

Vaba d.d. banka Varaždin, Varaždin

Financial statements
For the year ended 31 December 2006
Together with Independent Auditor's Report

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Chairman's Report



It is my great pleasure to present in this annual report the results of the business operations of Vaba d.d. banka Varaždin for the year 2006.

Through its business operations in the previous year, the bank has additionally strengthened its position on the Croatian banking market and has continued in meeting our clearly set goals, positioning itself as a bank that truly follows and recognizes the needs of its clients.

In the previous year, the bank's total assets have increased by more than 150%, reaching the amount of almost 800 million kuna, whereas at the end of the year the total net profit amounted to 1.1 million kuna. At the same time, the bank generated a total income of almost 30 million kuna, which represents an increase of 67%, when compared to the year 2005, which directly indicates the growing acceptance of the bank by our clients.

During the previous year, the bank has performed a significant restructuring of the portfolio taken over from the former Brodsko-posavska banka, and has created the prerequisites for the stable growth of all business activities in the years to come.

The bank's most significant project in retail business operations is the introduction of the Maestro chip card, enabling the clients of Vaba d.d. banka to withdraw cash at more than 700 ATMs of the MBU network without fee. Vaba d.d. banka is among the first banks in Croatia that have implemented chip technology in their business operations.

A project that we are especially proud of is our private banking project. Based on an innovative client-oriented approach, our private bankers visit our clients and provide our services at their homes or in their office on request. The service was additionally improved through the employment of high-quality professionals who undergo targeted and programmed training necessary for the proper implementation of this project.

Significant progress was also achieved in the segment of corporate business operations. We are the first bank in Croatia to introduce a Cash-pool service. The Agreement on Cash-pool, signed with the Varaždin County in February 2006, secured more favorable financing terms for local self-government units and therefore enabled quality liquidity management of 53 institutions – state budget users – liquidity management that is prompter and cheaper.

Furthermore, during the previous year we continued with the expansion of our branches and expanded our business operations to the cities of Ludbreg, Čakovec, Krapina and Sisak. We also opened an additional branch in the city of Varaždin in response to the increasing demand of our clients for our bank's services.

In the year ahead of us, we will deal with numerous challenging quality projects that will additionally strengthen our position on the market and, I am convinced, fulfill the rightful expectations of our clients.

Apart from introducing new products and services from the segment of corporate and retail business operation, the bank shall continue developing and improving its services relating to private, investment and municipal banking. We are also planning a significant recapitalization of our bank that shall secure a truly quality long-term foundations for the safe development of future business operations.

Allow me to sincerely thank all of you, who, together with us, participated in the realization of these results. I am proud to state that all this is an indicator of the success of our bank and, of course, the result of the professional, and dedicated work of our employees.

By putting their trust in us, our clients have enriched our Balance Sheet, but they have also confirmed that the path we have taken is the right one.

I am convinced that in the future, through our innovative and client-oriented approach and the quality associated with the name of our bank, we shall justify your trust and continue the successful path of Vaba d.d. banka Varaždin.

Igor Čičak
Chairman of the Managing Board

Report of the Supervisory Board



On behalf of the Supervisory Board it is my great pleasure to present the business results of Vaba d.d. banka for the business year 2006.

The business results achieved in the previous year confirmed how right we were in making the decision in 2005 relating to the purchase of the Brodsko-posavska banka. By reviewing our position and analyzing the Croatian banking market, we assessed that our Croatian market lacks an efficient and flexible bank that is able to meet the needs of its clients in a fast and simple manner. And this is how the story of Vaba d.d. banka Varaždin began.

Last year, Vaba d.d. banka Varaždin was the market leader with respect to the asset growth criterion and was classified as one of the most successful Croatian banks. In 2006, it significantly expanded its branch network through new financial centers in Varaždin, Čakovec, Krapina, Sisak and Ludbreg.

Internet banking for corporate clients, which was introduced last year, additionally improved our services provided to Croatian companies and placed Vaba d.d. banka, with almost a double asset growth in this segment, in an equal position with other banks operating in Croatia.

Vaba d.d. banka was the first bank to introduce a Cash-pool service; it was also one of the first banks to implement the Maestro chip card and it has also introduced a private banking service. Furthermore, during the previous year, the bank was given all necessary licenses for the sale of non-banking financial services – the sale of bank assurance and shares in investment funds, securing its clients a complete financial and consulting service in one place.

Today, on the basis of the results we have achieved, we are proud to say that we have managed to create a modern financial institution, which, by recognizing the specific needs of the market and its clients, is developing its own, truly different position on the market, focusing on private, investment and municipal banking as the strategic aims of its business operations.

On behalf of the Supervisory Board I would like to thank all our clients for the trust they have placed in us, as well as the employees of the bank, and the Managing Board for the achieved results. Furthermore, I would personally like to thank the members of the Supervisory Board for their professional contribution, dedication and cooperation.

Milan Horvat

Chairman of the Supervisory Board

Annual report for 2006

Key Financial Figures

u 000 kuna

	2006.	2005.	%
Assets	797.001	306.876	159,71%
Paid-in Capital	62.226	62.226	0%
Total Deposits	716.178	237.903	201,04%
Loans to clients	513.524	120.860	324,89%
Operative Revenues	29.379	17.577	67,14%
Operative expenses	(33.138)	(19.818)	67,22%
Profit before taxation	823	(2.738)	
Net profit	1.106	(2.738)	
Return on Average Assets	0,20%	0,0%	
Return on Average Equity	1,95%	0,0%	
Cost/Profit Ratio	112,80%	112,75%	-0,05%

Profit

Vaba d.d. banka Varaždin continued the upward business operations trend in 2006. and realized positive business results.

The aim is to realize profit for the Bank and its shareholders and to ensure necessary reserves for potential losses, i.e. to create a sound basis for further bank operations. The Bank policy is to create full stability and to implement new bank products with special emphasis on developing private and communal banking.

Profit in 2006 was 1.106 thousand kuna (in 2005. bank had a loss of 2.738 thousand kuna).

Structure of Revenues and Expenditures

Interest revenues

Interest income realized in the amount of 25,6 million kuna is 118,01% higher than in the previous year. At the same time interest expenditure was 16,7 million kuna or 123,86% higher in relation to 2005. Net interest income is higher for 107,75%.

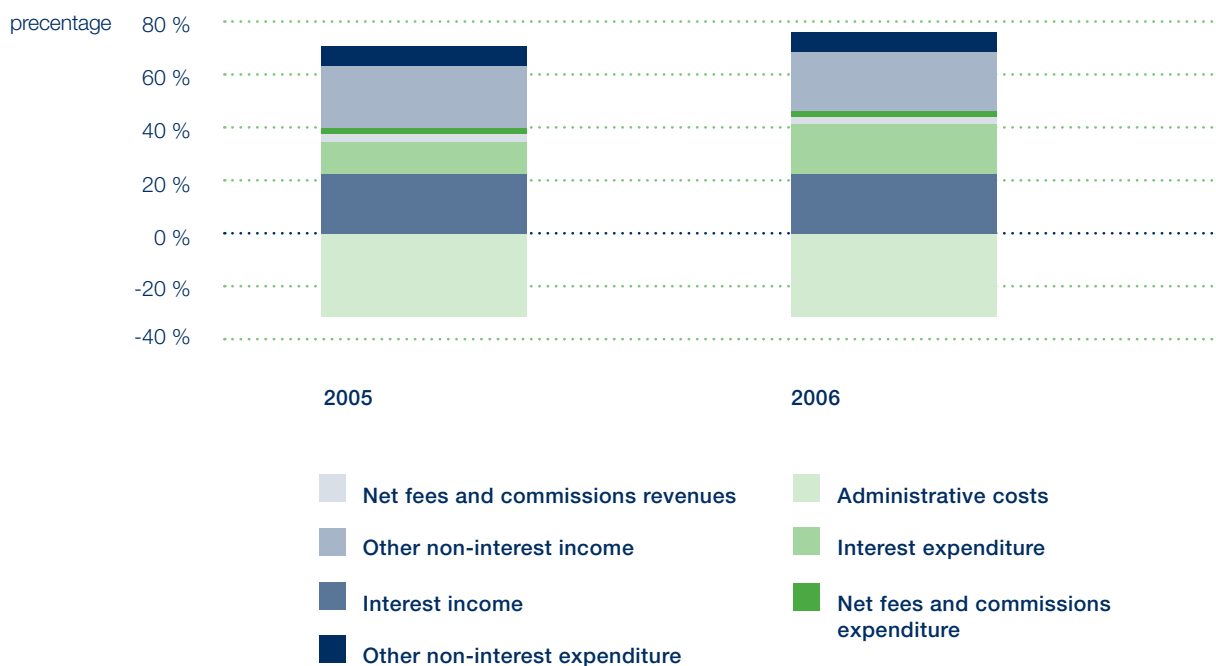
Net fees and commissions revenues is lower for 14,26% in comparison with 2005.

Fees and commissions income is higher for 48,98% from the previous year, but at the same time fees and commissions expense 84,14%.

The increase of fees and commissions income is a result of more intensive Bank activities in 2006.

Costs of expansion grew by 67,21% reflecting the costs of new branch network, employment, marketing etc.

