



success through its loan programmes, thus contributing to the balanced development of all regions of the Republic of Croatia. HBOR ANNUAL REPORT 2006



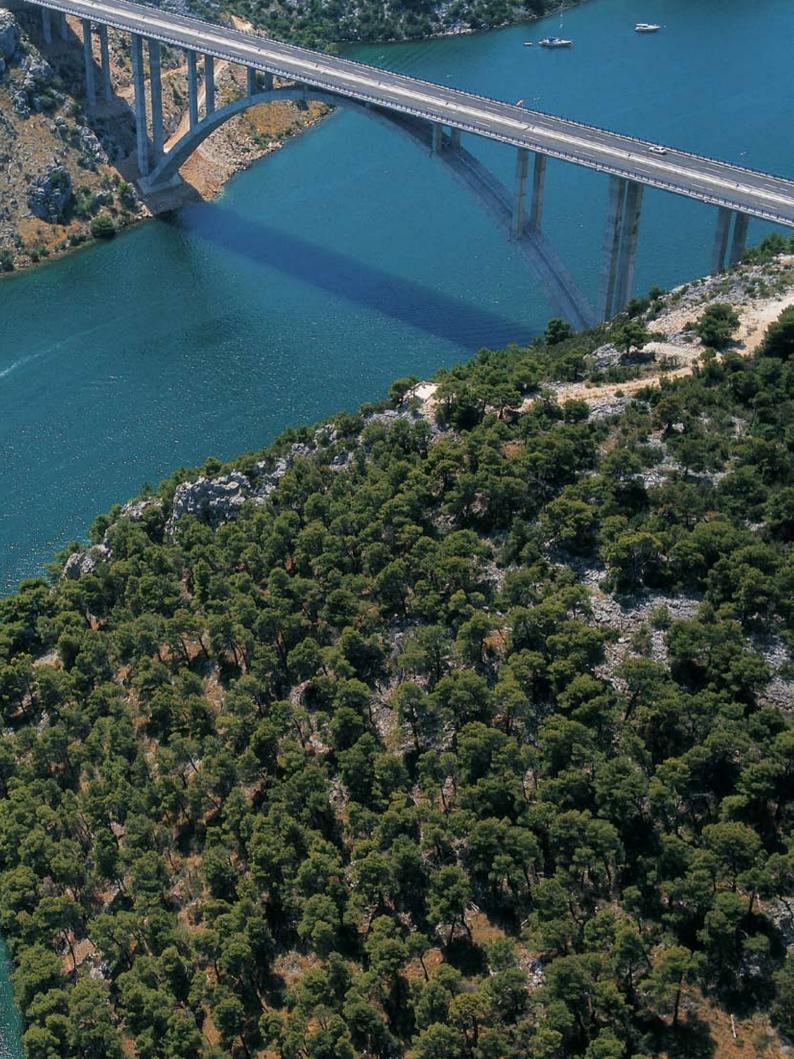




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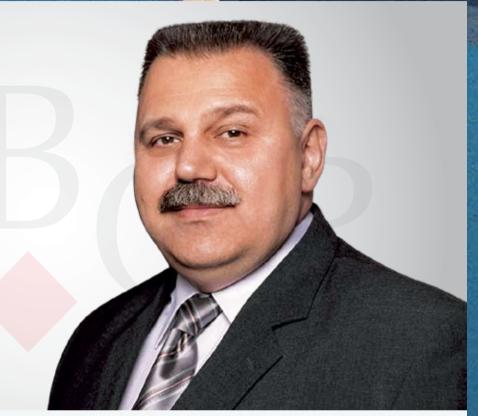
Successful Operations

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Letter of the President of the Supervisory Board



Ivan Šuker

President of the Supervisory Board

Ladies and Gentlemen,

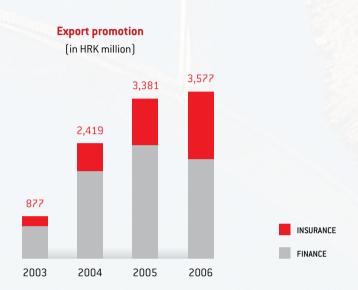
In 2006, the Croatian economy was marked by macroeconomic stability, stronger economic growth, public debt reduction, fiscal consolidation, decreased unemployment and the continuation of accession negotiations for Croatia's EU entry. The operations of Hrvatska banka za obnovu i razvitak (Croatian Bank for Reconstruction and Development - HBOR), as the development and export bank of the Republic of Croatia, were completely integrated into these movements, and its active approach contributed significantly to the good achievements and growth rates during the whole year.

In 2006, economic growth reached 4.8 percent, which is 0.5 percentage points higher than in 2005. This growth was particularly noticeable in the first quarter of 2006, which recorded a growth rate of 6 percent compared with the same period in 2005. Total industrial production was 4.5 percent higher than in 2005, and a higher turnover was also achieved in retail trade. In 2006, the lowest unemployment rate of 11.2 percent was recorded.

Total exports of the Republic of Croatia in 2006 amounted to HRK 60,434 million and covered 48.3 percent of imports. HBOR contributed directly to the last year's achievements through its export-oriented programmes of export credit finance and export credit insurance against commercial and political risks.

The Government of the Republic of Croatia fully supported the operations of HBOR as an important factor in Croatia's development and its approach to European integrations. We passed a new HBOR Act, and our decision to increase the capital of





HBOR confirmed our intention of placing HBOR at the forefront of Croatia's economic development. Our economy still requires strong financial support for implementing many entrepreneurial projects, both large and small. Such projects should, through the support of HBOR, become increasingly important in the overall economic progress of the country.

HBOR was increasingly involved in extending loans for agricultural production, a branch of industry of high strategic importance for this Government. In addition, HBOR provided new loan programmes for small and micro companies and start-ups. Here, I would particularly like to emphasize a new programme for financing innovations.

In accordance with world trends, HBOR also developed and offered programmes aimed at promoting renewable energy resources and sustainable economic development as the sole quality path to the future. Croatia has the potential to rely significantly on renewable energy resources. Therefore, together with HBOR, we are determined to offer financial means to all those willing to invest in such projects in Croatia.

On behalf of the Supervisory Board, I would like to express my satisfaction with the operations of HBOR in 2006, and I firmly believe that good operating results will also be recorded in 2007, the year in which HBOR celebrates its 15th anniversary.

President of the Supervisory Board

Ivan Šuker



Letter of the President of the Managing Board



Anton Kovačev

President of the Managing Board

Ladies and Gentlemen,

Another successful business year was marked by events that confirmed the role of HBOR in promoting the development of the Croatian economy and indicated the guidelines for the future operations of the bank.

HBOR's successful operation was confirmed by the Government of the Republic of Croatia and the Croatian Parliament with the passing of the new HBOR Act in December 2006. However, new requirements and tasks have been entrusted to us, and I am convinced that they will also be accomplished successfully. By the new Act, HBOR's capital was increased to HRK 7 billion and HBOR's activities in the field of SME finance and environmental protection projects were emphasized.

In 2006, total volume of HBOR's operating activity was HRK 6.4 billion. Croatian business entities were granted loans amounting to HRK 3.7 billion, export credit transactions were insured in the amount of HRK 1.5 billion, and guarantees issued amounted to over HRK 1 billion. The balance sheet total as at 31st December 2006 amounted to HRK 14 billion and 930 million, which is an increase of 9 per cent in comparison with the beginning of the year. In comparison with commercial banks in the Republic of Croatia, in 2006, HBOR took 7th place by the total assets, 3rd place by capital and the 1st place by the capital adequacy.

In the structure of lending operations in 2006, the largest share relates to export finance - 55 per cent or HRK 2 billion and 52 million. A significant share (26 per cent) still relates to industry, with total loans of over HRK 900 million. Loans to small and medium enterprises accounted for 17 per cent of total funds, with a committed amount of over HRK 600 million.



In 2006, there was significant interest in our loan programmes for the promotion of cattle-breeding and perennial plants. For the construction of new cow barns with a total capacity of over three and a half thousand dairy cows, we approved about 130 per cent more loan funds than in the previous year. Through our funds, we supported the planting of about 160 hectares of orchards, vineyards and olive groves, which is an increase of over 150 per cent in comparison with 2005.

In order to promote local know-how as the basis of creating new values in the economy, we developed a new loan programme for financing innovations. We continued to develop programmes to strengthen agricultural development in the country. We started implementation of a programme for financing pig-breeding and also provided support for the construction and reconstruction of the domestic fishing fleet. We also started the implementation of new programmes concerning environmental protection and renewable energy resources; we offered a loan programme for the preparation of these projects and will consider further monitoring the development and implementation of projects in order to actively participate in the sustainable economic development of Croatia.

Together with USAID, we organised a workshop in Vukovar on how to invest in the economy of Vukovar. In co-operation with the UNDP, we organised a workshop on financing projects in the field of biodiversity. In September, we organised our fifth international conference on export promotion and began participating in the new "Croatian Export Offensive" that was presented at the conference.

With regard to international co-operation, we signed memoranda of understanding with the Export-Import Bank of Korea and the Korea Export Insurance Corporation, the Norwegian Guarantee Institute for Export Credits (GIEK) and the Norwegian export bank - Eksportfinans, the Czech Export Guarantee and Insurance Corporation and the German development bank - North Rhine-Westphalia. In this way, we expanded the field of co-operation in accordance with the interest of our exporters. HBOR also became a member of the ISLTC Club (The Club of Institutions of the European Union Specialising in Long-Term Credit) and thus became closer to it colleagues in the European Union.

In 2006, HBOR finished the procedure of harmonising its programmes with the EU acquis communautaire guidelines, which was confirmed by the Croatian Competition Agency.

By opening the regional office for Primorje and Gorski kotar in Rijeka in June 2006, we completed our network of regional offices in order to become closer to our entrepreneurs and businessmen and to facilitate their access to funds and our services.

On behalf of the Managing Board and on my own behalf, I would like to thank all the members of the Supervisory Board, the Croatian Government and the esteemed members of the Croatian Parliament for their confidence, support and contribution to the achievement of good results. I would particularly like to thank all the employees of HBOR for their devoted joint work for the accomplishment of set goals.

President of the Managing Board

Anton Kovačev



About HBOR

Establishment

Hrvatska banka za obnovu i razvitak (Croatian Bank for Reconstruction and Development - HBOR) was established on 12th June 1992 by the Act on Hrvatska kreditna banka za obnovu (HKBO). The Bank was renamed Hrvatska banka za obnovu i razvitak by amendments to the above Act in December 1995. At the end of 2006, the Croatian Parliament passed a new Act on HBOR, which came into force on 28th December 2006.

Strategic goals

In its operations, HBOR, within the framework of its powers and authorisations, promotes systematic, sustainable economic and social development pursuant to the general strategic goals of the Republic of Croatia.

Main activities

- Financing the reconstruction and development of the Croatian economy,
- Financing infrastructure,
- · Promoting exports,
- · Promoting SMEs,
- Environmental protection,
- Export credit insurance of Croatian goods and services against non-market risks.

Audit

The audit of operations for 2006 was conducted by the auditing company Deloitte d.o.o. that gave a positive opinion.

Credit rating

A1 by Moody's
BBB by Standard & Poor's

Number of employees

There were 244 employees in HBOR on 31st December 2006.

HBOR bodies

The bodies of HBOR are the Supervisory Board and the Managing Board.





Corporate Governance

HBOR monitors best practice in the field of corporate governance continuously and integrates corporate governance prinicples in its operations pursuant to sound banking practices.

Corporate governance principles are implemented by HBOR through:

Principle of public operations

- Annual Financial Statements of the Bank are submitted to the Croatian Parliament for adoption
- Financial Statements of the Bank are regularly published on the web sites of the Ministry of Finance, the Zagreb Stock Exchange and HBOR
- The rating of the Bank is issued by two international independent rating agencies on an annual basis (Standard & Poor's, Moody's)
- Pursuant to the Access to Information Act, reports on received requests for information about the operations of the Bank are submitted to the Central State Office on an annual basis

Supervisory Board of HBOR, powers, composition

- The Supervisory Board determines the principles of operating policy and strategy, supervises business activities, adopts HBOR's lending policies, adopts Annual Financial Statements, considers Internal Audit reports, reports drafted by external independent auditors and by the State Audit Office
- The Supervisory Board monitors and controls the legality of the activities of the Managing Board, appoints and dismisses the President and the Members of the Managing Board
- The Supervisory Board consists of nine members: five Government ministers, three members of the Parliament and the President of the Croatian Chamber of Economy
- The Supervisory Board has established the Audit Committee in accordance with the Audit Act





Managing Board of HBOR, powers, composition

- The Managing Board represents, conducts the business and administers the assets of HBOR; it is obliged and authorised to undertake all actions and pass all resolutions it considers necessary for the legal and successful conduct of business
- · Powers of the Managing Board: managing and conducting the business of HBOR, adopting normative acts that determine the manner of operations and the internal organisation of HBOR, adopting loan programmes, making individual loan approval decisions and decisions on other financial transactions, making decisions on the appointment and dismissal of employees that have special powers, making decisions on the rights and obligations of employees and reporting to the Supervisory Board
- The Managing Board consists of three members appointed by the Supervisory Board, one of whom is appointed as President; the President and the members of the Managing Board are appointed for a five-year term of office and may be reappointed thereafter; HBOR is represented by the Managing Board jointly by two of its members
- For the purpose of ensuring efficient and effective risk management procedures and minimising the risk, the following bodies have been established with the Managing Board: Asset and Liability Management Committee, Credit Committee, Credit Risk Assessment and Measurement Committee and Liquidity Commission

Internal Control System

- In order to ensure permanent measuring, assessment and management of all risks HBOR is exposed to within the framework of its operations, an independent organisational unit for risk management has been established
- Internal Audit, as an independent organisation unit, is in charge of verifying the adequacy of risk management procedures and internal control system, including risk monitoring, compatibility with regulations and code of professional conduct, implementing internal policies and procedures of the Bank as well as anti-money laundering activities
- The Project of Harmonising HBOR's Operations with the EU acquis communautaire is implemented by HBOR

Co-operation between the Managing Board and the **Supervisory Board**

- The Managing Board and the Supervisory Board successfully co-operate through open discussions, and timely submission of thorough written reports to the Supervisory Board represents the basis for their cooperation
- The Act on HBOR, the By-laws of HBOR and decisions made by the Supervisory Board determine activities that HBOR may perform only with prior consent of the Supervisory Board



Introduction

In 2006, HBOR continued its activities from the previous years and developed several new loan programmes for current market needs, pursuing the goals of Croatia's economic policy. By closely monitoring developments in the country and its environment, and by closely monitoring business needs, HBOR has prepared itself for providing improved services and meeting new challenges in order to successfully fulfil its strategic plans and goals.

