2005: 1,043) employees.

All amounts are expressed in thousands of HRK

8. PROVISIONS AND ALLOWANCE FOR IMPAIRMENT LOSSES

	Group		Bank	
	2006	2005	2006	2005
Amounts due from other banks	-	(310)	-	(310)
Loans and receivables	11,495	5,040	11,495	5,040
Equity securities	-	5,010	-	5,010
Other assets	-	(2,801)	-	(2,801)
Litigation provision	15,229	6,560	15,229	6,560
Provisions for off-balance sheet items	1,708	289	1,708	289
	28,432	13,788	28,432	13,788

9. TAXATION

The Bank and the Group 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 Group is 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.

Movements in deferred tax assets of the Bank during the year were as follows:

	Bank	
	31.12.2006	31.12. 2005
Temporary deductible differences		
Unrealized losses on available-for-sale securities	1,701	412
Deferred loan origination fees	35,995	36,548
	37,696	36,960
Temporary taxable differences		
Unrealized gains for available-for-sale securities	21,189	11,407
Deferred borrowing origination fees	88	363
	21,277	11,770
Net deferred assets	16,419	25,190
Tax losses available for carry forward	20,631	148,974
Total	37,050	174,164
Deferred tax asset at statutory tax rate of 20% (2005: 20%)	7,410	34,833
Less: valuation allowance	-	-
	7,410	34,833

All amounts are expressed in thousands of HRK

Change in deferred tax assets of the Bank during the years ended 31 December 2006 and 2005 is explained as follows:

	Deferred loan origination fees	Unrealized gains/(losses) on available-for-sale securities	Tax losses available for carry forward	Other	Total
Balance at 1 January 2005	3,086	-	67,194	-	70,280
Credited/(charged) to income statement	4,224	-	(37,399)	(73)	(33,248)
Charged to equity	-	(2,199)	-	-	(2,199)
Balance at 31 December 2005	7,310	(2,199)	29,795	(73)	34,833
Credited/(charged) to income statement	(128)		(25,669)	73	(25,724)
Charged to equity		(1,699)			(1,699)
Balance at 31 December 2006	7,182	(3,898)	4,126		7,410

Relationship between income tax expense and profit before tax of the Bank for the years ended 31 December 2006 and 2005 are explained as follows:

	Bank	
	31.12.2006	31.12. 2005
Profit before income tax	127,118	160,346
Valuation gains/(losses) taken to equity	8,493	10,995
	135,611	171,341
Theoretical tax calculated at statutory tax rate of 20% (2005: 20%)	27,122	34,268
Tax effect of permanent differences	301	1,952
Tax effect of temporary differences	(56)	1,179
Utilization of tax losses brought forward	27,367	37,399
Current income tax expense		
Change in deferred tax in equity	(1,699)	(2,199)
Change in deferred tax in profit and loss	(25,724)	(33,248)
Income tax charged to profit and loss and equity	(27,423)	(35,447)

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

	Group	
	31.12.2006	31.12. 2005
Temporary deductible differences		
Unrealized losses on available-for-sale securities	1,701	412
Deferred loan origination fees	35,995	36,548
	37,696	36,960
Temporary taxable differences		
Tangible fixed assets	21,189	11,407
Unrealized gains for available-for-sale securities	11,824	11,932
Deferred borrowing origination fees	88	363
	33,101	23,702
Net deferred assets	4,595	13,258
Tax losses available for carry forward	24,918	150,874
Total	29,513	164,132
Deferred tax asset at statutory tax rate of 20% (2005: 20%)	5,903	32,826
Less: valuation allowance	(858)	(380)
	5,045	32,446

All amounts are expressed in thousands of HRK

Change in deferred tax assets of the Group during the years ended 31 December 2006 and 2005 is explained as follows:

	Deferred loan origination fees	Unrealized gains/(losses) on available-for-sale securities	Tax losses available for carry forward	Other	Total
Balance at 1 January 2005	-	-	20,000	-	20,000
Credited/(charged) to income statement	4,224	-	(28,286)	(2,460)	(26,522)
Charged to equity	-	(2,199)	(9,113)	-	(11,312)
Balance at 31 December 2005	7,310	(2,199)	29,795	(2,460)	32,446
Credited/(charged) to income statement	(128)		(25,451)	(123)	(25,702)
Charged to equity		(1,699)			(1,699)
Balance at 31 December 2006	7,182	(3,898)	4,344	(2,583)	5,045

Relationship between income tax expense and profit before tax of the Group for the years ended 31 December 2006 and 2005 are explained as follows:

	Group	
	2006	2005 (restated)
Profit before income tax	125,093	113,371
Valuation gains/(losses) taken to equity	8,492	10,995
Capital gains on revaluation of tangible fixed assets	-	45,563
	133,585	169,929
Theoretical tax calculated at statutory tax rate of 20% (2005: 20%)	26,717	33,986
Tax effect of permanent differences	272	1,190
Tax effect of temporary differences	(56)	2,069
Utilization of tax losses brought forward	(27,367)	(37,399)
Tax loss of subsidiary at prescribed rate of 20 % (2005: 20%)	478	181
Current income tax expense	44	27
Current income tax expense	(44)	(27)
Change in deferred tax in equity	(1,699)	(11,312)
Change in deferred tax in profit and loss	(25,702)	(26,522)
Income tax charged to profit and loss and equity	(27,445)	(37,861)

The Group is subject to corporate income tax in accordance with Croatian law. Tax gains and losses of individual Group companies cannot be utilised on the Group level or transferred to one Group member to another. Taxable profit may be reduced only to the extent of tax losses brought forward by the Group companies. Tax losses can be carried forward up to five years and are subject to adjustment as resulting from inspections by the Croatian Ministry of Finance.

All amounts are expressed in thousands of HRK

Tax losses:

	Group		Bank	
	2006	**2005**	**2006**	**2005**
Tax losses brought forward	150.874	336.960	148.974	335.968
Tax loss for the year	2.390	908	-	-
Amounts utilised in the year	(128.342)	(186.994)	(128.343)	(186.994)
Total tax losses available for carry forward	24.922	150.874	20.631	148.974
Tax effect from tax losses carried forward (at a rate of 20%)	4.984	30.175	4.126	29.795
Amount not recognised as deferred tax assets	(858)	(380)		-
Recognised deferred tax assets	4.126	29.795	4.126	29.795

At 31 December 2006 unutilised tax losses that are available for setting off against the future profits amount to HRK 20,631 thousand (HRK 148,974 thousand) for the Bank and HRK 24,918 thousand (2005: HRK 150,874 thousand) for the Group. Based on these losses, deferred tax assets in the amount of HRK 4,984 thousand have been recognised both for the Group and the Bank (2005: HRK 29,795 thousand).

At 31 December 2006 and 2005, tax losses available for carry forward expire as follows:

	Group		Bank	
	2006	**2005**	**2006**	**2005**
Up to 5 years	2.389	908		-
Up to 4 years	908	345		-
Up to 3 years	345	2.785		2.138
Up to 2 years	2.785	79.087	2.138	79.087
Up to 1 year	18.493	67.749	18.493	67.749
Total tax loss available for carry forward	24.918	150.874	20.631	148.974

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.