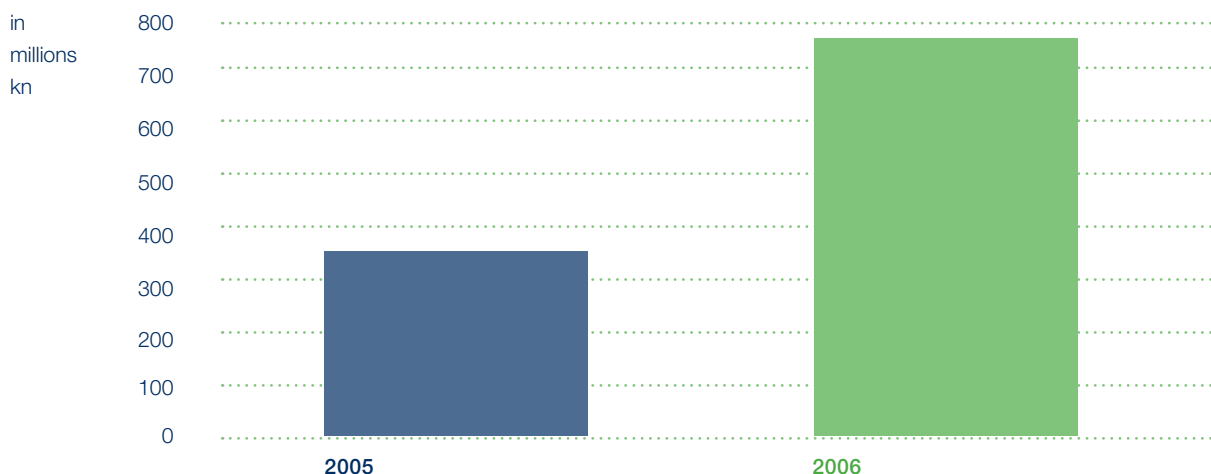
Structure of Revenues and Expenditures



Balance Sheet

Bank assets in 2006 in relation to 2005 grew by 159,71%. Besides the organic growth it was initiated by take-over of part of assets and liabilities of „Folis“ Savings Bank, as well as the expansion of branch network in the Varaždin region.

Balance Sheet



Assets Structure

Cash deposits with Central Bank were significantly higher in 2006 and grew to 128 million kuna or 121,15% more than in the previous year.

The result of increased Balance Sheet is higher obligatory reserve to domestic and foreign currency with the Central Bank that grew by 47 million kuna or 153,79%.

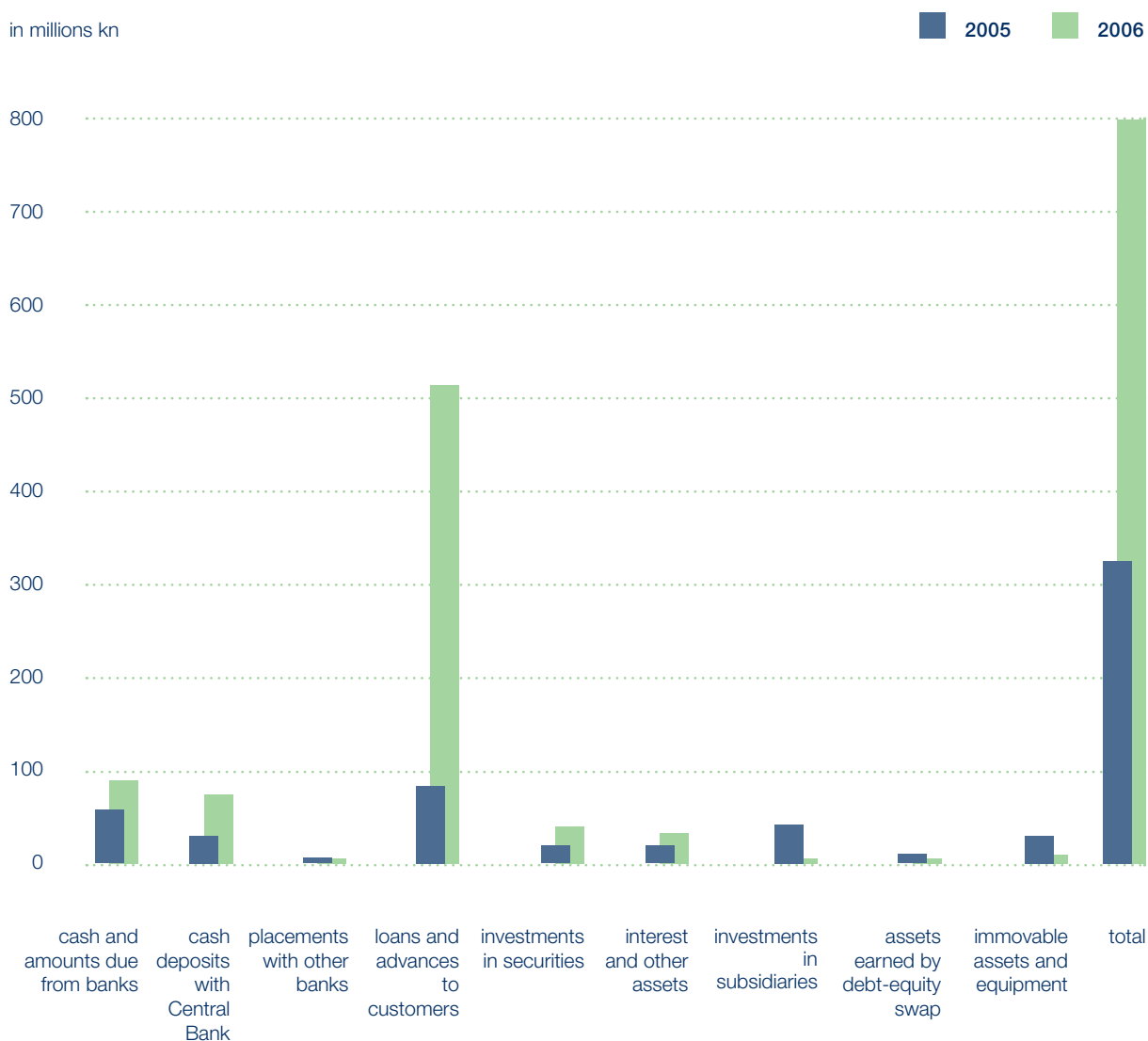
In the assets structure the higher increase is reflected in loan to clients. Total net loans amounted to 513 million kuna or 324,89% more than in the previous year. Corporate loans were 409 million kuna, while retail loans amounted to 104 million kuna. In percentage points it represents increase from 39% of total assets in 2005 to 64% in 2006.

Investments to securities were also higher by 225%.

Assets earned by debt-equity swap were almost completely sold in 2006. Together with disposal of immovable assets (sale of building in Slavonski Brod) it influenced on the improved quality of Balance Sheet.

Assets Structure

in millions kn



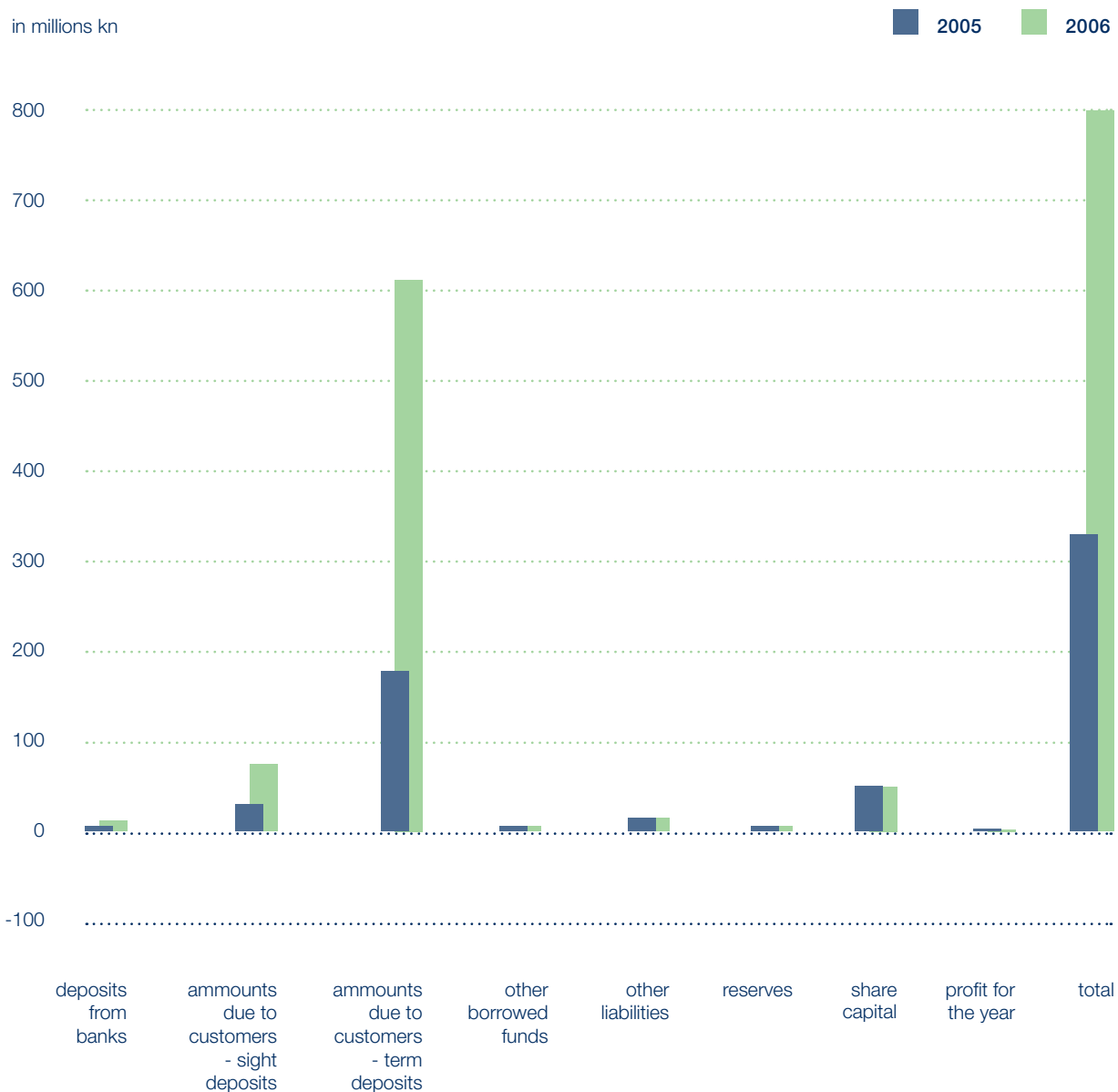
Liabilities Structure

Sight deposits grew from 34,7 to 90,28 million kuna or for 164%, while term deposits increased from 203,2 to 597,92 million kuna or 194,29% in 2006. It reflects the stronger Bank presence on the Croatian market and is a result of Bank penetration to new regions. At the end of 2006 Vaba Banka had 28 million kuna loans from domestic banks, for of regular overnight liquidity purpose.

