ANNUAL REPORT

PODRAVSKA BANKA

2007

ANNUAL REPORT 2007

First part

Report of the President of the Supervisory Board and Report of the Chairman of the Board of Directors

Report of the President of the Supervisory Board

On behalf of the Supervisory Board and myself, I have the pleasure of presenting the annual financial reports for 2007. In 2007 the Bank's operations were carried out in an environment where the Croatian economy grew steadily, with an annual GDP growth rate of 5.6%. At the same time, the average annual inflation growth rate was 2.9%, and due to global inflationary pressures, it is expected to continue growing in 2008 as well.

Regarding the negotiations for the accession to the EU, Croatia has made significant improvements, and its accession will be accelerated by Croatia's invitation into NATO, received in early April 2008.

The whole of 2007 was marked by the restrictive monetary policy of the National Bank of Croatia, aimed at reducing Croatia's foreign debt growth.

The reduction in the banks' credit volume in 2007 of up to 12% of the credit portfolio at the end of the previous year did not significantly influence the Bank's activities, since the credit volume growth went as planned. Despite the conditions of restrictive monetary policy and fierce competition in the banking market, the Bank achieved good results. Compared to the previous year, assets increased by nearly 11%, whereas total operational income increased by 26%, and net profit grew by 5%.

As opposed to previous years, when intensive investments were made in opening new branches and furnishing the existing ones, last year was marked by the consolidation of the commercial network and strengthening the market position.

With sensible risk management, market diversification and improvements in the quality of services, Podravska Bank is strengthening its position as the leading medium-sized bank in Croatia. Further strengthening of its market position, internal efficiency improvements and maximizing customer satisfaction are some of the Bank's most important strategic objectives for coming years.

Additional quality in the Bank's development was provided by Generali Insurance, one of the leading insurance companies in the world. In co-operation with Generali Insurance the Bank developed a range of synergy products for bank insurance.

Pursuant to statutory obligations, in 2007 the Supervisory Board carried out permanent control of all Bank's operations, which was in accordance with statutory regulations, internal regulations and resolutions of the General Assembly.

The management and the staff showed a high level of professionalism and dedicated work, enabling the Bank's plan to be realized in virtually all segments, and justifying our trust.

On behalf of the Supervisory Board of Podravska Bank, I would like to thank all clients and shareholders for the trust they show in us, to all employees and the management of the Bank for achieving good business results, and to the National Bank of Croatia for their co-operation and advice.

Furthermore, I would like to thank all of my colleagues in the Supervisory Board for their active support and their contribution to the Bank's development.

Miljan Todorovic

President of the Supervisory Board

Report of the Chairman of the Board of Directors

Another year in the string of successful business years is behind us and it is my honour and pleasure to present the business results of Podravska Bank for 2007.

A highly dynamic financial market, restrictive monetary regulations and fierce competition meant a demanding business environment for the Bank.

However, set plans were achieved and, consequently, assets reached HRK 2.8 billion, having grown by 11% compared to the previous year. Net profit amounts to HRK 19.4 million and, compared to the previous year, it grew by nearly 5%, while total operating income increased by 26%.

Net interest income increased by over 32%, whereas interest income from legal entities grew by 49%. Net remuneration receipts and commission income increased by 29%, whereas natural persons' remuneration receipts grew by 31%.

Podravska Bank attracted a substantial number of users of brokerage and custody services, which resulted in the growth of remuneration income from security trade by as much as 87%.

Clients' trust resulted in a 14% growth in deposits. Compared to the previous year, there was a remarkable 17.2% growth of deposits by natural persons (in the banking sector deposits by natural persons increased by 10.5% compared to the previous year).

A well-designed loan offer, flexibility in the approach to clients and sensible risk management resulted in an 11% growth in the credit portfolio.

The Bank continued to develop co-operation with leading insurance companies in the field of bank insurance, and we continued a successful co-operation with ICBPI from Milan. The Bank is their exclusive partner for payment of Italian pensions in the Republic of Croatia.

By listening to its client's needs, the Bank is continually improving its offers and therefore maintaining competitiveness and quality.

The Bank continues to prove its social responsibility by taking care of the needs of the community it operates in - through numerous sponsorships and donations to various programs and segments of general interest, such as health, culture, sport and various humanitarian projects.

On behalf of the Board of Directors, I would like to thank our clients and business partners for their trust and co-operation, which oblige us to continue improving the quality of our services.

In conclusion, I would like to thank all the employees whose effort helped us to meet the set objectives, as well as the members of the Supervisory Board for their advice and support.

Julio Kuruc
Chairman of the Board of Directors

Review of basic triennial financial indicators

(Basic financial indicators for years 2005, 2006 and 2007)

BALANCE SHEET in 000 kn

Assets	**2007**	**2006**	**2005**	CHANGES **2007/06**	**2006/05**
Cash and accounts with banks	209,202	173,406	157,334	20.6%	10.2%
Statutory reserves with the National Bank of Croatia	258,447	221,300	166,555	16.8%	32.9%
Credits with other banks	530,205	536,826	253,970	-1.2%	111.4%
Securities	115,478	96,654	141,657	19.5%	-31.8%
Credits to clients	1,576,870	1,405,531	1,001.829	12.2%	40.3%
Investment in branches	1,530	0	21,892	-	-
Tangible and intangible assets	100,932	84,179	39,300	19.9%	114.2%
Other assets	11,337	15,802	19,742	-28.3%	-20.0%
Total assets	**2,804,001**	**2,533,698**	**1,802,279**	**10.7%**	**40.6%**
Liabilities					
Deposits from banks	44,400	61,189	89,175	-27.4%	-31.4%
Deposits from clients	2,330,645	2,045,612	1,376,810	13.9%	48.6%
Loans taken	152,415	151,951	133,816	0.3%	13.6%
Other liabilities	29,339	47,385	29,933	-38.1%	58.3%
Stock capital and reserves	247,202	227,561	172,545	8.6%	31.9%
Total liabilities	**2,804,001**	**2,533,698**	**1,802,279**	**10.7%**	**40.6%**

PROFIT AND LOSS ACCOUNT in 000 kn

	2007	**2006**	**2005**	CHANGES **2007/06**	**2006/05**
Net interest income	96,627	72,949	58,711	32.5%	24.3%
Net remuneration receipts	38,894	30,086	21,822	29.3%	37.9%
Net exchange rate differentials receipts	11,828	14,011	15,349	-15.6%	-8.7%
Net purchase and sale profit and profit from consolidating financial instruments at fair value	7,368	4,565	12,697	61.4%	-64%
Other regular operations income	4,219	4,387	1,334	-3.8%	228.9%
Operational income	**158,936**	**125,998**	**109,913**	**26.1%**	**14.6%**
Operating costs	(120,567)	(103,135)	(83,103)	16.9%	24.1%
Costs of decreased value and reservations	(19,586)	(4,659)	(6,763)	320.4%	-31.1%
Profit before tax	**18,783**	**18,204**	**20,047**	**3.2%**	**-9.2%**
Profit tax	634	361	(4,018)	75.6%	-
Annual net profit	**19,417**	**18,565**	**16,029**	**4.6%**	**15.8%**

POTENTIAL AND ASSUMED LIABILITIES in 000 kn				CHANGES	
	2007	**2006**	**2005**	**2007/06**	**2006/05**
Guarantees and letters of credit	65,393	84,297	47,799	-22.4%	76.4%
Unused credits	257,251	134,645	84,341	91.1%	59.6%
Total	**322,644**	**218,942**	**132,140**	**47.4%**	**65.7%**

OTHER INFORMATION				CHANGES	
	2007	**2006**	**2005**	**2007/06**	**2006/05**
Number of employees	347	346	252	0.3%	37.3%
Number of branches	37	37	33	-	4
Capital adequacy	11.05%	10.60%	13.16%	0.5*	-2.6*

OTHER INDICATORS				CHANGES	
	2007	**2006**	**2005**	**2007/06**	**2006/05**
Structural indicators					
Stock capital / total assets	8.8%	9.0%	9.6%	-0.2*	-0.6*
Stock capital / total deposits	10.4%	10.8%	11.8%	-0.4*	-1.0*
Loans to clients / deposits by clients	67.7%	68.7%	72.8%	-1.0*	-4.1*
Profitability indicators					
Return on capital	8.3%	10.8%	13.1%	- 2.5*	-2.3*
Return on assets	0.7%	0.7%	1.1%	-	-0.4*
Productivity indicators					
Total assets / number of employees	8,081	7,323	7,152	10.4%	2.4%
Total deposits / number of employees	6,845	6,089	5,817	12.4%	4.7%
Total credits / number of employees	6,405	5,893	5,545	8.7%	6.3%
Regular operations income / number of employees	458	364	436	25.8%	-16.5%
Gross regular operational result / number of employees	150	114	157	31.6%	-27.4%
Workforce costs / regular operations income	29.4%	33.8%	28.5%	-4.4*	5.3*
Number of employees / number of offices	9	9	8	-	-

*percentage point

Second part

Review of the Croatian economy in 2007

Zagreb - Podravska Bank ‘s archive

Real annual GDP growth in 2007 amounted to 5.6%. There was a high growth rate of 6.8% in the first half of 2007, but it decelerated in the third quarter, when the growth rate amounted to 5.1%. The most important factors which contributed to the overall GDP growth in 2007 were domestic spending (personal and public) and gross investments. Despite a relatively large pay increase and a decrease in unemployment, compared to the first quarter there was a slower growth in personal spending in the third quarter.

Trends in the real sector in 2007 were marked by the industrial production growth of 5.6%, retail growth of 5.3 % and a 2.4% growth in the construction industry.

Due to a large growth in the number of loans to companies in the first half of 2007, the growth rate in company loans was above 20% in the first six months.

Government spending showed a real increase of 3.4% and personal spending grew by 6.2%. The largest growth was recorded in the service industry; hotels and restaurants (9.4%), financial mediation (8.2%) and trade (7.5%).

