

# ERSTE & STEIERMÄRKISCHE BANK D.D.

ANNUAL REPORT 2005

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# Report on the supervision of the Bank's business operations performed in the year 2005

Pursuant to Article 263 par. 3 and Article 300c par. 2 of the Companies Law, and Article 8 par. 1 of the Erste & Steiermärkische Bank d.d. Articles of Association, the Supervisory Board of Erste & Steiermärkische Bank d.d. adopted on February 24, 2005 the following

## Report on the supervision of the Bank's business operations performed in the year 2005

The Supervisory Board of Erste & Steiermärkische Bank d.d. was constituted at its first session held on July 31, 2002, when it commenced functioning pursuant to the law, the Bank's Articles of Association and other by-laws.

The Supervisory Board held 5 meetings during the year 2005. At these meetings many issues relevant to the Bank's standing and operations were addressed. In compliance with the provisions of the Articles of Association and the Supervisory Board's Rules of Procedure, the Supervisory Board made decisions in 84 cases without convening a meeting, by written declarations of the Supervisory Board members. The Supervisory Board paid great attention to the Management Board Reports on the Bank's operations and gave approval to the Bank Management Board to make decisions and regulations for which the approval of the Supervisory Board is required pursuant to the Banking Act and the Bank's Articles of Association.

The Supervisory Board has a Credit Committee consisting of 3 members of the same Board, with a competence to grant approval to the Management Board of the Bank to make decisions on granting loans or setting the limits whereby the exposure or limit of the Bank towards a client or a group of clients exceeds the Management Board's decision-making level but is less than 10% of the Bank's liable capital. The Credit Committee submitted quarterly reports on its work to the Supervisory Board.

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

In particular, the Supervisory Board inspected the Bank's financial statements for the year 2005, the report on the good standing of the Bank and the proposal of the Management Board on the distribution of profit. The Supervisory Board determined that the reports complied with the records in the Bank's business books and accurately presented the Bank's assets and operations, and therefore the Supervisory Board granted approval to those reports and to the Management Board proposal for distribution of profit.

The Supervisory Board took into consideration the Auditor's report on the financial statements for the year 2005 and had no remarks thereon.

The Bank's Management Board proposed to the Supervisory Board that the net profit earned in the year 2005, amounting to HRK 347,761,944.14, be distributed for the general bank risk reserves in the amount of 22,601,544.59 HRK, for the reserves for own shares in the amount of 6,000,000.00 HRK, for retained earnings in the amount of 214,809,672.91 HRK, and for the shareholders' dividend in the amount of 104,350,726.64 HRK, so that the dividend be determined in the amount of 7.88% of the nominal value of a share, amounting to HRK 7.88 for each share.

The Supervisory Board approved the relevant Management Board proposal for the distribution of profit and payment of dividend and agreed that the proposal for such a decision be submitted for adoption at the Bank's General Meeting.

The Supervisory Board shall present this Report to the Bank's General Meeting with the proposal for its approval.

President of the Supervisory Board  
Mag. Reinhard Ortner

# Report by the President of the Management Board

It is with great pleasure that I report to you on the good performance achieved by Erste & Steiermärkische Bank d.d. in its operations in the course of the year 2005.

Among our achievements in the year 2005 were improved quality of service, continued introduction of new products to the Croatian market, the highest growth recorded by any major bank operating in Croatia, and enviable profit levels. At the same time we have focused on improving the training offered to our employees and thus to their development.

Erste & Steiermärkische Bank d.d. was awarded the title of best bank in Croatia in 2005 and the prize "Zlatna kuna" of the Croatian Chamber of Commerce. This makes us very proud, although we are conscious of the fact that numerous aspects of our operations still show room for further improvement.

The year 2005 was another year of growing competitiveness and concentration in the Croatian banking industry, coupled with restrictive measures introduced by the central bank and growing demand for loans in the retail and the business sectors. Development of alternative sales methods and distribution of banking products was also continued.

The Bank was able to strengthen its position as the third largest bank in Croatia while at the same time increasing its market share in all the key areas of its operations. Erste & Steiermärkische Bank d.d. had at the end of 2005 a market share in total bank assets of 11.90%, its loans represented 12.30% of the total loans granted, and the deposits held at the Bank equaled 11.20% at the end of 2005.

The Bank balance sheet as at 31 December 2005 totaled 30.32 billion kuna, which was a 17.7% increase over the total shown in the balance sheet as at 31 December 2004. Total equity increased by 5.9% in the same period, and the increase recorded in the Bank's net profit, amounting to 347 million kuna, exceeded 17%. The total gross loan portfolio in our retail division increased in the same year by 40% and was equal to 9.2 billion kuna on 31 December 2005, while the gross loan portfolio in the corporate division amounted to 10.13 billion kuna and recorded growth exceeding 29%.

Deposits held by individual clients recorded a 25% growth and those held by our corporate clients grew by almost 24%, a clear indication of our high market position and the level of confidence we enjoy on the Croatian banking market.