Share capital in the amount of 62.226.000 kuna remained at the level of the previous year. The additional payment of capital is expected in June 2007.

Profit for 2006 amounted to 1,106 million kuna.

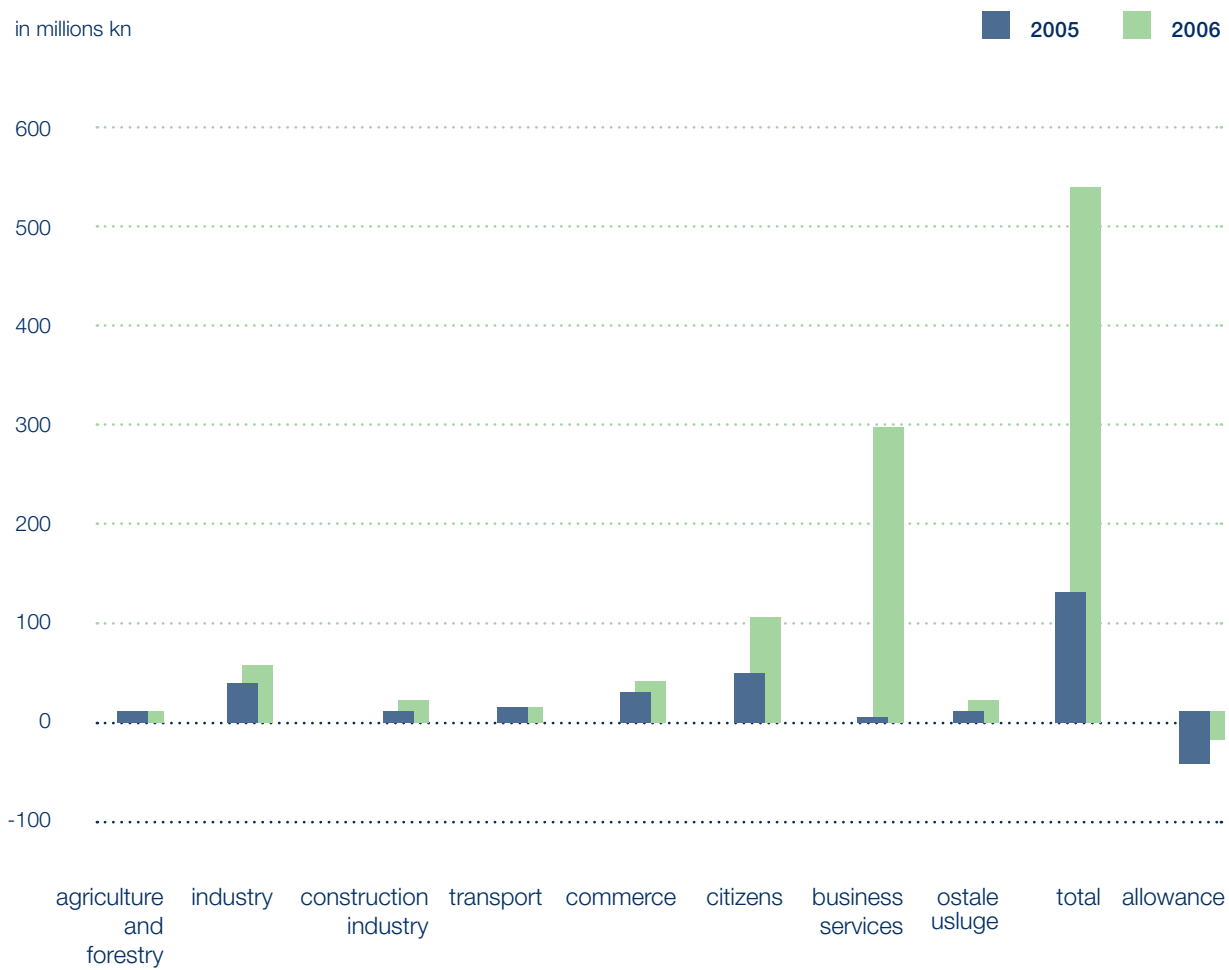
Liabilities Structure



Loan Portfolio Structure

In 2006 loan portfolio structure changed greatly by substantial increase of corporate loans and secondly, increases of retail loans (mostly for short-term financing purposes).

Loan Portfolio Structure



Report of the Management Board

The Management Board present their annual report of Vaba d.d. banka Varaždin (the "Bank") for the year ended 31 December 2006.

Results

The results of the Bank are set out on page 16.

On behalf of the Management Board

Igor Čičak
President of the Management Board



Varaždin, 20 April 2007

Statement of Responsibility of the Management Board

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that consolidated financial statements of Vaba d.d. banka Varaždin (the "Bank") 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 Bank for that period.

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

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

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

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

Signed on behalf of the Management Board

Igor Čičak
President of the Management Board



Varaždin, 20. April 2007

Independent Auditor's Report

To the Shareholders of Vaba d.d. banka Varaždin:

We have audited the accompanying financial statements of Vaba d.d. banka Varaždin (the "Bank"), set out on pages 16 do 58, which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following matters:

- Measures taken by the Croatian National Bank over the past few years based on the supervision of the Bank's activities (Note 2);
- Significant weaknesses identified by us in the operation of general computer controls at the Bank, which, if not eliminated, increase the risk of errors in the Bank's operations. As discussed in Note 39, steps have been taken at the Bank to eliminate those weaknesses; and
- The process of taking over a part of the assets and liabilities of Primus banka in liquidation (Note 3).

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor



Zagreb, Republic of Croatia
25 April 2007

Income Statement

For the year ended 31 December 2006

(All amounts are expressed in thousands of kunas)

	Notes	2006	2005
Interest and similar income	5a	25,620	11,752
Interest and similar expense	5b	(16,745)	(7,480)
Net interest income		8,875	4,272
Fee and commission income	6a	2,047	1,374
Fee and commission expense	6b	(1,626)	(883)
Net fee and commission income		421	491
Net foreign exchange gains/(losses)	7	85	(1,080)
Other operating income	8	19,998	13,894
Operating income		29,379	17,577
Operating expenses	9	(33,139)	(19,818)
Impairment losses and provisions	11	4,583	(497)
Profit before taxation		823	(2,738)
Income tax	12	283	-
Net profit/(loss) for the year		1,106	(2,738)

The accompanying notes form an integral part of these financial statements

Balance Sheet

As at 31 December 2006

(All amounts are expressed in thousands of kunas)

	Notes	2006	2005
ASSETS			
Cash and amounts due from banks	13	57,284	29,315
Obligatory reserve with Croatian National Bank	14	78,325	30,862
Placements with other banks	15	72,983	33,821
Financial assets held for trading	16	23,599	
Available-for-sale financial assets	17	4,018	5,345
Held-to-maturity financial assets	18	25,477	10,987
Loans and advances to customers	19	513,524	120,860
Investments in subsidiaries	20		37,924
Tangible assets	21	8,655	18,000
Intangible assets	22	7,453	1,523
Other assets	23	5,683	18,239
Total assets		797,001	306,876
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits from banks	24	28,000	19
Amounts due to customers	25	688,178	237,884
Other borrowed funds	26	5,000	
Provisions for liabilities and charges	27	1,104	1,287
Other liabilities	28	17,445	
Total liabilities		739,727	250,600
Share capital	29	62,226	62,226
Less: treasury shares		(3,367)	(3,367)
Revaluation reserve			6,629
Fair value reserve		47	155
Accumulated losses		(2,738)	(6,629)
Profit for the year		1,106	(2,738)
Total shareholders' equity		57,274	56,276
Total liabilities and shareholders' equity		797,001	306,876
Commitments and contingency	32	39,686	16,513

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

These financial statements were approved by the Management Board on 20 April 2007 and signed by:
President of the Management Board
 Igor Čičak

Chief Financial Officer
 Mirjana Ivanagić



Statement of Cash Flows

For the year ended 31 December 2006

(All amounts are expressed in thousands of kunas)

	Notes	2006	2005
Operating activities			
Profit/(loss) before taxation		823	(2,738)
<i>Adjustment of net result to net cash from operations:</i>			
Depreciation and amortization		1,856	1,061
Net (income) / expense from sale and retirement of tangible assets		(1,345)	(64)
Decrease in other assets		12,839	11,588
Increase/(decrease) in other liabilities		5,541	(5,376)
Gains on Primus banka related transaction		-	(12,555)
Gains on sale of the Visa d.d. shares		(6,899)	-
Gains on security trading		(3,245)	-
Realised gains on available-for-sale financial instruments		(2,712)	-
(Decrease)/increase in impairment of loans and other assets, net		(8,729)	611
Increase/(decrease) in provisions for risks and charges		311	(114)
Operating result before changes in operating assets and liabilities		(1,560)	(7,587)
<i>Changes in operating assets and liabilities:</i>			
Increase in obligatory reserve with Croatian National Bank		(47,463)	(12,450)
Increase in loans		(377,359)	(25,118)
Increase/(decrease) in deposits from other banks		27,981	(12,325)
Increase in deposits from customers		443,718	1,354
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		45,317	(56,126)
<i>Investing activities</i>			
Increase in financial instruments held for trading		(8,286)	-
Decrease/(increase) in available-for-sale financial assets		3,931	(5,032)
Receipts from the sale of Vis		32,755	-
(Increase)/decrease in held-to-maturity financial assets		(14,490)	19,013
Receipts from purchases of assets and liabilities of Primus banka			83,130
Purchases of tangible and intangible assets		(9,704)	(2,146)
Receipts from sale of tangible fixed assets		12,608	68
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		16,814	95,033
<i>Financing activities</i>			
Increase/(decrease) in borrowings		5,000	(6,011)
Increase in share capital		-	22,000
NET INCREASE IN CASH FROM FINANCING ACTIVITIES		5,000	15,989
NET INCREASE IN CASH AND CASH EQUIVALENTS		67,131	54,896
Cash and cash equivalents at 1 January		63,136	8,240
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	31	130,267	63,136