In 2006, HBOR offered 23 various loan programmes for different purposes, including export finance and export credit insurance programmes, and loans for SMEs, industry and infrastructure.

Structure of lending operations	in 2006
	In HRK '000
Industry	964,505
Export	2,052,280
Infrastructure	70,273
Small and medium-sized enterprises	623,359
Total	3,710,417

Infrastructure 2%
Small and mediumsized enterprises 17%
Industry 26%
Export 55%

In the structure of lending operations, the largest share relates to export finance - 55 per cent or HRK 2.052 billion. A significant share [26 per cent] still relates to industry, with total loans of over HRK 900 million. Loans to SMEs accounted for 17 per cent of total funds, with total loans of over HRK 600 million.



HBOR - Development Bank of the Republic of Croatia

Small and Medium Enterprises

Small and medium enterprises account for the largest share in the Croatian economy and are the main generator of new jobs created in the Republic of Croatia. In 2006, HBOR directly granted loans amounting to over HRK 600 million to small and medium enterprises under several loan programmes. These loans represent about 17 per cent of the Bank's total loans. In addition, small and medium enterprises are regular and important users of other loan programmes and export credit insurance. In 2006, HBOR implemented 23 loan programmes, of which 8 were intended for small and medium enterprises: support for the development of small and medium enterprises, start-up loans, loans for the development of the islands, for the development of enterprises in the areas of special state concern, for perennial plants, cattle-breeding and pig-breeding, and for the development of family-run tourism businesses - "Incentives for Success".

HBOR's loans for small and medium enterprises were most utilised in 2005, but there was also a great interest for this type of loan in 2006. According to the data over the last six years, about 6,600 new jobs were created through the utilisation of HBOR loans for SMEs. Through its various loan programmes for SMEs, HBOR has committed loans totalling over HRK 12.4 billion.

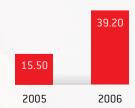
Agriculture

Croatia's outstanding agricultural position, its favourable climate conditions and its long tradition in cattle-breeding and the production of wine, olives and almost all types of fruit and vegetable are the basis for the development of a strategic branch of industry - agriculture. The Government of the Republic of Croatia, being aware of the country's ability to produce superior quality wines, olive oil and dairy and meat products, started operational programmes for promoting the development of cattle-breeding and perennial plants. In this respect, HBOR started to finance the above activities at the end of 2004, with favourable loan terms and conditions - an annual interest rate of 4 per cent, grace periods from 2 to 5 years and repayment periods from 12 to 15 years.

Loans for cattle-breeding in HRK million



Loans for perennial plants in HRK million





HBOR - Development Bank of the Republic of Croatia

With HBOR loan funds, over 180 hectares of orchards and about 115 hectares of vineyards were planted and over 100 cattle-breeding farms with a capacity of about 5,500 heads of cattle were established. These programmes were mostly utilised in the rural parts of Croatia, representing the fulfilment of one of the Bank's strategic goals - contribution to the even economic development of the country.

In addition, HBOR provided credit lines for the development of pig-breeding and for supporting the construction and reconstruction of the fishing fleet. At the end of 2006, arrangements were completed for the participation of HBOR in the Croatian Government's Operational Programme for the Development of Vegetable Growing, the monitoring of which is entrusted to the Ministry of Agriculture, Forestry and Water Management. The loan funds for financing the project are provided by HBOR, and additional support in terms of insurance to borrowers is provided by the Croatian Agency for Small Businesses. The Operational Programme will promote the technological development and modernisation of vegetable production, an increase in production per area unit, and a self-sufficient and continuous production of vegetables for the Croatian market and for export.

Innovations

Competitive participation of the Croatian economy in global developments requires ever increasing quality of production and higher innovation level. Therefore, there is a need to improve and use domestic know-how as an important source for the creation of new values in the Croatian economy. In 2006, HBOR developed a new programme - Programme for Financing Innovations. Innovations are necessary for the competitiveness of each economy and its growth. One of the main tasks of economic entities is to recognise and evaluate innovations. The introduction of new and improved technologies, products and services is essential for survival in the world market, both for developed economies and for economies in transition, such as Croatia's. The Programme was developed in co-operation with BICRO (Business Innovation Center of Croatia). BICRO implements the technical evaluation of products, and HBOR, when the technical evaluation is positive, takes over financing the product for the market.



Renewable Energy Resources

An increased use of renewable energy resources is a strategic goal necessary for environmental protection and for providing future sustainable development, both in the world and in Croatia. It is planned that 5.8 per cent of total electricity consumption should come from renewable resources by 2010. Economic instruments, such as incentives (tariff system), state aid, grants and finance programmes, form an important factor in the development policy for renewable energy resources.

HBOR provides support to this development policy through financing environmental protection, energy efficiency and renewable energy resources. In addition to granting loans, HBOR also acts as the implementing agency of the Global Environmental Facility Trust Fund grant (GEF/IBRD) in Croatia

for the renewable energy resources project. The goal of the Project is to support the development of an economically and ecologically sustainable market of renewable energy resources through supporting the development of market mechanisms and institutions and supporting the preparation of individual renewable energy resources projects. In 2006, HBOR started to finance the preparation of renewable energy resources projects within the framework of the project implementation. The loans are intended for financing draft project documents, investigating works on site, preparing environmental protection studies, securing documentation for obtaining location and construction permits, investment study preparation etc. The loan funds are utilised for the preparation of both public and private sector projects.



HBOR - Development Bank of the Republic of Croatia

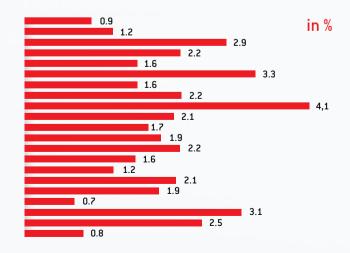
HBOR's Regional Approach to Developing the Economy

The considerable differences in regional development, and the variety of economic circumstances and specific problems that individual regions of Croatia are facing, require various approaches. One of the Bank's strategic goals is the even economic development of all areas in Croatia, and special attention is paid to underdeveloped regions, regions that have been devastated by the war, areas of special state concern and the islands. Even though HBOR offers favourable terms and conditions for the financing of the areas of special state concern and the islands through almost all of its loan programmes, special programmes have been developed for the financing of these areas with an objective of promoting entrepreneurship: the Loan Programme for the Financing of Agriculture and Small Businesses in Areas of Special State Concern and the Loan Programme for Island Development. Favourable conditions and lower interest rates are not intended only for the benefit of business entities already operating in the area but also for the benefit of companies intending to invest in the areas of special state concern and the islands.

HBOR's regional approach is also reflected in the opening of regional offices. Over the last few years, five regional offices have been opened in: Split, Osijek, Pula, Gospić and Rijeka. The Bank's intention is to come as close as possible to the users of its loans through the systematic upgrading of communications and services, through the provision of information, such as information about the loan approval procedures and the manner of applying for a loan within the framework of HBOR's loan programmes, and through the provision of advice in the area of banking and financial operations.

HBOR's regional strategy partners are local government units, the Croatian Chamber of Economy and the chambers of commerce in counties that are, together with HBOR, endeavouring to get closer to the entrepreneurs, to encourage them to undertake entrepreneurial activities and to provide them with financial support whenever viable. The following table shows the share of HBOR's loans in gross domestic product by all counties in 2006:

Grad Zagreb Međimurska Dubrovačko-neretvanska Istarska Splitsko-dalmatinska Vukovarsko-srijemska Šibensko-kninska Osječko-baranjska Zadarska Brodsko-posavska Požeško-slavonska Virovitičko-podravska Ličko-senjska Primorsko-goranska Bjelovarsko-bilogorska Koprivničko-križevačka Varaždinska Karlovačka Sisačko-moslovačka Krapinsko-zagorska Zagrebačka

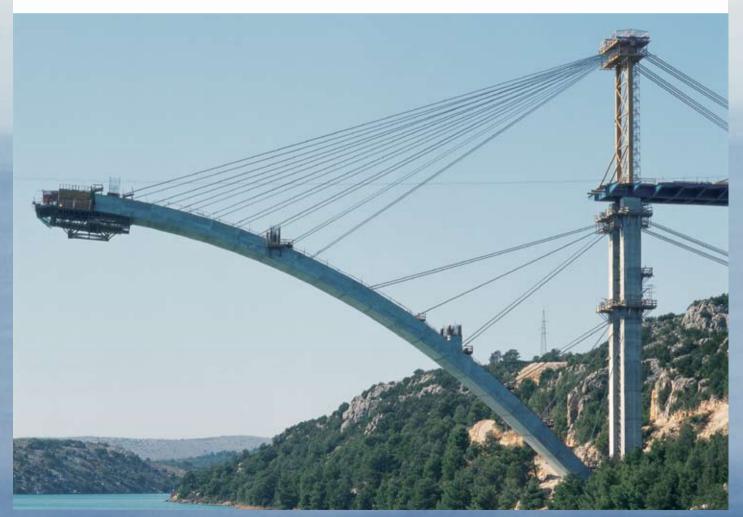




Fund Raising in 2006

In July 2006, HBOR issued Eurobonds in the amount of EUR 150 million with a 10-year term, an amortising repayment starting from the sixth year, and a coupon of 4.807% p.a. The issue raised a considerable interest among investors abroad, and the total amount was subscribed even before the issue date. The Eurobonds were listed on the London Stock Exchange, and the issue agent was Deutsche Bank London.

In December 2006, HBOR and a consortium of banks consisting of DZ Bank AG, Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Erste Bank der oesterreichischen Sparkassen AG, HSBC Bank plc, Mizuho Corporate Bank, Ltd, Privredna banka Zagreb d.d. and Raiffeisen Zentralbank Österreich AG signed a Loan Agreement in the amount of EUR 70 million. The term of the loan is five years.





HBOR - Export Bank of the Republic of Croatia

Loans and Bank Guarantees

In 2006, HBOR continued to provide strong support to Croatian exporters by providing loans and issuing bank guarantees. Loans totalling over HRK 2 billion were approved for export purposes. As in the previous years, the most active programme was the pre-export finance programme, under which 175 loans totalling HRK 1.1 billion were approved.

The strength of exporters and their competitiveness in pre-qualification procedures does not always depend on product and price but also on the provision of project finance. Therefore, HBOR enables Croatian exporters to issue framework offers for buyer credits abroad. In 2006, 58 framework offers were issued to the amount of EUR 212 million, mostly for Ukraine, Bosnia and Herzegovina, Russia, Albania, Montenegro and Serbia.

HBOR creates the necessary "infrastructure" for the easier entry of Croatian business entities to foreign markets by concluding master agreements. A master agreement defines the general terms and conditions for providing loans to buyers of Croatian goods and services that are also clients of banks, with which the agreement is concluded. This significantly accelerates the procedure for granting loans for purchase. In 2006, HBOR concluded agreements with commercial banks from Russia, Belarus, Ukraine, Bulgaria and Montenegro.



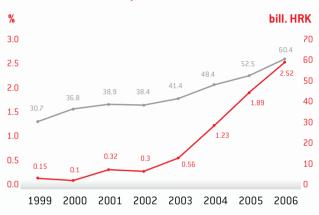
HBOR - Export Credit Agency

Export Credit Insurance

In 2006, HB0R insured export transactions to the amount of HRK 1.5 billion, 54 per cent more than in the previous year. HRK 11.1 billion of this amount refers to short-term insurance, HRK 376 million to medium and long-term insurance, and HRK 34.5 million to pre-export finance. 661 applications for insurance were approved, an increase of 43.7 % in comparison with the previous year.

In 2006, insurance of losses in the course of production was concluded for the first time (2 approved limits totalling EUR 1.47 million). 12 indemnities were paid in the total amount of HRK 4.5 million, an increase of 110 % in comparison with 2005; all paid indemnities refer to short-term insurance. Total net paid premium amounted to HRK 11.7 million (3.8 % more than in 2005). The share of insured export transactions in total exports of the Republic of Croatia increased from 1.89 % in 2005 to 2.52 % in 2006.