We were the first bank in Croatia to introduce certain products and services to the market in the year 2005 and this has helped maintain the position of an innovative bank with a clear focus on the clients. I would like to stress at this point our unique model of a housing loan with residual value as well as a number of saving and investment products which make it possible for us to support our clients and help them earn adequate returns. We should also mention here the introduction of the all-inclusive service based on mobile banking, a service which is not offered by any other bank in Croatia and has put our Bank in the group of a small number of institutions globally that are able to offer such a service to their clients. In our corporate sector we saw the continuation of successful cooperation with the different ministries and the Croatian Bank for Reconstruction and Development, with our Bank being a provider of services especially to small and medium-sized companies. We can proudly stress that the market share held by the Bank in loans granted to the business sector - corporate lending - has reached 14.3%.

In addition to a series of very good financial indicators, I want to use this opportunity to stress that the Bank intends to continue with the training activities geared towards its employees at all organizational levels. It is also necessary to point out that the Bank's employees actively participate in a number of projects organized at the Erste Bank Group level, thus providing evidence of their professional competence.

The Bank has continued to play an active role as a socially responsible bank and we have participated in numerous sponsorships and donations in line with the strategy defined for this area of the Bank's activities.

I would like to thank all the Bank's employees as well as my colleagues on the Management Board and the Supervisory Board for the effort invested and contribution made to the overall performance of the Bank. I would also like to thank all our clients and shareholders for their support and confidence.

Petar Radaković  
President of the Management Board

## Management Board



**PETAR RADAKOVIĆ, President**

- responsible for Risk Management Division, Internal Audit Department and Legal Department; since 01 April 2006 responsible also for Property Management Division



**TOMISLAV VUIĆ, Deputy President**

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

**SLAĐANA JAGAR, Member**

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



**BORISLAV CENTNER, Member**

- responsible for Corporate Division; until 02 March 2005 responsible also for Property Management Division; since 02 March 2005 responsible also for Treasury Division and Custody Department

**SAVA DALBOKOV, Member**

- responsible for IT Division; until 02 March 2005 responsible also for Treasury Division and Custody Department; since 02 March 2005 until 01 April 2006 responsible also for Property Management Division

## Retail Division

The performance recorded by the Retail Division at the end of 2005 demonstrates clearly that all the activities undertaken to further improve the quality of products and services with our focus on an active approach to sales, coupled with intensive training of employees in the Division, have given excellent results. A number of projects have been implemented at the Bank level with the aim of improving the quality of services, operations and management, and thus strengthen the market position of the Bank in order to ensure continuation of good performance in the future.

### Number of clients and market share

The number of clients, both private individuals and business operators, in the Retail Division increased in 2005 by 11.3%, i.e. by more than 58,000 clients, and the total number of retail clients of the Bank on 31 December 2005, including foreigners and business operators, amounted to almost 575,000.

The Bank market share in retail loans went up by 1.7 percentage points in the course of 2005, and is currently 11.7%. The growth of 1.7 percentage points is the highest growth recorded in a year to date. The Bank market share in housing loans went up by 1.6 percentage points in the period between 31 December 2004 and 31 December 2005 so that it now stands at 10%. The Bank recorded a 25% growth in retail deposits in the course of 2005 so that on 31 December 2005 the Bank had a market share of 10.3%.

### Expansion of sales network

The Bank added 11 new branch offices to its sales network in the course of 2005. Among them are new counseling centers opened in Dubrovnik, Varaždin and Zagreb (Sveti Duh) as well as branch offices in Zabok, Split, Zagreb (VMD center), Slatina, Vinkovci, Vukovar, Županja and Biograd. Following the completion of the network efficiency survey, eight small branch offices were closed in the course of 2005, while activities were started at the end of the year to open nine entrepreneurial centers, which are a part of the SME Department in the Retail Division. On 31 December 2005, the Retail Division business network consisted of 122 branch offices.

### New products

A new product, called "From minus to plus", is the first product offered to the market that provides training to clients on how to organize their household budget and how to plan household revenues and expenses. It was first offered to the clients in April 2005. This is actually a package of products, containing a current account, a loan granted for the purpose of closing existing outstanding payables due by the client to other banks and other creditors, a savings program and a life insurance policy.

The Bank's housing loan portfolio was enlarged by a housing loan model with residual value. Clients are now provided with more choice regarding the lending options offered, and the current offer should be better suited to their needs and financial capabilities. The Bank has also offered its clients a model of interest-free loan to buy what they need for the home, encompassing the use a purpose-specific loan to buy furniture and other equipment needed in the home at a nominal interest rate of 0%. The package has been created in cooperation with the department stores where clients buy their home equipment. Towards the end of the year, the already traditional "New Year package" was offered to clients for the third consecutive year, consisting of the following: cash loan, investment fund unit in Erste Bond, VISA Classic credit card and the Internet banking service NetBanking, developed specifically for our retail clients.

Structured investment products represent new saving and investment models offered by the Bank to the Croatian market. In the course of 2005, the Bank launched three tranches of Erste Exclusive+ as well as two tranches of Erste Profit+ (tied to the New Europe Blue Chip index) with a total amount exceeding 88 million kuna.