In 2007 total commodity exports amounted to USD 12.4 billion, while commodity imports amounted to USD 25.8 billion. In the foreign commodity trade there was a deficit of USD 13.5 billion and the coverage of import by export fell from 48.3% in 2006 to 47.9% in 2007.

The registered unemployment figures at the end of 2007 amounted to 14.7% (compared to 17% in 2006). At the end of 2007 the total number of employed population was 1,480,000, accounting for an increase of 13,000 work places compared to the previous year.

In the second half of 2007 there was an increased inflationary pressure. Consequently, the inflation rate at the end of 2007 amounted to 5.8%, while the annual average rate amounted to 2.9%. The growth of the inflation rate resulted from higher costs of food, agricultural commodities, oil and other power sources in the world markets. During 2007 gross foreign debt rose by EUR 3.7 billion and amounted to EUR 32.9 billion on December 31, 2007. Its annual growth rate dropped from 13.7% in 2006 to 12.5% in 2007.

In 2007 the National Bank of Croatia took monetary policy measures in order to decelerate Croatian foreign debt growth. Along with a high rate of marginal statutory reserves and the introduction of currency induced credit risk, measures for limiting credit volume growth are also in effect.

Total credit volume rose by HRK 27.6 billion, i.e. by 15.1%. After the National Bank of Croatia intensified measures for limiting credit volume growth, it was significantly decelerated during the second half of 2007.

Concerning sectors, during 2007 banks continued to increase crediting the population, granting loans to the total amount of HRK 17.2 billion, providing for an annual growth rate of 18%. At the end of the year, loans granted to the general public amounted to HRK 112.9 billion, most of which were housing and cash loans. However, there was a significant reduction in growth in credits to enterprises. With an annual growth rate of 10.6%, banks' total credit volume to enterprises amounted to HRK 92.3 billion.

Total deposits in banks reached HRK 198 billion at the end of 2007, having increased by 19% compared to the previous year. Natural person deposit growth was slightly slower than in 2006 and accounts for 10.5%, whereas deposits by legal entities grew by 25% in the same period. Currency structure of deposits has not changed significantly, so kuna deposits still account for 48% of total deposits.

In 2007 the euro exchange rate remained stable. Kuna weakened against the euro and the average exchange rate of kuna to euro was 7.34. The weakening of dollar against the euro on international markets had a direct effect on the exchange rate of kuna to dollar, so the average exchange rate of kuna to dollar in 2007 was 5.37.

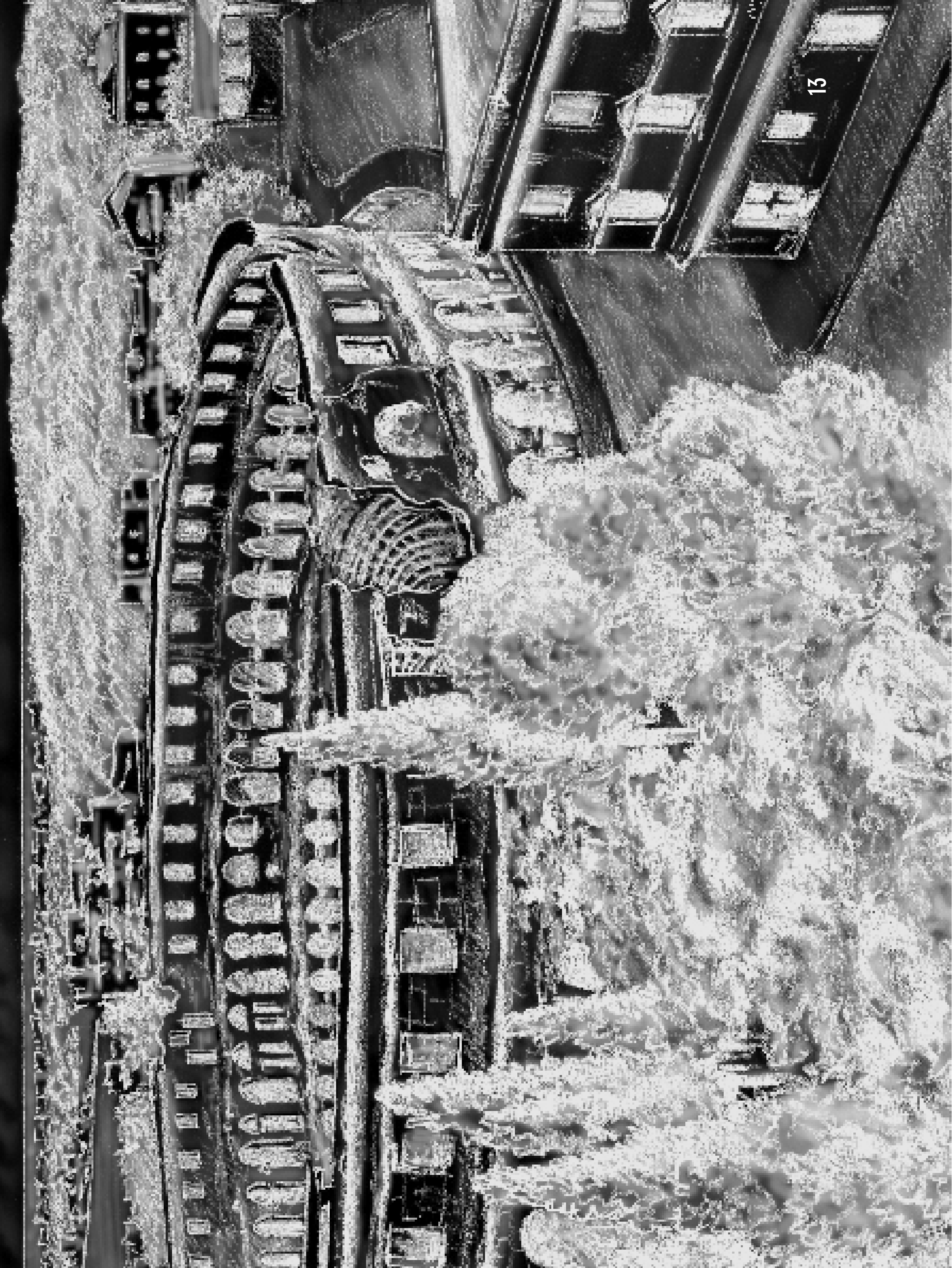
As to Croatian capital market, due to a large interest in initial stock offerings, in 2007 the number of investors grew. Total trade at the Zagreb stock exchange grew by 57% compared to 2006 and market capitalization (total market value) increased by 78%. The CROBEX index finished the year with a growth of 63% compared to 2006. In March 2007 the Varaždin and Zagreb stock exchanges merged. In the money market there was occasional higher demand for liquid assets, which led to an increase and large fluctuations in interest rates for short-term and overnight loans in kuna. During the last quarter of 2007, interest rates for overnight loans were between 2% and 11%, which resulted in expensive financing and market instability.

Macroeconomic indicators in 2007	**Value**
Gross domestic product, growth rate, % in change compared to previous year	5.6
Industrial production, growth rate, % in change compared to previous	1.4
Consumer prices, % in change compared to previous	5.8
Production prices, % in change compared to previous	5.8
Commodity exports, USD million	12.4
Commodity imports, USD million	25.8
Balance-of-payments current account, EUR million	- 1,891.66
Average net pay in kunas	4,840
Unemployment rate, %	14.7
Number of unemployed, Croatian Employment Office	254,484
HRK/USD exchange rate, average	5.37
HRK/EUR exchange rate, average	7.34
Foreign debt, EUR billion	32.9

Third part

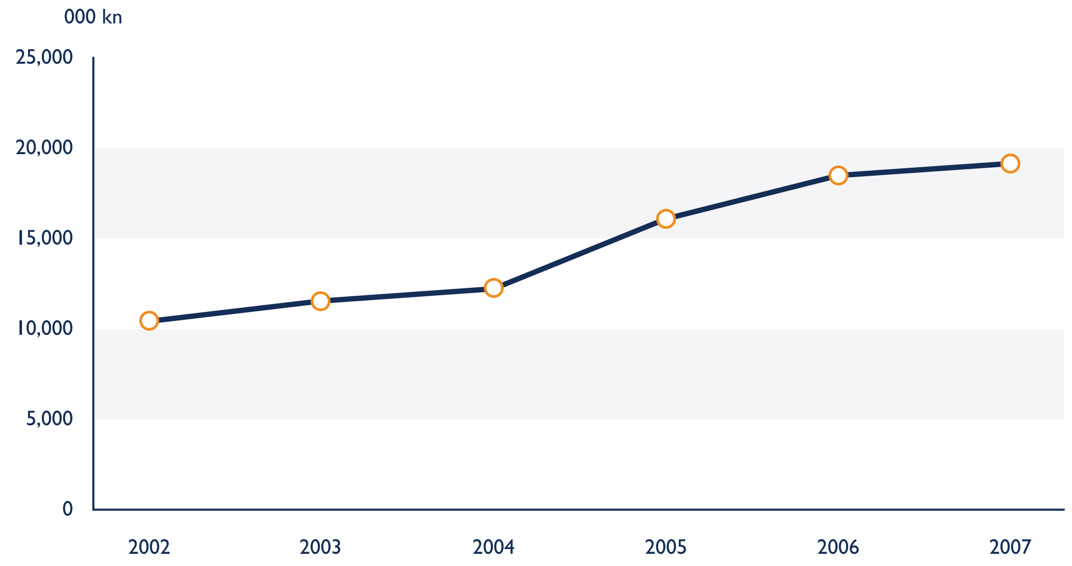
Description of Banks´ operations

Pula - Podravska Bank 's archive



In 2007 Podravska Bank confirmed its position as the leading medium-sized bank in Croatia and holds 10th place in terms of assets, among 33 banks in Croatia (as to banking groups). Podravska Bank is a modern and dynamic financial institution of a universal type, targeting mostly segments of natural persons, craftsmen, and small and medium-sized entrepreneurs. At the end of 2007, its operations are conducted through a network comprising 37 branches (holding the 8th place in the number of branches in Croatia) and other distribution channels (46 ATM machines, 12 24-hour vaults and 750 EFT POS terminals).