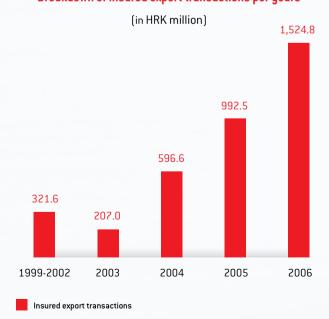
Share of insured export transactions in total exports of the Republic of Croatia



Share of insured export transactions in the exports of the Republic of Croatia

Exports of the Republic of Croatia

Breakdown of insured export transactions per years





Other Activities

HBOR was also very active in 2006 in the economic life of the country. In co-operation with USAID, a workshop was organised in Vukovar on promoting investment in this city. In co-operation with the UNDP, a workshop was organised on financing biodiversity projects.

In 2006, HBOR completed the process of harmonising its programmes with the provisions of the EU acquis communautaire, which has been confirmed by the Croatian Competition Agency.

In September, the 5th International Conference on Export Promotion took place in Dubrovnik, and HBOR thus remained the leader in the area of providing support for exporters by assuming a significant role in the implementation of the project "Export Offensive" that was presented by the Government of the Republic of Croatia at the conference.

At the international level, new memoranda of understanding were signed: with the Export-Import Bank of Korea and the Korea Export Insurance Corporation, the Norwegian Guarantee Institute for Export Credits (GIEK) and the Norwegian export bank - Eksportfinans, the development bank for the German state of North Rhine-Westphalia NRW. BANK; and a memorandum with the Czech Export Guarantee and Insurance Corporation was signed during the Dubrovnik conference. Thus, the area of co-operation has been widened in line with the interests of Croatian exporters. Furthermore, HBOR joined the ISLTC, Institutions of the European Union Specialising in Long-Term Credit, bringing the Bank even closer to its colleagues in the European Union.

The New HBOR Act

The Croatian Parliament passed a new Act on Hrvatska banka za obnovu i razvitak with the objective of harmonising the legislative framework for the operations of HBOR with that of the European Union. The Act came into force on 28th December 2006 (Official Gazette of the Republic of Croatia, no. 138/06).

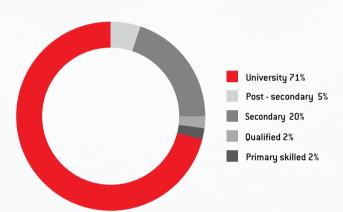
By passing the new Act and increasing the Founder's capital to HRK 7 billion, the Government of the Republic of Croatia and the Croatian Parliament gave recognition to HBOR for its operations. The provisions of the new Act widened the area of HBOR's activities. HBOR's operations are currently targeted at the following fields: financing the reconstruction and development of the Croatian economy, infrastructure financing, export promotion, SME development promotion, environmental protection, and export credit insurance for insuring exports of Croatian goods and services against nonmarket risks for and on behalf of the Republic of Croatia.

The Act also entrusts HBOR with the task of insuring the export of Croatian goods and services against non-market risks. The manner of performing these activities, i.e. entering into insurance and reinsurance contracts, has been determined in detail by the Government of the Republic of Croatia through a separate regulation.



Human Resources

There were 244 employees in the Bank as at 31st December 2006, of which 71% with university degrees.



The average age of employees was 38.5 years. Of the total number of employees at HBOR, 76% were women. The percentage of women in management positions was 67%.

HBOR pays great attention to the management of human resources as essential for successful operations and development. Therefore, HBOR encourages its employees to focus on clients, innovations, service upgrading, team work and ethical operations.

The creation of environment favourable for the development of human resources was confirmed by the Employer Partner Certificate awarded on the basis of an analysis of the following areas: strategies, staff recruitment and selection, work, motivation and remuneration, training and development, and relations with employees.



Financial Operations in 2006

The attached HBOR's financial statements for 2006 were favourably assessed by the auditing company Deloitte d.o.o. An overview and explanation of significant changes in business operations and business success for the reporting year are given below.

Significant Changes in Business Operations

The balance sheet total as at $31^{\rm st}$ December 2006 amounted to HRK 14,927.6 million, which is an increase of 9% compared to the beginning of the year.

Cash on hand and due from banks:

As at 31st December 2006, cash on hand and due from banks amounted to HRK 425.0 million, representing 3% of total assets.

Loans to banks and other customers:

Total net loans as at $31^{\rm st}$ December 2006 stood at HRK 14,108.9 million (95% of total assets), an increase of 10% against the previous year.

Total gross loans amounted to HRK 15,784.6 million, an increase of 10% against the beginning of the year.

Placements to banks based on lending activities rose by 22% gross in comparison with the beginning of the year, mostly the result of disbursements under the Pre- and Post-Shipment Export Finance Programme.

Placements to other customers decreased by 1% in gross figures.

Assets held to maturity:

Assets held to maturity comprised bonds of the Republic of Croatia acquired in exchange for outstanding receivables. These assets were reduced by 31% in comparison with the beginning of the year due to collection upon maturity.

Assets available for sale:

Assets available for sale were comprised primarily of debt securities and to a lesser extent of ownership securities. This item amounted to HRK 225.8 million, which represents a decrease of 4% compared to the beginning of the year resulting from a reduction in fair value and an appreciation of the kuna against the euro towards the end of 2006 in comparison with the end of 2005.

Investments in associates:

Investments in associates are a constituent part of the Programme for Equity Investments in Companies - small and medium enterprises - and are stated at acquisition cost in the amount of HRK 28.3 million (HRK 35.7 million in 2005). The investment value was fully impaired because of its estimated irrecoverability.

In 2006, ownership interests in two companies amounting to HRK 4.3 million were sold.



Total liabilities:

Total liabilities as at 31st December 2006 amounted to HRK 9,597.1 million, which represents 64% of total liabilities, capital and guarantee fund. Total liabilities rose by 9% compared to the beginning of the year and were for the most part a result of new HBOR borrowings abroad. In the reporting period, HBOR's borrowings and bonds payable rose by 10% due to new debt amounting to EUR 220 million.

Capital:

Capital and supplemental capital amounted to HRK 5,330.5 million, representing 36% of total liabilities, capital and guarantee fund (like in 2005).

HBOR's total capital is comprised of the Founder's capital contributed from the budget of the Republic of Croatia, retained profits formed from the profits generated in the previous years, other reserves, profits for the current period and supplemental capital.

In the reporting period, contributions from the budget of the Republic of Croatia into the Founder's capital amounted to HRK 215 million.

At the end of the reporting period, the total amount of capital contributed from the budget of the Republic of Croatia amounted to HRK 3,748.1 million, revaluations reserves to HRK 426.6 million, retained profits and reserves to HRK 957.3 million, other reserves to HRK 7.1 million, supplemental capital to HRK 11.1 million and profits for the current period to HRK 180.3 million.

Successful Operations

In the period from 1st January until 31st December 2006, HBOR generated a total income of HRK 803.2 million, expenses of HRK 622.9 million and profits of HRK 180.3 million.

Net interest income:

Net interest income amounted to HRK 444.7 million, an increase of 12% in comparison with the previous year.

In the reporting period, interest income amounted to HRK 768.2 million, an increase of 14% in comparison with the previous year. This was mainly a result of an increase in the volume of lending.

Interest expenses amounted to HRK 323.5 million, an increase of 18% in comparison with the previous year. The increase in interest expenses was mainly the result of new borrowings in 2006.

Net fee income:

Net fee income amounted to HRK 22.3 million, an increase of 26% in comparison with the previous year. This was a result of an increase in fee income from foreign exchange transactions and transactions carried out for and on behalf of a principal.



Financial Operations in 2006

Net revenues/(expenditures) from financial activities:

Net revenues/(expenditures) from financial activities are comprised of net foreign exchange gains/losses on the principal amount of receivables and liabilities, net revenues or expenditures arising out of loan contracts with embedded call option and gains/(losses) arising out of value adjustments of property stated at fair value in the Income Statement.

In the reporting period, net revenues from financial activities amounted to HRK 8.2 million and net expenditures to HRK 72.9 million.

From $31^{\rm st}$ December 2005 to $31^{\rm st}$ December 2006, the kuna appreciated by 0.4% against the euro and by 10.5% against the USD.

Foreign currency or foreign currency indexed assets and sources of funds are converted by HBOR into HRK equivalent value in accordance with the exchange rate of the Croatian National Bank valid at the Balance Sheet date.

Foreign currency revenues and expenditures are converted in accordance with the exchange rate at the transaction date. Foreign exchange gains or losses are recorded in the Income Statement in net figures.

Operating costs:

Operating costs include general and administrative costs and other operating costs and amounted to HRK 81.4 million, which represents an increase of 6% compared to the previous year.

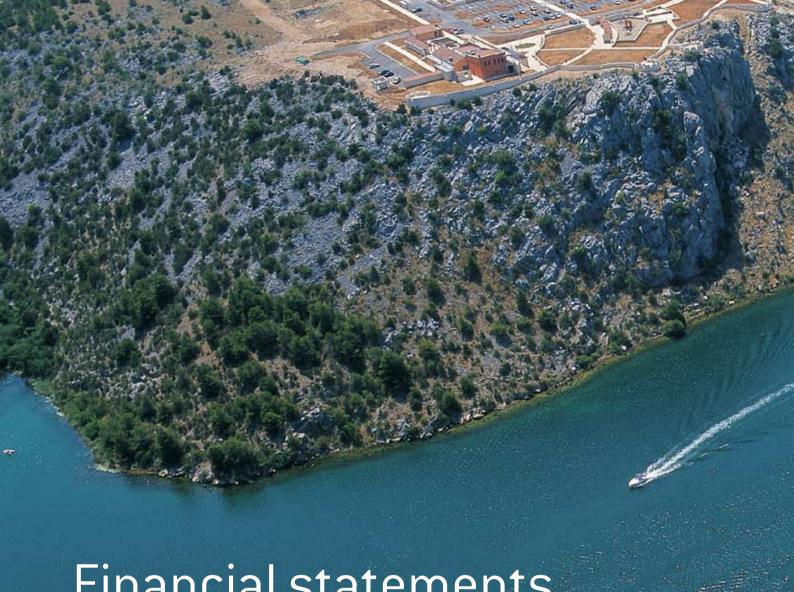
There were 244 employees in the Bank as at 31st December 2006. The number of employees as at 31st December 2005 was 242.

Impairment losses and provisioning:

In the reporting period, net impairment losses on placements on an individual and group basis amounted to HRK 217.2 million.

In accordance with regulations and general documents, HBOR determines the amount of provisioning and maintains the level of provisioning it considers adequate for the coverage of possible future risks.

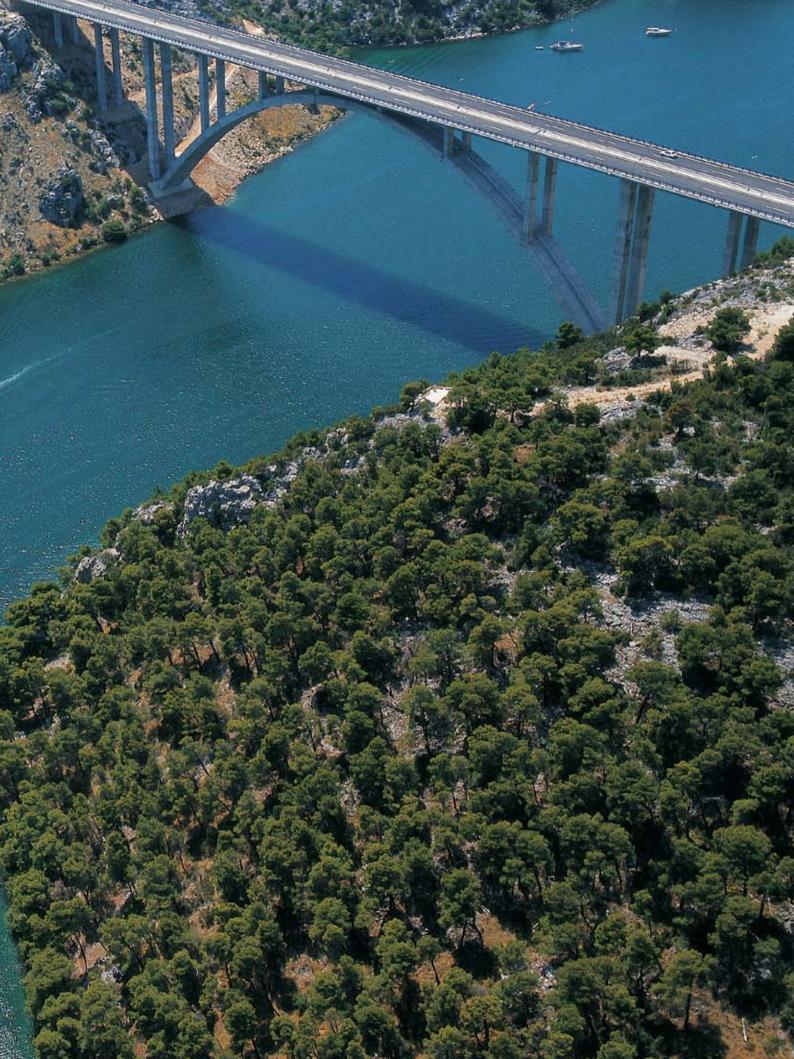




Financial statements

for the year ended 31 December 2006 together with the Independent auditor's report

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Reponsibility for the Financial Statements

Pursuant to the Croatian Accounting Law, the Managing Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board (IASB), which give a true and fair view of the financial position and results of the Croatian Bank for Reconstruction and Development (the "Bank") for that period.