### Personal banking

The introduction of personal banking for the purpose of offering high-quality counseling services to clients with growing needs for financing took place in the year 2005. The Bank's clients have thus gained access to personal banking services in larger counseling centers located in the cities of Zagreb, Rijeka, Osijek, Split and Zadar, with more such centers scheduled to be opened soon in Bjelovar, Dubrovnik, Karlovac, Pula, Šibenik and Varaždin.

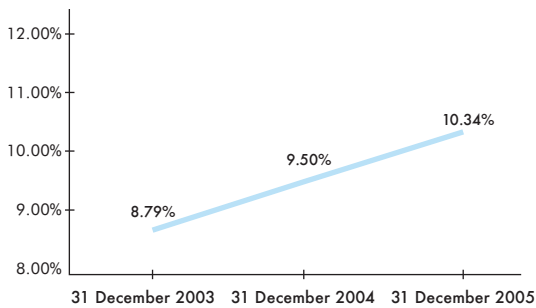
### Small entrepreneurs

In the year 2005 the Bank set up its Department for small entrepreneurs, primarily focused on the provision of payment-operation, financing, crediting and guaranteeing services to craftsmen and micro-companies with a yearly turnover of up to five million kuna. Financial experts were given special training on small entrepreneurs in order to provide clients in the sector with quality services encompassing both short-term and long-term financing, such as card products for entrepreneurs, e-banking and payment operations.

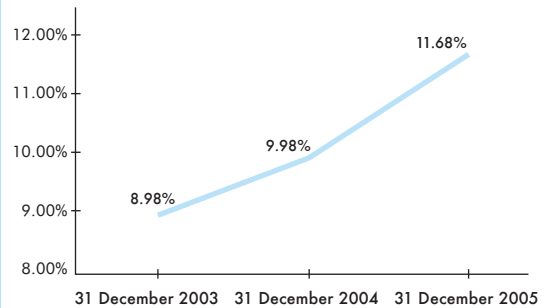
### Cooperation with Steiermärkische Bank and Sparkassen AG

Erste & Steiermärkische Bank has started cooperating with Steiermärkische Bank and Sparkassen AG of Graz in order to merge the offer of both banking and non-banking services to clients of both banks living outside their respective countries. The benefits include lower banking fees on banking services and also other benefits such as discounts on purchases and the like.

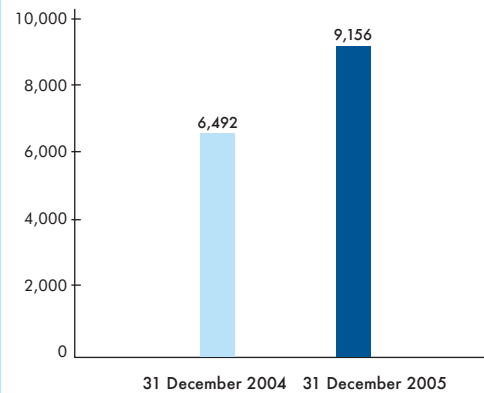
#### Market Share - Retail Deposits



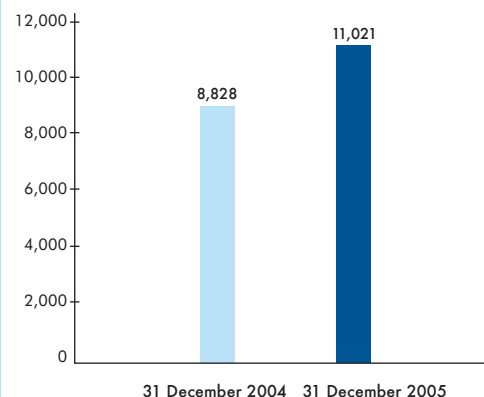
#### Market Share - Retail Loans



#### Gross loan portfolio - Retail Division in 000 000 HRK



#### Retail deposits in 000 000 HRK



## Corporate Division

Performance recorded by the Corporate Division in 2005 was in line with the plan, both in terms of the balance sheet figures and the P&L statement. Total market share went up from 12.11% on 31 December 2004 to 13.03% on 31 December 2005. Total gross loan portfolio in the Corporate Division went up by 29.3% in the course of 2005.

The actual figures on the sales of parbanking products also match the planned figures. These products are offered by other member companies of the Erste Bank Group, including leasing and investment fund companies. The plan for 2006 envisages active participation of the Division in the sale of leased property, as well as in factoring. The Division was also an active participator in the projects implemented at the level of the Erste Bank Group.

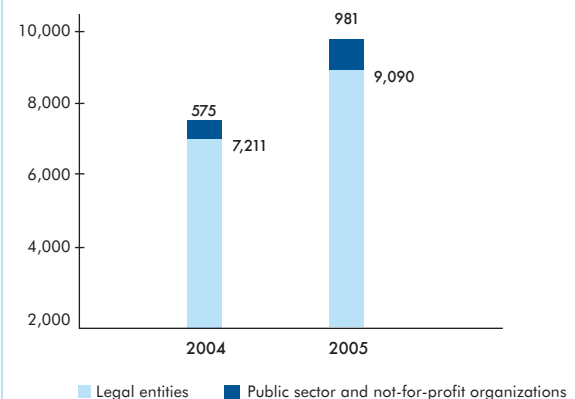
We have opened commercial centers in Dubrovnik and Varaždin, and a profit center in Vinkovci (a part of the Osijek commercial center), thus implementing the plan for regional expansion in the course of 2005 within the segment of SME. At the end of 2005, the Corporate Division employed 160 employees, or 16 people more than at the end of the year 2004.