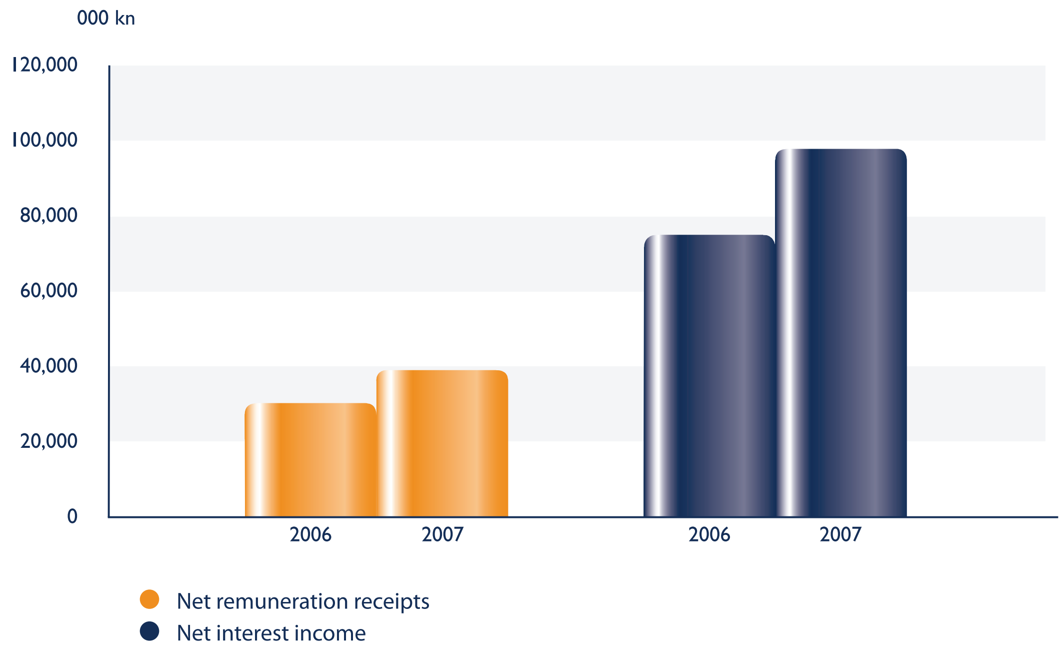
In 2007, the Bank's assets reached HRK 2.8 billion, having grown by 10.7% compared to the previous year. Total deposits grew by 13.9%, credit volume rose by 12.2%, whereas net profit increased by 4.6% compared to the previous year, and it amounts to HRK 19.4 million.



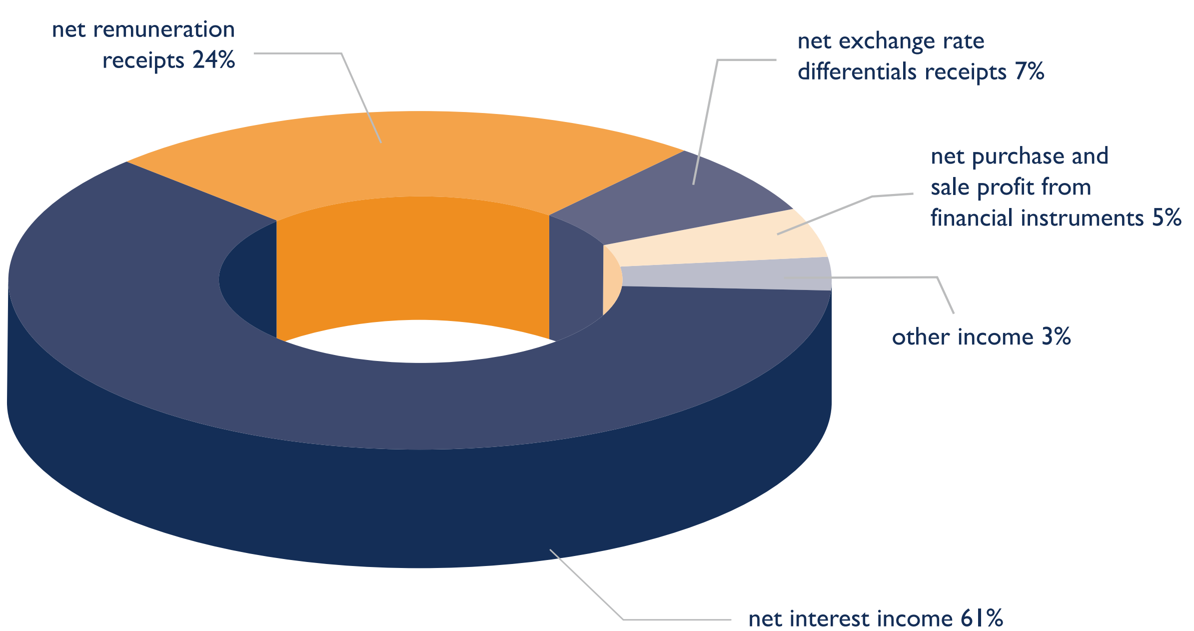
Net profit

Total operational income amounted to HRK 159 million, having grown by 26% compared to the previous year. Net receipts from interest account for the biggest share of operational income, amounting to 61% of total income. However, share of remuneration receipts grew significantly by 29% compared to the previous year.

At the end of 2007 Podravska Bank numbers over 150,000 clients.



Net interest income and remuneration receipts



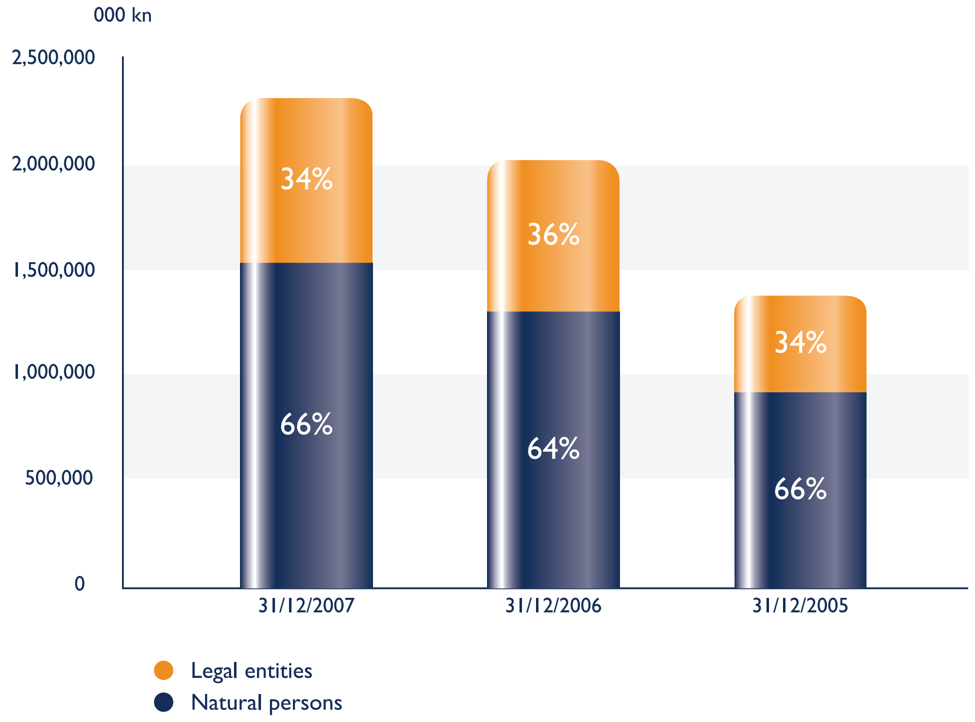
Net operating income structure on 31/12/2007

Limitations to the credit volume growth by the National Bank of Croatia did not have a significant effect on Podravska Bank's credit volume growth, since it was in line with the planned growth (12%).
Compared to the previous year, there was a remarkable growth of 17.2% in deposits by natural persons (in the banking sector deposits by natural person grew by 10.5% compared to the previous year).
Good business results were achieved in credit card operations, where the number of MasterCards sold grew by 27%.
The Bank was active in bank insurance and, together with its partner insurance companies, developed a range of synergy products, which are sold through its business network.
Regarding investment banking, clients are provided with security custody and security trade services. Podravska Bank was among the first banks in Croatia to offer security trade in Montenegro. Furthermore, the Bank offers its clients margin loans for natural and legal persons, as well as collateral loans based on pledge of securities.

Deposits

At the end of 2007, total client deposits increased by 13.9% compared to the previous year and amount to HRK 2.3 billion. There was faster growth in deposits by natural persons (17.2%), whereas deposits by legal entities grew by 8.1% compared to the year before. The structure of deposits changed slightly compared to 2006, so that natural person deposits account for 66% (in 2006 they accounted for 64%), whereas legal entity deposits account for 34% of total client deposits. By having major share of natural person deposits in total client deposits, the Bank avoids deposit concentration and ensures stable resources for the Bank's operations. In time structure of total deposits, time deposits account for 71%. In currency structure, kuna deposits account for 49%, currency (euro) clause deposits account for 10%, and foreign currency deposits (mostly euro) account for 41%. Kuna deposits by legal entities grew significantly (by 48%).
Kuna sight deposits grew by 28% compared to the previous year, whereas kuna time deposits by natural persons grew by as much as 50%.
Such deposit increase resulted from boosting the brand of the Bank, its expanded business network and the increasing number of clients that put their trust in the Bank.