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

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

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

The Managing 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 Managing 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 Managing Board:

Anton Kovačev

President of the Managing Board

Croatian Bank for Reconstruction and Development

Strossmayerov trg 9 10 000 Zagreb

Zagreb, 21 March 2007



Independent Auditor's Report

Deloitte.

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

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of the Croatian Bank for Reconstruction and Development

We have audited the accompanying financial statements of the Croatian Bank for Reconstruction and Development (the 'Bank' or 'HBOR') which comprise the balance sheet as at 31 December 2006, and the related income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

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

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia

21 March 2007

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Member of Deloitte Touche Tohmatsu

Audit. Tax. Consulting. Financial Advisory.



Income statement

For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

	Notes	2006	2005
		HRK '000	HRK '000
Interest income	3	768,167	671,522
Interest expense	4	(323,525)	(274,409)
Net interest income		444,642	397,113
Fee income		23,168	18,849
Fee expenses		(842)	(1,112)
Net fee income		22,326	17,737
Net gains/(losses) on financial operations	5	8,213	(72,927)
Other income		3,697	4,274
Operating income		478,878	346,197
Operating expenses	6	(81,409)	(76,604)
Impairment loss and provisions	7	(217,154)	(98,918)
Profit before income tax		180,315	170,675
Income tax	2	-	
PROFIT AFTER INCOME TAX		180,315	170,675

The accompanying accounting policies and notes are an integral part of these financial statements.



Balance Sheet

As of 31 December 2006

(All amounts are expressed in thousands of kunas)

	Notes	2006	2005
		HRK '000	HRK '000
ASSETS			
Cash on hand and due from banks, net	8	19,862	58,746
Deposits with other banks, net	9	405,118	418,115
Loans to banks, net	10	7,898,957	6,382,746
Loans to other customers, net	11	6,209,913	6,451,791
Assets held to maturity	12	75,925	110,602
Assets available for sale	13	225,847	235,845
Investments in associates	14	-	
Tangible and intangible assets	15	52,109	49,775
Assets for resale	16	35,431	18,153
Other assets, net	17	4,430	5,515
Total Assets		14,927,592	13,731,288
LIABILITIES			
Deposits	18	518,338	516,751
Borrowings	19	3,738,098	4,162,802
Bonds payable	20	4,150,427	3,036,474
Other liabilities	21	1,190,265	1,074,641
Total liabilities		9,597,128	8,790,668
CAPITAL			
Founder's capital		4,174,737	3,959,737
Retained earnings and reserves		957,296	786,621
Other reserves		7,098	16,212
Net profit for the year		180,315	170,675
Total capital		5,319,446	4,933,245
Guarantee fund	22	11,018	7,375
Total capital and guarantee fund		5,330,464	4,940,620
TOTAL LIABILITIES, TOTAL CAPITAL AND GUARANTEE FUND		14,927,592	13,731,288

The accompanying accounting policies and notes are an integral part of these financial statements.

Signed on behalf of the Croatian Bank for Reconstruction and Development on 21 March 2007 by:

Anton Kovačev

President of the Managing Board

Freua adzic-Jyodic

Accounting Division Executive Director



Statement of Cash Flow

For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

	2006	2005
	HRK '000	HRK '000
Operating activities		
Profit after income tax	180,315	170,675
Adjustments to reconcile to net cash from and used in operating activities:		
Depreciation	5,256	5,016
Impairment loss and provisions	217,154	98,918
Accrued interest and deferred fees	20,652	(6,258)
Operating profit before working capital changes	423,377	268,351
Changes in operating assets and liabilities:		
Net decrease/(increase) in deposits with other banks, before provision for impairment	13,239	(190,752)
Net (increase) in loans to banks, before provision for impairment	(1,512,535)	(2,145,294)
Net decrease in loans to other customers, before provision for impairment	11,919	357,436
Net decrease/(increase) in other assets, before provision for impairment	469	(2,848)
Net (increase) in assets held for resale	(17,278)	(6,614)
Net increase/(decrease) in deposits from banks and companies	1,587	(9,103)
Net increase in other liabilities, before provision	123,140	154,946
Net cash used in operating activities	(956,082)	(1,573,878)
Investment activities		
Net decrease/(increase) in assets available for sale	873	(8,805)
Net decrease in assets held to maturity	34,377	37,467
Sale of investments in associates	4,328	5,550
Net (purchases) of tangible and intangible assets	(7,590)	[4,692]
Net cash provided by/(used in) investment activities	31,988	29,520
Financial activities		
Net increase in founder's capital	215,000	206,000
Net (decrease)/increase in borrowings	(424,018)	1,475,667
Net increase/(decrease) in bonds payable	1,090,640	(115,133)
Net increase/(decrease) in guarantee fund	3,643	(296)
Net cash provided by financial activities	885,265	1,566,238
Net (decrease)/increase in cash and cash equivalents	(38,829)	21,880
Balance as of 1 January, before provisions	58,823	36,943
Net (decrease)/increase in cash	(38,829)	21,880
BALANCE AS OF 31 DECEMBER, BEFORE PROVISIONS	19,994	58,823

The accompanying accounting policies and notes are an integral part of these financial statements.



Statement of Changes in Capital For the year ended 31 December 2006

(All amounts are expressed in thousands of kunas)

Retained earnings and reserves HRK'000	Other reserves	Net profit for the year HRK'000	Total
	HRK '000	HRK'NOO	
656 432		- Intit 600	HRK '000
030,732	6,045	130,189	4,546,403
	-	170,675	170,675
	10,167		10,167
	10,167	170,675	180,842
-	-		206,000
130,189	-	(130,189)	-
786,621	16,212	170,675	4,933,245
1	-	180,315	180,315
	(9,114)		(9,114)
	(9,114)	180,315	171,201
	-		215,000
170,675	-	(170,675)	-
957,296	7,098	180,315	5,319,446
	786,621	. 10,167 10,167 10,167 	170,675 - 10,167 - 10,167 - 10,167 - 170,675

The accompanying accounting policies and notes are 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

The Croatian Bank for Reconstruction and Development ('HBOR' or 'the Bank') was established on 12 June 1992 under the Law "Zakon o Hrvatskoj kreditnoj banci za obnovu" (HKBO). In December 1995, the Bank changed its name to Hrvatska banka za obnovu i razvitak. The Bank's legal address is Strossmayerov trg 9, Zagreb, Croatia.

The principal activities of the Bank as defined by the New Law "Zakon o Hrvatskoj banci za obnovu i razvitak" comprise the following: financing of the reconstruction and development of the Croatian economy, financing of infrastructure, promoting exports, providing support to the development of SMEs, promoting environmental protection, and providing domestic goods and services export insurance against non-market risks for and on behalf of the Republic of Croatia.

HBOR may perform other financial activities according to the decision of the Government of the Republic of Croatia if in their opinion it is in the best interest of the Republic of Croatia.

The only founder of HBOR is the Republic of Croatia.

As of 31 December 2006 there were 244 employees at the Bank (31 December 2005: 242 employees).

HBOR bodies:

Supervisory Board

Ivan Šuker, Minister of Finance - ex officio President of the Supervisory Board,

Branko Vukelić, Minister of the Economy, Labour and Entrepreneurship - ex officio Vice President of the Supervisory Board,

Božidar Kalmeta, Minister of the Sea, Tourism, Transport and Development,

Petar Čobanković, Minister of Agriculture, Forestry and Water Management,

Nadan Vidošević, President of the Croatian Chamber of Economy,

Šime Prtenjača, Member of the Croatian Parliament,

Gordan Jandroković, Member of the Croatian Parliament,

Željko Pecek, Member of the Croatian Parliament.

Managing Board

Anton Kovačev, President of the Managing Board,

Ružica Adamović, Member of the Managing Board,

Krešimir Leko, Member of the Managing Board.



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies

Basis of presentation of financial statements

The Bank maintains its accounting records and prepares its statutory accounts in Croatian kuna ("HRK"), in accordance with the regulatory guidelines specific to HBOR, including general commercial, banking and fiscal regulations of the Republic of Croatia. The most significant differences compared with the rest of the banking sector are that HBOR is not required to keep obligatory reserves and is exempt from corporate income tax.

Basis of accounting

The Bank maintains its accounting records in HRK in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia.

Basis of presentation

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



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies (continued)

Adoption of new and revised International Financial Reporting Standards

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

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

The impact of these changes in accounting policies is discussed in detail later in this note. At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007);
- Amendment to IAS 1 Presentation of financial statements: Capital Disclosures (effective for annual periods beginning on or after 1 January 2007);
- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006);
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);

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

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

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

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



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies (continued)

Adoption of new and revised International Financial Reporting Standards (continued)

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

Accounting for financial guarantee contracts

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

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

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

Reporting currency

The Bank's financial statements are prepared in HRK, rounded to a nearest thousand. The effective exchange rate of HRK as of 31 December 2006 was HRK 7.345081 per 1 Euro and HRK 5.578401 per 1 United States dollar (31 December 2005: HRK 7.375626 per 1 Euro and HRK 6.233626 per 1 United States dollar), unless otherwise contracted.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and current accounts with the Croatian National Bank and other banks less provisions for impairment and uncollectability.



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies (continued)

Loans to banks and other clients and deposits

Amounts advanced by HBOR by providing funds directly to the borrower at draw down are categorized as loans to customers and are carried at amortized cost derived from using the effective interest rate method and adjusted for possible impairment.

Amount of the subsidized interest provided for the final user under the Programme of Preferential Financing through HBOR's Loan Programmes is presented as deferred interest income in other liabilities and is shown in the income statement on a time basis during the repayment of the loan. Therefore, the loan is carried at amortized cost derived from using interest rate without considering any effect of subsidies paid by the state.

All loans and advances are recognized when cash is advanced to borrowers.

Provision for loan impairment is established if there is objective evidence that HBOR will not be able to collect all amounts due. The Managing Board of HBOR determines the adequacy of the provision based upon analysis of various factors, structure of loan portfolio and past experience.

The amount of the provision is the difference between the carrying and recoverable amounts of the balance outstanding, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the effective interest rate.

The loan loss provision also covers losses where there is objective evidence that probable losses are present specifically identified in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses (in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate).

When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the income statement.

Reverse repo agreements

Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets in the balance sheet line 'Loans to banks'. Interest earned in the period from the purchase until the resale of the security is accrued on a daily basis and reported as 'Interest income' in the income statement.



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies (continued)

Securities

Securities held by the Bank are classified into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy. On the adoption of IAS 39, the Bank developed security investment strategies and, reflecting the intent of the acquisition, allocated securities to the 'Assets at fair value through profit or loss' portfolio, 'Available for sale' portfolio and the 'Held to maturity' portfolio. The principal difference among the portfolios relates to the measurement approach of securities and the recognition of their fair values in the financial statements. All securities held by the Bank are recognized using the settlement date accounting and initially measured at their cost, which includes transaction costs.

a) Assets at fair value through profit or loss

Assets at fair value through profit or loss comprise not actively traded financial assets. Those assets were acquired principally for the purpose of maintaining the liquidity reserve and managing the Bank's short-term liquidity.

Upon initial recognition, financial assets carried at fair value through profit or loss are accounted for and presented at fair value based on quoted prices or amounts derived from acceptable valuation models.

The Bank includes unrealised gains and losses in 'Net gains/(losses) on financial operations.

b) Investments held to maturity

Investments held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity. This portfolio comprises treasury bills and debt securities. Held-to-maturity investments are carried at amortized cost using the effective yield method, less any provision for impairment.

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



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies (continued)

c) Assets available for sale

Assets available for sale are financial assets designated as available for sale or not classified as either held to maturity or carried 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 / cashflow ratios refined to reflect specific circumstances of the issuer.

For available-for-sale assets, gains and losses arising from changes in fair value are recognized directly in equity, 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 on available-for-sale assets are reported in the income statement. If the fair value of an equity instrument subsequently increases, the increase will be recognized through equity, and will not be subsequently reversed in the income statement. Impairment losses recognized in profit or loss for debt instruments are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition.

As of 31 December 2006 and 2005, no impairment of securities available for sale was identified.

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

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



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies (continued)

Investments in associates

Investments in associates relate to investments where HBOR has between 20% and 50% of the voting rights and where HBOR has significant influence, but no control. They are accounted for at cost and decreased for impairment when necessary.

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried at cost as adjusted for post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized.

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



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies (continued)

Tangible and intangible assets

Tangible and intangible assets are stated at the original cost. Depreciation is computed using the straight-line method, by applying to the cost or revaluation of assets the annual rates from 3.03% to 33.3% over their estimated useful lives.

Estimated useful life is as follows:

	2006	2005
	Years	Years
Buildings	33	33
Computers	3	3
Furniture and equipment	5 - 8	5 - 8
Vehicles	3	3
Other	5	5
Intangible assets	3-5	3 - 5

Depreciation is not calculated on construction in progress. Repairs and maintenance are expensed in the income statement as incurred. Expenses that increase the future operating capacity of existing assets (improvements) are capitalized.

Impairment of assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows including anticipated recoveries from guarantees and collateral, discounted at original effective interest rates, is recognized in the income statement.

Tangible and intangible assets are reviewed for impairment whenever events or changes in the circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income statement for items of tangibles and intangibles carried at cost, or it is treated as a revaluation decrease for assets that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same assets. The recoverable amount is the higher of an asset's net selling price or its value in use.