The accompanying notes form an integral part of these financial statements

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2006

(All amounts are expressed in thousands of kunas)

	Share capital	Capital losses	Legal and other reserves	Unrealised fair value	Revaluation reserve	Retained earnings/(Accumulated losses)	Result for the year	Total
At 31 December 2004	40,226	(3,999)	1,049	-	6,896	(8,251)	938	36,859
Share capital increase	22,000	-	-	-	-	-	-	22,000
Coverage of capital losses	-	632	(632)	-	-	-	-	-
Coverage of accumulated losses	-	-	(417)	-	-	417	-	-
Unrealised fair value reserve	-	-	-	155	-	-	-	155
Realisation of revaluation reserve	-	-	-	-	(267)	267	-	-
Transfers (from)/to	-	-	-	-	-	938	(938)	-
Result for the period	-	-	-	-	-	-	(2,738)	(2,738)
At 31 December 2005	62,226	(3,367)	-	155	6,629	(6,629)	(2,738)	56,276
Transfers from/(to)	-	-	-	-	(6,629)	3,891	2,738	-
Realised fair value	-	-	-	(108)	-	-	-	(108)
Result for the period	-	-	-	-	-	-	1,106	1,106
At 31 December 2006	62,226	(3,367)	-	47	-	(2,738)	1,106	57,274

The accompanying notes form an integral part of these financial statements

Notes to the financial statements

For the year ended 31 December 2006

(All amounts are expressed in thousands of kunas)

1. General

History and incorporation

Vaba d.d. banka Varaždin (the "Bank") was established as Brodsko -posavska banka d.d., Slavonski Brod in 1994. On 27 December 2004 the Bank was renamed to Vaba d.d. banka Varaždin, and its headquarters were relocated from Slavonski Brod to Varaždin, Anina 2. This change was a result of the changes in the ownership structure of the Bank, whose majority shareholder became Validus d.d. from Varaždin, with the consent of the Croatian National Bank and assurance that the Bank would operate in accordance with law.

Principal activity

As at 31 December 2006, the Bank was operating a total of 10 branches throughout the Republic of Croatia, primarily in the broader regions of Zagreb, Slavonski Brod and Varaždin.

The Bank's main areas of operation include:

- accepting deposits from the public and placing of deposits
- providing current and term deposit accounts
- granting short- and long-term loans and guarantees
- treasury operations in the interbank market
- trust management
- performing local and international payments, and other

Governance and Management

The members of the Supervisory Board of Vaba d.d. banka Varaždin during 2006 were as follows:

Milan Horvat, President
Stjepan Bunić, Deputy President
Vladimir Koščec, Member
Željko Filipović, Member
Artur Gedike, Member
Liljana Weissbarth, Member
Mika Mimica, Member

The members of the Management Board during 2006 were as follows:

Igor Čičak, President
Marinko Benić, Member

On 19 July 2006, the Supervisory Board revoked Josip Šerement, President of the Management Board, and appointed Stjepan Bunić as Deputy President. On 20 September 2006 Manda Ciprić, Member of the Management Board, was revoked and Igor Čičak was appointed President of the Management Board on 18 October 2006.

2. Measures of the Croatian National Bank (the CNB)

Because of the problems in operations and the inability to achieve full compliance with the regulations governing commercial bank operations (excessive exposures to individual clients and/or related persons, investments in equity instruments above permissible limits versus regulatory capital and similar), the CNB placed the operations of the Bank in the period after 2000 under more strict supervision and issued certain measures that significantly affected the operations of the Bank. Of all the measures taken by the CNB, set out below are the following:

- In calculating the regulatory capital, exclude loans approved by the Bank for the purchase of its shares in the amount of HRK 40,325 thousand (2001 resolution);
- The exposure to the Đuro Đaković Group to be reduced to not more than 5 per cent of the regulatory capital (2002 resolution);
- To reduce its exposures to several customers to not more than 25 per cent of the regulatory capital, and to include equity shares in the total exposure (2003 resolution);
- To improve the position of the Bank by increasing its regulatory capital by HRK 40 million and to reduce its exposure to related parties to maximum 10 per cent of the regulatory capital; to avoid concluding deals by which assets or rights pertaining to related party relationship are assumed or acquired until 20 June 2006; to reduce investments in non-financial equity shares to maximum 30 per cent of the regulatory capital (maximum 15 % of the regulatory capital for individual investments); not to increase interest rates on deposits but rather to reduce them gradually; ban on disbursement of any compensations to the Supervisory Board members as long as the Bank incurs operating losses (2003 resolution);
- To adjust the regulatory capital account by the amount of revaluation reserve by HRK 7,163 thousand in respect of the Bank's buildings, which were utilised to cover accumulated losses (2004 resolution).

As a series of irregularities continued despite the stricter supervision, the CNB compiled all previously issued resolutions and issued to the Bank on 17 March 2005 the following authoritative instructions:

- To increase the regulatory capital to minimum HRK 40 million by 30 June 2005 (resolved by a share capital increase of HRK 22 million)
- The Bank is banned from increasing the level of individual customer savings, unless a proportionate regulatory capital increase is effected simultaneously until it amounts to HRK 40 million
- The Bank shall maintain the minimum liquidity reserve at the level of 17 per cent and 20 per cent of its total assets as of 31 March 2005 and 30 June 2005, respectively
- The Bank may not increase its exposure to related parties from the date of receipt of the resolution, which shall not exceed 10 per cent of the regulatory capital
- The Bank may not increase its investments in equity instruments of non-financial entities and shall reduce the existing ones to 30 per cent of the regulatory capital
- The Bank shall not make any payments to the Supervisory Board members as long as it incurs operating losses

In September 2005 the CNB issued a preliminary resolution for eliminating the identified irregularities and non-compliance, according to which:

- The Bank has to set up auxiliary records for its assets and liabilities for the assets and liabilities under the contract on purchase of assets and liabilities of Primus bank in forced liquidation
- The Bank is repeatedly forbidden to conclude any new transactions with its related parties that would result in an increased exposure to those persons or an increase in the obligations representing either the current or the future cost of the Bank; this measure is effective until further notice
- The Bank may not provide financial services for which it has not received an approval from the CNB

As of date of authorisation of these financial statements the Bank had promulgated certain operating decisions (such as the sale of a portion of its tangible assets, bad receivables, equity investments in other companies, reduced exposures to its related parties, and similar), the implementation of which resulted in bringing the Bank's operations in line with the applicable regulations and the specific requirements of the CNB, except for the limit set for investments in equity securities of non-financial entities, which were above the limit due to a significant increase in the market value (in the meantime, the Bank sold most of these investments, having thus become compliant with the CNB decision; the Bank intends to sell the entire portfolio).

3. Assets and liabilities assumed from Primus banka in liquidation and of ŠKZ Folis deposits

a) Basic information

On 29 July 2005, the Bank concluded with the Bank Rehabilitation Agency ("the Agency" or "DAB") and Primus banka, in liquidation, an agreement on the purchase of a part of Primus banka assets and liabilities as of 31 May 2005. The amounts assumed by the Bank, including other agreed-upon transactions regarding the purchase of assets and liabilities are as follows.

	Amount
Assets:	
Cash	4,422
Deposits with Croatian National Bank	36,802
Deposits with other banks	11,303
Financial instruments available for sale	158
Loans to corporate customers	41,555
Loans to individuals	39,190
Tangible and intangible assets	2,118
Interest, fees and other assets	8,227
Less: specific provision for unidentified losses	(1,287)
Total current assets	142,488
Estimated June and July 2005 profits	2,024
Total assets purchased	144,512
Liabilities	
Long-term borrowings from credit institutions	(12,344)
Deposits from corporate customers	(12,740)
Deposit and savings accounts of individuals	(134,646)
Other liabilities	(9,330)
Total liabilities	(169,060)
Difference (surplus of liabilities)	(24,548)
Repurchase of assets by DAB (Note 3b)	(22,240)
Repurchase of liabilities towards HBOR by DAB (Note 3b)	12,154
Cash payments to DAB for the settlement of assets and liabilities (Note 3b)	45,610
Operating expenses of Primus bank in the period of acquisition chargeable to Vaba	(1,500)
Severance pays to the Primus bank chargeable to Vaba	(900)
Net transaction gains of Vaba banka	8,576

In addition to the amounts stated above, included in the accompanying income statement for the year 2005 is income from reversal of provisions in accordance with Appendix 11 to the sales agreement on the basis of the DAB guarantee in the amount of HRK 9,970 thousand, as well as the difference in the net profits of Primus banka for June and July 2005 in the amount of HRK 1,775 thousand (the actual income statement for the two months amounted to HRK 3,799 thousand, and the income statement as estimated for the

purposes of the contract amounted to HRK 2,024 thousand). Accordingly, the net positive effect of the transaction in the accompanying financial statements would amount to HRK 20,317 thousand.

b) Assets repurchased by DAB from Vaba banka

Under the terms and conditions of the agreement specified above, DAB repurchased a portion of assets and liabilities towards HBOR immediately after their sale for a cash consideration of HRK 45,610 thousand. The carrying amounts of assets repurchased by DAB from Vaba banka and other amounts included in the calculation of the amount payable by DAB to Vaba were as follows:

	Gross amount	Allowance	Net book value
Repurchase of corporate loans	24,649	(8,731)	15,918
Repurchase of loans to individuals	13,334	(9,130)	4,204
Repurchase of tangible and intangible assets	12,781	(10,663)	2,118
	50,764	(28,524)	22,240
Amount payable by DAB for the assets specified above			50,764
Additional amount payable by DAB in cash			7,000
Decrease of the cash amount paid by DAB to Vaba for the liabilities towards HBOR assumed by DAB			(12,154)
Cash paid by DAB to Vaba			45,610

c) Guarantees of DAB for the fairness of assets and liabilities sold

Under the agreement, DAB guaranteed to Vaba for the reasonableness of the assets and liabilities stated as of 31 May 2005, with a permissible departure of +/- 5 %, specifically for the accuracy of the reported provisions for loans and advances. If the positions were found to be unfairly presented, DAB undertook to settle all potential and actual costs incurred not included in the balance sheet that might be chargeable to the assets acquired or Vaba as acquiror.