All amounts are expressed in thousands of HRK

10. EARNINGS PER 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.

	2006	2005
Net profit for the year,(in HRK)	99,347,000	86,822,000
Profit attributable to ordinary shareholders (in HRK)	99,347,000	86,822,000
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	2,276,390	2,276,390
Earnings per ordinary share - basic and diluted (HRK)	43.64	38.14

11. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Cash in hand	98,066	84,212	98,066	84,212
Giro account balance	275,655	212,914	275,655	212,914
Current accounts with foreign banks	27,168	38,856	27,168	38,856
Current accounts with domestic banks	3,867	3,288	3,867	3,288
Items in course of collection	22,228	15,536	22,228	15,536
Assets included in cash and cash equivalents (Note 28)	426,984	354,806	426,984	354,806
Obligatory reserve at Croatian National Bank				
- in HRK	736,134	563,829	736,134	563,829
- in foreign currency	455,047	352,375	455,047	352,375
Subtotal: Total obligatory reserve at Croatian National Bank	1,191,181	916,204	1,191,181	916,204
	1,618,165	1,271,010	1,618,165	1,271,010

Obligatory reserves with the Croatian National Bank represent the permanent minimum reserve deposits which the Bank is required to maintain at all times.

12. AMOUNTS DUE FROM OTHER BANKS

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Short-term placements with other banks	1,704,178	1,360,922	1,559,570	1,360,922
Loans and advances to other banks in Croatia	162,105	17,288	162,105	17,288
Subtotal: Total gross amount due from other banks	1,866,283	1,378,210	1,721,675	1,378,210
Less: allowance for impairment	(4,030)	(4,399)	(4,030)	(4,399)
	1,862,253	1,373,811	1,717,645	1,373,811

All amounts are expressed in thousands of HRK

13. ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Units in open investment funds	9,552	7,993	7,777	7,500
Units in closed investment funds	-	2	-	-
	9,552	7,995	7,777	7,500

Fair value of open and closed end investment funds is determine based on the closing price on relevant stock exchange in Croatia.

14. LOANS AND RECEIVABLES

Analysis by type of product:

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
HRK denominated				
Retail customers	3,810,727	2,983,320	3,810,727	2,983,320
Corporate customers	2,162,634	1,640,317	2,164,708	1,640,317
Foreign currency denominated				
Retail customers	1,370	9,995	1,370	9,995
Corporate customers	142,324	182,793	142,324	182,793
Total loans	6,117,055	4,816,425	6,119,129	4,816,425
Less: allowance for impairment	(461,146)	(461,820)	(461,146)	(461,820)
	5,655,909	4,354,605	5,657,983	4,354,605

Movements in allowance for impairment were as follows:

GROUP AND THE BANK

	31.12.2006	1.12. 2005
Balance at 1 January	461,820	511,203
Amounts collected	(33,273)	(14,845)
New provisions made	60,778	19,885
Exchange differences	(2,456)	(155)
Amounts written off	(25,723)	(54,268)
Balance at 31 December	461,146	461,820

At 31 December 2006, total non-performing loans amounted to HRK 422,908 thousand for the Bank (2005: HRK 497,029 thousand).

All amounts are expressed in thousands of HRK

a) Loans and advances to customers

Concentration of credit risk by industry

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

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Agriculture, forestry and fisheries	233,376	170,525	233,376	170,525
Mining	15,189	5,554	15,189	5,554
Food and beverages	104,373	112,441	104,373	112,441
Leather and textiles	2,827	2,527	2,827	2,527
Publishing and printing	17,982	21,203	17,982	21,203
Non-metal mineral and chemical products	5,511	7,398	5,511	7,398
Metal-working industry	20,747	17,102	20,747	17,102
Other manufacturing industries	181,990	149,928	181,990	149,928
Energy, gas and water supply	10,494	12,166	10,494	12,166
Construction	329,017	219,676	329,017	219,676
Trade and commerce	579,325	513,149	579,325	513,149
Hotels and restaurants	228,796	188,933	228,796	188,933
Transport and communications	179,952	179,895	179,952	179,895
Financial intermediation	58	105	2,132	105
Real estate	149,217	119,140	149,217	119,140
Public administration and defence	17,190	19,417	17,190	19,417
Education, health and social welfare	167,637	11,689	167,637	11,689
Other services and social activities	37,827	48,601	37,827	48,601
Foreign entities	23,450	23,661	23,450	23,661
Subtotal: Total corporate loans	2,304,958	1,823,110	2,307,032	1,823,110
Individuals	3,812,097	2,993,315	3,812,097	2,993,315
Total loans	6,117,055	4,816,425	6,119,129	4,816,425
Less: allowance for impairment	(461,146)	(461,820)	(461,146)	(461,820)
	5,655,909	4,354,605	5,657,983	4,354,605

15. ASSETS AVAILABLE FOR SALE

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Equity securities	2,896	6,474	2,896	6,474
Debt securities	955,435	1,175,457	955,435	1,175,457
	958,331	1,181,931	958,331	1,181,931

a) Equity securities

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Equity securities at cost				
- unquoted	21,339	24,917	21,339	24,917
Less: allowance for impairment				
- unquoted	(18,443)	(18,443)	(18,443)	(18,443)
	2,896	6,474	2,896	6,474

All amounts are expressed in thousands of HRK

Most significant investments available for sale are as follows:

Name of company	Business sector	31.12.2006 Carrying amount	Effective share %	31.12.2005 Carrying amount	Effective share %
HROK d.o.o., Zagreb	Business services	750	10.00	750	10.00
Naprijed d.d., Split	Publishing	724	37.70	724	37.70
Krma d.d. u stečaju	Food and beverages	678	27.17	678	27.17
Tržište novca - Zagreb	Finance sector	508	14.26	508	14.26
SWIFT Belgija	Finance sector	123	0.01	125	0.01
Istarska autocesta Zagreb	Transport and communication	109	1.57	109	3.08
Središnja depozitarna agencija d.d. Zagreb	Finance sector	4	1.45	4	1.45
Uljanik d.d., Pula	Shipbuilding	-	-	2,723	0.63
LHB Frankfurt	Finance sector	-	-	754	0.00
MBU - Zagreb	Finance sector	-	-	85	11.78
Ibacom Pula u likvidaciji	Production	-	100.00	14	100.00
Željezara d.d. Sisak	Metal working	-	0.05	-	0.05
Zagrebačka burza Zagreb	Finance sector	-	2.13	-	2.13
Varaždinska burza d.d.	Finance sector	-	2.56	-	2.56
ITS Fažana	Production	-	12.99	-	12.99
Tekstilna industrija Zadar	Textile industry	-	25.61	-	25.61
JUBMES Beograd	Production	-	4.56	-	4.56
KIM Mljekara Karlovac d.d.	Food and beverages	-	2.43	-	2.43
		2,896		6,474	

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

b) Debt securities

	Group 31.12.2006	Group 31.12. 2005	Bank 31.12.2006	Bank 31.12. 2005
Quoted				
Bonds of Ministry of Finance	2,722	13,323	2,722	13,323
CBRD bonds	22,912	24,116	22,912	24,116
Bonds of foreign governments	7,520	7,745	7,520	7,745
Subtotal: Quoted debt securities	33,154	45,184	33,154	45,184
Units in open investment funds	13,859	11,443	13,859	11,443
Treasury bills of the Croatian Ministry of Finance	166,151	229,487	166,151	229,487
Agency bonds for the restructuring of Dubrovačka banka	334,117	488,770	334,117	488,770
Replacement bonds of the Croatian Ministry of Finance	408,154	400,573	408,154	400,573
Subtotal: Unquoted debt securities	922,281	1,130,273	922,281	1,130,273
	955,435	1,175,457	955,435	1,175,457

The bonds of the Croatian Bank for Reconstruction and Development ("CBRD") are issued with the guarantee of the Ministry of Finance on behalf of the Croatian Government. The bonds are denominated in Euro and the interest rate on these bonds is 5.75% and interest is paid annually. The bonds mature on 4 December 2012. These bonds are quoted on the Luxembourg Stock Exchange.