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies (continued)

Fair values of financial assets and liabilities

Fair value represents the amount at which an asset may be exchanged or a liability settled on an arm's-length basis. Since verifiable market prices are not available for a significant portion of the Bank's financial assets and liabilities, fair values (for these items) have been based on the Managing Board assumptions according to the profile of the asset and liability base. Fair values are not significantly different from book values for all asset and liability categories.

The carrying amounts of cash and balances with the Croatian National Bank are generally deemed to approximate their fair values.

The estimated fair value of amounts due from banks approximates their carrying amounts since all amounts due from banks mature up to 90 days. Provisions are not taken into account when calculating fair values.

Loans and advances to banks and to other customers are presented net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. The interest subsidies recorded as deferred income in other liabilities should be taken into account in fair value considerations.

Assets held to maturity consist of unquoted bonds acquired from the Government of the Republic of Croatia in exchange for receivables from Dubrovačka banka d.d., Dubrovnik. Fair value of the stated bonds approximates their carrying value.

The Bank's long-term borrowings have no quoted market price, and their fair value is estimated as the present value of future cash flows, discounted at interest rates in effect at the balance sheet date for new borrowings of similar nature and with the similar remaining maturity. Again, as the Bank's long-term debt bears variable interest, there is no significant difference between its carrying amount and its fair value.

Fair value of the EUR bonds issued by the Bank as of 31 December 2006 amounts to HRK 4,156,846 thousand. The carrying amount of those bonds as of 31 December 2006 was HRK 4,150,427 thousand, including interest.



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities presented on the balance sheet include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term loans and leases, deposits and investments. The accounting for each of these items is disclosed in the respective accounting policies.

Founder's capital and reserves

Under the new HBOR Law, the prescribed founder's capital should amount to HRK 7,000,000 thousand, paid in from the State Budget in accordance with the schedule determined by the Croatian Parliament in the process of adoption of the State Budget of the Republic of Croatia and from other sources as specified by separate laws. As of 31 December 2006, the paid-in capital amounted to HRK 3,748,106 thousand. The outstanding amount of capital to be paid in from State Budget of the Republic of Croatia up to the amount prescribed by the Law was HRK 3,251,894 thousand.

Bank borrowings and bonds payable

Borrowings and bonds payable are measured at amortized cost determined using the effective interest rate method. The Bank recognizes interest expense related to borrowings in the income statement.

Government grants

Lending interest for the borrowers qualifying for subsidised interest under the Programme of Preferential Financing through HBOR's Loan Programmes, the Development and Employment Programme, the Regional Development Programme and the Financing Model for the Reconstruction and Modernisation of the Fishing Fleet is subsidised by the Republic of Croatia, the Fund for Development and Employment, the Fund for Regional Development, the Ministry of Agriculture, Forestry and Water Management, the Ministry of the Sea, Tourism, Transport and Development, and the Ministry of the Economy, Labour and Entrepreneurship during the entire loan repayment period.

In 2006, the accounting policy for the recognition of interest income was changed to comply with the legal framework for government subsidies. The recognition of 2005 interest income under the Programme of Preferential Financing through HBOR's Loan Programmes, the Development and Employment Programme and the Regional Development Programme was adjusted for the purpose of comparability with the new presentation. The effect of the allocation from the public sector to individual final borrowers in other institutional sectors amounted to HRK 167,105 thousand.

The amount of the interest subsidies provided for the final user is presented as deferred interest income in other liabilities and is recognized in the income statement on a time basis during the repayment of the loan. As such, the loans are carried at amortized cost determined by using interest rates, without taking into account any effect of subsidies paid by the State.



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies (continued)

Guarantees and other credit related commitments

Contingent liabilities under guarantees and letters of credit are mostly secured by guarantees of the Government of the Republic of Croatia.

The provision for commitments, undrawn loans and issued guarantees is maintained at a level that the Managing Board of HBOR believes is adequate to absorb potential losses.

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made.

Interest income and expense

Interest income and expenses are recognized in the income statement when earned or incurred.

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment.

Loan origination fees together with estimated related costs are generally deferred and recognized as an adjustment to the effective yield on the loan.

Notional interest is recognized on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value.

Fee and commission income

Fee and commission income are comprised mainly of fees receivable from enterprises for loans and guarantees granted and other services provided by the Bank, together with commissions for managing funds on behalf of legal entities and fees for foreign and domestic payment transactions. Fees and commissions are generally recognized in the period when the related service is provided.



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies (continued)

Pension and health insurance cost

According to local legislation, the Bank is obliged to pay contributions to the State Pension and Health Insurance Funds. This obligation relates to full-time employees and provides for paying contributions in the amount of certain percentages determined on the basis of the gross salary as follows:

	2006	2005
Contributions for state health insurance fund	15.00%	15.00%
Contributions for employment fund	1.60%	1.60%
Special contribution for employment of disabled persons	0.20%	0.10%
Contribution for injuries at work	0.50%	0.50%

The Bank is also obliged to withhold and pay contributions from the gross pay on behalf of the employees to the State Pension Fund and Mandatory Pension Fund.

The contributions on behalf of employees and on behalf of the employer are charged to expense in the period to which they relate.

Foreign currency transactions and foreign currency clause

Assets and liabilities expressed in foreign currencies are converted into HRK at the exchange rates quoted by the Croatian National Bank at the balance sheet date. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains and losses are recorded in the income statement.

The Bank has assets originated in HRK, which are linked to the foreign currency with one-way currency clause. Due to this clause, the Bank has an option to revalue the asset by foreign exchange rate favourable for the Bank valid as of the date of maturity, comparing to the foreign exchange rate valid as of the date of origination of asset. Due to the special circumstances of the market in the Republic of Croatia, the fair value of this option can not be calculated since the forward rates for HRK for periods over 6 months are not available. As such the Bank applies the following procedure: if the result of the translation of these assets by the middle rate of Croatian National Bank at the date of balance sheet is positive, the carrying amounts of respective assets are adjusted at the balance sheet date. If the result of the translation of these assets by the middle rate of Croatian National Bank at the date of the balance sheet is negative, the carrying amounts of respective assets are adjusted at the balance sheet is negative, the carrying amounts of respective assets are adjusted at the balance sheet is negative, the corrying amounts of respective assets are adjusted at the balance sheet date up to the agreed foreign exchange rate of the option.



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

2. Summary of significant accounting policies (continued)

Foreign currency transactions and foreign currency clause (continued)

The Bank has assets originated in Croatian kunas that are linked to foreign currency with two-way currency clause. These assets are translated to Croatian kunas as if they were originated in foreign currency.

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

Use of estimates

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 balance sheet date and actual results could differ from those estimates.

Taxation

Based on Article 9 of HBOR Law, the Bank is not obliged to pay income tax.

Managed funds - agency business

The Bank manages significant assets in the name and on behalf of the Ministry of Finance, Ministry of the Economy, Labour and Enterpreneurship, Ministry of the Sea, Tourism, Transport and Development, Ministry of Agriculture, Forestry and Water Management, the Fund for Development and Employment, the Fund for Regional Development and the Croatian Agency for Small Business ("HAMA6"), that are used for the financing of reconstruction and development programmes. As these amounts do not represent assets of HBOR, they are excluded from the balance sheet. Revenues and expenses under to that business activity are charged to the third party while the Bank does not have other liabilities. The Bank charges a fee under certain programmes and certain programmes are implemented without a fee charged by the Bank (See Note 24).



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

3. Interest income

Interest income by borrowers:

	2006	2005
	HRK '000	HRK '000
Public sector	89,980	111,642
State-owned companies	130,297	110,008
Foreign companies	2,134	2,635
Other companies	333,815	296,242
Domestic banks	167,330	114,483
Foreign banks	7,347	6,174
Other	28,050	23,321
Penalty interest	9,214	7,017
	768,167	671,522

Interest income by type of facility:

	2006	2005
	HRK '000	HRK '000
Interest on loans		
- Long-term loans	716,581	626,962
- Short-term loans	725	664
- Collected prior year provided interest	21,698	15,426
	739,004	643,052
Investments in securities	18,622	21,264
Deposits	10,541	7,206
	768,167	671,522



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

4. Interest expense

Interest expense by type of payee:

	2006	2005
	HRK '000	HRK '000
Companies	16	23
Domestic banks	537	99
Foreign banks	322,964	274,283
Other	8	4
	323,525	274,409

Interest expense by type of facility:

	2006	2005
	HRK '000	HRK '000
Borrowings	147,843	120,346
Securities	175,490	153,347
Deposits	192	716
	323,525	274,409



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

5. Net gains/(losses) on financial operations

	2006	2005
	HRK '000	HRK '000
Net foreign exchange gains/(losses) on foreign currency assets and liabilities	7,080	(76,935)
Gains on assets at fair value through profit or loss	1,133	4,008
NET	8,213	(72,927)

6. Operating expenses

Operating expenses can be shown as follows:

	2006	2005
	HRK '000	HRK '000
General and administrative expenses:		
Employee expenses	50,732	47,252
Depreciation	5,256	5,016
Administration expenses	7,000	7,724
Used material and services	16,258	14,435
	79,246	74,427
Other expenses:		
Taxes and contributions	186	166
Other expenses	1,977	2,011
	2,163	2,177
	81,409	76,604



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

7. Impairment loss and provisions

Movements in the provision for impairment losses, guarantees and commitments, may be summarized as follows:

Movements in provision Increase/(decrease)	2006	2005
	HRK '000	HRK '000
Impairment losses on cash on hand and due from banks	54	(288)
Impairment losses on deposits with other banks	(195)	2,096
Impairment losses on loans to banks	335	(157,443)
Impairment losses on loans to other customers and interest	228,186	154,901
Impairment losses on investments in associates	(4,328)	
Impairment losses on other assets	617	170
Total increase/(decrease) in provision for impairment losses on assets	224,669	(564)
Provision for guarantees and commitments	(11,530)	92,478
Other provisions	4,015	7,004
Total (decrease)/increase in provision for guarantees and commitments	(7,515)	99,482
TOTAL INCREASE OF PROVISIONS	217,154	98,918



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

8. Cash on hand and due from banks, net

	2006	2005
	HRK '000	HRK '000
Account with the Croatian National Bank	6,816	51,082
Due from domestic banks in foreign currency	347	413
Due from foreign banks in foreign currency	12,831	7,328
	19,994	58,823
Provision for impairment losses	(132)	(77)
	19,862	58,746

The movements in the provision for impairment losses on amounts due from banks may be summarized as follows:

	2006	2005
	HRK '000	HRK '000
Balance as of 1 January	77	365
Provision for impairment losses on due from banks	55	(288)
BALANCE AS OF 31 DECEMBER	132	77



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

9. Deposits with other banks, net

	2006	2005
	HRK '000	HRK '000
Deposits with foreign banks	181,424	392,360
Deposits with domestic banks	227,697	30,000
Accrued interest	89	42
	409,210	422,402
Provision for impairment losses	(4,092)	(4,287)
	405,118	418,115

The movements in the provision for impairment losses on deposits with other banks may be summarized as follows:

	2006	2005
	HRK '000	HRK '000
Balance as of 1 January	4,287	2,331
Provision for impairment losses on deposits with other banks	(195)	2,096
Foreign exchange gains/losses on provision for impairment losses, net		(140)
BALANCE AS OF 31 DECEMBER	4,092	4,287



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

10. Loans to banks, net

Loans to banks, net of provision for impairment losses may be summarized as follows:

	2006	2005
	HRK '000	HRK '000
Loans due within one year	2,805,313	1,845,586
Loans due in over one year	5,667,179	5,113,888
Accrued interest	22,046	14,863
Deferred recognition of interest income - fees for loans	(26,443)	(23,271)
	8,468,095	6,951,066
Provision for impairment losses	(569,138)	(568,320)
	7,898,957	6,382,746

The movements in the provision for impairment losses on loans to banks may be summarized as follows:

	2006	2005
	HRK '000	HRK '000
Balance as of 1 January	568,320	766,454
Provision for impairment losses on loans to banks	335	(157,443)
Foreign exchange gains/losses on provision for impairment losses, net	483	(8,031)
Transfer to provision for impairment losses on loans to other customers	-	(32,660)
BALANCE AS OF 31 DECEMBER	569,138	568,320



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

10. Loans to banks, net (continued)

The breakdown of the loans to banks, net of provision for impairment losses, may be summarized by programme as follows:

	2006	2005
	HRK '000	HRK '000
Economic reconstruction and development	2,894,137	2,450,367
Export	3,820,455	2,707,201
Infrastructure reconstruction and development in the Republic of Croatia	80,779	84,305
Small and medium enterprises	814,949	702,278
Reconstruction of housing and business facilities damaged in war	33,458	37,321
Other	828,714	978,002
Accrued interest	22,046	14,863
Deferred recognition of interest income - fees for loans	(26,443)	[23,271]
	8,468,095	6,951,066
Provision for impairment losses	(569,138)	(568,320)
	7,898,957	6,382,746

Interest rates on loans were from 1% to 4% annually during 2006 and 2005, respectively, depending on the purpose of the loan and area of investments.