During January 2007, Vaba and DAB had a meeting in which they agreed to form a joint body to:

- Agree the criteria for the estimation of the actual level of provisions as of 31 May 2005 for the Primus banka portfolio purchased by Vaba from DAB;
- Establish any differences versus the balance stated as of that date.

If the required level of provisions proves to be higher than the actual presented, DAB has the obligation to compensate for the difference, in accordance with the sales agreement.

Furthermore, DAB specifically guarantees for the collectability of the receivables from customers as per Appendix 11 in the amount of HRK 21,145 thousand, which were included in the value of assets sold in the net amount of HRK 11,175, with the remaining HRK 9,970 thousand representing interest in suspense or provisioned principal. Under the terms and conditions of the guarantee, Vaba may claim settlement from DAB only after all legal steps taken by the Bank to collect the outstanding amounts from customers remained unsuccessful or if a customer goes bankrupt.

An agreement was reached in January 2007 to establish the actual position and agree the views as to how

to resolve the issue of mutual receivables and liabilities under the sales agreement to the mutual satisfaction of both parties.

d) The process of transferring the relevant bookkeeping entries

The transfer of the related bookkeeping entries was not performed immediately, i.e. as of 31 May 2005. Instead, it occurred in stages, by transferring the balance as of 31 July 2005, as follows:

- Upon the signing of the contract, total amounts of assets and liabilities acquired as of 31 May 2005 were booked as specified in the agreement
- Subsequent to that, the total amounts were cancelled and reclassified into accounts, in accordance with the nature of assets and liabilities acquired as of 31 July 2005
- The electronic subsidiary ledgers by tranches as of 31 July 2005 were transferred, with a simultaneous cancellation of the totals booked on individual accounts
- Booking of all transactions that took place from 1 August to the day of transfer of electronic subsidiary ledgers.

Transfer of all data was completed in early December 2005, subsequent to which reconciliations with customers were performed and the operations with customers continued as with other customers of Vaba. No significant errors were identified in operations during 2006, i.e. no significant complaints were received from business partners whose receivables and liabilities were transferred from Primus banka.

In the period 1 June – 31 July 2005 the purchased assets and liabilities were included in the books of Primus banka and not in those of Vaba banka. As this was a period of normal operations of Primus banka in liquidation, they resulted in the income statement with a profit stated in the amount of HRK 3,799 thousand, which has been included in the accompanying financial statements (see Note 8). The income statement was as follows:

	June - July 2005
Interest and similar income	2,013
Interest and similar expense	(944)
Net interest income	1,069
Fee and commission income	8
Fee and commission expenses	(35)
Net fee and commission income	(27)
Net exchange differences	(137)
Other non-interest income	337
Other non-interest expenses	(378)
Net other non-interest expenses	(178)
General and administrative expenses and depreciation	(2,469)
Net profit / (loss) from operations before provision for losses	(1,605)
Income from collection of provisioned receivables	4,587
Income from reversal of provisions for unidentified losses	817
Total loss provision reversed and credited to income	5,404
Net profit for the period	3,799

e) Transfer of loans and deposits of ŠKZ Folis

During 2006, the Bank assumed from the Savings and Loan Cooperative Folis HRK 6,570 thousand of loans and HRK 7,143 thousand of deposits. The difference was settled to the Bank in 2007. The agreed loan interest is 15 % and the agreed interest on deposits is 8 %. The Bank is willing to continue to take over the loans and deposits if the ŠKZ Folis clients show interest in that.

4. Summary of significant accounting policies

a) Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board. The financial statements have been prepared under the historical cost basis, except for certain financial instruments and properties that were carried at revalued amounts. The financial statements are presented in thousands of Croatian Kuna (HRK'000) which is the functional currency of the Bank.

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

The Bank has prepared these unconsolidated financial statements in accordance with the regulations and decisions of the Croatian National Bank (abbreviated: “the CNB”). The accompanying financial statements are based on the accounting records of the Bank, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with International Financial Reporting Standards.

b) Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Bank's accounting policies in the following areas:

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

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

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

- IFRS 7 Financial Instruments: Disclosures (Effective for annual periods beginning on or after 1 January 2007)
- Amendment to IAS 1 Presentation of financial statements: Capital Disclosures (Effective for annual periods beginning on or after 1 January 2007)

- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (Effective for annual periods beginning on or after 1 March 2006)
- IFRIC 8 Scope of IFRS 2 (Effective for annual periods beginning on or after 1 May 2006)
- IFRIC 9 Reassessment of Embedded Derivatives (Effective for annual periods beginning on or after 1 June 2006)
- IFRIC 10 Interim Financial Reporting and Impairment (Effective for annual periods beginning on or after November 2006)

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

Key sources of estimation uncertainty

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

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

- The Bank monitors permanently the recoverable amount of its loans and receivables, as well as the collection time, which serves as the basis for estimating future cash flows. As the assumed amounts and time of collection are subject to assumptions regarding the elements beyond the Bank's control (duration of litigation, selling price of collateral, future performance of its customers..), the total actual losses may differ significantly from those currently estimated.
- The Bank is involved in various legal actions, the outcome of which is uncertain (see Note 27) Based on the consultation with legal counsel, the management's estimate is that no costs are likely to eventuate on those actions. It should be noted that, despite the estimate, such costs may arise in the future.

c) Interest income and expenses

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

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

d) Fee and commission income and expense

Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for credit instruments issued by the Bank, except for loan origination fees.

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

Loan origination fees are immediately credited to income because the Bank has no technical prerequisites for deferrals in accordance with International Financial Reporting Standards. As the same procedure applies to the related direct costs of issuance and given that a large portion of loans are short-term in nature, the estimates of the Bank's management reveal that the net effect of not deferring the loan origination fees and the direct costs of issuance is not significant.

e) Taxation

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

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

f) Cash and cash equivalents

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

Current accounts with other banks and term placements with other banks with residual maturity up to 3 months, and treasury bills with residual maturity up to 3 months.

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

g) Financial assets and financial liabilities

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

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

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

Assets at fair value through profit or loss

Classified as held for trading

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

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

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

Measurement

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

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

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

Assets available for sale

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

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

For available-for-sale assets, unrealized gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period.

Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

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

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

Loans and receivables

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

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

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Specific allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.

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

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

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

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

h) Retirement benefit costs

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

i) Tangible and intangible assets

Property and equipment are started at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Small equipment with value less than HRK 2,000 is expensed when put into use. Significant improvements and replacement of assets are capitalized. Gains or losses on retirement or disposal of property and equipment are included in the statement of income in the period in which they occur.

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

	2006	2005
Buildings	33 years	33 years
Office equipment	7 – 15 years	7 – 15 years
IT equipment	5 years	5 years
Motor vehicles	4 years	4 years
Software	5 years	5 years

j) Foreign currency translation

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

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

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

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

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

k) Off-balance sheet commitments

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

l) Provisions

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

m) Fiduciary activities

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

n) Share capital and treasury shares

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

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

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

o) Regulatory environment

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 compliant with all regulatory requirements of the CNB, except for investments in equity securities of non-financial entities, which were above the limit due to a rise in their market value above the permissible limit. The Bank managed to become compliant with the limit as of the date of authorisation of these financial statements, by selling a portion of those investments.

5. Interest and similar income and expenses

a) Interest and similar income

	2006	2005
Individuals	7,424	4,189
Corporate entities	14,615	6,501
State and public sector	-	150
Croatian National Bank	404	177
Domestic banks	376	521
Foreign banks	1,033	205
Others	1,768	9
	25,620	11,752

b) Interest and similar expenses

	2006	2005
Individuals	7,183	3,351
Corporate entities	6,231	1,678
State and public sector	2,320	2,136
Savings deposit insurance premium	524	306
State and public sector	7	4
Others	480	5
	16,745	7,480

6. Fee and commission income and expenses

a) Fee and commission income

	2006	2005
Individuals	281	306
Corporate entities	1,766	1,068
	2,047	1,374

b) Fee and commission expenses

	2006	2005
FINA	1,243	638
Domestic banks	90	9
Foreign banks	14	11
Others	279	225
	1,626	883

7. Net foreign exchange gains/(losses)

	2006	2005
Net foreign exchange gain on trading	296	743
Net (losses)/gains on translation of monetary assets and liabilities	(211)	(1,823)
	85	(1,080)

8. Other operating income

	2006	2005
Net foreign exchange gain on trading	-	8,576
Net (losses)/gains on translation of monetary assets and liabilities	-	3,799
Gains on sale of equity share in the subsidiary Vis	6,899	-
Gains on sale of Helios Faros shares	1,455	-
Gains on available-for-sale assets	2,712	-
Security trading gains	3,245	-
Gains from the sale of a building in Slavonski Brod	2,762	-
Gains on sale of other tangible assets	1,207	-
Rental income	973	842
Other income	745	677
	19,998	13,894

9. Operating expenses

	2006	2005
Staff costs (Note 10)	14,100	9,586
Rental costs	2,375	956
Advertising	2,045	1,490
Intellectual services	3,580	1,776
Depreciation and amortisation	1,856	1,061
Supervisory Board fees	836	779
Provisions for risks and charges	-	494
Security services	642	190
Postage, telecommunications and SWIFT charges	1,063	540
Office supplies, heating and energy	772	525
IT services	545	-
Grants and sponsorships	404	195
Other expenses	4,921	2,226
	33,139	19,818

10. Staff costs

	2006	2005
Net salaries	7,308	5,057
Taxes and surtaxes	2,175	1,504
Contributions	4,179	2,883
Other staff costs	438	142
	14,100	9,586

At the end of 2005, there were 97 persons employed by the Bank (2005: 82)

11. Impairment losses and provisions

	Notes	2006	2005
New allowances:			
Loans and advances to customers	19	(9,380)	(13,125)
Interest and other assets	23	(5,065)	(3,430)
Contingencies	27	(331)	-
		(14,776)	(16,555)

Collections and reversals:			
Loans and advances to customers	19	18,109	12,446
Interest and other assets	23	1,230	3,498
Provisions for contingencies and commitments	27	20	114
		19,359	16,058
		4,583	(497)

12. Income tax expense

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

	2006	2005
Current tax	-	-
Deferred tax	(283)	-
Income tax credit	(283)	-

The movement in the deferred income tax account is provided as follows:

	2006	2005
Balance at 1st January	-	-
Deferred tax assets recognised	283	-
Balance at 31st December	283	-

Deferred tax assets have arisen from deferred loan origination fees in the amount of HRK 1,415 thousand, which were not recognised in income and were taken into account when determining the tax liability.