At the beginning of 2005, a Department for large clients was set up in order to organize operations with large business systems as well as syndicated loans operations. The first syndication was organized within the Group providing a total of 14.6 million EUR, with the Erste & Steiermärkische Bank in the role of the lead arranger and the participation of banks - members of the Erste Bank Group from the Czech Republic, Slovakia and Hungary.

Erste & Steiermärkische Bank has continued to actively cooperate with counties and line ministries to promote programs called Local development programs – the entrepreneur, which the Bank has already used to become the leader in the field with 480 loans granted to small and medium-sized companies and a total amount exceeding 530 million HRK. Fruitful cooperation with the Croatian Bank for Reconstruction and Development (HBOR) has also continued. At the end of 2005, data were published showing that Erste & Steiermärkische Bank was the most active Croatian bank by its participation in the project “Incentive for Success” - a subsidized credit line to finance small hotels.

As regards other new products in the year 2005 - there was an increase in the use of specially created models providing support for the housing construction industry, as it is considered, together with tourism and export, to be an industry of special interest to be specifically targeted.

**Gross loan portfolio - Corporate Division  
in 000 000 HRK**



The year 2005 saw a major increase in the volume of placements to the central and local government. The Bank recorded growth above the market (market – 44.1%, the Bank – 69.8%). The growth recorded by Erste & Steiermärkische Bank in corporate lending was 27.7%, almost twice the market average, which reached 16.3% in the same period.



### Credit risk exposure by industry in the Corporate Division on 31 December 2005

Industry	Total exposure in 000 000 HRK	% share
Wholesale and retail trade	3,105	20.60%
Manufacturing	2,186	14.51%
Foreign entities	1,931	12.81%
Construction	1,562	10.36%
Public sector	1,515	10.05%
Hotels and restaurants	1,080	7.17%
Processing industry - other	988	6.56%
Real estate, rentals and business services	983	6.52%
Transport, warehousing and communication	741	4.92%
Supply of electricity, gas and water	306	2.03%
Agriculture, hunting, forestry and fisheries	258	1.71%
Other, social and personal services	164	1.09%
Publishing and printing, and multiplication of audio and video records	107	0.71%
Health care and welfare	82	0.54%
Education	34	0.23%
Mining and extraction	28	0.19%
<b>Total</b>	<b>15,070</b>	<b>100.00%</b>

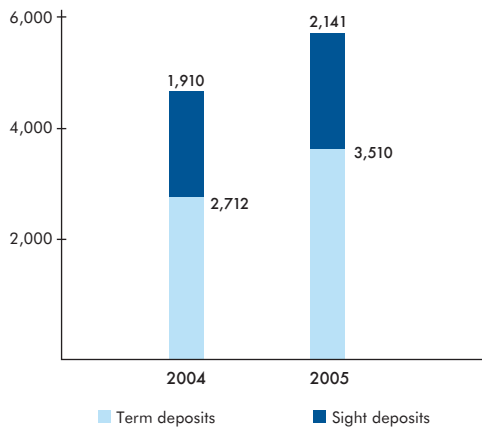
Compared to the previous year, there have been changes in the industry-related credit risk exposure. There was a slight decrease in risk exposure to trade and manufacturing, while risk exposure to building and construction industry recorded considerable growth.

### Deposits

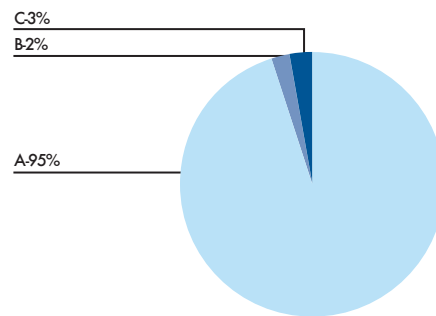
Total deposits held by the corporate sector increased by 22.26%, with sight deposits going up by 12.09%, while term deposits went up by 29.43%. Total term deposits are still marked by the fact that deposits are concentrated in the hands of a small number of large clients, so the Bank will continue to focus its activities on the further change to its depositor base. At the end of 2005, the market share of corporate deposits went up from 11.6% at the end of 2004 to 13.1% on 31 December 2005.

Total deposits rose by 22.26% in 2005.

### Deposits - Corporate Division in 000 000 HRK



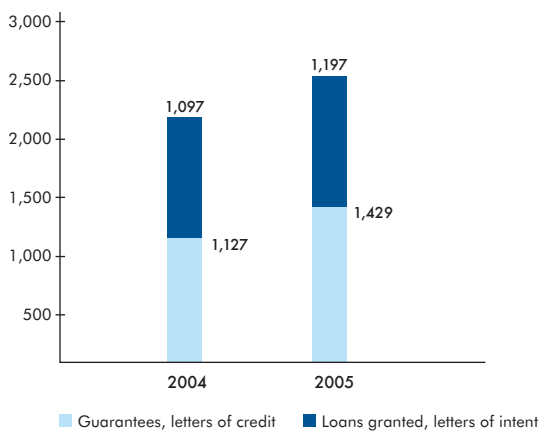
### Distribution of total risk exposure by risk groups (CNB classification) as at 31 December 2005



### Off-balance sheet records

Total off-balance sheet records showed an increase of 18.06%, while guarantees and letters of credit grew by 26.81%, in line with the increase in the Bank's lending activity.