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

11. Loans to other customers, net

Loans to other customers, net of provision for impairment losses may be summarized as follows:

	2006	2005
	HRK '000	HRK '000
Domestic companies	3,884,206	3,723,371
State-owned companies	2,090,566	1,946,594
Public sector	989,638	1,416,824
Foreign companies	20,714	25,186
Non profit institutions	808	
Other	338,027	263,660
Accrued interest	52,851	52,316
Deferred recognition of interest income - fees for loans	(60,310)	(58,003)
	7,316,500	7,369,948
Provision for impairment losses	[1,106,587]	(918,157)
	6,209,913	6,451,791

The movements in the provision for impairment losses on loans to other customers may be summarized as follows:

	2006	2005
	HRK '000	HRK '000
Balance as of 1 January	918,157	707,014
Correction of opening balance - transfer from off balance sheet	3,124	
Provision for impairment losses on loans to other customers and interest	232,856	165,137
Foreign exchange gains/(losses) on provision for impairment losses, net	853	22,169
Collection of off balance sheet receivables	(4,669)	(10,236)
Provisions transferred from off-balance sheet	3,928	10,236
Write-offs	(8)	(124)
Transfer to off balance sheet - loans	(47,654)	(4,933)
Transfer from provisions for loans to banks		32,660
Suspended interest - transfer to off-balance sheet		(3,766)
BALANCE AS OF 31 DECEMBER	1,106,587	918,157

 $\label{lem:correction} \textbf{Correction of opening balance is due to changes in regulatory accounting rules.}$



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

11. Loans to other customers, net (continued)

The breakdown of the loans to other customers, net of provision for impairment losses may be summarized according to projects as follows:

	2006	2005
	HRK '000	HRK '000
Economic reconstruction and development	3,039,636	3,466,704
Export	1,694,389	1,502,166
Infrastructure reconstruction and development in the Republic of Croatia	2,067,545	1,893,375
Small and medium enterprises	482,136	392,479
Reconstruction of housing and business facilities damaged in war		37,688
Other	40,253	83,223
Accrued interest	52,851	52,316
Deferred recognition of interest income - fees for loans	(60,310)	(58,003)
	7,316,500	7,369,948
Provision for impairment losses	(1,106,587)	(918,157)
	6,209,913	6,451,791

Interest rates on loans were from 2% to 6% annually during 2006 and 2005, depending on the purpose of the loan and area of investments.

12. Assets held to maturity

	2006	2005
	HRK '000	HRK '000
Bonds issued by the Republic of Croatia	75,266	109,643
Accrued interest	659	959
	75,925	110,602



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

12. Assets held to maturity (continued)

HBOR acquired bonds issued by the Republic of Croatia in a total amount of EUR 10,247 thousand and EUR 14,866 thousand as of 31 December 2006 and 31 December 2005 in exchange for receivables from Dubrovačka banka d.d., Dubrovnik. Repayment instalments are due every six months and the last instalment is due on 15 November 2008. The interest rate on these bonds is 7% annually.

13. Assets available for sale

	2006	2005
	HRK '000	HRK '000
Bonds of the Ministry of Finance of the Republic of Croatia	207,240	216,655
Corporate bonds	15,153	15,725
Investments in shares of foreign companies	18	18
Investments in financial institutions shares	138	138
Accrued interest	3,298	3,309
	225,847	235,845

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-0-125A) issued on 23 June 2003 are repayable over 9 years with an interest rate of 6.875%.

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-0-085A) issued on 28 May 2003 are repayable over 5 years with an interest rate of 6.125%.

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-0-19BA) issued on 29 November 2004 are repayable over 15 years with an interest rate of 5.375%.

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-0-077A) issued on 7 July 2004 are repayable over 3 years with an interest rate of 3.875%.

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-0-142A) issued on 10 February 2004 are repayable over 10 years with an interest rate of 5.5%.

Bonds of Pliva d.d., Zagreb (RHPLVA-0-115A) issued on 12 May 2004 are repayable after 7 years with an interest rate of 5.75%. Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-0-103A) issued on 8 March 2005 repayable over 5 years with an interest rate of 6.75%.



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

14. Investments in associates

	2006	2005
	HRK '000	HRK '000
Investments in associates - cost	28,257	35,711
Impairment provisions	(16,757)	[24,211]
Value adjustments for investments in associates taken over without a fee	(11,500)	(11,500)

Investments in associates are part of a Program of investments in equity of companies - small and medium sized entrepreneurs. HBOR has a significant influence in the associated companies through its representative in the Supervisory Board. The investments are stated using the equity method, according to the policy of the Bank.

	Activity	% ownership in 2006	% ownership in 2005
Kupres d.o.o., Donji Miholjac	Wood processing, cork production	25.65%	25.65%
Lika d.d., Donji Lapac	Meat production and processing	26.04%	26.04%
Bila boja d.o.o., Grohote	Plastic products	23.65%	23.65%
THC d.d., Obrovac	Metal products	38.45%	38.45%
Tri D Drvo d.o.o., Vrhovine*	Wood processing	26.00%	35.67%
Pounje d.d., Hrvatska Kostajnica	Textiles	18.36%	18.36%
Metal-Sint Oklaj d.d., Oklaj	Metal-working industry, sinter products and composite materials	40.84%	40.84%

^{*}By decision of the Commercial Court in Karlovac, dated 29 August 2006, the name of the company Drvodjelstvo Donja Dobra d.o.o., Vrhovine was changed to TRI D DRVO d.o.o.,

The values of those investments have been fully impaired because of their irrecoverability.

Vitroplant d.o.o., Solin	Agriculture, hunting and forestry	29.67%	29.67%
Brako d.o.o., Posedarje	Meat production and processing	30.06%	30.06%

The investments in Vitroplant d.o.o., Solin and Brako d.o.o., Posedarje were disposed of in 2006.



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

15. Tangible and intangible assets

	Buildings	Computers	Furniture, equipment and vehicles	Construction in progress	Total tangible assets	Intangible assets	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost or revaluation value							
At 31 December 2005	49,788	9,273	10,512	22	69,595	9,063	78,658
Additions				7,619	7,619		7,619
Transfer from construction in progress	56	4,340	953	(7,442)	(2,093)	2,093	-
Disposal		(1,514)	(161)	4 4	(1,675)	(869)	(2,544)
Transfer from/to	(301)	Frank.	301	75	75	(75)	
Transfer to small inventory	(11)		-		[11]		[11]
At 31 December 2006	49,532	12,099	11,605	274	73,510	10,212	83,722
Depreciation							
At 31 December 2005	6,470	7,957	6,892	·	21,319	7,564	28,883
Depreciation for 2006	1,499	1,465	1,381		4,345	911	5,256
Disposals		(1.507)	(150)		(1,657)	(869)	(2,526)
At 31 December 2006	7,969	7,915	8,123		24,007	7,606	31,613
Net book value At 31 December 2006	41,563	4,184	3,482	274	49,503	2,606	52,109
Net book value At 31 December 2005	43,318	1,316	3,620	22	48,276	1,499	49,775



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

16. Assets for resale

	2006	2005
	HRK '000	HRK '000
Assets for resale	35,431	18,153
	35,431	18,153

At the year-end, assets for resale represent real estate and movables acquired in the process of debt collection. Real estate held for resale is stated at the lower of outstanding debt or net realizable value as determined by an independent appraisal.

17. Other assets, net

	2006	2005
	HRK '000	HRK '000
Fees receivable	425	593
Cash in transit	297	278
Other assets	4,426	4,846
	5,148	5,717
Provision for impairment losses	(718)	(202)
	4,430	5,515



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

17. Other assets, net (continued)

The movements in the provision for impairment losses on other assets may be summarized as follows:

	2006	2005
	HRK '000	HRK '000
Balance as at 1 January	202	61
Provision for impairment losses on other assets	675	190
Repayment of off-balance sheet items receivable	(58)	(20)
Provisions brought forward from the off-balance sheet	58	20
Write off	(10)	(7)
Transfer to off balance sheet	(149)	[42]
BALANCE AS OF 31 DECEMBER	718	202

18. Deposits

	2006	2005
	HRK '000	HRK '000
Bank deposits	1,367	856
Foreign currency accounts of companies	1,071	4,934
Foreign currency account of the Ministry of Finance of the Republic of Croatia	15,151	8,514
Foreign currency accounts of companies - special purpose	72,934	142,046
Deposits by local authorities and fund organizations	64,284	48,489
Deposits by state institutions	362,283	311,602
Deposits by companies	921	
Other deposits	327	310
	518,338	516,751

The major portion of the balance on the foreign currency account of the Ministry of Finance of the Republic of Croatia relates to the Guarantee Fund in respect of reinsurance premiums for export insurance operations performed by HBOR for and on behalf of the Republic of Croatia.

Deposits by State institutions relate to the Bank's operations carried out in the name of, and on behalf of, the Ministry of Finance of the Republic of Croatia, Ministry of the Economy, Labour and Enterpreneurship, Ministry of the Sea, Tourism, Transport and Development, Ministry of Agriculture, Forestry and Water Management, the Fund for Development and Employment, the Fund for Regional Development and the Croatian Agency for Small Business ('HAMAG').

HBOR does not pay interest on the above deposits.



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

19. Borrowings

	2006	2005
	HRK '000	HRK '000
Balance as of 1 January	4,162,802	2,684,429
New borrowings	561,355	2,098,671
Repayments	(935,817)	(669,343)
Foreign exchange gains/(losses)	(80,715)	17,886
Accrued interest	30,473	31,159
BALANCE AS OF 31 DECEMBER	3,738,098	4,162,802

Interest rates on borrowings were from 2% fixed per annum to variable interest rates on the International money market (LIBOR EUR; EURIBOR; LIBOR USD) increased by 0.225 - 1.5 percentage points annually.

The Bank is subject to different contract covenants. As of 31 December 2006, the Bank complied with all the required contract covenants.

20. Bonds payable

	2006	2005
	HRK '000	HRK '000
Bonds EUR 100 million	734,508	737,563
Bonds EUR 300 million	2,191,797	2,198,295
Bonds EUR 150 million	1,100,193	
Accrued interest	123,929	100,616
	4,150,427	3,036,474



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

20. Bonds payable (continued)

According to the Agreement of 28 November 2002 between HBOR and J.P. Morgan Europe Limited (as lead manager), HBOR issued bonds under the EMTN program, with a guarantee of the Republic of Croatia in the amount of EUR 100,000 thousand (HRK 734,508 thousand and HRK 737,563 thousand as at 31 December 2006 and 2005, respectively) and with a maturity period of 10 years and a fixed interest rate of 5.75%. Interest is paid annually, in arrears.

According to the Agreement of 11 February 2004 between HBOR and Deutsche Bank AG London and UBS Limited (as joint lead manager), HBOR issued bonds under the EMTN program, with a guarantee of the Republic of Croatia in the amount of EUR 300,000 thousand (HRK 2,190,228 thousand as at 31 December 2006) and with a maturity period of 7 years and a fixed interest rate of 4.875%. Interest is paid annually, in arrears.

According to the Agreement of 11 July 2006 between HBOR and Deutsche Bank AG London (lead manager), HBOR issued bonds in the amount of EUR 150,000 thousand (HRK 1,101,762 thousand as of 31 December 2006) with maturity of 10 years and fixed interest rate of 4.807%. Interest is paid one year in arrears.



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

21. Other liabilities

	2006	2005
	HRK '000	HRK '000
Accrued salaries	5,361	4,270
Liabilities to suppliers	1,189	1,927
Liabilities for prepaid receivables	380	3,294
Liabilities for preferential financing of housing loans with State support	32,410	31,937
Liabilities in connection with a special purpose funds	54,897	53,128
Liabilities in respect of subsidized interest	207,336	58,768
Deferred recognition of interest income	639,579	659,462
Provision for guarantees and commitments	229,193	248,392
Provisions for other liabilities	11,019	7,004
Other liabilities	8,901	6,459
	1,190,265	1,074,641

Liabilities in respect of subsidised interest represent advances taken in respect of interest subsidies on loans, which are provided to final customers at lower interest in accordance with the following programmes implemented by HBOR for and on behalf of the Republic of Croatia:

HRK 192,698 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (2005: HRK 58,768 thousand);

HRK 14,638 thousand in respect of the Financing Model for the Reconstruction and Modernisation of the Fishing Fleet.

Deferred recognition of interest income in the amount of HRK 639,579 thousand (2005: HRK 659,462 thousand) consist of the state subsidies for interest in respect of loans in the amount of HRK 176,482 thousand (2005: HRK 245,556 thousand), which are provided and drawn down by final customers at lower interest rates (see Note 2) but are not in repayment stage, and of the state subsidies for interest in respect of loans in the amount of HRK 463,097 thousand (2005: HRK 413,906 thousand), which are provided and drawn down by final customers at lower interest rates but are already in repayment stage (see Note 2).



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

21. Other liabilities (continued)

Movements in the provision for guarantees and commitments may be summarized as follows:

	2006	2005
	HRK '000	HRK '000
Balance as of 1 January	248,392	151,300
Provision for guarantees and commitments	(11,530)	92,478
Foreign exchange gains/(losses) on provision for impairment losses, net	(7,669)	4,614
Provision for guarantees and commitments	229,193	248,392
Balance as of 1 January	7,004	
Provision for potential losses on other liabilities	4,015	7,004
Provisions for other liabilities	11,019	7,004
BALANCE AS OF 31 DECEMBER	240,212	255,396

22. Guarantee fund

Guarantee fund in the total amount of HRK 11,018 thousand and HRK 7,375 thousand as of 31 December 2006 and 2005, respectively relates to funds of the guarantee fund from Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in respect of a financial contribution (granted funds) for the account of the German Government, which are used for covering contingent losses upon guarantees issued for loans granted for financing business start-ups in Croatia.