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

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

All amounts are expressed in thousands of HRK

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

As at 31 December 2006 the rehabilitation bonds of HRK 110,634 thousand (2005. HRK 110,634 thousand) were pledged as security under a long-term loan from Privredna Banka d.d., Zagreb

Replacement bonds were issued by the Croatian Government to replace the economic restructuring bonds based on the Government decision of 6 April 2000. The replacement bonds are denominated in Croatian Kuna and are indexed to the industrial price index. Every six months the principal amount of the bond is revalued based on changes in the index and the revaluation gains/(losses) are recognized directly in equity in 'Other reserves'. The interest rate on these bonds is 5% annually, and the interest is paid on a semi-annual basis. The principal is due in 2011.

Agency bonds for reconstruction of Dubrovačka banka and replacement bonds of the Croatian Ministry of Finance are not traded publicly. The management of the Group believes that the carrying value of these securities approximates their fair value.

16. INVESTMENTS HELD TO MATURITY

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Housing bonds of the Croatian Ministry of Finance	16,098	16,165	16,098	16,165
Corporate bills of exchange	41,041	32,293	41,041	32,293
	57,139	48,458	57,139	48,458

The housing bonds of the Ministry of Finance were received as compensation for flats purchased by the Government of Croatia. The investments held-to-maturity are not traded publicly. The management of the Group believes that the carrying value of these investments approximates their fair value.

All amounts are expressed in thousands of HRK

17. INVESTMENTS IN SUBSIDIARIES

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

Name	Business activity	Effective share	
		31.12.2006	31.12. 2005
OTP Invest d.o.o.	Investment Fund Management Company	100%	100%
OTP Nekretnine d.o.o.	Real estate	100%	100%

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

	OTP Invest		OTP Nekretnine	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Assets	2,622	1,249	220,501	73,373
Liabilities	(2,558)	(495)	(147,455)	(343)
Net assets	64	754	73,046	73,030
Net profit/(loss) for the year	(2,388)	(935)	17	80

In December 2006 and December 2005 the Bank made an additional cash contribution into the share capital of OTP Invest d.o.o. of HRK 1,700 thousand and HRK 1,300 thousand, respectively.

All amounts are expressed in thousands of HRK

18. TANGIBLE AND INTANGIBLE ASSETS

Group

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Intangible assets	Assets under construction	Total
Cost:								
At 1 January 2005	240,696	76,580	86,761	5,685	961	44,101	6,007	460,791
Additions	17	95	575	117	-	608	12,881	14,293
Surplus on revaluation (Note 18)	45,563	-	-	-	-	-	-	45,563
Transfer to investment property (Note 19)	(72,562)	-	-	-	-	-	-	-72,562
Transfers from assets under construction	-	1,795	6,640	-	-	3,052	-11,487	-
Disposals	-14,662	-5,456	-1,727	-296	-	-234	-	-22,375
At 31 December 2005	199,052	73,014	92,249	5,506	961	47,527	7,401	425,710
Additions	798	61	218		2	5	34,595	35,679
Transfer from assets under construction	591	6,204	18,667			1,766	-27,223	5
Disposals	-403	-27,591	-4,666	-1,943	-3	-11,244		-45,850
At 31 December 2006	200,038	51,688	106,468	3,563	960	38,054	14,773	415,544
Accumulated depreciation/ amortisation:								
At 1 January 2005	84,073	63,971	72,715	5,237	-	36,381	-	262,377
Charge for the year	5,076	4,605	3,985	373	-	3,170	-	17,209
Eliminated on revaluation (Note 18)	-6,959	-	-	-	-	-	-	-6,959
Disposals	-2,476	-5,450	-1,594	-296	-	-234	-	-10,050
At 31 December 2005	79,714	63,126	75,106	5,314	-	39,317	-	262,577
Charge for the year	4.602	6,079	5,977	104	6	2,929		19,697
Disposals	(45)	(29,869)	-4,323	-1,943	-3	-8,949		-45,132
At 31 December 2006	84,271	39,336	76,760	3,475	3	33,297		237,142
Net book value:								
At 31 December 2006	115,767	12,352	29,708	88	957	4,757	14,773	178,402
At 31 December 2005	119,338	9,888	17,143	192	961	8,210	7,401	163,133

Bank

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Intangible assets	Assets under construction	Total
Cost:								
At 1 January 2005	197,921	76,388	86,638	5,409	961	44,101	6,007	417,425
Additions	17	38	575	-	-	291	12,881	13,802
Transfers from assets under construction	-	1,795	6,640	-	-	3,052	-11,487	-
Disposals	-22,270	-5,447	-1,726	-296	-	-183	-	-29,922
At 31 December 2005	175,668	72,774	92,127	5,113	961	47,261	7,401	401,305
Additions	798	36	218			5	32,520	33,577
Transfer from assets under construction	591	6,204	18,667			1,766	-27,223	5
Disposals	-403	-27,591	-4,667	-1,943		-11,244		-45,848
At 31 December 2006	176,654	51,423	106,345	3,170	961	37,788	12,698	389,039
Accumulated depreciation/ amortisation:								
At 1 January 2005	72,722	63,783	72,606	5,070	-	36,381	-	250,562
Charge for the year	4,491	4,593	3,980	307	-	3,166	-	16,537
Disposals	-9,435	-5,441	-1,594	-296	-	-183	-	-16,949
At 31 December 2005	67,778	62,935	74,992	5,081	0	39,364	0	250,150
Charge for the year	4,029	6,056	5,975	32		2,834		18,926
Disposals	-45	-29,869	-4,323	-1,943		-8,949		-45,129
At 31 December 2006	71,762	39,122	76,644	3,170		33,249		223,947
Net book value:								
At 31 December 2006	104,892	12,301	29,701		961	4,539	12,698	165,092
At 31 December 2005	107,890	9,839	17,135	32	961	7,897	7,401	151,155

GOODWILL

Goodwill stated on the Bank's balance sheet represents goodwill arisen on acquisition of Istarska banka d.d., Pula, Sisačka banka d.d., Sisak (which is included in the Bank's accounts following the merger on 30 June 2002) and Dubrovačka banka d.d., Dubrovnik (which is included in the Bank's accounts following the merger on 30 September 2004). The value of goodwill as of 31 December 2006 amounts to HRK 42,966 thousand. The Bank revalued goodwill during the year, and no impairment losses were identified.

All amounts are expressed in thousands of HRK

19. INVESTMENT PROPERTY

The fair value of investment property of HRK 72,562 thousand has been arrived at on the basis of the valuations carried out by independent valuers. The valuation was arrived at by reference to market evidence of transaction with similar properties.

20. OTHER ASSETS

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Accrued fees and commissions	18.979	17.818	18.979	17.818
Items in course of collection		4.057		4.057
Accounts receivable	19.913	24.800	19.150	24.800
Collaterals received in satisfaction of non-performing loans	17.849	19.075	17.849	19.075
Receivables in respect of credit card operations	15.466	15.415	15.466	15.415
Due from Croatia osiguranje	12.972	10.925	12.972	10.925
Receivables for prepaid taxes and contributions	231	49	231	49
Prepaid expenses	4.085	4.987	4.085	4.987
Other	4.167	5.411	3.796	5.522
Total other assets	93.662	102.537	92.528	102.648
Less: allowance for impairment	(18.995)	(26.534)	(18.995)	(26.534)
	74.667	76.003	73.533	76.114

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

	2006	2005
Balance at 1 January	26,534	29,335
New provisions made	(7,539)	(2,801)
Balance at 31 December	18,995	26,534

21. AMOUNTS DUE TO OTHER BANKS

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Demand deposits				
HRK denominated	29	236	29	236
Foreign currency denominated	1,908	3,858	1,908	3,858
Time deposits				
HRK denominated	-	-	-	-
Foreign currency denominated	242,528	194,739	242,528	194,739
	244,465	198,833	244,465	198,833

In 2006, the Group reclassified HRK 4,981 thousand into demand deposits and HRK 194,739 thousand into time deposits due to other banks from amounts due from corporate customers.