### Off-balance sheet placements to corporate clients in 000 000 HRK

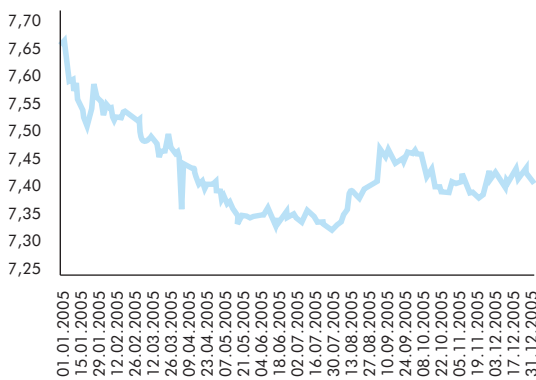


# Treasury Division

## A. MARKET DATA

### Croatian FX market

Chart - mid-point EUR/HRK exchange rate



The EUR/HRK exchange rate moved in 2005 within the well-known band between 7.65 and 7.30, with much less pronounced seasonal fluctuations. All through 2005, the kuna exchange rate was under pressure to appreciate. Near the beginning of the year, i.e. in March, there was an increased demand for kuna, and the euro weakened mostly due to the issue of a new kuna-denominated bond of the Republic of Croatia in the total amount of 3 billion HRK. During summer the pressure to appreciate the kuna continued due to tourism and seasonally induced demand. The pressure did not reach the high level present in the preceding years because of reverse repo auctions held every week at the Croatian National Bank, which provided additional kuna liquidity for the banking system. After the summer, the pressure on the kuna to appreciate did not weaken but was actually strengthened because of the start of EU accession talks with the Republic of Croatia, which is probably going to attract more foreign investment into Croatia. In order to prevent strong fluctuations and appreciation of the domestic currency, the Croatian National Bank intervened on the foreign exchange market nine times in the course of the year, and the total amount purchased by it from commercial banks was 570,800,000 EUR.

### Money market

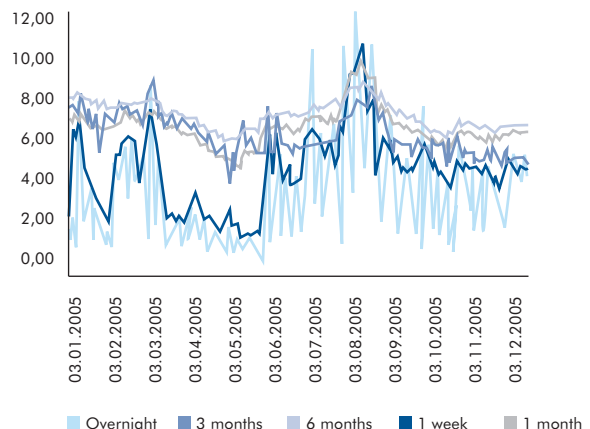
The first half of 2005 was marked by relatively high liquidity of the kuna and a reduced demand for it, which resulted in falling interest rates and turnover on the money market. A further interest rate fall was caused by the foreign exchange intervention of the CNB in April, when 670.7 million HRK were placed on the market. In order to improve the kuna liquidity of the system, the CNB introduced the open market operations system in April 2005 including regular open market operations, fine tuning operations and structural adjustments. At the beginning, these operations did not attract the banks' interest because of the good level of liquidity on the money market.

Later on in the year, under the impact of the tourist season and the issuing of Government bonds in the middle of July with a total amount equivalent to 350 million EUR, there was an increase in the demand for kuna, followed by the interest rate increase and higher turnover on the money market, which in turn brought about a higher presence of banks on the regular reverse repo auctions.

The period from September to the end of the year was marked by a return of strong liquidity and a reduced demand for kuna.

The following chart shows the ZIBOR volatility in the course of 2005.

Chart - ZIBOR rates



The volatility present is best evidenced by the fact that overnight ZIBOR fluctuated in the period observed between 0.8% and 10.5% at the annual level.

### **Bond market**

The bond market in the first half of the year was marked by a domestic issue of bonds of the Republic of Croatia denominated only in kuna. The total amount issued was 3 billion HRK, with an initial return of 6.75%. Due to a very high level of demand, the return on the bond went down to 6% in a period of only a week after the start of trading.

What needs to be stressed is the developments that were present in the first half of July. Another domestic issue of bonds of the Republic of Croatia was placed on the market. The bonds were denominated in kuna with a foreign currency clause and maturity in 10 years. The Bank was the lead arranger of the issue. This was the first issue of Government bonds with a single bank as the lead arranger. The issue totaled EUR 350 million, with an initial return of 4.394%.