23. Guarantees and commitments

	2006	2005
	HRK '000	HRK '000
Guarantees issued in HRK	1,270	2,795
Guarantees issued in foreign currency	2,214,749	2,055,409
Issued bills of exchange	21,118	26,078
Open letters of credit in foreign currency	69,040	82,715
Undrawn loans	1,152,931	1,532,044
	3,459,108	3,699,041
Provisions for guarantees and commitments	(229,193)	(248,392)
	3,229,915	3,450,649

Guarantees and letters of credit are mainly guaranteed by the Government of the Republic of Croatia.



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

24. Managed funds - Agency business

The Bank manages funds on behalf of and for the account of the Ministry of Finance, Ministry of the Economy, Labour and Enterpreneurship, Ministry of the Sea, Tourism, Transport and Development, Ministry of Agriculture, Forestry and Water Management, the Fund for Development and Employment, the Fund for Regional Development and the Croatian Agency for Small Business ("HAMAG"), which are largely used for various reconstruction and development programmes. These assets are separated from the Bank's assets. The income and expense relating to these transactions are credited to the owner, and the Bank does not have any other liabilities. The Bank charges a fee for its services.

Agency business funds per individual programmes amount to:

Programme	2006	2005
	HRK '000	HRK '000
Fish processing	12,971	11,691
Development and reconstruction of rural housing	100,681	106,962
Employment of former soldiers	451,260	434,307
Emergency Reconstruction Project (Ioan IBRD 3760 - HR)	2,980	19,375
Loans to companies having difficulties - MF funds	68,663	66,696
Loans to companies having difficulties - HZZ funds	2,232	9,094
Municipal Environmental Infrastructure Investment Program - MEIP	633,298	583,298
Collection of receivables under HAMAG guarantees	289	305
Insurance of export transactions	130,633	93,887
Programme of Preferential Financing through HBOR's Loan Programmes	192,698	58,768
Program for Development and Employment	291,034	276,296
Program for Regional Development of the Republic of Croatia - loans	24,178	20,518
Financing Model for the Reconstruction and Modernisation of the Fishing Fleet - Ministry of the Economy, Labour and Enterpreneurship	17,549	
Financing Model for the Reconstruction and Modernisation of the Fishing Fleet - Ministry of the Sea, Tourism, Transport and Development	17,463	
Financing Model for the Reconstruction and Modernisation of the Fishing Fleet - Ministry of Agriculture, Forestry and Water Management	20,869	
Financing Model for the Reconstruction and Modernisation of the Fishing Fleet - Ministry of the Economy, Labour and Enterpreneurship - interest subsidy	781	
Financing Model for the Reconstruction and Modernisation of the Fishing Fleet - Ministry of the Sea, Tourism, Transport and Development - interest subsidy	2,741	
Financing Model for the Reconstruction and Modernisation of the Fishing Fleet - Ministry of Agriculture, Forestry and Water Management - interest subsidy	11,116	
Renewable Energy Resources Project	3,069	Mr. A Sec
	1,984,505	1,681,197



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

25. Related-party transactions

Related parties are companies that directly or indirectly, through one or more intermediates, control, or are controlled by, the reporting company.

The majority of related party transactions relate to the transactions with the Republic of Croatia, the 100% owner of the Bank.

All transactions stated were performed under the usual banking market terms.

As at 31 December 2006 and 31 December 2005, balances arising from transactions with related parties, including the Bank's Managing Board and Directors, include the following:

	2006	2005
	HRK '000	HRK '000
Loans to other customers, net		
Members of the Managing Board and Directors	2,245	2,381
Associates	48	San
Owner	489,979	796,317
Government funds, executive authorities and agencies	365,104	486,909
State-owned companies	2,086,590	1,923,227
Assets held to maturity		
Government funds and agencies	75,925	110,602
Assets available for sale		
Owner	210,425	219,851
Other assets, net		
Owner	-	1,860
Government funds and guarantees	471	392
Total assets	3,230,787	3,541,539
Liabilities per deposits		
Owner	343,828	305,278
Government funds, executive authorities and agencies	33,606	6,890
State-owned companies	55,067	142,801
Other liabilities		
Owner	225,957	59,435
Government funds, executive authorities and agencies	14,638	
Total liabilities	673,096	514,404
Guarantees received		
Owner	4,525,913	4,820,085
Government funds, executive authorities and agencies	130,061	54,379



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

25. Related-party transactions (continued)

As at 31 December 2006 and 31 December 2005, transactions made with related parties comprised:

	2006	2005
	HRK '000	HRK '000
Interest income		
Members of the Managing Board and Directors	98	87
Associates	2,107	337
Owner	51,654	68,625
Government funds, executive authorities and agencies	30,053	36,340
State-owned companies	129,989	81,487
Impairment loss and provisions		
Members of the Managing Board and Directors	1	(3)
Associates	(1,170)	(9,240)
0wner	3,094	5,536
Government funds, executive authorities and agencies	1,230	729
State-owned companies	(49,766)	6,363
Salaries and bonuses		
Members of the Managing Board and Directors	(5,754)	(5,220)

	2006	2005
	HRK '000	HRK '000
Undrawn loans		
State-owned companies	73,344	171,592
Letters of credit and issued guarantees		
State-owned companies	2,150,865	2,035,085



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

25. Related-party transactions (continued)

Because of the changes in the presentation of income from subsidised interest in 2006, the amount of interest income from the Owner under the Programme of Preferential Financing through HBOR's Loan Programmes for the year 2005 has been adjusted to comply with the new presentation, with the related effect of allocation to individual final borrowers in the amount of HRK 163,443 thousand.

Because of the changes in the presentation of income from subsidised interest in 2006, interest income from state funds, executive authorities and agencies under the Development and Employment Programme, the Regional Development Programme of the Republic of Croatia and the Financing Model for the Reconstruction and Modernisation of the Fishing Fleet for the year 2005 has been adjusted to comply with the new presentation, with the related effect of allocation to individual final borrowers in the amount of HRK 3,662 thousand.

Salaries and bonuses include compensations paid for regular work, annual vacation, national holidays, paid leave, sick leave, jubilee awards, as well as other benefits considered Management Board and Executives' remuneration.

Remuneration for the work of the members of the Supervisory Board amounted to HRK 356 thousand (2005: HRK 270 thousand) and relates to the HBOR Supervisory Board member eligible for remuneration and members of supervisory boards at associates who were appointed by HBOR.



For the year ended 31 December 2006
[All amounts are expressed in thousands of kunas]

26. Risk management

The Bank does not use derivative financial instruments. Risk management policies that relate to current investments, cash management and payables can be summarized as follows:

Liquidity risk

For the purposes of the liquidity risk, the Bank monitors and analyses the collection of receivables when they become due, on a daily, weekly, monthly, quarterly and yearly basis, enabling it to plan and meet all of its due liabilities with no delays.

In accordance with the prescribed internal manuals, the Bank maintains the adequate level of liquidity reserves, monitors current liquidity continuously, ensures enough HRK and foreign currency funds necessary for the settlement of debts when they become due and for the disbursements on long term lendings, and it invests the surplus of funds.

Interest rate risk

Interest rate risk represents the sensitivity of the Bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in a given period, generate interest rate risk. The Bank can reduce this risk by matching the repricing of assets and liabilities.

The Bank seeks to balance the reduced risk to earnings due to adverse movements in interest rates and enhanced net interest income through correct anticipation of the direction and extent of interest rate changes.

Credit risk

Credit risk is the risk that one party to a financial instrument might fail to discharge an obligation and cause the other party to incur a financial loss.

The Bank manages its exposure to credit risk by the application of a variety of control measures: regular assessment using agreed credit criteria; diversification of sector risk to avoid undue concentration in type of business or in geographic terms. Where necessary, the Bank obtains acceptable collateral to reduce the level of credit risk.

Currency risk

The Bank manages its exposure to currency risk through a variety of measures, including the use of foreign currency clauses, which have the same effect as denominating HRK assets in other currencies.



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

27. Foreign currency balance sheet

The amount of total assets and liabilities as of 31 December 2006 and 31 December 2005 in HRK and foreign currencies:

2006	USD	EUR	Other currencies	Total currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS						
Cash on hand and due from banks, net	1,104	9,923	2,019	13,046	6,816	19,862
Deposits with other banks, net		405,118		405,118		405,118
Loans to banks, net	42,351	3,623,106		3,665,457	4,233,500	7,898,957
Loans to other customers, net	581,422	2,451,602		3,033,024	3,176,889	6,209,913
Assets held to maturity		75,925		75,925		75,925
Assets available for sale		192,926	-	192,926	32,921	225,847
Investments in associates	-	-	-	-		-
Tangible and intangible assets	-	-	-	-	52,109	52,109
Assets for resale		-	•	-	35,431	35,431
Other assets, net	-	7	-	7	4,423	4,430
Total assets (1)	624,877	6,758,607	2,019	7,385,503	7,542,089*	14,927,592
LIABILITIES						
Deposits	55,274	35,524	52	90,850	427,488	518,338
Borrowings	452,933	3,285,165	-	3,738,098		3,738,098
Bonds payable	-	4,150,427	-	4,150,427		4,150,427
Other liabilities	79,583	18,718	285	98,586	1,091,679	1,190,265
Total liabilities	587,790	7,489,834	337	8,077,961	1,519,167	9,597,128
CAPITAL						
Founder's capital	-	-		-	4,174,737	4,174,737
Retained earnings and reserves	-	-	•	-	957,296	957,296
Other reserves	-	-		-	7,098	7,098
Net profit for the year	-	-		-	180,315	180,315
Total capital					5,319,446	5,319,446
Guarantee fund	-	11,018		11,018		11,018
Total capital and guarantee fund		11,018		11,018	5,319,446	5,330,464
Total liabilities, total capital and guarantee fund (2)	587,790	7,500,852	337	8,088,979	6,838,613	14,927,592
NET ASSETS/LIABILITIES (1) - (2)	37,087	(742,245)	1,682	(703,476)	703,476	

 $^{^{\}ast}$ Amounts linked to one-way currency clause represent HRK 4,484,211 thousand.



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

27. Foreign currency balance sheet (continued)

2005	USD	EUR	Other currencies	Total currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS						
Cash on hand and due from banks, net	536	3,552	3,576	7,664	51,082	58,746
Deposits with other banks, net	163,562	224,908		388,470	29,645	418,115
Loans to banks, net	17,423	2,436,698		2,454,121	3,928,625	6,382,746
Loans to other customers, net	682,496	1,836,688	-	2,519,184	3,932,607	6,451,791
Assets held to maturity		110,602	No.	110,602		110,602
Assets available for sale		202,379		202,379	33,466	235,845
Investments in associates		-				
Tangible and intangible assets	-			-	49,775	49,775
Assets for resale				-	18,153	18,153
Other assets, net		-	4.5	-	5,515	5,515
Total assets (1)	864,017	4,814,827	3,576	5,682,420	8,048,868*	13,731,288
LIABILITIES						
Deposits	142,888	12,842	930	156,660	360,091	516,751
Borrowings	755,433	3,247,323		4,002,756	160,046	4,162,802
Bonds payable		3,036,474		3,036,474		3,036,474
Other liabilities	51,022	14,943	342	66,307	1,008,334	1,074,641
Total liabilities	949,343	6,311,582	1,272	7,262,197	1,528,471	8,790,668
CAPITAL						
Founder's capital	-	-		-	3,959,737	3,959,737
Retained earnings and reserves		-		-	786,621	786,621
Other reserves		-		-	16,212	16,212
Net profit for the year		-		-	170,675	170,675
Total capital					4,933,245	4,933,245
Guarantee fund		7,375		7,375		7,375
Total capital and guarantee fund		7,375		7,375	4,933,245	4,940,620
Total liabilities, total capital and guarantee fund (2)	949,343	6,318,957	1,272	7,269,572	6,461,716	13,731,288
NET ASSETS/LIABILITIES (1) - (2)	(85,326)	(1,504,130)	2,304	(1,587,152)	1,587,152	

^{*} Amounts linked to one-way currency clause represent HRK 5,487,540 thousand.



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

28. Maturity structure of assets and liabilities

The amount of total assets and liabilities as of 31 December 2006 and 31 December 2005 is analysed throughout the remaining period from the balance sheet date by maturity date as follows:

2006	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS	da Ta					
Cash on hand and due from banks, net	19,862					19,862
Deposits with other banks, net	405,118				-	405,118
Loans to banks, net*	564,750	497,358	1,567,016	2,296,586	2,973,247	7,898,957
Loans to other customers, net	121,836	204,545	844,700	1,606,900	3,431,932	6,209,913
Assets held to maturity		659	36,339	38,927		75,925
Assets available for sale	222,549	3,298			-	225,847
Investments in associates	-		-		-	-
Tangible and intangible assets	-		:		52,109	52,109
Assets for resale	593	5,557	25,170	3,995	116	35,431
Other assets, net	3,825	329	276			4,430
Total assets (1)	1,338,533	711,746	2,473,501	3,946,408	6,457,404	14,927,592
LIABILITIES						
Deposits	517,403	64	136	665	70	518,338
Borrowings	106,555	49,917	709,024	2,255,373	617,229	3,738,098
Bonds payable	-	95,354	28,572	293,804	3,732,697	4,150,427
Other liabilities	313,178	78,067	193,907	291,475	313,638	1,190,265
Total liabilities	937,136	223,402	931,639	2,841,317	4,663,634	9,597,128
CAPITAL						
Founder's capital	·				4,174,737	4,174,737
Retained earnings and reserves	-		-		957,296	957,296
Other reserves	-				7,098	7,098
Net profit for the year	-				180,315	180,315
Total capital					5,319,446	5,319,446
Guarantee fund	- ·				11,018	11,018
Total capital and guarantee fund					5,330,464	5,330,464
Total liabilities, total capital and guarantee fund (2)	937,136	223,402	931,639	2,841,317	9,994,098	14,927,592
Net assets/liabilities (1) - (2)	401,397	488,344	1,541,862	1,105,091	(3,536,694)	
NET CUMULATIVE ASSETS/LIABILITIES	401,397	889,741	2,431,603	3,536,694		

^{*}Receivables in the amount of HRK 503,924 thousand relate to reverse repo transactions, whose maturity date was extended after the balance sheet date. Therefore, the amount is presented under the period of maturity '1-3 month' in amount of HRK 290,865 thousand.