All amounts are expressed in thousands of HRK

22. AMOUNTS DUE TO CUSTOMERS

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Retail customers				
Demand deposits				
HRK denominated	868,628	754,811	868,628	754,811
Foreign currency denominated	1,080,831	1,252,542	1,080,831	1,252,542
Time deposits				
HRK denominated	1,672,592	351,257	1,672,592	351,257
Foreign currency denominated	2,825,377	3,486,361	2,825,377	3,486,361
Corporate customers				
Demand deposits				
HRK denominated	571,378	485,883	571,378	485,883
Foreign currency denominated	102,841	102,562	102,841	102,562
Time deposits				
HRK denominated	720,693	204,015	720,693	204,015
Foreign currency denominated	260,486	172,166	260,486	172,166
Current accounts and deposits of subsidiaries	-	-	1,463	995
	8,102,826	6,809,597	8,104,289	6,810,592

In 2006, the Group reclassified HRK 4,981 thousand into demand deposits and HRK 194,739 thousand into time deposits due to other banks from amounts due from corporate customers.

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

23. OTHER BORROWED FUNDS

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Domestic creditors:				
CBRD	354,123	318,011	354,123	318,011
Ministry of Finance	3,839	3,843	3,839	3,843
Other borrowings from domestic banks	50,388	45,498	50,388	45,391
Foreign creditors:				
Refinanced foreign currency borrowings	11,753	25,259	11,753	25,259
Commercial banks	751,925	219,343	605,040	219,343
Government agencies	42,337	43,467	42,337	43,467
	1,214,365	655,421	1,067,480	655,314

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

The funds borrowed from CBRD are designated for approving loans to end users - corporate and retail customers - under the SMEs, tourist trade and agriculture incentive programme supported by the CBRD, at an average interest rate of 1.45 % (2005: 1.81%).

b) Other borrowings from domestic banks

Of the total borrowings from domestic banks, the major portion of HRK 29,380 thousand (2005: HRK 44,254 thousand) both for the Group and for the Bank, represents a loan from Privredna banka Zagreb d.d., Zagreb with a currency clause. These borrowed funds bear an interest rate of 6-month EURIBOR + 1.9%.

c) Refinanced foreign currency loans

London Club

At 31 December 2006, the liabilities to the London Club amount to HRK 3,267 thousand (2005: HRK 13,602 thousand) for the Group and for the Bank. Based on the Information Memorandum of 9 May 1999 and the Notification of Offer of 14 June 1996, the Croatian Government assumed at 31 July 1996 the obligation in respect of 29.5% of reprogrammed debt of the former Yugoslavia to commercial banks under the New Financial Agreement by issuing own A- and B-series bonds on 31 July 1996 to replace the debt under the New Financial Agreement. The financial debt is USD denominated and has been reprogrammed over 14 years, at an interest rate of six-month LIBOR for USD + 13/16% margin annually.

Paris Club

At 31 December 2006, the liabilities to the Paris Club amount to HRK 8,211 thousand (2005: HRK 11,321 thousand) for the Group and for the Bank. The loans repayable between 1984 and 1988 were refinanced and reprogrammed by means of several agreements, concluding with the Paris Club Agreement of 21 March 1995. Under the Agreement, principal is repayable in 24 semi-annual instalments, commencing on 31 January 1998. During 1997 and 1998, further individual negotiations with Paris Club members took place and bilateral consolidation agreements were concluded. In addition on 16 December 2005 the Government of Croatia and the Government of Italy reached an agreement on consolidation of the debt of Croatia.

d) Amounts due to commercial banks

Of the total debt to commercial banks, the major portions comprise the following:

a) Three loans from OTP Bank, Hungary extended to the Group and the Bank, in the total amount of HRK 571,406 thousand, with a variable interest of 3M CHFLIBOR plus margin (0.63 %, 0.52 % and 0.40 %).

b) HRK 31,686 thousand (2005: HRK 37,120 thousand) loan both for the Group and for the Bank due to the World Bank (IBRD). The interest on the borrowings is calculated at variable rate in the amount of 6-month EURIBOR + 0.50% margin annually. The loan is repayable in semi-annual instalments and has maturity in 2012

c) HRK 11,063 thousand (2004: HRK 49,863 thousand) loans both for the Group and the Bank received from Adria Bank AG Wien. The loans bear an annual interest rate of 3-month EURIBOR + 1.5%, and are fully repayable on 30 June 2005;

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

e) Amounts due to government agencies

The major portion of this debt relates to the debt to the DEG, which amounts to HRK 37,555 thousand (2005: HRK 37,711 thousand). The loan was approved for a period of 6 years, at variable interest rate (6-month EURIBOR + 1.05 %); these funds are included in the Bank's supplementary capital in accordance with the Croatian law. The entire loan is due on 15 November 2009.

HRK 4,547 thousand (2005: HRK 5,581 thousand) of the total debt to government agencies represents a loan from MEDIOCREDITO, which is repayable in equal semi-annual instalments until 2011, at a fixed interest rate of 1.75%.

All amounts are expressed in thousands of HRK

24. PROVISIONS

a) Analysis of provisions

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Provisions for off-balance sheet items	8,894	7,520	8,894	7,520
Litigation provision	31,998	20,559	31,998	20,559
	40,892	28,079	40,892	28,079

b) Movements in provisions for liabilities and charges

Provisions for off-balance sheet items

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Balance at 1 January	7,520	7,231	7,520	7,231
Additional provisions established	1,724	289	1,724	289
Decreases	(350)	-	(350)	-
Balance at 31 December	8,894	7,520	8,894	7,520

Litigation provision

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Balance at 1 January	20,559	15,747	20,559	15,747
Additional provisions established	15,229	6,560	15,229	6,560
Decrease in provisions	(3,790)	(1,748)	(3,790)	(1,748)
Balance at 31 December	31,998	20,559	31,998	20,559

25. OTHER LIABILITIES

	Group		Bank	
	31.12.2006	31.12. 2005	31.12.2006	31.12. 2005
Provisions for retirement benefits and bonuses to employees	7,049	17,885	7,049	17,885
Liability under guarantee issued for Globus Holding	6,859	11,247	6,859	11,247
Amounts due to suppliers	10,336	10,885	9,954	10,885
Salaries and contributions payable	21,345	9,198	21,170	9,198
Due to DAB	4,520	5,954	4,520	5,954
Deferred income	2,331	2,049	2,331	2,049
Liabilities under credit card operations	8,002	4,522	8,002	4,522
Liabilities under currency dealings	234	363	234	363
Accrued interest and fees	8	11	8	11
Trading derivatives - SWAP	647		647	
Other liabilities	17,783	19,896	17,310	19,316
	79,114	82,010	78,084	81,430

All amounts are expressed in thousands of HRK

26. SHARE CAPITAL AND RESERVES

As at 31 December 2006 and 2005 the share capital of the Bank comprise 2,276,398 ordinary shares with a par value of 200 HRK each. All the ordinary shares are ranked equally and carry one vote.

As at 31 December 2006 legal and statutory reserves of HRK 48,792 THOUSAND (2005: HRK 70,379 thousand). Such reserves are formed from annual profits in accordance with the Croatian law and include:

- **Legal reserve**, which is non-distributable reserve such time the reserve funds reach 5% (HRK 22,736 thousand) of the Bank's share capital.