Depending on the forecasts concerning the start date of Croatian negotiations with the EU on accession, the spread of Croatian bonds changed in comparison with German Government bonds, with the lowest spread of 0.3% recorded in October when the start of accession negotiations was actually announced.

The end of the year was marked by a domestic Croatian Government bond issue in kuna only, with 10 year maturity. The issue amount was 3.5 billion HRK (400 million EUR) with initial return of 5.25%. Seven Croatian banks, Erste & Steiermärkische Bank d.d. among them, took part in the issue. December also marked the highest total turnover on the domestic bond market with the total turnover reaching almost 3.8 billion HRK (over 400 million EUR).

## **B. THE TREASURY DIVISION**

In the year 2005 the Treasury Division maintained very successfully the kuna and foreign currency liquidity of the Bank, while at the same time managing the maturity and

currency structure of the Bank. It was also concerned with meeting all the legal measures relevant to the Bank.

The 2005 market operations of the banks were also impacted by the measures introduced by the Croatian National Bank aimed at restricting further growth of the country's foreign indebtedness. In spite of the more difficult operating conditions faced by the bank, the Treasury Division successfully and effectively managed the Bank's assets and liabilities, while optimizing the Bank's currency risk and interest risk exposure and achieving exceptional business results.

In the course of 2005, the Bank continued to play an active role in the development of the foreign exchange market and the securities market. In line with that role, the Bank's market share in the respective business areas was very large. The Bank was the second most active bank in the money market. In the fixed-income instruments market, the Bank holds a share exceeding 25% of the market, while its share of the FX market is somewhere around 10%.

In line with the overall trends present on the market, the Bank has continued introducing new products in order to offer its clients additional options.

Special attention was devoted to the introduction of new saving and investing products for the retail sector – Erste Exclusive+ and Erste Profit+. Erste Exclusive+ is a deposit with the option on the EUR/HRK exchange rate and maturity of 1 year. The product has met a huge success because the first tranche was sold in an amount exceeding 8 million EUR. In the course of 2005, two more tranches were issued in the amount of 1.4 million EUR and 1.05 million EUR. Erste Profit+ is a saving and investing product based on the New Europe Blue Chip Index (NTX) and a maturity of 4 years. In the course of 2005, two tranches were issued in the total amount of 2.4 million EUR. The Bank also started trading in futures at the end of 2005.

The year 2005 has seen continued good cooperation with international financial institutions aimed at developing a network of correspondents and improving the service offered to clients.

## IT and Organization Division

In the course of 2005, the IT and Organization Division spent most of its development resources to provide the expected improvement as well as the development of new IT solutions in line with the Bank's business requirements. The purpose of these activities was to continue improving the competitive position of the Bank on the local financial market. Special focus was placed on the introduction of state-of-the-art IT solutions.

### Requests for the change in the IT system support

In the course of 2005, 263 customer requests (CR) were resolved together with a couple of projects aimed at providing new products to meet the needs of the Bank clients, improvement of the level of service, improvement of the Bank internal operating processes and meeting the legal and regulatory requirements.

### New products and services

Card payment operations were provided with direct link between the Bank and the MBU system, ensuring that all the ATMs and EFT-POS terminals are provided with a system of authorization in real time. In addition to the new product MasterCard Business Debit, clients can also decide to use a new model of paying the turnover and fees. The entire portfolio of debit cards was replaced by smart chip cards in line with the EMV2 standards providing clients with higher safety levels.

Internet NetBanking is a multilingual application that supports the following functions: kuna and foreign currency payment orders, transfer between accounts, data file uploading payment orders, payroll and loan repayments, overdraft loan facility data, blank check ordering, contracting SMS and ErsteFon services, sale of units in investment funds, and preparation of BON2 forms.

The Bank was the first to activate mBanking in the Croatian market, a mobile banking service offering similar functions to the Internet banking service but using GSM, i.e. mobile telephone link.

A completely new IT product was developed in the retail sector: structured deposits and loans with residual value, while overdraft facilities on individual current accounts were considerably enhanced. The Bank clients were offered the possibility to use preferential fees in international payment operations in the case of transactions with clients of other banks, members of the Erste Bank Group, and all the clients were provided with an IBAN account number in line with international standards of payment operations.

As part of IP telephony, the clients are using a new Cisco IVR (Interactive Voice Response) system, while a system of monitoring complaints has been put in place to meet the needs of the call center. The Treasury Front Office as well as the contact and call centers have been provided with a proprietary system recording telephone conversations using IP telephony.

### Internal projects and activities

To single out just one very important project, we want to mention a highly automated decentralized coverage, scanning and OCR processing of cashfree payment orders made by legal entities, and clearing of checks issued by retail clients. We are in the process of implementing a LDW system (Local Data Warehousing) which is an addition to a part of the Group BI, Basel2, and GPM projects in terms of providing better information provision on the Bank's performance, costs, sales channels, client segmentation, and other business requirements. To meet the requirements of the Treasury, we have started an IT support upgrading project, aimed at linking the Group Remote and local IT systems, as well automation of the Front, Mid and Back Offices. The Bank's finance and accounting procedures have been organized so that securities are processed in accordance with the IAS 39 standards.