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(All amounts are expressed in thousands of kunas)

28. Maturity structure of assets and liabilities (continued)

2005	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS						
Cash on hand and due from banks, net	58,746					58,746
Deposits with other banks, net	418,115	-		-	-	418,115
Loans to banks, net*	386,058	682,285	635,222	2,283,264	2,395,917	6,382,746
Loans to other customers, net	173,780	196,914	787,839	1,782,778	3,510,480	6,451,791
Assets held to maturity		959	34,064	75,579		110,602
Assets available for sale	232,536	3,309				235,845
Investments in associates						-
Tangible and intangible assets					49,775	49,775
Assets for resale		1,500	2,452	13,701	500	18,153
Other assets, net	5,198	157	160	•		5,515
Total assets (1)	1,274,433	885,124	1,459,737	4,155,322	5,956,672	13,731,288
LIABILITIES						
Deposits	516,519		116	116	27	516,751
Borrowings	265,825	32,754	652,130	2,530,185	681,908	4,162,802
Bonds payable		97,082	3,534		2,935,858	3,036,474
Other liabilities	147,551	47,202	178,263	315,246	386,379	1,074,641
Total liabilities	929,895	177,038	834,043	2,845,547	4,004,145	8,790,668
CAPITAL						
Founder's capital		-		-	3,959,737	3,959,737
Retained earnings and reserves		-		-	786,621	786,621
Other reserves					16,212	16,212
Net profit for the year		-		-	170,675	170,675
Total capital					4,933,245	4,933,245
Guarantee fund		-		-	7,375	7,375
Total capital and guarantee fund					4,940,620	4,940,620
Total liabilities, total capital and guarantee fund (2)	929,895	177,038	834,043	2,845,547	8,944,765	13,731,288
Net assets/liabilities (1) - (2)	344,538	708,086	625,694	1,309,775	(2,988,093)	_ ·
NET CUMULATIVE ASSETS/LIABILITIES	344,538	1,052,624	1,678,318	2,988,093		

^{*}Receivables in the amount of HRK 613,358 thousand relate to reverse repo transactions, whose maturity date was extended after the balance sheet date. Therefore, the amount is presented under the period of maturity '1-3 month'.



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29. Interest rate risk

The tables below provide the Bank's interest rate sensitivity position on 31 December 2006 and 2005 based upon the known repricing dates of fixed and floating rate assets and liabilities. Assets and liabilities are analysed according to repricing periods determined as the earlier of remaining maturity and contractual repricing.

Those assets and liabilities that do not bear interest are grouped in 'Non interest bearing' category.

The tables below show HBOR's sensitivity to the interest rate risk as of 31 December 2006 and 2005 and are not necessarily relevant for the following period. HBOR has a contractual right to change the interest rates on loans to banks and other customers if there is a significant increase in the interest rates in the market.

2006	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash on hand and due from banks, net	-		-			19,862	19,862
Deposits with other banks, net	405,118				-		405,118
Loans to banks, net	554,053	1,195,896	1,578,415	2,161,066	2,387,481	22,046	7,898,957
Loans to other customers, net	100,300	709,355	2,253,608	933,253	2,163,605	49,792	6,209,913
Assets held to maturity			36,339	38,927	-	659	75,925
Assets available for sale	-		36,505	7,695	178,349	3,298	225,847
Investments in associates	-		-		-		-
Tangible and intangible assets	-		-		-	52,109	52,109
Assets for resale	-		-		-	35,431	35,431
Other assets, net	-		-		-	4,430	4,430
TOTAL ASSETS (1)	1,059,471	1,905,251	3,904,867	3,140,941	4,729,435	187,627	14,927,592



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(All amounts are expressed in thousands of kunas)

29. Interest rate risk (continued)

2006	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
LIABILITIES							
Deposits	22	64	136	665	70	517,381	518,338
Borrowings	215,711	52,703	3,040,100	211,429	187,682	30,473	3,738,098
Bonds payable	-		-	293,804	3,732,694	123,929	4,150,427
Other liabilities	-		-		-	1,190,265	1,190,265
Total liabilities	215,733	52,767	3,040,236	505,898	3,920,446	1,862,048	9,597,128
CAPITAL							
Founder's capital	-	9. 7	-		-	4,174,737	4,174,737
Retained earnings and reserves	-		-		-	957,296	957,296
Other reserves	-		-		-	7,098	7,098
Net profit for the year	-		-	-	-	180,315	180,315
Total capital						5,319,446	5,319,446
Guarantee fund	-		-		-	11,018	11,018
Total capital and guarantee fund						5,330,464	5,330,464
Total liabilities, total capital and guarantee fund (2)	215,733	52,767	3,040,236	505,898	3,920,446	7,192,512	14,927,592
NET ASSETS/LIABILITIES (1) - (2)	843,738	1,852,484	864,631	2,635,043	808,989	(7,004,885)	



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

29. Interest rate risk (continued)

2005	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash on hand and due from banks, net		M	-		-	58,746	58,746
Deposits with other banks, net	418,115				-		418,115
Loans to banks, net	379,006	1,174,890	639,352	2,236,721	1,937,914	14,863	6,382,746
Loans to other customers, net	142,811	968,501	2,185,766	973,509	2,128,985	52,219	6,451,791
Assets held to maturity	-		34,064	75,579	-	959	110,602
Assets available for sale	-				232,380	3,465	235,845
Investments in associates	-			•	-	-	
Tangible and intangible assets	-			-	-	49,775	49,775
Assets for resale	-		-	-	-	18,153	18,153
Other assets, net	-		-		-	5,515	5,515
TOTAL ASSETS (1)	939,932	2,143,391	2,859,182	3,285,809	4,299,279	203,695	13,731,288



For the year ended 31 December 2006
[All amounts are expressed in thousands of kunas]

29. Interest rate risk (continued)

2005	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
LIABILITIES							
Deposits			116	116		516,519	516,751
Borrowings	552,153	192,524	2,985,011	201,845	200,110	31,159	4,162,802
Bonds payable			-		2,935,858	100,616	3,036,474
Other liabilities	-		-			1,074,641	1,074,641
Total liabilities	552,153	192,524	2,985,127	201,961	3,135,968	1,722,935	8,790,668
CAPITAL							
Founder's capital	-		-			3,959,737	3,959,737
Retained earnings and reserves	-		-			786,621	786,621
Other reserves	-		-			16,212	16,212
Net profit for the year	-		-	7	-	170,675	170,675
Total capital					-	4,933,245	4,933,245
Guarantee fund	-		-		•	7,375	7,375
Total capital and guarantee fund						4,940,620	4,940,620
Total liabilities, total capital and guarantee fund (2)	552,153	192,524	2,985,127	201,961	3,135,968	6,663,555	13,731,288
NET ASSETS/LIABILITIES (1) - (2)	387,779	1,950,867	(125,945)	3,083,848	1,163,311	(6,459,860)	



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

30. Geographical concentration

The geographical concentration of assets and liabilities is set out below:

2006	Republic of Croatia	EU countries	Other countries	Total
	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS				
Cash on hand and due from banks, net	7,116	10,849	1,897	19,862
Deposits with other banks, net	225,471	179,647		405,118
Loans to banks, net	7,841,617	-	57,340	7,898,957
Loans to other customers, net	6,189,968	-	19,945	6,209,913
Assets held to maturity	75,925	-	<u>.</u>	75,925
Assets available for sale	225,829	18	<u>-</u>	225,847
Investments in associates		-		
Tangible and intangible assets	52,109	-	<u>.</u>	52,109
Assets for resale	35,431	-	,'', = 50 \ .#Y •	35,431
Other assets, net	4,129	153	148	4,430
Total assets (1)	14,657,595	190,667	79,330	14,927,592
LIABILITIES				
Deposits	518,338	-	-	518,338
Borrowings	· .	3,651,157	86,941	3,738,098
Bonds payable	- 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	4,150,427		4,150,427
Other liabilities	1,190,143	112	10	1,190,265
Total liabilities (2)	1,708,481	7,801,696	86,951	9,597,128
NET ASSETS/LIABILITIES (1) - (2)	12,949,114	(7,611,029)	(7,621)	5,330,464



For the year ended 31 December 2006
(All amounts are expressed in thousands of kunas)

30. Geographical concentration (continued)

2005	Republic of Croatia	EU countries	Other countries	Total
	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS				
Cash on hand and due from banks, net	51,427	5,886	1,433	58,746
Deposits with other banks, net	29,704	388,411		418,115
Loans to banks, net	6,347,757		34,989	6,382,746
Loans to other customers, net	6,426,965		24,826	6,451,791
Assets held to maturity	110,602			110,602
Assets available for sale	235,827	18		235,845
Investments in associates				
Tangible and intangible assets	49,775			49,775
Assets for resale	18,153			18,153
Other assets, net	5,345	92	78	5,515
Total assets (1)	13,275,555	394,407	61,326	13,731,288
LIABILITIES				
Deposits	516,751		16.6	516,751
Borrowings	160,046	3,920,571	82,185	4,162,802
Bonds payable		3,036,474		3,036,474
Other liabilities	1,074,632	9		1,074,641
Total liabilities (2)	1,751,429	6,957,054	82,185	8,790,668
NET ASSETS/LIABILITIES (1) - (2)	11,524,126	(6,562,647)	(20,859)	4,940,620



For the year ended 31 December 2006 (All amounts are expressed in thousands of kunas)

31. Approval of the financial statements

These financial statements were approved by the Managing Board and authorised for issue on 21 March 2007.

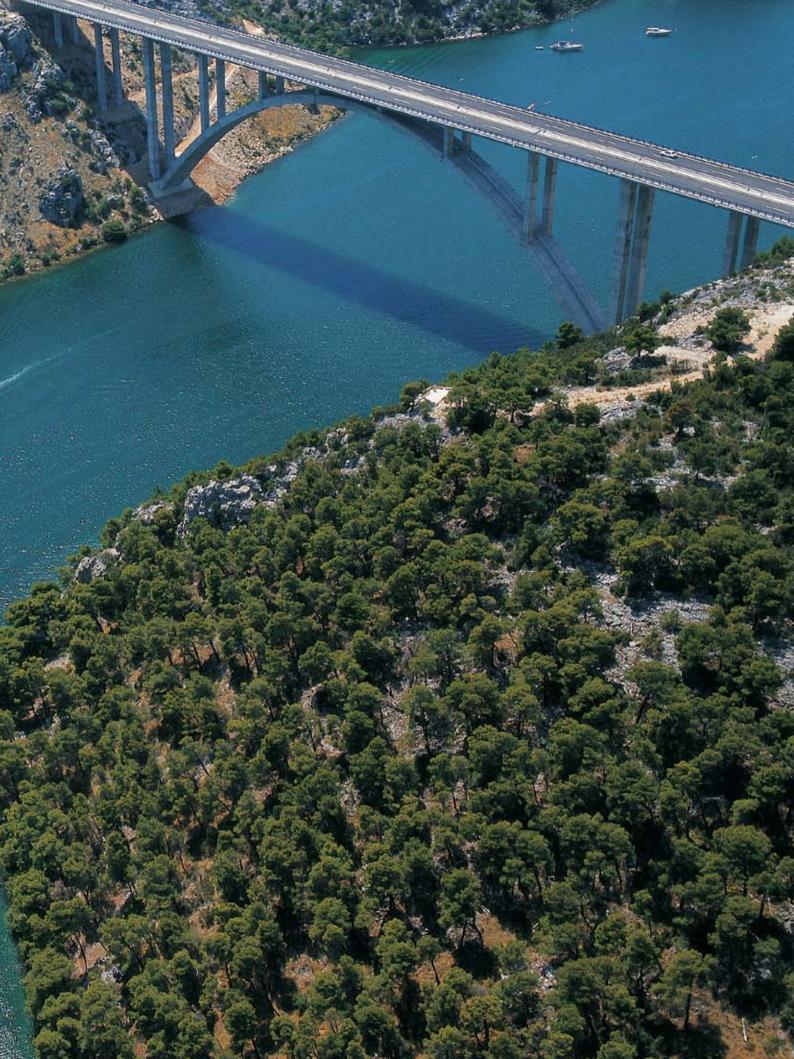
Signed on behalf of HBOR:

Anton Kovačev

President of the Managing Board

Frena adzic-Jyodic

Accounting Division Executive Director



Published by:

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