- **Statutory reserve**, which is formed in amount of up to 5% of the share capital (HRK 22,764 thousand, to cover the loss per written off bad debts, disbursement of dividend on preference shares and for the same purposes for which funds are allocated to legal reserve).

27. CONTINGENCIES AND COMMITMENTS

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

	Group		Bank	
	31.12.2006	**31.12. 2005**	**31.12.2006**	**31.12. 2005**
Payment guarantees	84,411	70,455	84,411	70,455
Performance bonds	86,528	61,035	86,528	61,035
Letters of credit	36,020	40,536	36,020	40,536
Approved unused loans	844,372	674,227	844,372	674,227
Other	51	50	51	50
	1,051,382	846,303	1,051,382	846,303

28. CASH AND CASH EQUIVALENTS

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

	Group		Bank	
	31.12.2006	**31.12. 2005**	**31.12.2006**	**31.12. 2005**
Cash and cash equivalents (excluding mandatory reserve with Croatian National Bank)	426,984	354,806	426,984	354,806
Amounts due from other banks	1,712,595	1,367,274	1,712,595	1,367,274
	2,139,579	1,722,080	2,139,579	1,722,080

29. CREDIT RISK

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

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

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

Guarantees and standby letters of credit, which represent irrevocable assurances that the the Group and the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank and the Group on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. However, both the Group and the Bank record provisions for these instrument on the same basis as for their loans.

All amounts are expressed in thousands of HRK

Concentrations of assets, liabilities and off-balance sheet items

	Group					
		2006			2005	
	Assets	Liabilities and equity	Off balance sheet items	Assets	Liabilities and equity	Off balance sheet items
By geographic region:						
Croatia	8,934,643	9,146,348	1,051,382	7,223,160	7,330,104	846,303
Former Yugoslavia	668	170,843		1,105	173,536	-
OECD	1,598,817	1,211,505		1,400,650	1,112,966	-
Others	6	5,438		5	8,314	-
Total	10,534,134	10,534,134	1,051,382	8,624,920	8,624,920	846,303
By economic sector:						
Croatian National Bank	1,435,861	14		1,109,606	3	-
Trade	476,317	117,321	99,099	413,201	111,894	103,644
Finances	1,967,351	1,939,602	60	1,474,721	1,315,347	30
Tourism	225,962	147,939	33,975	187,567	129,479	5,475
Agriculture	217,823	21,933	8,415	156,651	27,774	18,877
Manufacturing	658,503	229,858	237,052	494,777	127,830	102,635
Retail sector	3,661,504	6,474,897	596,816	2,853,828	5,854,058	529,425
Others	1,890,813	1,602,570	75,965	1,934,569	1,058,535	86,217
Total	10,534,134	10,534,134	1,051,382	8,624,920	8,624,920	846,303

	Bank					
		2006			2005	
	Assets	Liabilities and equity	Off balance sheet items	Assets	Liabilities and equity	Off balance sheet items
By geographic region:						
Croatia	8,783,812	9,140,939	1,051,382	7,216,185	7,323,129	846,303
Former Yugoslavia	668	170,843		1,105	173,536	-
OECD	1,598,817	1,066,083		1,400,650	1,112,966	-
Others	6	5,438		5	8,314	-
Total	10,383,303	10,383,303	1,051,382	8,617,945	8,617,945	846,303
By economic sector:						
Croatian National Bank	1,435,861	14		1,109,606	3	-
Trade	476,317	117,321	99,099	413,201	111,894	103,644
Finances	1,822,727	1,794,180	60	1,474,721	1,315,347	30
Tourism	225,962	147,939	33,975	187,567	129,479	5,475
Agriculture	217,823	21,933	8,415	156,651	27,774	18,877
Manufacturing	658,503	229,858	237,052	494,777	127,830	102,635
Retail sector	3,661,504	6,474,897	596,816	2,853,828	5,854,058	529,425
Others	1,884,606	1,597,161	75,965	1,927,594	1,051,560	86,217
Total	10,383,303	10,383,303	1,051,382	8,617,945	8,617,945	846,303

All amounts are expressed in thousands of HRK

30. CURRENCY RISK

Concentrations of assets, liabilities and off balance sheet items

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

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

	Group						
	EUR	**EUR currency clause**	**Total EUR**	**USD**	**HRK**	**Other currencies**	**Total**
At 31 December 2006							
Assets							
Cash and balances with Croatian National Bank	508,629	-	508,629	13,178	1,077,070	19,288	1,618,165
Amounts due from other banks	806,337	-	806,337	805,013	166,950	83,953	1,862,253
Assets at fair value through profit or loss	-	-	-	-	9,552	-	9,552
Loans and receivables	100,361	3,310,290	3,410,651	80,657	1,389,387	775,214	5,655,909
Assets available for sale	30,766	340,059	370,825	-	587,506	-	958,331
Investments held to maturity	16,098	282	16,380	-	40,759	-	57,139
Tangible and intangible assets	-	-	-	-	221,368	-	221,368
Investment property	-	-	-	-	72,562	-	72,562
Deferred tax asset	-	-	-	-	5,045	-	5,045
Other assets	131	-	131	7	73,780	749	74,667
Total assets	1,462,322	3,650,631	5,112,953	898,855	3,643,979	879,204	10,534,991
Liabilities							
Amounts due to other banks	243,605	-	243,605	469	29	362	244,465
Amounts due to customers	3,246,011	1,063,548	4,309,559	953,520	2,611,006	228,741	8,102,826
Other borrowed funds	221,727	177,373	399,100	6,105	232,423	576,737	1,214,365
Provisions	-	-	-	-	40,892	-	40,892
Other liabilities	759	6,858	7,617	2,965	67,881	651	79,114
Total liabilities	3,712,102	1,247,779	4,959,881	963,059	2,952,231	806,491	9,681,662
Net FX position	(2,249,780)	2,402,852	153,072	(64,204)	691,748	72,713	853,329
Off balance sheet items	77,560	109,296	186,856	38,909	823,440	2,177	1,051,382
Credit commitments	80	109,296	109,376	27,892	705,040	2,064	844,372
At 31 December 2005							
Total assets	682,614	3,723,191	4,405,805	1,124,218	2,649,598	445,299	8,624,920
Total liabilities	3,961,305	204,927	4,166,232	1,122,694	2,049,329	435,685	7,773,940
Net FX position	(3,278,691)	3,518,264	239,573	1,524	600,269	9,614	850,980
Off balance sheet items	63,915	7,843	71,758	7,323	91,096	111	170,288
Credit commitments	-	-	-	-	668,496	-	668,496