The reconciliation between the income tax and the profits as per the income statement is set out below:

	2006	2005
Accounting profit before tax	823	(2,738)
Tax disallowable expense, permanent differences	1,973	966
Adjusted by revaluation reserve	-	-
Tax benefits	(652)	(1,005)
Tax base before tax losses brought forward	2,144	(2,777)
Tax losses brought forward	(2,144)	-
Tax base after the utilisation of tax losses brought forward	-	-
Income tax at the rate of 20%	-	-
Income tax liability	-	-

In the previous years the Bank incurred tax losses. The ability to carry forward tax losses expires in the fifth year from the year in which the tax losses are incurred. At 31 December 2006 tax losses available for carry forward expire as follows:

Year incurred	Year of expiry	2006	Cumulative
2002	2007	20,307	31,699
2003	2008	8,615	11,392
2005	2010	2,777	2,777
		31,699	

13. Cash and amounts due from banks

	31 December 2006	31 December 2005
Cash in hand	8,976	5,791
Current accounts with domestic banks	986	1,517
Current accounts with foreign banks	6,639	789
Current accounts with Croatian National Bank	40,683	21,218
Total:	57,284	29,315

14. Obligatory reserve with Croatian National Bank

	31 December 2006	31 December 2005
In HRK	64,913	20,274
In foreign currencies	13,412	10,588
Total:	78,325	30,862

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

At 31st December 2006, the Bank had the obligation to hold at least 70% (2005: 70%) of such reserves on its account with the Croatian National Bank. The portion of the reserve funds denominated in HRK includes 50% of the foreign currency reserve funds. Obligatory deposit funds bear interest at a rate of 0.75% per annum (2005: 0.75%).

The foreign-currency reserve is allocated on the foreign-currency accounts with the Croatian National Bank to the full extent of deposits of non-residents and legal entities with a specific relationship with the Bank (related parties) and at 60% for the remaining portion. Obligatory reserve funds denominated in USD bear interest at a rate of 2.125% (2005: 2.125%) and those denominated in Euro 1.75% (2005: 2.125%).

The additional mandatory reserve funds in foreign currency were allocated at a rate of 40% (2005: 40 %) on the increase of deposits of foreign entities and related parties compared to June 2004, and at 15% compared to the period 1 to 30 November 2005. At 31 December 2006 the entire additional obligatory reserve was to be held with the Croatian National Bank with no interest.

15. Placements with other banks

	31 December 2006	31 December 2005
Placements with domestic banks	22,403	5,000
Placements with foreign banks	50,580	28,821
Total	72,983	33,821

16. Financial assets held for trading

	31 December 2006	31 December 2005
Units in ICF Balanced	4,608	-
Units in PBZ Global Invest Fund	4,030	-
Units in FIMA Equity Fund	67	-
Shares of Đuro Đaković	8,894	-
Shares of Helios Faros	6,000	-
Total	23,599	-

17. Financial assets available for sale

	31 December 2006	31 December 2005
Investments in investment funds	4,018	5,345
Equity shares in banks	4,351	4,351
Other equity securities	180	180
	8,549	9,876
Allowance	(4,531)	(4,531)
	4,018	5,345

Other equity investments were provided against to the full extent, as these investments relate to investments in shares of bankrupt banks or companies from which the Bank expects no future economic benefits.

Investments in investment funds included at 31 December 2005 were sold during 2006, with net gains realised by the Bank in the amount of HRK 2,712 thousand.

18. Financial assets held to maturity

	31 December 2006	31 December 2005
Money market instruments	14,457	6,763
Factoring, purchased receivables	11,003	4,207
Public debt bonds purchased from Primus	17	17
	25,477	10,987

19. Loans and advances to customers

	31 December 2006	31 December 2005
Loans and advances to corporate customers	418,770	74,595
Loans and advances to individuals	118,061	77,888
	536,831	152,483
Impairment allowance	(23,307)	(31,623)
	513,524	120,860

Analysis by lending portfolio

	31 December 2006	31 December 2005
<i>HRK denominated</i>		
Loans to corporate customers	367,943	26,335
Loans to individuals	25,319	9,920
	393,262	36,255
<i>Foreign currency denominated</i>		
Loans to corporate customers	50,827	48,260
Loans to individuals	92,742	67,968
	143,569	116,228
Total gross loans and advances to customers	536,831	152,483
Impairment allowance	(23,307)	(31,623)
Total net loans and advances to customers	513,524	120,860

Movements in provisions for impairment

	2006	2005
At 1 January	31,623	8,445
Transferred in respect of the Primus transaction	-	22,499
Charged during the year	9,380	13,125
Amounts collected or reversed	(18,109)	(12,446)
Amounts written-off or adjusted otherwise	413	-
At 31 December	23,307	31,623

Concentration of credit risk by industry

All commercial lending is to companies domiciled in Croatia. At 31 December 2006 the Bank had the following gross credit risk concentration by industry:

	31 December 2006	%	31 December 2005	%
Agriculture and forestry	3,518	0,65	5,288	3,47
Manufacturing	43,696	8,14	32,591	21,37
Construction	17,569	3,27	6,226	4,08
Transport	8,765	1,63	8,363	5,48
Trade and commerce	34,351	6,40	18,172	11,92
Individuals	115,587	21,53	74,416	48,81
Business services	297,325	55,40	-	-
Other services	16,020	2,98	7,370	4,83
Other	-		57	0,04
	536,831	100	152,483	100
Allowance	(23,307)	(4,34)	(31,623)	(20,74)
	513,524	95,66	120,860	79,26

20. Investment in subsidiaries

	31 December 2006	31 December 2005
Equity share in Vis d.d.	-	37,924

In these financial statements, investments in the shares of Vis d.d. are measured at cost, as there was no reliable method for determining the fair value of those shares at 31 December 2005 (see Note 2).

As previously discussed, the Bank sold its equity investment in Vis d.d. to the company Validus for HRK 43,998 thousand. The payment was effected by a cash compensation in the amount of HRK 31,930 thousand and the remaining portion was settled in the shares of the company Helios Faros (HRK 9,000 thousand) and Đuro Đaković Holding (HRK 3,068 thousand). In addition, a part of the shares was sold on the market for HRK 824 thousand.

21. Tangible assets

2006	Land and buildings	IT equipment	Office furniture and fittings	Motor vehicles	Other	Assets under construction	Total
Cost							
At 31 December 2005	17,597	1,926	4,658	399	389	1,521	26,490
Additions	599	25	36	-	-	2,609	3,269
Disposals and retirements	(13,799)	(136)	(125)	(259)	(5)	(1,369)	(15,693)
Transfers from assets under construction	-	826	1,684	-	125	(2,635)	-
At 31 December 2006	4,397	2,641	6,253	140	509	126	14,066
Accumulated depreciation							
At 31 December 2005	4,314	1,158	2,451	399	168	-	8,490
Charge for the year	535	296	453	-	67	-	1,351
Disposals and retirements	(3,953)	(121)	(93)	(259)	(4)	-	(4,430)
At 31 December 2006	896	1,333	2,811	140	231	-	5,411
Net book value							
At 31 December 2006	3,501	1,308	3,442	-	278	126	8,655
At 31 December 2005	13,283	768	2,207	-	221	1,521	18,000

The building in Slavonski Brod, with a net book value of HRK 9,846 thousand, was sold for HRK 12,608 thousand in December 2006.