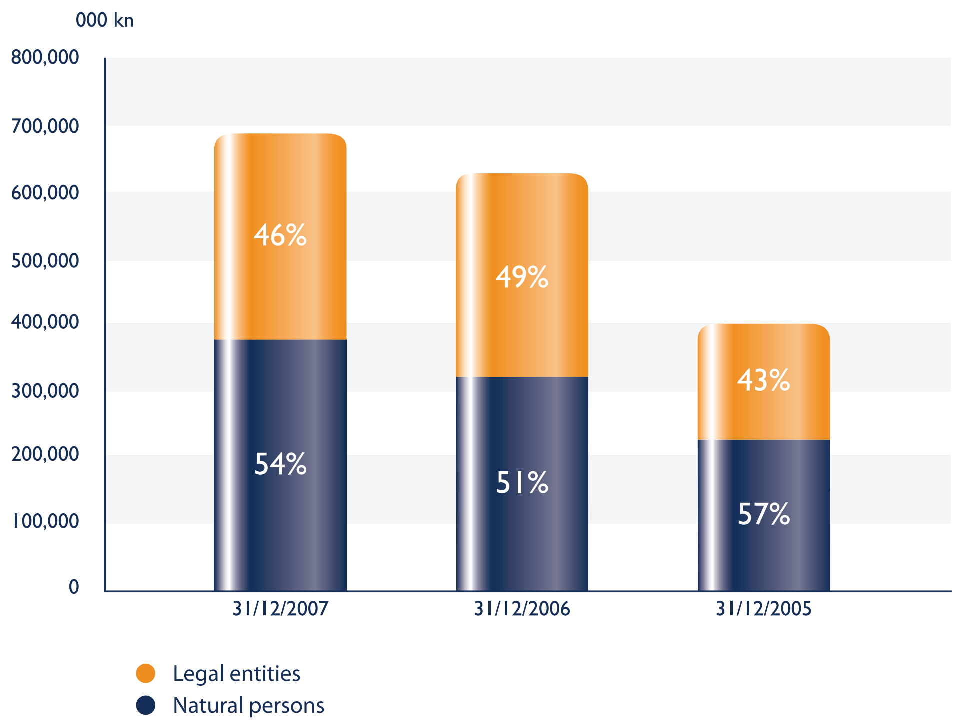
Total deposits - amounts in 000 kuna				CHANGES	
	31/12/2007	**31/12/2006**	**31/12/2005**	**2007/06**	**2006/05**
Natural persons	1,538,665	1,312,911	914,398	17.2%	43.6%
Legal entities	791,980	732,701	462,412	8.1%	58.4%
Total deposits	**2,330,645**	**2,045,612**	**1,376,810**	**13.9%**	**48.6%**



Total deposits

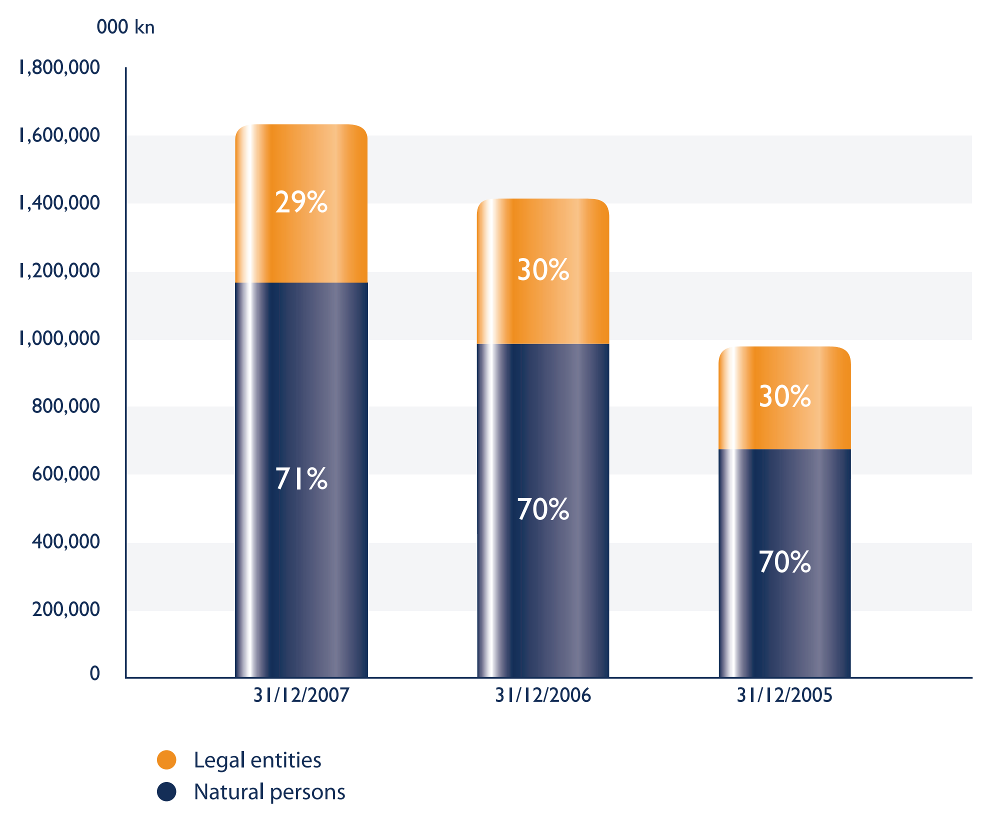
Total deposit structure on 31/12/2007

Deposits at sight - amounts in 000 kuna				CHANGES	
	31/12/2007	**31/12/2006**	**31/12/2005**	**2007/06**	**2006/05**
Natural persons	370,494	321,172	228,210	15.4%	40.7%
Legal entities	316,938	311,681	170,840	1.7%	82.4%
Total sight deposits	**687,432**	**632,853**	**399,050**	**8.6%**	**58.6%**



Deposits at sight

Time deposits - amounts in 000 kuna				CHANGES	
	31/12/2007	**31/12/2006**	**31/12/2005**	**2007/06**	**2006/05**
Natural persons	1,168,171	991,739	686,188	17.8%	44.5%
Legal entities	475,042	421,020	291,572	12.8%	44.4%
Total time deposits	**1,643,213**	**1,412,759**	**977,760**	**16.3%**	**44.5%**



Time deposits

Credit volume

The Bank's strategic objective is to provide loans to the general public, craftsmen and small and medium-sized entrepreneurs, which ensures a satisfactory level of credit risk dispersion. In 2007, total gross loans to clients rose by nearly 11%, having reached HRK 1.68 billion.

At that, loans to the general public grew by 19.3%, whereas loans to legal entities slightly decreased compared to the previous year. In the structure of total loans to clients, loans to the general public accounted for 61%, where cash loans amount to more than 50% of those loans.

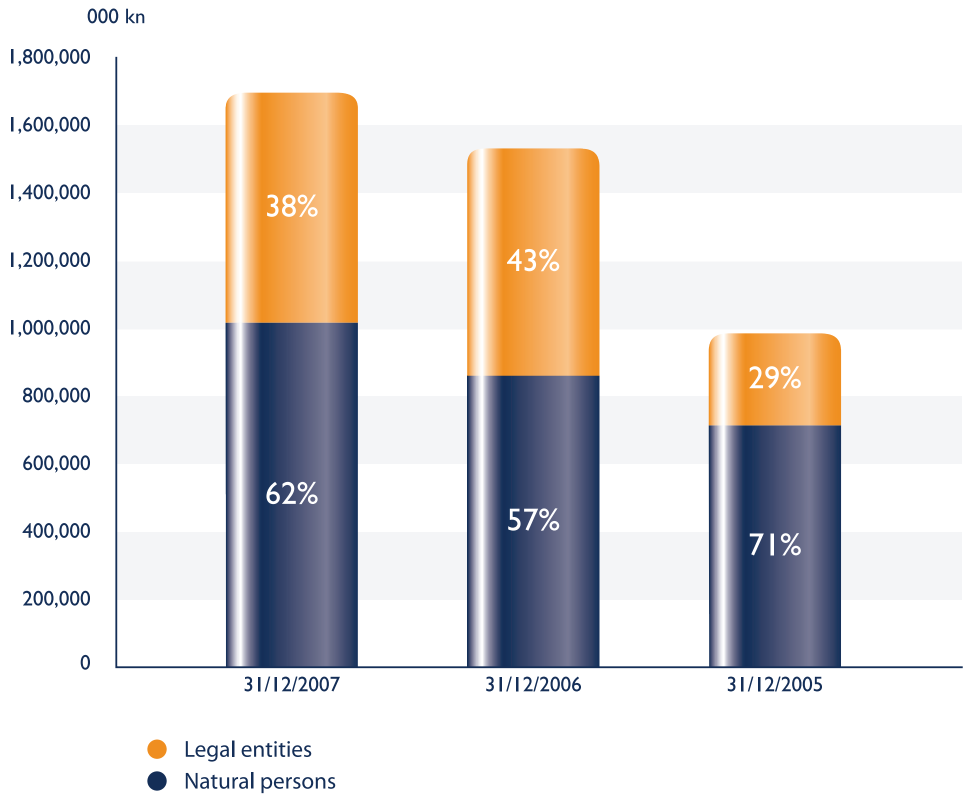
The share of gross loans to the general public and legal entities in total assets of the Bank remained the same as in the previous two years and accounts for 55%. In total loans to clients, 51% were granted in foreign currency (almost exclusively in euros) or with a currency clause (euro). Other loans (49%) were in kunas. By using the currency clause for loans, the Bank maintains a currency balance between credit volume and sources.
The Bank pays a lot of attention to co-operation with business entities, providing them with a complete banking and financial service, as well as short and long-term loans.

Loans - in 000 kuna

				CHANGES	
	2007	**2006**	**2005**	**2007/06**	**2006/05**
Loans to natural persons	1,045,116	878.748	701.461	18,9%	23,2%
Loans to legal entities	649,378	651,409	345,845	-0.3%	88.4%
Total gross loans	**1,694,494**	**1,530,157**	**1,047,306**	**10.7%**	**46.1%**
Total loan reserves	117,624	124,626	45,477	-5.6%	174.0%
Total net loans	1,576,870	1,405,531	1,001,829	12.2%	40.3%

Special attention is paid to credit safety in order to minimize credit risk, and that is why for years the Bank has been insuring some of the loans to the general public against non-payment risk with first-rate insurance companies.