More than 300 ATMs are included in the Bank's network environment, contributing to the reduction of infrastructure costs while ensuring full control over the equipment. ATMs outside the Bank business network have been transferred to GPRS communication system, and the entire telecommunication network has been covered by ISDN backup systems. We are at the final stage of providing all the Bank branch offices with UPS equipment.

The IT and Organization Division has been providing full and continued technical support to the users with a minimum of down time, high efficiency, and modest development and operating costs. Special attention is given to employee in-house training and expertise development.

### **Group projects**

The IT and Organization Division is an active participant in the following Erste Bank Group projects: GPM (Group Performance Model), Retail 2008, Cards, Group Large Corporate, Business Intelligence and Group Procurement, as well as Basel2. The transformation of the Division has started in accordance with the Group initiatives regarding reorganization and transformation of ORG/IT units, encompassing application development (IT Solutions), IT operations (GITO), decentralized computing (DC), and organization (GORG).

In addition to the above, the Division has been providing full IT support to companies – members of the Erste Bank Group in Croatia including Erste Invest, Erste Securities, Erste Blue Pension Fund, together with the support provided to ensure the start of operations of a couple other companies as scheduled.

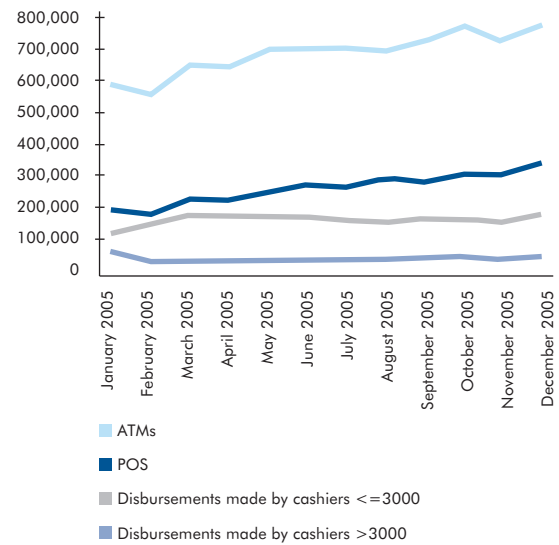
# Multi Channel Management Department

Erste & Steiermärkische Bank has 51,915 users of credit cards and 464,803 users of debit cards, 43,603 users of SMS, 4,903 users of telephone banking and 32,987 users of Internet banking.

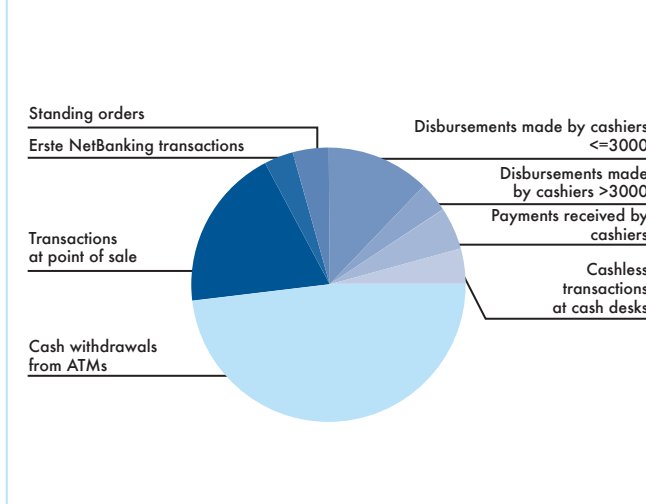
In 2005, the number of transactions by all channels of distribution increased by more than 30%. Channels of distribution encompass 330 ATMs, 2,767 POS terminals, as well as SMS services, Internet (Erste NetBanking), telephone (Erste Fon) and mobile banking (Erste mBanking).

The end of the year saw the launch of the new service Erste mBanking. This is a mobile banking service enabling the user to perform and check financial transactions and see the balance on the account via a mobile phone. This service makes Erste & Steiermärkische Bank the first to offer such a service in Croatia and among the first in the world to provide such a service.

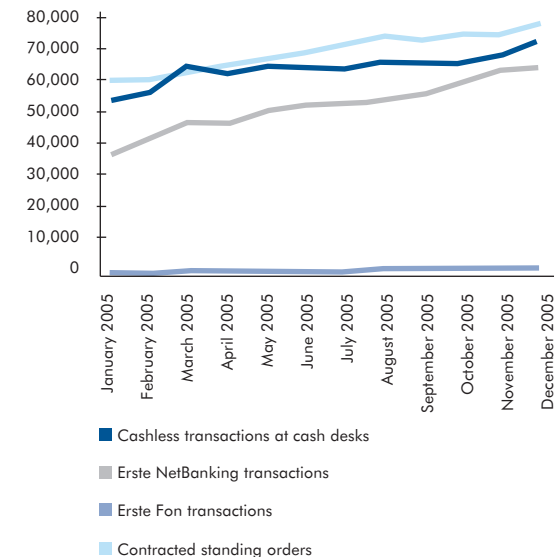
Number of retail client transactions using ATMs, EFT POS terminals and cash desks



Transactions per channel of distribution



Retail client transactions using NetBanking, Erste Fon, cashfree payment on cash desks and using standing orders



The number of visitors to the Bank Internet site [www.erstebank.hr](http://www.erstebank.hr) in 2005 was 2,831,195. Visitors have opened 10,525,320 pages and have clicked 164,817,648 times on these pages.