2005	Land and buildings	IT equipment	Office furniture and fittings	Motor vehicles	Other	Assets under construction	Total
Cost							
At 31 December 2004	17,517	1,689	3,002	536	311	1,369	24,424
Additions	-	-	-	-	-	2,739	2,739
Disposals and retirements	-	(415)	(31)	(137)	(90)	-	(673)
Transfers from assets under construction	80	652	1,687	-	168	(2,587)	-
At 31 December 2005	17,597	1,926	4,658	399	389	1,521	26,490
Accumulated depreciation							
At 31 December 2004	3,774	1,431	2,214	533	220	-	8,172
Charge for the year	540	142	264	3	38	-	987
Disposals and retirements	-	(415)	(27)	(137)	(90)	-	(669)
At 31 December 2005	4,314	1,158	2,451	399	168	-	8,490
Net book value							
At 31 December 2005	13,283	768	2,207	-	221	1,521	18,000
At 31 December 2004	13,743	258	788	3	91	1,369	16,252

22. Intangible assets

2006	Software	Leasehold improvements	Other	Assets in progress	Total
Cost					
At 31 December 2005	617	1,868	474	265	3,224
Transfer from assets in progress	24	2,448	364	(2,836)	-
Additions	-	3	-	6,432	6,435
Disposals and retirements	-	-	(17)	-	(17)
At 31 December 2006	641	4,319	821	3,861	9,642
Accumulated amortisation					
At 31 December 2005	511	823	367	-	1,701
Charge for the year	26	400	79	-	505
Disposals and retirements	-	-	(17)	-	(17)
At 31 December 2006	537	1,223	429	-	2,189
Net book value					
At 31 December 2006	104	3,096	392	3,861	7,453
At 31 December 2005	106	1,045	107	265	1,523

2005	Software	Leasehold improvements	Other	Assets in progress	Total
Cost					
At 31 December 2004	515	779	405	-	1,699
Transfer from assets in progress	102	1,089	69	(1,260)	-
Additions	-	-	-	1,525	1,525
Disposals and retirements	-	-	-	-	-
At 31 December 2005	617	1,868	474	265	3,224
Accumulated amortisation					
At 31 December 2004	505	774	348	-	1,627
Charge for the year	6	49	19	-	74
Disposals and retirements	-	-	-	-	-
At 31 December 2005	511	823	367	-	1,701
Net book value					
At 31 December 2005	106	1,045	107	265	1,523
At 31 December 2004	10	5	57	-	72

23. Other assets

	31 December 2006	31 December 2005
Accrued interest due	6,697	5,777
Accrued interest not yet due	200	408
Accrued fees and commissions	533	399
Foreclosed assets	1,024	8,051
Office supplies and small inventory	145	168
Advances	780	635
Receivables from the state and state institutions	71	82
Receivables in respect of the Primus transaction	8,080	9,109
Other assets	2,313	596
	19,843	25,225
Impairment allowance	(14,160)	(6,986)
	5,683	18,239

Foreclosed assets with a carrying amount of HRK 7,652 thousand were sold by the date of authorisation of these financial statements for HRK 8,500 thousand.

Movements in impairment provision

	2006	2005
At 1 January	6,986	514
Transferred in respect of the Primus transaction	-	7,059
Charged during the year	5,065	3,430
Amounts collected or reversed	(1,230)	(3,498)
Amounts written-off or adjusted otherwise	3,339	(519)
At 31 December	14,160	6,986

24. Deposits from banks

	31 December 2006	31 December 2005
Foreign currency deposits from other banks	28,000	19
Total	28,000	19

25. Amounts due to customers

	31 December 2006	31 December 2005
Corporate customers		
<i>Demand deposits</i>		
- in HRK	61,143	13,058
- in foreign currency or tied to foreign currency	496	78
Subtotal	61,639	13,136
<i>Term deposits</i>		
- in HRK	295,161	45,856
- in foreign currency or tied to foreign currency	-	9.972
Subtotal	295,161	55,828
Total corporate customers	356,800	68,964
Individuals		
<i>Demand deposits</i>		
- in HRK	5,759	3,023
- in foreign currency or tied to foreign currency	9,660	8,310
Subtotal	15,419	11,333
<i>Term deposits</i>		
- in HRK	21,892	21,612
- in foreign currency or tied to foreign currency	161,002	112,362
Subtotal	182,894	133,974
Total individuals	198,313	145,307
Public sector and non-profit organisations		
<i>Demand deposits</i>		
- in HRK	12,880	9,980
- in foreign currency or tied to foreign currency	2	2
Subtotal	12,882	9,982
<i>Term deposits</i>		
- in HRK	88,418	-
- in foreign currency or tied to foreign currency	31,444	13,369
Subtotal	119,862	13,369
Total public sector and non-profit organisations	132,744	23,351
Restricted deposits		
<i>Demand deposits</i>		
- in HRK	313	243
- in foreign currency or tied to foreign currency	8	19
Subtotal	321	262
Total restricted deposits	321	262
Total	688,178	237,884

26. Other borrowed funds

	31 December 2006	31 December 2005
Hrvatska poštanska banka d.d. Zagreb	5,000	-
	5,000	-

27. Provisions for liabilities and charges

	31 December 2006	31 December 2005
Provisions for taxes and contributions – (PTC)	50	50
Provisions for contingent liabilities and commitments (PCLC)	390	79
Litigation provision (LP)	664	1,158
Provisions for severance pays (PSP)	-	-
	1,104	1,287

Movements in provisions for risks and charges are set out below:

2006

	2006			2005			
	PTC	PCLC	LP	PTC	PCLC	LP	PSP
At 1 January	50	79	1,158	-	193	-	462
Transferred in respect of the Primus transaction	-	-	-	50	-	1,158	-
New provisions made	-	331	-	-	-	-	-
Amounts reversed	-	(20)	-	-	(114)	-	-
Utilised	-	-	(494)	-	-	-	(462)
At 31 December	50	390	664	50	79	1,158	-

The Bank is defendant in several legal actions, with a total claim amounting to HRK 5,231 thousand. In the opinion of the Bank's management, the litigation provision established in the amount of HRK 664 thousand is sufficient to cover the losses of the Bank in respect of those actions.

28. Other liabilities

	31 December 2006	31 December 2005
Interest payable	8,729	3,698
Amounts due to suppliers	1,914	1,078
Amounts due to employees	555	841
Taxes and contributions	520	163
Deferrals in respect of the Primus agreement	258	4,057
Liabilities for received payments and unallocated funds	1,153	275
Savings deposit insurance premiums	150	118
Liabilities assumed from ŠKZ Folis	793	-
Other liabilities assumed from Primus banka	308	219
Amounts due to the Supervisory Board	117	156
Accruals on retail business	434	582
Other liabilities	2,514	223
	17,445	11,410

Deferrals in respect of the Primus agreement were utilized during the year to settle the Bank's liabilities in respect of the salaries of the Primus banka employees and their severance pays in the amount of HRK 1,902 thousand, and to cover other liabilities under the agreement on the transfer of assets and liabilities of Primus banka in the amount of HRK 907 thousand.

29. Share capital and reserves

a) Share capital

	31 December 2006	31 December 2005
Nominal value of share capital	62,226	62,226
Number of ordinary shares (in pcs)	622,264	622,264
Nominal value per share (in kunas)	100	100
Shareholders with a holding in excess of 5%		
- Validus d.d., Varaždin	73,38%	72,60%
- Retis d.d., Varaždin	5,19%	5,95%
- Tar d.d., Varaždin	0%	5,95%
- Fima holding d.d., Varaždin	0%	5,07%
- Fima grupa d.d., Varaždin	10,99%	-

During 2005, the share capital of the Bank was increased by HRK 22,000 thousand, with a simultaneous change of the nominal value per share from HRK 3,700 to HRK 100.

b) Reserves and retained earnings

The revaluation reserve in the amount of HRK 6,629 thousand was realised on the sale of a building in Slavonski Brod, which made the reserve funds available for use. The Bank utilised the reserve to cover the accumulated losses in the same amount.

Given the nature of the reserves, all the Bank's reserves represent non-distributable reserves.

30. Earnings per share

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

	2006	2005
Profit / (loss) for the year (in HRK)	1,105,911.35	(2,738,408.42)
Profit attributable to ordinary shareholders	-	-
Average number of ordinary shares	622,264	622,264
Earnings per share (in kunas)	1.78	-

31. Analysis of cash and cash equivalents

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

	31 December 2006	31 December 2005
Cash in hand	8,976	5,791
Current accounts with domestic banks	986	1,517
Current accounts with foreign banks	6,639	789
Current accounts with the Croatian National Bank	40,683	21,218
Placements with domestic banks	22,403	5,000
Placements with foreign banks	50,580	28,821
	130,267	63,136

32. Contingencies and commitments

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

	31 December 2006	31 December 2005
Guarantees	17,236	1,449
Undrawn lending facilities	20,811	14,400
Other	1,639	664
	39,686	16,513

33. Funds managed on behalf of third parties

The Bank manages significant amounts of assets on behalf of third parties and individuals. Managed funds are accounted for separately from those of the Bank's assets. Income and expenses of these funds are for the account of the respective third party and in the normal course of business no liability falls on the Bank in connection with these transactions. The Bank is compensated for its services by fees chargeable to the funds.

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

	31 December 2006	31 December 2005
Liabilities		
Corporate entities	57,233	56,125
HBOR	30,054	29,094
Others	189	170
Total liabilities:	87,476	85,389
Assets		
Corporate loans	57,154	56,080
Loans to individuals	30,064	29,104
Cash	258	205
Total assets:	87,476	85,389

34. Maturity analysis

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

31 December 2006	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Over 3 years	Total
ASSETS						
Cash and balances with other banks	57,284	-	-	-	-	57,284
Obligatory reserve with Croatian National Bank	14,803	9,211	47,441	4,989	1,881	78,325
Placements with other banks	69,580	3,036	-	367	-	72,983
Financial assets held for trading	-	23,599	-	-	-	23,599
Financial assets available for sale	-	4,018	-	-	-	4,018
Financial assets held to maturity	-	25,477	-	-	-	25,477
Loans and advances to customers	40,145	71,305	307,489	38,127	56,458	513,524
Investments in subsidiaries	-	-	-	-	-	-
Tangible assets	-	-	-	-	8,655	8,655
Intangible assets	-	3,861	-	-	3,592	7,453
Other assets	4,031	200	428	1,024	-	5,683
Total assets	185,843	140,707	355,358	44,507	70,586	797,001
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits from banks	10,000	18,000	-	-	-	28,000
Amounts due to customers	125,325	66,192	433,627	45,531	17,503	688,178
Other borrowed funds	5,000	-	-	-	-	5,000
Provisions for liabilities and charges	-	713	53	-	338	1,104
Other liabilities	6,877	9,151	1,417	-	-	17,445
Total shareholders' equity	-	-	-	-	57,274	57,274
Total liabilities and shareholders' equity	147,202	94,056	435,097	45,531	75,115	797,001
Net liquidity gap	38,641	46,651	(79,739)	(1,024)	(4,529)	-