The structure of credit portfolio according to activity branches showed no dramatic changes compared to the previous period. The share of trade is slightly larger (8%); whereas shares of other separate activities are below 5%.
In 2007, the Bank continued to provide credits jointly with the Ministry of Economy, Labour and Entrepreneurship, as well as with units of local government and self-government. The credits were provided to development programs of small and medium-sized enterprises and private farms. The Bank thus contributes to the development of economic activities of small and medium-sized enterprises operating in production and services, which resulted in sharp increase in the number of clients using complete financial services offered by the Bank.
The Bank has a long-standing and successful co-operation with the Croatian Bank for Reconstruction and Development in ten specialist crediting programs. Offering very favourable loan conditions, the Bank provides its clients with sources for financing entrepreneurial projects, export of commodities and services, self-employment and financial reconstruction.



Total loans

Total gross loans structure on 31/12/2007

Business network and distribution channels

At the end of 2007, Podravska Bank had a total of 37 branches, and according to the size of the business network ranked as the 8th bank in Croatian banking market.

Besides the expansion of the business network, strengthening of other distribution channels continued - such as ATM machines and EFT POS terminals. Podravska Bank has 46 ATM machines, almost all of which have chip technology installed, protecting the users from misuse and skimming. The Bank's clients can use the 24-hour vault services in Koprivnica, Požega, Bjelovar, Osijek, Pula, Rijeka, Sisak, Split, Varaždin, Zadar and Zagreb.

At the end of 2007 Podravska Bank had 750 EFT POS terminals installed. Total EFT POS terminal turnover increased by 20%, whereas the number of transactions grew by 24% compared to 2006. Income from EFT POS terminal turnover rose by 19%.

The number of internet banking users (POBA*klik* services) and POBA*sms* users grows steadily. Users of Podravska Bank services can receive business information through the Info Center, which received 57% more calls than the year before.

Special attention is paid to managing the business network, as well as to furnishing and supplying the branches in order to provide a high-quality service to customers. That is why last year the Split branch was moved to bigger and more modern premises in an attractive location.

Podravska Bank continues its commitment of being easily accessible for its clients - whether through its branches, the Internet, ATM machines or telephone.

New products and services

Being focused on client requests and needs, the Bank has been continuously working to improve the existing offer and develop new products and services, striving to maintain competitiveness and quality at all times.

Besides the existing cash Sprint loans, recognisable in the market for their fast approval, the loan offer now includes new cash Fit loans for natural persons, which enable them to use a larger amount of money and repay it at a later maturity date. As an especially favourable condition, the Bank offered those clients a MasterCard credit card with a free membership in the first 12 months.

Business entities were offered new loans for agriculture and tourism.

Since Orange packages with current accounts were well-accepted among natural persons, the Bank was motivated to create Orange packages for business entities as well. Those packages include favourable services which make entrepreneurs' day-to-day financial operations much easier.

The existing range of card products (Maestro and VISA Electron debit cards and MasterCard Standard and Corporate credit cards) was extended with Maestro debit card for business entities and MasterCard Gold credit card, intended for target

groups of clients. In order to increase customer safety and protection, Podravska Bank replaced all Maestro magnetic debit cards with chip cards. MasterCard credit cards are also being issued using the safest state-of-the-art chip technology.
MaestroSHOP service, which enables clients to pay with their Maestro debit card by instalments or deferred payment, was remarkably well-accepted by our clients. Consequently, there has been a steady growth in the number of transactions and turnover volume on EFT POS terminals.
At the end of 2007 clients were offered a new savings product - Holiday saving, which led to a significant increase in time deposits by natural persons.

Organization and staff

On December 31, 2007 Podravska Bank had 347 employees. 61% of the total number of employees is engaged in direct work with clients (“front office”). The average age of the Bank’s employees is 38.
Business development had to be followed by appropriate organization structure. The Bank thus introduced some organizational changes aimed at efficiency improvement and optimal utilization of technical and human resources.
Continuous education and professional training remain the Bank’s primary objectives. During 2007, employees spent over 800 work days on internal or external education in different areas vital to the Bank’s operations.
At the same time, the Bank employs young professionals, whose engagement will contribute a new quality to the development of the Bank.
Given that human resources present the main competitive advantage, Podravska Bank pays special attention to employee motivation and rewarding, as well as to enhancing their skill development.

Investment banking operations

In 2007 there was a significant growth in Croatian capital market, both in terms of turnover and the number of participants.
The year was marked by several initial public offerings (HT surely being the most important one) and the entrance of a large number of small investors into the capital market.
According to the annual report of Zagreb stock exchange, regular stock trade grew by 57% compared to the unprecedented 2006, and the number of transactions doubled. At the end of the year CROBEX index had 5,239 points, having grown by 63.2% compared to 2006. One of the most important infrastructure projects of Zagreb stock exchange in 2007 was the abolition of trading with two trading systems, as well as the introduction of the new OMX X-stream trading platform.
Considering such a positive environment, the Investment Banking Department’s activities resulted in a significant increase in turnover and the number

of clients. In 2007 brokers of Podravska Bank achieved a turnover of HRK 643 million, which amounts to about 1.2% of Zagreb stock exchange total turnover. As a member of the stock exchange, Podravska Bank holds the 25th place among 46 members of authorized enterprises, in terms of total turnover.

The Bank also offers its clients mediation services in trading in Montenegro, which reached a turnover of over EUR 18 million.

3,400 trading accounts were opened and 18,000 purchase/sales orders issued.

There was a significant growth in the number of clients and asset value in custody accounts, which was mostly due to increased credit volume of margin and collateral loans based on pledge of securities.

Treasury operations

Limitations and deceleration of banks' credit activities, a large growth of interest rates and the credit crisis worldwide, as well as the acceleration of domestic inflation, contributed to the fact that the Bank's business environment in 2007 was challenging.

The Treasury ensured liquidity required for unhindered operations of the Bank and its clients, following all internal regulations and the regulations of the National Bank of Croatia as its regulatory institution.

The Bank optimised exposure to currency risk and interest rate change risk, and successfully managed time and foreign currency balance structure.

Given that the Bank appeared on domestic and international money markets mostly as a seller of financial means, the interest rate growth on money markets had an effect on the increase of income in that operational segment, amounting to 157% compared to the previous year.

Compared to 2006, assets managed by the Treasury grew by 4%, with receivables from banks accounting for the largest share (49%) in the structure of total assets.

In 2007, kuna to euro exchange rate slightly weakened and the average middle exchange rate was 7.335680 kuna to a euro, which was approximately 0.2% more than in 2006 (7.322865).

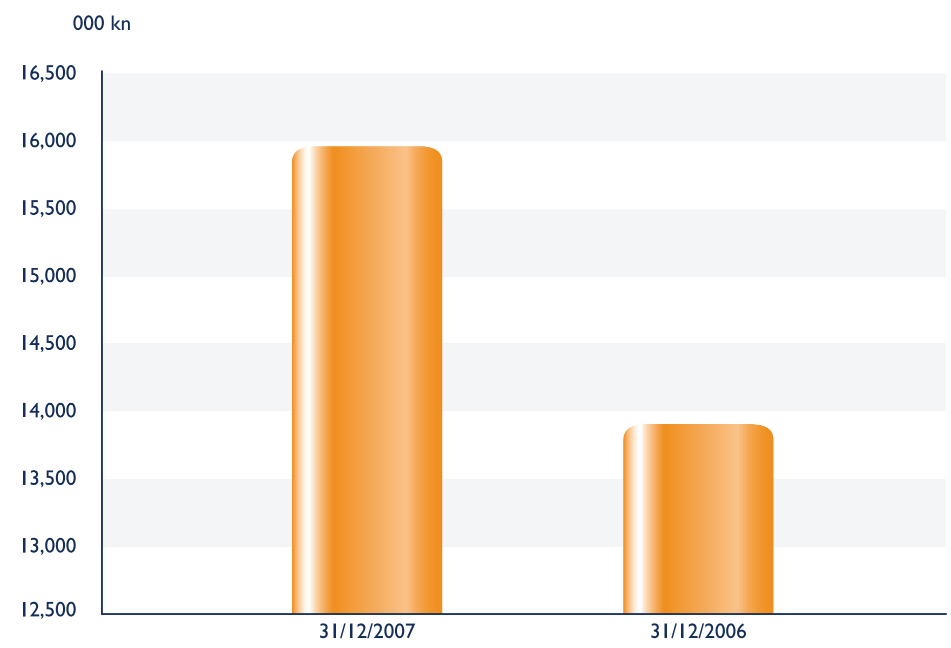
At the same time, the weakening of the dollar against the euro on the world market affected the kuna/dollar exchange rate; it rose by 8.1% and the average middle exchange rate in 2007 was 5.364619 kuna to a dollar.

The Treasury met clients' needs for foreign cash and currency and maintained an optimal foreign exchange position of the Bank. Net exchange rate differentials receipts amount to almost HRK 12 million.

Managing the Bank's portfolio securities available for trading, profit to the tune of HRK 7.4 million was made, having grown by 53% compared to the previous year.

Payment transactions

In 2007 the Bank's total payment transactions rose by 48%.
The value of domestic cashless transactions amounted to over HRK 48 billion, having grown by 50% compared to 2006. Foreign payment transactions grew by 24% compared to the previous year.
Compared to 2006, total value of payment transactions in kuna and foreign currency of business entities online grew by 39%, and it is the best indicator of the significance and the acceptance of Internet banking services (POBA*klik* services).
The number of opened transaction accounts for legal entities grew by 10% compared to 2006.
During 2007, by establishing new correspondent relations, the Bank further improved its co-operation with international financial institutions. In addition, it increased the speed of payment transactions and reduced their costs.
The volume and value of payment transactions in 2007 resulted from reliability, accuracy and promptness of the Bank in providing such services to clients.