The Bank Internet pages are organized interactively, so that visitors can perform transactions on these pages, use calculators, order calls from the Bank, and take delivery of the DOH form to make a tax return.

In the course of 2005, a MasterCard Business debit card was issued, as well as a VISA Electron debit card for the use of the forex account. Both cards use chip technology, which ensures a higher level of security in card operations.

The free telephone number, 0800 7890, of the Bank call center received in 2005 approximately 189,000 calls, which is an increase of 40% over the previous year.

A system of integrated and uniform recording and monitoring of the complaints made to the Bank has been put in use with the ultimate goal of increasing the level of quality of the client relationship and of improving products, services and processes in the Bank.



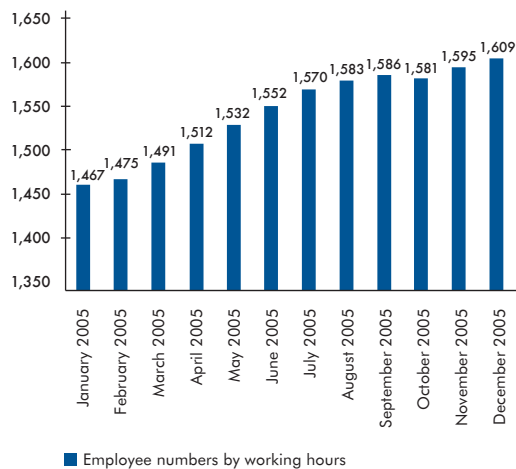
# Human Resources Department

## Employees

On 31 December 2005, the Bank employed 1,609 employees by the hour. The average number of full-time employees in 2005 was 1,546.

On 31 December 2005, the Human Resources Department had 9 employees.

Number of employees per month in 2005



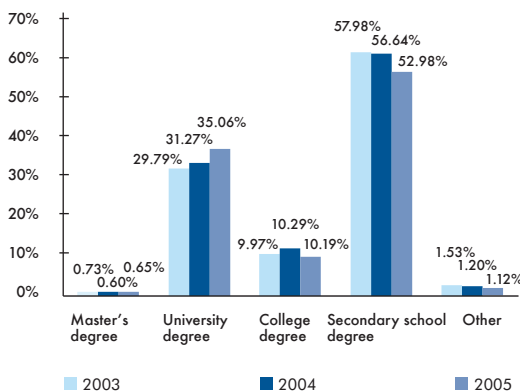
## Employment

In the period between 1 January and 31 December 2005, 281 new employees joined the Bank, while 96 persons discontinued their employment with the Bank. Among the newly employed, 64.06% of people hold university degrees and 35.23% hold secondary school qualifications.

At the beginning of the year 10 trainees with university degrees joined the Bank, and a special training program was devised for them enabling them to get acquainted with all the Bank's operations. They are now in the final stage of their training and will be given specific jobs in line with the Bank's needs and their competences. The purpose of their training was to create a group of employees who have an insight into the overall operations of the Bank which should make it possible for them to successfully manage the Bank's operations in the future.

Due to the expansion of the Bank's branch network, the setting up of new organizational segments and the required support, the Department has invested substantially in improving the process of selection. New selection processes have been developed, and cooperation with employment agencies working on the Internet has been developed.

Education and qualification of employees on 31 December 2005



### Statistical overview of vacancies advertised

	2005			Index compared to previous year		
	Internal	External	Total	Internal	External	Total
Total number of advertisements	117	124	241	192	146	165
Total number of applications	155	7,977	8,132	122	141	140
Job candidates tested	17	1,973	1,990	33	174	168
Job candidates interviewed	121	1,329	1,450	144	156	155

### Training and Development

Regarding training and development, in the course of 2005 the department was developing methods of monitoring the effects of training in order to be able to measure the benefits and quality of training. A program called “Potential manager development program” was used both in Croatia and internationally, within the Erste Group, as well as a two-year manager development program, the implementation of which started in January 2006.

We have adopted the concept of standardized internal training for the sales force in the Retail and Corporate Division. A large number of training sessions were held in all three training centers, with trainers coming both from within the Bank and from other subsidiaries of the Erste Group.

In the course of the first six months, a new group of candidates for internal trainers was selected, and they have already completed their training and started training others. In 2005, internal trainers also took over part of the sales training previously performed by external trainers.

In conclusion we can say that the Human Resources Department in the year 2005 was focused on further development of employee training and on improving the selection process of future employees both in the country and internationally, as this is one of the key prerequisites for the improvement of performance in the years to come.

### Other information

In December 2005, the Bank signed the collective agreement that has been in force since 1 January 2006 and will be applied for a period of a year. All the trade unions active in the Bank were involved in the process of negotiations preceding the signing of the agreement.