31 December 2005	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Over 3 years	Total
ASSETS	81,530	42,330	63,334	38,601	81,081	306,876
LIABILITIES AND SHAREHOLDERS' EQUITY	68,034	78,021	74,690	25,740	60,391	306,876
Net liquidity gap	13,496	(35,691)	(11,356)	12,861	20,690	-

35. Interest rate risk

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

	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 3 years	Over 3 years	Non-interest bearing	Total
ASSETS							
Cash and balances with other banks	48,309	-	-	-	-	8,975	57,284
Obligatory reserve with Croatian National Bank	14,803	9,211	47,441	4,989	1,881	-	78,325
Placements with other banks	69,580	3,036	-	367	-	-	72,983
Financial assets held for trading	-	23,599	-	-	-	-	23,599
Financial assets available for sale	-	4,018	-	-	-	-	4,018
Financial assets held to maturity	-	25,477	-	-	-	-	25,477
Loans and advances to customers	497,863	411	2,666	7,431	5,153	-	513,524
Investments in subsidiaries	-	-	-	-	-	-	-
Tangible assets	-	-	-	-	-	8,655	8,655
Intangible assets	-	-	-	-	-	7,453	7,453
Other assets	-	-	-	-	-	5,683	5,683
Total assets	630,555	65,752	50,107	12,787	7,034	30,766	797,001
LIABILITIES AND SHAREHOLDERS' EQUITY							
Deposits from banks	10,000	18,000	-	-	-	-	28,000
Amounts due to customers	649,167	6,245	6,795	19,397	6,574	-	688,178
Other borrowed funds	5,000	-	-	-	-	-	5,000
Provisions for liabilities and charges	-	713	53	-	338	-	1,104
Other liabilities	-	-	-	-	-	17,445	17,445
Total liabilities	664,167	24,958	6,848	19,397	6,912	17,445	739,727
Total shareholders' equity	-	-	-	-	-	57,274	57,274
Total liabilities and shareholders' equity	664,167	24,958	6,848	19,397	6,912	74,719	797,001
Interest rate sensitivity gap	(33,612)	40,794	43,259	(6,610)	122		
Fixed rate loans	16,224	411	2,666	7,431	5,153		
Fixed rate deposits	2,433	6,245	6,795	19,397	6,574		

Most of loans and deposits with fixed interest were acquired on the Primus transaction.

31 December 2005	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
ASSETS	130,110	35,733	27,705	31,851	81,477	306,876
LIABILITIES AND SHAREHOLDERS' EQUITY	217,064	2,745	5,817	13,564	67,686	306,876
Interest rate sensitivity gap	(86,954)	32,988	21,888	18,287	13,791	-

Average interest rates

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

31 December 2006	EUR	USD	Other currencies	HRK
ASSETS				
Cash and balances with other banks	2%	-	-	1%
Obligatory reserve with Croatian National Bank	1,75%	-	-	0,75%
Placements with other banks	2,26%- 3,50%	5,22%- 5,30%	-	-
Loans and advances to customers	-	-	-	0%-12%
LIABILITIES				
Amounts due to customers	2,00%- 6,20%	1,40%- 6,00%	1,50%- 5,75%	3,50%- 7,00%
Other borrowed funds	-	-	-	4,35%

31 December 2005	EUR	USD	Other currencies	HRK
ASSETS				
Cash and balances with other banks	2%	-	-	1%
Obligatory reserve with Croatian National Bank	1,5%	-	-	1,25%
Placements with other banks	2%-2,7%	1,15%-1,2%	-	-
Loans and advances to customers	-	-	-	8%-14%
LIABILITIES				
Amounts due to customers	2,05%-5,9%	1,4%-4,9%	1%	1%-7%
Other borrowed funds	-	-	-	5%-15%

36. Foreign exchange position

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

31 December 2006	EURO and constituent currencies	USD	Other currencies	Total foreign currencies	HRK	Total
ASSETS						
Cash and balances with other banks	9,950	815	803	11,568	45,716	57,284
Obligatory reserve with Croatian National Bank	13,412	-	-	13,412	64,913	78,325
Placements with other banks	37,093	8,368	5,485	50,946	22,037	72,983
Financial assets held for trading	-	-	-	-	23,599	23,599
Financial assets available for sale	-	-	-	-	4,018	4,018
Financial assets held to maturity	-	-	-	-	25,477	25,477
Loans and advances to customers	186	30	-	216	513,308	513,524
Investments in subsidiaries	-	-	-	-	-	-
Tangible assets	-	-	-	-	8,655	8,655
Intangible assets	-	-	-	-	7,453	7,453
Other assets	99	105	1	205	5,478	5,683
Total assets	60,740	9,318	6,289	76,347	720,654	797,001
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits from banks	-	-	-	-	28,000	28,000
Amounts due to customers	111,431	8,464	7,813	127,708	560,470	688,178
Other borrowed funds	-	-	-	-	5,000	5,000
Provisions for liabilities and charges	-	-	-	-	1,104	1,104
Other liabilities	-	-	-	-	17,445	17,445
Total liabilities	111,431	8,464	7,813	127,708	612,019	739,727
Total shareholders' equity	-	-	-	-	57,274	57,274
Total liabilities and shareholders' equity	111,431	8,464	7,813	127,708	669,293	797,001
Net foreign exchange position	(50,691)	854	(1,524)	(51,361)	51,361	-

31 December 2005	EURO and constituent currencies	USD	Other currencies	Total foreign currencies	HRK	Total
ASSETS	29,506	9,962	5,936	45,404	261,472	306,876
LIABILITIES AND SHAREHOLDERS' EQUITY	104,409	9,060	7,343	120,812	186,064	306,876
Net foreign exchange position	(74,903)	902	(1,407)	(75,408)	75,408	-

37. Fair value of financial assets and liabilities

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

It is the opinion of the management of the Bank that the fair value of the Bank financial assets and liabilities are not materially different from the amounts stated in the balance sheet as at 31 December 2006.

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

(a) Cash and balances with central bank

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

(b) Investments held to maturity

Fair values of securities carried in the "Held to maturity" portfolio are determined by reference to quoted market prices, if available.

(c) Amounts due from other banks

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

(d) Loans and advances to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying amounts. 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. 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 amounts as at the balance sheet date. Allowances are not taken into consideration when calculating fair values.

(e) Amounts due to other banks and customers

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

38. Related party transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As at 31 December 2005, balances outstanding with related parties comprised the following:

	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Loans to related companies	266,416	264,946	5,699	-
Investment in Vis d.d.	-	-	37,924	-
	266,416	264,946	43,623	-

	2006		2005	
	Income	Expenses	Income	Expenses
Interest and commissions	6,235	822	483	484
Other	10,817	3,590	1,284	-
	17,052	4,412	1,767	484

Loans to related persons are secured by deposits of other legal entities in the amount of HRk 260,271 thousand.

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

	2006	2005
Salaries	2,090	1,517
Bonuses	225	302
	2,315	1,819

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

39. Post balance sheet events

In January 2007 the Management Board of the Bank initiated negotiations with DAB to reach a final solution for the mutual rights and obligations in connection with the sale and purchase of assets and liabilities of Primus banka. The basis for the agreement was agreed upon during February 2007, and the process of determining the fair value of the Primus banka assets as of 31 May 2005 acquired by Vaba. This assignment has been outsourced to an independent consultancy firm.

The Bank continues its restructuring process, with the implementation of a new IT system being in its focus. To this end, purchase and implementation of new software has been agreed, three persons with significant experience in banking IT systems have been employed, and a timeschedule for the implementation of the new software has been developed, the progress of which has been permanently monitored.

BALANCE SHEET IN EUR

	000 EUR	000 EUR
	2006	2005
ASSETS		
Cash and amounts due from banks	7.799	3.991
Obligatory reserve with Croatian National Bank	10.664	4.202
Placements with other banks	9.936	4.605
Financial assets held for trading	3.213	-
Available-for-sale financial assets	547	728
Held-to-maturity financial assets	3.469	1.496
Loans and advances to customers	69.914	16.455
Investments in subsidiaries	-	5.163
Tangible assets	1.178	2.451
Intangible assets	1.015	207
Other assets	774	2.483
Total assets	108.508	41.780
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits from banks	3.812	3
Amounts due to customers	93.692	32.387
Other borrowed funds	681	-
Provisions for liabilities and charges	150	175
Other liabilities	2.375	1.553
Total liabilities	100.711	34.118
Share capital	8.472	8.472
Less: Capital loss	(458)	(458)
Revaluation reserve	-	903
Fair value reserve	6	21
Accumulated losses	(373)	(903)
Profit for the year	151	(373)
Total shareholders' equity	7.798	7.662
Total liabilities and shareholders' equity	108.508	41.780
Commitments and contingency	5.403	2.248

* Restated at the mean exchange rate of the Croatian National Bank on 31st Dec. 2006: 1 EUR = 7,345081 kn

Supervisory Board of Vaba d.d. banka Varaždin

Milan Horvat, President

Stjepan Bunić, Deputy President (except from 20 July to 18 Oct. 2006)

Vladimir Koščec, Member

Željko Filipović, Member

Mika Mimica, Member

Liljana Weissbarth, Member

Artur Gedike, Member

Management Board:

Igor Čičak, President, from 18 Oct. 2006

Josip Šeremet, President, until 20 July 2006

Marinko Benić, Member

Manda Ciprić, Member, until 20 Sept. 2006

Stjepan Bunić, Deputy Member (from 20 July to 18 Oct. 2006)

Directors:

Ivana Cesar, Direktor of Sales Division

Franjo Lovrenčić, Director of Support Division

Zvonimir Jasek, Director of Payments and International

Dragutin Predić, Director of Administration Department

Mirjana Ivanagić, Director of Finance Division

Nataša Mihinjač, Director of Custody Department

Marija Knežević, Director of Accounting Department

Anka Olić, Director of Internal Audit Department