Remuneration receipts and commission income in domestic and foreign payment transactions

Capital

The Bank's capital, without profit during 2007, amounts to HRK 228 million. Compared to the previous year, capital rose by 9%, based on the profit from

2006 deployed in the Bank's reserves.
On December 31, 2007 the nominal value of shareholder's equity amounted to HRK 168.3 million.
Shareholder's equity was split into 420,762 ordinary registered shares with nominal value of HRK 400.00.
According to ownership structure, foreign persons account for 85.68% of owner's equity, whereas the rest of the capital is owned by domestic legal and natural persons.

Profit and loss account

In 2007, the Bank's net profit amounted to HRK 19.4 million, having increased by 4.6% compared to the previous year.
Regular operations income increased by 26% compared to the previous year and amount to HRK 159 million.
In the structure of total income, there is a trend of increasing net interest and non-interest return. Net interest return accounts for 61% of total regular operational income, whereas remuneration receipts are growing sharply and account for 24.5% of regular operational income. Remuneration receipts grew by 29%, whereas net interest return grew by 32.5% compared to the previous year.
Regular operations expenditure, including depreciation, amounts to HRK 120 million, having grown by 16.9%. Increased expenditure results from investments in technology modernization (increase in the number of 24-hour vaults, improvements in the protection systems, various software solutions etc.).
Evaluation of credit risks and formation of reserves for risky credits and potential liabilities are based on conservative policy principles and implementation of regulations in force, so that in 2007 the Bank allocated HRK 19.6 million for decreased values and reservations.

Profit use

The Board of Directors and the Supervisory Board of the Bank suggest to the General Assembly that the total profit realized in 2007 be used for reserves and payment to employees based on profit sharing by assignation of own shares.

Future operations

The 2008 business plan is based on strengthening market recognition and the position of the Bank, optimizing the business network, active monitoring of the market and modern technologies, increasing profitability and internal efficiency.
The following is expected to have an impact on the Bank's business in 2008: macroeconomic situation, restrictive monetary policy, aligning with the new regula-

tions within the harmonization with the EU, and growingly fierce competition in the banking market. Some of the most important objectives of the Bank for 2008 include an intensive development of quality and competitive products/services and maximizing client satisfaction, which will be achieved by following market trends, investing in the IT, training and motivating staff.

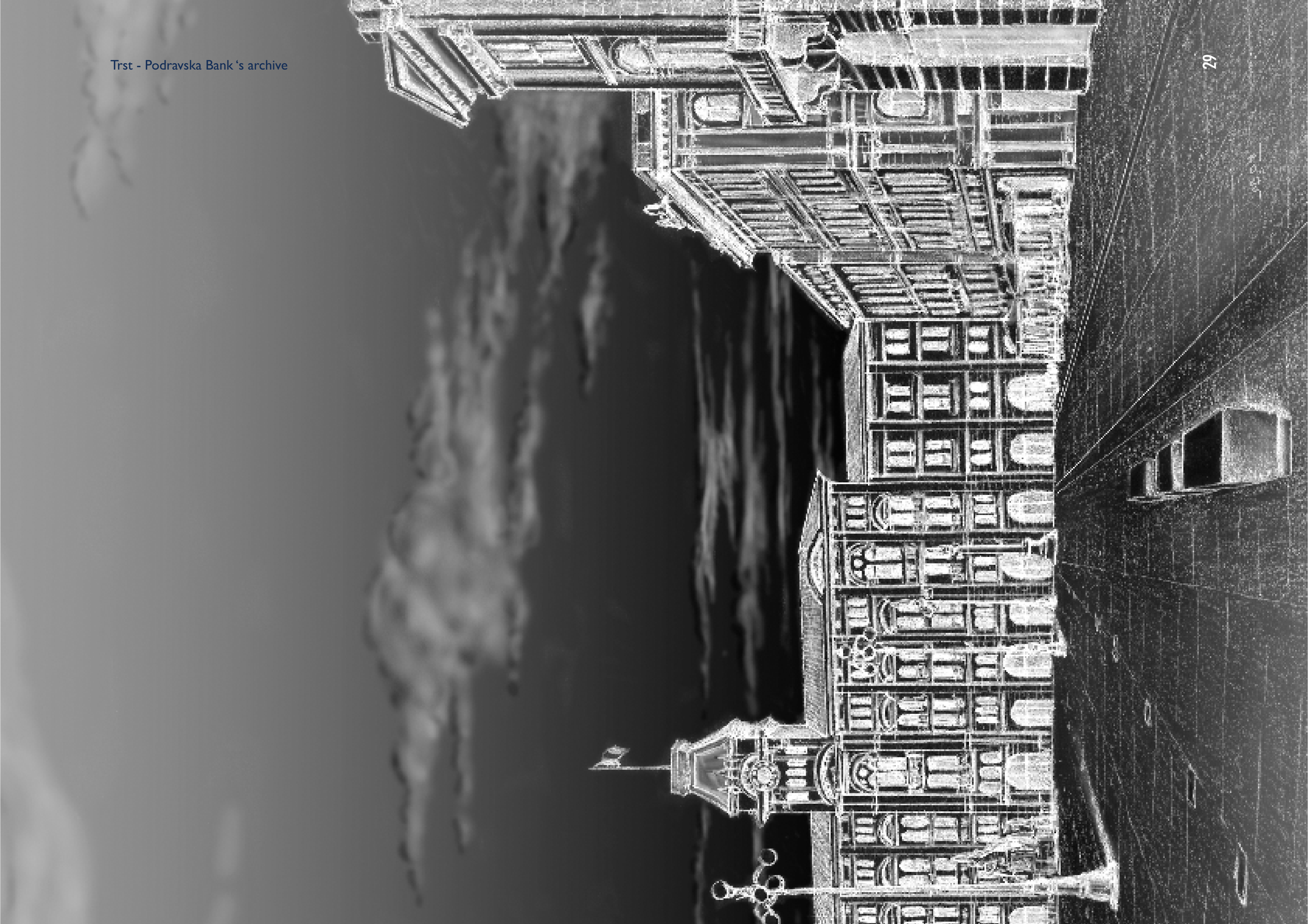
With the objective of providing full payment transaction services, the Bank has initiated the development of a new integrated account management service, called "Cash pooling". It is a financial service designed for local governments and self-government units, and business entities in their ownership, as well as for large business systems. The service includes less complicated and cheaper operations, and better liquidity management.

Brokerage users will be offered an advanced service for purchase/sale of securities listed at the Zagreb stock exchange, which will be conducted online.

The opening of a new branch in Čakovec, the centre of one of the strongest economic regions in Croatia, will contribute to the strengthening of the Bank's position. In order to ensure further growth and development, preparations for financial restructuring of the Bank in 2008 have been initialized.

Fourth part

Financial statements and independent auditors' report for the year ended 31 December 2007



Trst - Podravska Bank ‘s archive

Responsibilities of the Board of Directors

Pursuant to the Croatian Accounting Law, the Management Board of Podravska banka d.d. (the "Bank") 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) to give a true and fair view of the state of affairs and results of the Bank for that period.

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

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

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

Signed on behalf of the Management Board,

Mr. Julio Kuruc
Chairman of the Board of Directors

4 March 2008

Marijan Marušić
Member of the Board

Davorka Jakir
Member of the Board

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers d.o.o.
Alexandera von Humboldta 4
HR-10000 Zagreb
CROATIA
Telephone (385 1) 63 28 888
Facsimile (385 1) 61 11 556

Independent auditors' report

To the Shareholders and Board of Directors of Podravska banka d.d., Koprivnica

We have audited the accompanying financial statements of Podravska banka d.d., Koprivnica (the Bank) which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 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.

Basis for Qualified Opinion

As described in Note 14, as of 31 December 2006 the Bank had unused tax losses in the amount of HRK 30,045 thousand based on which it did not recognise any deferred tax assets and the related credit in the amount of HRK 6,009 thousand in respect of tax losses carried forward. During 2007, the Bank utilised tax losses carried forward for the amount of HRK 25,852 thousand. As a result, net income for the year then ended are overstated by HRK 5.171 thousand, while assets and retained earnings in the balance sheet as of 31 December 2007 are understated by HRK 838 thousand.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position the Bank as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The financial statements of the Bank as of 31 December 2006 were audited by other auditors whose report, dated 8 March 2007, expressed a qualified opinion on those statements due to their disagreement as to the deferred tax assets and the related income as described in the Basis for Qualified Opinion paragraph.