All amounts are expressed in thousands of HRK

	Bank						
	EUR	**EUR currency clause**	**Total EUR**	**USD**	**HRK**	**Other currencies**	**Total**
At 31 December 2006							
Assets							
Cash and balances with Croatian National Bank	508,629	-	508,629	13,178	1,077,070	19,288	1,618,165
Amounts due from other banks	661,713	-	661,713	805,013	166,966	83,953	1,717,645
Assets at fair value through profit or loss	-	-	-	-	7,777	-	7,777
Loans and receivables	100,361	3,310,290	3,410,651	80,657	1,391,461	775,214	5,657,983
Assets available for sale	30,766	340,059	370,825		587,506	-	958,331
Investments held to maturity	16,098	282	16,380	-	40,759	-	57,139
Investments in subsidiaries	-	-	-	-	77,262	-	77,262
Tangible and intangible assets	-	-	-	-	208,058	-	208,058
Deferred tax asset	-	-	-	-	7,410	-	7,410
Other assets	131	-	131	7	72,646	749	73,533
Total assets	1,317,698	3,650,631	4,968,329	898,855	3,636,915	879,204	10,383,303
Liabilities							
Amounts due to other banks	243,605	-	243,605	469	29	362	244,465
Amounts due to customers	3,246,011	1,063,548	4,309,559	953,520	2,612,469	228,741	8,104,289
Other borrowed funds	76,289	177,373	253,662	6,105	230,976	576,737	1,067,480
Provisions	-	-	-	-	40,892	-	40,892
Other liabilities	759	6,858	7,617	2,965	66,851	651	78,084
Total liabilities	3,566,664	1,247,779	4,814,443	963,059	2,951,217	806,491	9,535,210
Net FX position	(2,248,966)	2,402,852	153,886	-64,204	685,698	72,713	848,093
Off balance sheet items	77,560	109,296	186,856	38,909	823,440	2,177	1,051,382
Credit commitments	80	109,296	109,376	27,892	705,040	2,064	844,372
At 31 December 2005							
Total assets	682,614	3,723,191	4,405,805	1,124,218	2,642,623	445,299	8,617,945
Total liabilities	3,961,305	204,927	4,166,232	1,122,694	2,049,637	435,685	7,774,248
Net FX position	-3,278,691	3,518,264	239,573	1,524	592,986	9,614	843,697
Off balance sheet items	63,915	7,843	71,758	7,323	91,096	111	170,288
Commitments to extend credit	-	-	-	-	668,496	-	668,496

All amounts are expressed in thousands of HRK

31. INTEREST RATE RISK

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

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group's and of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy both of the Group and of the Bank to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in 'Non-interest bearing' category.

			Group				
	Up to 1 month	**1 to 3 months**	**3 months to 1 year**	**Over 1 year**	**Non-interest bearing**	**Total**	**Fixed rate**
At 31 December 2006							
Assets							
Cash and balances with Croatian National Bank	1,033,007	-	-	-	585.158	1.618.165	1,023,869
Amounts due from other banks	1,862,253	-	-	-	-	1.862.253	800,474
Assets at fair value through profit or loss	-	-	-	-	9.552	9.552	-
Loans and receivables	3,883,074	294,404	452,073	1,026,358	-	5.655.909	1,925,566
Assets available for sale	-	55,527	277,112	611,833	13.859	958.331	931,776
Investments held to maturity	6,399	9,154	24,929	559	16.098	57.139	40,749
Tangible and intangible assets	-	-	-	-	221.368	221.368	-
Investment property	-	-	-	-	72.562	72.562	-
Deferred tax asset	-	-	-	-	5.045	5.045	-
Other assets	-	-	-	-	74.667	74.667	-
Total assets	6,784,733	359,085	754,114	1,638,750	998,309	10,534,991	4,722,434
Liabilities							
Amounts due to other banks	242,722	-	-	-	1,743	244,465	242,722
Amounts due to customers	5,381,867	891,969	1,795,558	34,894	-	8,104,288	2,722,421
Other borrowed funds	40,347	15,008	51,567	964,432	141,563	1,212,903	5,712
Provisions	-	-	-	-	40,892	40,892	-
Other liabilities	-	-	-	-	79,114	79,114	-
Total liabilities	5,663,473	906,977	1,848,573	999,326	263,312	9,681,662	2,970,855
On-balance-sheet interest rate sensitivity gap	1,119,813	(547,892)	(1,093,011)	639,424	730,497	853,329	1,751,579

All amounts are expressed in thousands of HRK

	Up to 1 month	1 to 3 months	Bank 3 months to 1 year	Over 1 year	Non-interest bearing	Total	Fixed rate
At 31 December 2006							
Assets							
Cash and balances with Croatian National Bank	1,033,007	-	-	-	585,158	1,618,165	1,023,869
Amounts due from other banks	1,717,645	-	-	-	-	1,717,645	800,474
Assets at fair value through profit or loss	-	-	-	-	7,777	7,777	-
Loans and receivables	3,883,074	296,478	452,073	1,026,358	-	5,657,983	1,925,566
Assets available for sale	-	55,527	277,112	611,833	13,859	958,331	931,776
Investments held to maturity	6,399	9,154	24,929	559	16,098	57,139	40,749
Investments in subsidiaries	-	-	-	-	77,262	77,262	-
Tangible and intangible assets	-	-	-	-	208,058	208,058	-
Deferred tax asset	-	-	-	-	7,410	7,410	-
Other assets	-	-	-	-	73,533	73,533	-
Total assets	6,640,125	361,159	754,114	1,638,750	989,155	10,383,303	4,722,434
Liabilities							
Amounts due to other banks	242,722	-	-	-	1,743	244,465	242,722
Amounts due to customers	5,381,867	891,969	1,795,558	34,894	-	8,104,288	2,722,421
Other borrowed funds	40,347	15,008	51,567	818,994	141,563	1,067,479	5,712
Provisions	-	-	-	-	40,892	40,892	-
Other liabilities	-	-	-	-	78,084	78,084	-
Total liabilities	5,664,936	906,977	1,847,125	853,888	262,282	9,535,208	2,970,855
On-balance-sheet interest rate sensitivity gap	975,189	(545,818)	(1,093,011)	784,862	726,873	848,095	1,751,579

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

	Group 31.12.2006	Interest rate %	Bank 31.12.2006	Interest rate %
Cash and balances with Croatian National Bank	1,618,165	1,1	1,618,165	1,1
Amounts due from other banks	1,862,253	4,1	1,717,645	4,1
Loans and receivables	5,655,909	7,4	5,657,983	7,4
Investments held to maturity	57,139	5,0	57,139	5,0
Assets available for sale	958,331	5,4	958,331	5,4
	10,151,797		10,009,263	
Amounts due to other banks	244,465	2,6	244,465	2,6
Amounts due to customers	8,102,826	2,5	8,104,289	2,5
Other borrowed funds	1,214,365	2,1	1,067,480	2,1
	9,561,656		9,416,234	

All amounts are expressed in thousands of HRK

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

Group	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total	Fixed rate
At 31 December 2005							
Assets							
Cash and balances with Croatian National Bank	889,655	-	-	-	381,355	1,271,010	882,186
Amounts due from other banks	1,373,811	-	-	-	-	1,373,811	1,373,811
Assets at fair value through profit and loss	-	-	-	-	7,995	7,995	-
Loans and receivables	3,022,039	147,170	408,708	776,688	-	4,354,605	1,332,566
Assets available for sale	5,213	49,637	338,827	776,811	11,443	1,181,931	1,159,977
Investments held to maturity	6,273	6,977	19,043	-	16,165	48,458	32,293
Tangible and intangible assets	-	-	-	-	206,099	206,099	-
Investment property	-	-	-	-	72,562	72,562	-
Deferred tax	-	-	-	-	32,446	32,446	-
Other assets	-	-	-	-	76,003	76,003	-
Total assets	5,296,991	203,784	766,578	1,553,499	804,068	8,624,920	4,780,833
Liabilities							
Amounts due to other banks	5,217	-	-	-	3,858	9,075	-
Amounts due to customers	4,209,598	1,264,890	1,484,919	39,948	-	6,999,355	2,789,757
Other borrowed funds	33,019	3,885	81,124	430,920	106,473	655,421	7,119
Provisions	-	-	-	-	28,079	28,079	-
Other liabilities	-	-	-	-	82,010	82,010	-
Total liabilities	4,247,834	1,268,775	1,566,043	470,868	220,420	7,773,940	2,796,876
On-balance-sheet interest rate sensitivity gap	1,049,157	(1,064,991)	(799,465)	1,082,631	583,648	850,980	1,983,957