PricewaterhouseCoopers d.o.o.
Zagreb, 23 April 2008

Income statement for the year ended 31 December 2007

(in thousands of HRK)	**Notes**	**2007**	**2006**
Interest and similar income	6	173,013	131,551
Interest expense and similar charges	6	(76,386)	(58,602)
Net interest income		**96,627**	**72,949**
Fee and commission income	7	53,234	43,250
Fee and commission expense	7	(14,340)	(13,164)
Net fee and commission income		**38,894**	**30,086**
Foreign exchange differences – net	8	11,828	14,011
Net gains from purchase and sale and fair value adjustment of financial instruments	9	7,381	4,826
Losses from investment securities	21	(13)	(261)
Impairment charge for credit losses – net	13	(19,586)	(4,659)
Other operating income	10	4,219	4,387
Administrative expenses	11	(103,403)	(89,938)
Other operating expenses	12	(17,164)	(13,197)
Profit before income tax		**18,783**	**18,204**
Income tax credit	14	634	361
Net profit for the year		**19,417**	**18,565**
Basic and diluted earnings per ordinary share – (in HRK)	15	46,43	61,94

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

Balance sheet as at 31 December 2007

(in thousands of HRK)	Notes	2007	2006
ASSETS			
Cash and balances with banks	16	209,202	173,406
Obligatory reserve with Central bank	17	258,447	221,300
Loans and advances to banks	18	530,205	536,826
Loans and advances to customers	19	1,576,870	1,405,531
Trading assets	20	40,029	30,657
Investment securities:			
- available-for-sale	21	21,226	14,571
- held-to-maturity	21	54,223	51,426
Investments in subsidiaries	34	1,530	-
Intangible assets	22	19,299	19,748
Property and equipment	23	81,633	64,431
Deferred tax assets	14	2,155	1,521
Non-current assets held for sale	24	2,414	4,071
Prepayments for income tax	24	1,232	4,555
Other assets	24	5,536	5,655
Total assets		**2,804,001**	**2,533,698**
LIABILITIES AND EQUITY			
Bank deposits	25	44,400	61,189
Due to customers	26	2,330,645	2,045,612
Other borrowed funds	27	152,415	151,951
Other liabilities	28	29,339	47,385
Total liabilities		**2,556,799**	**2,306,137**
Share capital	29	171,484	171,440
Reserves	30	56,301	37,556
Retained earnings	30	19,417	18,565
Total equity		**247,202**	**227.561**
Total liabilities and equity		**2,804,001**	**2,533,698**

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

These financial statements were approved by the Management Board on 4 March 2008 and were signed on its behalf by:

Mr. Julio Kuruc
Chairman of the
Board of Directors

Marijan Marušić
Member of the Board

Davorka Jakir
Member of the Board

Cash flow statement for the year ended 31 December 2007

(in thousands of HRK)	**Note**	**2007**	**2006**
Operating activities			
Profit before taxation		18,783	18,204
Adjustment of results with net cash from operations:			
Depreciation and amortisation	22,23	13,534	13,319
Net book amount of sold and written-off non-current assets	12	32	414
Impairment charge for credit losses – net	13	19,586	4,659
Gain from sale and revaluation of securities at fair value through profit or loss	9	(7,381)	(4,826)
Losses from investment securities	21	13	261
Dividend income	10	(765)	(108)
Income tax paid		(1,642)	(6,621)
Operating result before changes in operating assets and liabilities		**42,160**	**25,302**
Changes in operating assets and liabilities:			
-net increase in receivables from the Central Bank		(37,147)	(22,841)
-net decrease in placements with other banks		1,836	1,965
-net (increase)/decrease in financial assets at fair value through profit or loss		(1,991)	3,950
-net increase in loans and receivables from clients		(191,415)	(177,046)
-net decrease in other assets		5,296	2,018
-net decrease in deposits from other banks		(16,790)	(27,986)
-net increase in deposits from clients		285,034	396,188
-net/(decrease) / increase in other liabilities		(15,931)	19,317
Net increase in cash from operating activities		**71,052**	**220,867**
Investment activities			
Purchase of available-for-sale financial assets	21	(7,499)	-
Proceeds from available-for-sale financial assets		3,569	46,369
Purchase of held-to-maturity	21	(4,171)	(6,859)
Investments in subsidiaries	34	(1,530)	(24,397)
Proceeds from merger	34	-	81,893
Purchase of property and equipment and intangible assets		(30,318)	(9,885)
Net cash (used in)/generated from investment activities		**(39,949)**	**87,121**
Financing activities			
Proceeds from other borrowed funds		62,145	36,315
Repayments of other borrowed funds		(61,681)	(82,106)
Purchase of treasury shares	29	(3,694)	(4,967)
Sale of treasury shares	29	2.904	-
Dividends paid		-	(267)
Increase in share capital	29	-	40,000
Net cash used in financing activities		**(326)**	**(11,025)**
Net increase in cash and cash equivalents		**30,454**	**296,914**
Cash and cash equivalents at beginning of year		708,267	411,304
Effect of exchange rate changes on cash and cash equivalents		323	49
Cash and cash equivalents at end of year	**32**	**739,044**	**708,267**

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

Statement of changes in equity for the year ended 31 December 2007

(in thousands of HRK)	Notes	Share capital	Treasury shares	Share premium	Reserves	Retained earnings	Total
At 31 December 2005		**62,902**	**(193)**	**3,713**	**90,094**	**16,029**	**172,545**
Changes in equity during 2006							
Available-for-sale assets:							
Transferred to income statement after sale		-	-	-	(2,890)	-	(2,890)
Fair value reserves	30	-	-	-	335	-	335
Profit for the year		-	-	-	-	18,565	18,565
Total recognised income and expenses for the period		**-**	**-**	**-**	**335**	**18,565**	**18,900**
Issue of shares	29,30	105,403	-	3,015	(64,152)	-	44,266
Purchase of treasury shares	29	-	(999)	(3,968)	-	-	(4,967)
Distribution of profit for 2005		-	218	1,349	14,169	(15,749)	(13)
Proposed dividends	31	-	-	-	-	(280)	(280)
At 31 December 2006		**168,305**	**(974)**	**4,109**	**37,556**	**18,565**	**227,561**
Changes in equity during 2007							
Available-for-sale assets:							
Transferred to income statement after sale		-	-	-	(335)	-	(335)
Fair value reserves	30	-	-	-	1,364	-	1,364
Profit for the year		-	-	-	-	19,417	19,417
Total recognised income and expenses for the period		**-**	**-**	**-**	**1,364**	**19,417**	**20,781**
Purchase of treasury shares	29	-	(3,004)	(690)	-	-	(3,694)
Sale of treasury shares	29	-	2,904	-	-	-	2,904
Distribution of profit for 2006		-	159	675	17,716	(18,565)	(15)
At 31 December 2007		**168,305**	**(915)**	**4,094**	**56,301**	**19,417**	**247,202**

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

NOTE 1 – GENERAL INFORMATION

1.1. History and incorporation

Podravska banka d.d., Koprivnica (the "Bank") was incorporated in the Republic of Croatia and registered as a joint-stock company at the Commercial Court in Bjelovar on 12 July 1995. The address of the Bank's registered office is in Koprivnica, Opatička 3.

1.2. Principal activities of the Bank

As at 31 December 2007, the Bank operated through a network of 37 branch offices in the Republic of Croatia.

The principal activities of the Bank are as follows:

- accepting and placing of deposits,
- providing current and term deposit accounts,
- granting short and long-term loans and guarantees to the Ministry of Finance, local and regional authorities, corporate customers, private individuals and other credit institutions dealing with finance lease and foreign exchange transactions,
- treasury operations in the interbank market,
- trust management and investment banking services,
- performing local and international payments,
- providing banking services through an extensive branch network in the Republic of Croatia.

The Bank's operations are monitored by the Supervisory Board and the Management.

Supervisory Board members of Podravska banka d.d. Koprivnica in 2007 are as follows:
Miljan Todorovic, President
Sigilfredo Montinari, Deputy President
Dario Montinari, Member
Djuro Predovic, Member
Dolly Predovic, Member
Maurizio Dallocchio, Member
Filippo Disertori, Member

In 2007, members of the Management Board were as follows:
Mr. Julio Kuruc, President of the Management Board
Marijan Marušić, Member
Davorka Jakir, Member

The shareholders of the Bank as at 31 December 2007 and 2006 are disclosed in note 29.

The Bank has its primary listing on the Zagreb Stock Exchange.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as published by the International Accounting Standards Board. The separate financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(a) Standards, amendment and interpretations effective in 2007

- *IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures'* introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Bank's financial instruments, or the disclosures relating to taxation and trade and other payables. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

- *IFRIC 8, 'Scope of IFRS 2',* requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Bank's financial statements.

- *IFRIC 10, 'Interim financial reporting and impairment',* prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Bank's financial statements.

(b) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Bank's operations:

- IFRS 4, 'Insurance contracts';
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'; and
- IFRIC 9, 'Re-assessment of embedded derivatives'.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted by the Bank early.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods, but the Bank has not adopted them early:

- *IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009)*. The Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.
- *IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009)*. The Bank will apply IAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Bank as there are no qualifying assets.
- *IAS 27 (revised), Consolidated and Separate Financial Statements (effective from 1 July 2009)*. The Bank will apply IAS 23 (revised) from 1 January 2009. Management is currently assessing the impact of this new standard.
- *IFRS 8, 'Operating segments ' (effective from 1 January 2009)*. The Bank will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.
- *IFRS 3 (revised), Business Combinations (effective from 1 July 2009)*. The Bank will apply IFRIC 3 (revised) from 1 January 2009, but it is not expected to have any impact on the Bank's accounts.
- *IFRIC 11, 'IFRS 2 - Group and treasury share transactions', (effective from 1 March 2007)*. The Bank will apply IFRIC 11. Management is currently assessing the impact of this new standard.
- *IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008)*. The Bank will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Bank's accounts.

(d) Interpretations to existing standards that are not yet effective and not relevant for the Bank's operations

The following interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant to the Bank's operations:

- *Amendment to IAS 32, Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1 January 2009).*
- *Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008).*
- *IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008).*
- *IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).*
- *IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008).*

Restatement

Basic and diluted earnings per share presented in the financial statements for the year ended 31 December 2006 were restated. The amounts presented in those financial statements were calculated by dividing the profit for the year in the amount of HRK 18,565 thousand by the weighted average number of existing ordinary shares for the period which was 420,762. The calculation did not take into account movements of shares during the year and did not exclude own shares. Amounts presented in these financial statements reflect the effect of the movements of shares and excluding own shares on the earnings per share calculation (see note 15).

EPS	Amounts presented in these financial statements	Amounts presented in financial statements for the year ended 31 December 2006
all shares (basic and diluted)		44
ordinary shares (basic and diluted)	61,94	

2.2. Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases. The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill.

The Bank applies the parent company model to account for transactions with minority shareholders. Any difference between the purchase consideration and the carrying amount of minority interest acquired is recorded as goodwill.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

2.3. Investment in subsidiaries

Subsidiary companies are companies in which the Bank, directly or indirectly, has more than one half of voting rights or otherwise controls the operations of the companies.