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total	Fixed rate
At 31 December 2005							
Assets							
Cash and balances with Croatian National Bank	889,655	-	-	-	381,355	1,271,010	882,186
Amounts due from other banks	1,373,811	-	-	-	-	1,373,811	1,373,811
Assets at fair value through profit and loss	-	-	-	-	7,500	7,500	-
Loans and receivables	3,022,039	147,170	408,708	776,688	-	4,354,605	1,332,566
Assets available for sale	5,213	49,637	338,827	776,811	11,443	1,181,931	1,159,977
Investments held to maturity	6,273	6,977	19,043	-	16,165	48,458	32,293
Investments in subsidiaries	-	-	-	-	75,562	75,562	-
Tangible and intangible assets	-	-	-	-	194,121	194,121	-
Deferred tax asset	-	-	-	-	34,833	34,833	-
Other assets	-	-	-	-	76,114	76,114	-
Total assets	5,296,991	203,784	766,578	1,553,499	797,093	8,617,945	4,780,833
Liabilities							
Amounts due to other banks	5,217	-	-	-	3,858	9,075	-
Amounts due to customers	4,210,593	1,264,890	1,484,919	39,948	-	7,000,350	2,789,757
Other borrowed funds	33,017	3,881	81,108	430,835	106,473	655,314	7,119
Provisions	-	-	-	-	28,079	28,079	-
Other liabilities	-	-	-	-	81,430	81,430	-
Total liabilities	4,248,827	1,268,771	1,566,027	470,783	219,840	7,774,248	2,796,876
On-balance-sheet interest rate sensitivity gap	1,048,164	(1,064,987)	(799,449)	1,082,716	577,253	843,697	1,983,957

All amounts are expressed in thousands of HRK

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

	Group		Bank	
	31.12.2006	Interest rate %	31.12.2006	Interest rate %
Cash and balances with Croatian National Bank	1,271,010	1.33	1,271,010	1.33
Amounts due from other banks	1,373,811	2.88	1,373,811	2.88
Loans and other financial assets created by the Bank	4,354,605	7.98	4,354,605	7.98
Investments held to maturity	48,458	4.98	48,458	4.98
Assets available for sale	1,181,931	5.83	1,181,931	5.83
	8,229,815		8,229,815	
Amounts due to other banks	9,075	0.29	198,823	0.29
Amounts due to customers	6,999,355	2.17	6,810,592	2.17
Other borrowed funds	655,421	2.57	655,314	2.57
	7,663,851		7,664,739	

32. LIQUIDITY RISK

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

All amounts are expressed in thousands of HRK

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

	Group					
	Up to 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
At 31 December 2006						
Assets						
Cash and balances with Croatian National Bank	1,618,165	-	-	-	-	1,618,165
Amounts due from other banks	1,717,629	-	144,624	-	-	1,862,253
Assets at fair value through profit or loss	-	-	9,552	-	-	9,552
Loans and receivables	992,976	364,563	767,223	1,149,136	2,382,011	5,655,909
Assets available for sale	-	55,527	290,971	178,920	432,913	958,331
Investments held to maturity	6,399	9,154	24,929	559	16,098	57,139
Investments in subsidiaries	-	-	-	-	-	-
Tangible and intangible assets	-	-	-	-	221,368	221,368
Investment property	-	-	-	-	72,562	72,562
Deferred tax asset	-	-	-	5,045	-	5,045
Other assets	56,840	-	-	-	17,827	74,667
Total assets	4,392,009	429,244	1,237,299	1,333,660	3,142,779	10,534,991
Liabilities						
Amounts due to other banks	244,465	-	-	-	-	244,465
Amounts due to customers	4,279,732	1,540,562	2,233,222	31,228	18,082	8,102,826
Other borrowed funds	43,788	17,297	61,803	449,828	641,649	1,214,365
Provisions	-	-	-	-	40,892	40,892
Other liabilities	72,065	-	-	-	7,049	79,114
Total liabilities	4,640,050	1,557,859	2,295,025	481,056	707,672	9,681,662
Net liquidity gap	(248,041)	(1,128,615)	(1,057,726)	852,604	2,435,107	853,329
At 31 December 2005						
Total assets	3,627,309	297,034	1,071,238	1,294,234	2,335,105	8,624,920
Total liabilities	4,168,041	1,368,120	1,623,383	318,846	295,550	7,773,940
Net liquidity gap	(540,732)	(1,071,086)	(552,145)	975,388	2,039,555	850,980

All amounts are expressed in thousands of HRK

	Up to 1 month	1 to 3 months	Bank 3 months to 1 year	1 to 3 years	Over 3 years	Total
At 31 December 2006						
Assets						
Cash and balances with Croatian National Bank	1,618,165	-	-	-	-	1,618,165
Amounts due from other banks	1,717,645	-	-	-	-	1,717,645
Assets at fair value through profit or loss	-	-	7,777	-	-	7,777
Loans and receivables	992,976	366,637	767,223	1,149,136	2,382,011	5,657,983
Assets available for sale	-	55,527	290,971	178,920	432,913	958,331
Investments held to maturity	6,399	9,154	24,929	559	16,098	57,139
Investments in subsidiaries	-	-	-	-	77,262	77,262
Tangible and intangible assets	-	-	-	-	208,058	208,058
Deferred tax asset	-	-	-	7,410	-	7,410
Other assets	55,684	-	-	-	17,849	73,533
Total assets	4,390,869	431,318	1,090,900	1,336,025	3,134,191	10,383,303
Liabilities						
Amounts due to other banks	244,465	-	-	-	-	244,465
Amounts due to customers	4,281,195	1,540,562	2,233,222	31,228	18,082	8,104,289
Other borrowed funds	42,341	17,297	61,803	304,390	641,649	1,067,480
Provisions	-	-	-	-	40,892	40,892
Other liabilities	71,035	-	-	-	7,049	78,084
Total liabilities	4,639,036	1,557,859	2,295,025	335,618	707,672	9,535,210
Net liqidity gap	(248,167)	(1,126,541)	(1,204,125)	1,000,407	2,426,519	848,093
At 31 December 2004						
Total assets	3,627,420	297,034	1,070,743	1,296,621	2,326,127	8,617,945
Total liabilities	4,168,454	1,368,116	1,623,367	318,803	295,508	7,774,248
Net liquidity gap	(541,034)	(1,071,082)	(552,624)	977,818	2,030,619	843,697

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest - bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

All amounts are expressed in thousands of HRK

33. RELATED PARTY TRANSACTIONS

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

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

	31.12.2006		31.12.2005	
	Receivables	Payables	Receivables	Payables
OTP Bank Rt, Hungary	8,870	719,855	29,812	312,155
OTP Nekretnine d.o.o.	7	1,039	153	683
OTP Invest d.o.o.	2,074	424	-	312
	10,951	721,318	29,965	313,150

	2006		2005	
	Income	Expenses	Income	Expenses
OTP Bank Rt, Hungary	2,027	12,087	733	1,844
OTP Nekretnine d.o.o.	-	1,108	153	3
OTP Invest d.o.o.	85	2	3	1
	2,112	13,197	889	1,848

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

The remuneration of directors and other key members of the management for the years ended 31 December 2006 and 2005 was HRK 3,871 thousand and HRK 6,324 thousand, respectively.

As disclosed in Note 26, at 31 December 2004 the Management of the Bank held rights to purchase 44,700 ordinary shares of the Bank at a price of HRK 359.70 per share. On 16 February 2005 the option holders informed the Bank of their intention to exercise their options. At that date the fair value of the shares, as determined by reference to the public tender offer for shares of the Bank made by OTP Bank Rt., Hungary, the owner, was HRK 819.92 per share. The difference of HRK 20,572 thousand between the price at which the above shares where purchased by the Bank and the price at which they were sold to the option holders was recognized in equity as allocation to the option holders. In addition, on 10 March 2005 the option holders irrevocably undertook the obligation to sell the shares purchased from the Bank to OTP Bank Rt., Hungary.
At 31 December 2006 the management of the Bank holds no shares of the Bank.

As disclosed in Note 18, in December 2005 the Bank made a contribution in kind into the share capital of OTP Nekretnine d.o.o. in form of real estate. As a result of this transaction two buildings located in Dubrovnik and Pula with the net book value of HRK 7,606 thousand were disposed of by the Bank. These buildings were contributed into the share capital of OTP Nekretnine d.o.o. at their market value at the date of transaction amounting to HRK 53,169 thousand. The Bank recognized a gain of HRK 45,563 thousand on disposal of the buildings in 'Other income'. As further disclosed in Note 18, the Group has effectively transferred these buildings from tangible fixed assets to investment property.

In consolidated financial statements the difference of HRK 45,563 thousand between the net book value of this property and its fair value at the date of transfer was recognized as surplus on revaluation in "Other reserves" in equity.

The balances and transactions with OTP Invest d.o.o. and OTP Nekretnine d.o.o., the subsidiaries, were eliminated in consolidated financial statements of the Group.

34. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

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

At 31 December 2006, funds managed by the Group and the Bank on behalf of third parties amounted to HRK 64,424 thousand (2005: HRK 66,700 thousand).

35. FAIR VALUES 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:

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.

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.

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.

36. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board of the Bank on 21 March 2007

The financial statements were signed by:

Zorislav Vidović
Management Board Member

Damir Odak
President of the Management Board

Supervisory Board and Management Board

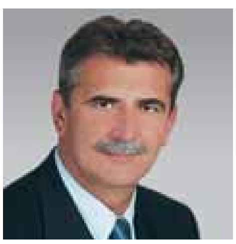
otpbanka

Supervisory Board

László Wolf

Deputy chief executive officer of OTP BANK RT.

László Wolf, deputy chief executive officer of OTP Bank, born in 1960. Graduated from the Budapest University of Economics, and gained further financial knowledge by attending numerous banking seminars in the USA and Germany. He started his career in the International Banking Division of the Hungarian National Bank in 1983, where he was promoted to a senior manager. From 1991 to 1993 he was the chief treasurer of BNP-KH-Dresdner bank in Budapest, which he left in 1993 to take a position with OTP Bank. In OTP Bank he started as the head of the Treasury, and from that position he was appointed a managing director of the bank. In February 1994 he was elected deputy chief executive officer of the National Savings and Commercial Bank (OTP) in charge of the commercial and investment operations, project finance and corporate banking.



Antal György Kovács

Managing director of OTP BANK RT.

Antal György Kovács, managing director of OTP Bank of the South Transdanubian Region, born in 1953. He graduated from the Budapest University of Economics in 1985, and in 1990 he started his career in finances by taking a position with K&H Bank in Nagyatád, where, three years later, he was promoted to the position of a director. During his employment with that bank he attended numerous seminars in the USA, specialising in the finance field. He joined OTP Bank in 1995 as the head of the Bank's Somogy County office, and two years later he became the head of the Bank's Somogy and Tolna counties office. He assumed his current position with the Bank in 1998, and his duties include managing the operations of the branches in the region, business planning, cost management, loan approval and other activities.

Pál Kovács

Managing director of the Loan Approval Directorate in OTP BANK RT.

Pál Kovács, is the managing director of the Loan Approval Directorate. He was born in 1959 and graduated from the Budapest University of Economics in 1982. The same year he joined the Hungarian National Bank and participated in the loan activities management and a number of other banking operations. In 1987 he took the position of the deputy head of the Credit Department of the Hungarian Credit Bank, and two years later became the managing director of the K&H Bank central branch. In 1991 he assumed the position of the head of Banking Operations in Kereskedelmi és Hitelbank, and in the period from 1992 to 1999 his position was that of the deputy chief executive officer. He joined OTP Bank in 1999 the head of the Budapest region. He has been holding the position of the managing director of the Loan Approval Directorate since 2000.

András Michnai

Director in OTP BANK RT.

András Michnai, currently holding a director position in OTP Bank, was born in 1955. With a degree in economics, he is a tax expert and a chartered accountant. He has been in the banking business for thirty years, and has had different duties in various OTP banka departments. In the period from 2001 to 2005 he was the director of the banking activities and network in charge of network coordination and activities. From 1996 to 2001 his position was the one of the director of branch distribution channels. In the period from 1985 to 1995 he was managing different branches. Before that, he had worked in different sections of OTP Bank.
In his professional career, he has become an expert in branch management, especially finance management, costs and related activities, efficiency and quality management.
Since April 2002 until May 2003 he was a member of the Supervisory Board of OTP Bank Slovensko.
At the moment, he is a member of the OTP Factoring INC committee.

Ákos Takáts

IT director in OTP BANK RT.

Ákos Takáts, was born in 1959. He has been holding the position of the IT director in OTP Bank since 1995. Prior to assuming that position he spent two years as a deputy director of the same Department. In the period from 1989 to 1993 his function was that of the IT director in Investbank, and before that he had been working as a programmer and assistant at the Budapest University. Apart from being a Supervisory Board member of OTP banka Hrvatska, he was also a Management Board of OTP banka in Romania (2002-2005), and a Supervisory Board member of GIRO Ltd. (1996 - 2003). Currently, he is a Management Board member of OTP Building Society. He holds a MS in horticulture.

Management Board

Damir Odak

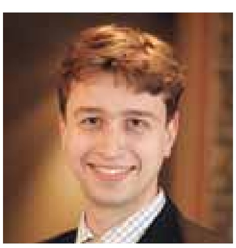
President of the Management Board of OTP BANKA HRVATSKA d.d.

Damir Odak, president of the Management Board of OTP banka d.d., was born in 1964 in Split. He graduated from the Faculty of Economics and started his career as a junior researcher at the Institute of Economics in Zagreb. He was the Chairman of the Management Board of Trgovačka banka (now a part of the Erste Group) from 1990 to 1997. In the period from 1997 until 2003 he was the director of the Corporate Banking Sector and a member of the Management Board of Zagrebačka banka.

Zorislav Vidović

Member of the Management Board of OTP BANKA HRVATSKA d.d.

Zorislav Vidović, member of the Management Board of OTP banka d.d., graduated from the Faculty of Economics at the University of Zagreb, earning a B.S. in Finance, Banking and Insurance. In 1992 he obtained a broker license, after which he also passed the test for a member of a management board of a commercial bank. In the period from 1988 to 1990 he held a job in the Finance Section of the company Kepol Zadar. He joined Dalmatinska banka in 1990. From 1997 to 2002 he held the position of the head of the Treasury Department. He has been a member of the Management Board since 1 April 2002, currently in charge of the Treasury and Finance. He was a member of the Supervisory Boards of the Dalmatinska banka subsidiaries for a number of years.



Balázs Békeffy

Member of the Management Board of OTP BANKA HRVATSKA d.d..

Balázs Békeffy, member of the Management Board of OTP banka d.d., graduated from the Budapest University of Economics, and gained specialised education at professional schools in Moscow and Sweden. He started his career in a subsidiary of the Swiss-based pharmaceutical and research company Novartis Seeds, and afterwards he worked with the audit company PricewaterhouseCoopers, as a consultant at Corporate Finance Services. He joined OTP Bank in March 2003, as a senior project manager in charge of bank acquisitions. In March 2006, he was appointed as director of the Operations Division within OTP banka Hrvatska, and since 2006, he has been the Management Board member responsible for the Bank's operations.

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Izdavač / Editor: OTP banka d.d.
Produkcija / Production: Modacom Plus Hand Studio
Tisak / Press: Kersch Offset d.o.o.

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