The Bank has one subsidiary undertaking - Poba ICO d.o.o (see Note 34), which is carried at cost and has not been consolidated in these financial statements. The effect of not consolidating the entity is not significant to the financial statements.

2.4. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

2.5. Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency').

The financial statements are presented in Croatian kuna (HRK), which is the Bank's functional and presentation currency. As at 31 December 2007, the conversion rate was HRK 4.985 to USD 1 and HRK 7.325 to EUR 1 (31 December 2006: HRK 5.578 to HRK 1 and HRK 7.345 to EUR 1).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. The Bank has assets and liabilities originated in HRK, which are linked to a foreign currency clause. The Bank values its assets and liabilities related to this clause by middle rate of CNB valid at the date of balance sheet.

2.6. Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, investment securities available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other gains/(losses) – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of 'other revenue' when the Bank's right to receive payment is established.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are

not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

(d) Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices. Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expenses in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.
The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.7. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.8. Derivative financial instruments

Derivative financial instruments include foreign exchange rate forward contracts and are initially recognised in the balance sheet at fair value and subsequently re-measured at their fair value. Fair values are obtained from quoted market prices or pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank's derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement under net trading income. However, the gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value'.

2.9. Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period than the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.10. Fee and commission income

Fees and commissions mainly consist of fees on domestic and foreign payments, fees for issuing guarantees and letters of credit, fees and commissions on credit card operations and other credit instruments issued by the Bank. Fees and commissions are generally recognized when the service is provided.

Loan origination fees, after approval and drawdown of loans, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan over its life.

2.11. Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

2.12. Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.
The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.
Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of

the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.
The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.
Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.
When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

(b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.13. Intangible assets

Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software. These costs are amortised over their estimated useful lives (4 years).

Generally, costs associated with developing computer software programmes are recognised as an incurred expense. However, expenditure that enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives. Costs associated with the maintenance of existing computer software programmes are entered as incurred expenses.

Goodwill

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

2.14. Property and equipment

Property and equipment are included in the balance sheet at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimate useful lives as follows:

Property	10-40 years
Computers	4 years
Equipment and other	4-5 years

Depreciation is calculated for each asset until the asset is fully depreciated or to its residual value, if significant.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.15).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.15. Impairment of non-financial assets

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.16. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the assets. Assets are depreciated on the straight-line basis equal to similar assets. Lease income is recognised over the period of the lease.

2.17. Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The Bank has such assets taken in exchange for uncollectible receivables recognised in the balance sheet within other assets.

2.18. Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, current accounts with other banks and term placements with other banks with residual maturity up to 3 months.

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

2.19. Provisions

Provisions are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

2.20. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of the Board.

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

2.21. Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Bank makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as a salary expense when incurred. The Bank does not have any other pension scheme and consequently, has no other obligation concerning employee pensions. In addition, the Bank is not obliged to provide any other post-employment benefits.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(c) Short-term employee benefits

The Bank recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Bank recognises a liability for accumulated compensated absences based on unused vacation days at the balance sheet date.

(d) Share based payments

Share based payments represent granting treasury shares to its employees as their share in realized profits. Share based payments are recognised in the period in which they are approved by the Bank's shareholders. When options are exercised, receipts reduced by transaction costs are recognised as an increase of the share capital (nominal value) and share premium.

2.22. Current and deferred income tax

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis. The Bank is subject to various indirect taxes which are included in administrative expenses.

2.23. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.24. Sale and repurchase agreements

If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognized as the Bank retains substantially all the risks and rewards of ownership. Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the balance sheet lines of assets in original classification or the Bank reclassifies the asset on its balance sheet, as a 'Repurchase receivable' if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in 'Amounts due to banks' or 'Amounts due to customers' as appropriate. Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets in the balance sheet line 'Due from banks' or 'Loans and receivables' as appropriate, with the corresponding decrease in cash being included in 'Cash and balances with the CNB'. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

2.25. Fiduciary activities

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

2.26. Share capital and treasury shares

External costs directly attributable to the issuance of new shares, except for those resulting from business combinations, are deducted from the equity, net of any related taxes. Dividends on ordinary shares are recognized in equity in the period in which they are declared.

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

2.27. Comparatives

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year. The effect of reclassifications is as follows:

	2007	2006
Income statement		
Decrease		
Administrative expenses	(13,319)	(9,614)
Interest expense and similar charges	(3,812)	(3,169)
Net gains from trading assets and changes in fair value of trading assets	(765)	(108)
Increase		
Other operating expenses	13,319	9,614
Other operating expenses	3,812	3,169
Other operating income	765	108
Balance sheet		
Decrease		
Other assets	(13,757)	(14,248)
Intangible assets	(3,842)	(5,432)
Investment securities:		
- available for sale	(85,969)	(108,203)
- held to maturity	(6,152)	(14,237)
Other liabilities	(10,292)	(7,583)
Loans and advances to customers	(10,292)	(7,583)
Provisions for liabilities and expenses	(4,320)	(4,794)
Increase		
Property and equipment	3,842	5,432
Loans and advances to customers	105,878	136,688
Other liabilities	4,320	4,794

NOTE 3 – FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Management and Committee for managing assets and liabilities (ALCO), which identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, an internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate and other price risks.

3.1. Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off-balance sheet financial arrangements such as loan commitments and other issued guarantees. Credit risk management and risk control are centralised within the Risk Management Sector.

3.1.1. Credit risk measurement

(a) Loans and advances

In measuring credit risk of loans and advances to customers and to banks based on contracts, the Bank reflects three components (i) credit worthiness of the client, (ii) regular settlement of contractual liabilities (iii) quality of security instruments of receivables.

These credit risk measurements, which reflect expected loss (the 'expected loss model') and are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee), are embedded in the Bank's daily operational management. The operational measurement can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model'), rather than expected losses.

(i) The Bank assesses the credit worthiness of the client using internal rating tools. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Placements of the Bank are segmented into three rating classes: fully recoverable investments, partially recoverable and unrecoverable investments.
(ii) Settlement of liabilities means the payment of all liabilities within contractual maturity terms, without establishing a new receivables.
(iii) The quality of security instruments of receivables is established based on market effectiveness, the existence of documentation and the possibility of forced collection.

(b) Debt securities and other bills

For debt securities and other bills, external ratings such as Standard & Poor's, Moody's, FitchIBCA rating or their equivalents are used by the Treasury Sector, if available. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

3.1.2. Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

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

Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for certain types of placements. The Bank implements internal guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory, accounts receivable and equipment;;
- Charges over financial instruments such as debt securities and equities.

Debt securities, treasury and other eligible bills are generally unsecured.

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3. Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. The impairment provision shown in the balance sheet at year-end is derived from each of the three internal rating grades. However, the majority of the impairment provision comes from the bottom two grades. The table below shows the percentage of the Bank's on balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's rating	**2007**		**2006**	
	Loans and advances	**Impairment provision**	**Loans and advances**	**Impairment provision**
1. Fully recoverable investments	1,538,914	21,850	1,333,888	19,800
2. Partially recoverable investments	96,627	36,821	125,763	34,320
3. Unrecoverable investments	58,953	58,953	70,506	70,506
	1,694,494	**117,624**	**1,530,157**	**124,626**

Bank's rating	**2007**		**2006**	
	Loans and advances	**Impairment provision**	**Loans and advances**	**Impairment provision**
1. Fully recoverable investments	90.81%	18.58%	87.17%	15.89%
2. Partially recoverable investments	5.71%	31.30%	8.22%	27.54%
3. Unrecoverable investments	3.48%	50.12%	4.61%	56.57%
	100.0%	**100.0%**	**100.0%**	**100.0%**

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

3.1.4. Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:	**2007**	**2006**
Cash and cash equivalents and Central bank balances	467,649	394,706
Loans and advances to banks	530,205	536,826
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	47,737	50,166
– Mortgage and housing loans	113,100	122,659
– Credit cards	31,393	30,024
– Other	805,830	636,131
Loans to corporate entities:		
– Large corporate customers	134,348	134,348
– Small and medium size enterprises (SMEs)	432,203	432,203
Trading assets		
– Debt securities	23,281	12,369
Investment securities		
– Debt securities available for sale	6,099	7,882
– Debt securities held to maturity	54,223	51,426
Other assets	20,368	24,301
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	63,991	81,675
Loan commitments and other credit related liabilities	254,333	132,473
At 31 December	**2,997,019**	**2,647,189**

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2007 and 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 70.31 % of the total maximum exposure is derived from loans and advances to banks and customers (2006: 73.37 %); 2.79% represents investments in debt securities (2006: 2.71%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- 96.52% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2006: 95.39%);
- Mortgage loans are backed by collateral;
- 91.64% of the loans and advances portfolio are considered to be neither past due nor impaired (2006: 88.43%);
- Of the 155,580 thousand HRK of loans and advances assessed on an individual basis, less than 75.60 % is impaired;
- There is no any past due amounts which relate to Loans and advances to banks.

3.1.5. Loans and advances

Loans and advances are summarised as follows:

	31 December 2007		31 December 2006	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	1,512,977	530,205	1,296,431	536,826
Past due but not impaired	25,937		37,457	
Individually impaired	155,580	3,345	196,269	3,345
Gross	**1,694,494**	**533,550**	**1,530,157**	**540,171**
Less: allowance for impairment	(117,624)	(3,345)	(124,626)	(3,345)
Net	**1,576,870**	**530,205**	**1,405,531**	**536,826**

The total impairment provision for loans and advances is HRK 117,624 thousand (2006: HRK 124,626 thousand).

Further information of the impairment allowance for loans and advances to banks and to customers is provided in Notes 18 and 19.

During the year ended 31 December 2007, the Bank's total loans and advances increased by 10.9% as a result of the expansion of the lending business. When entering into new markets or new industries, in order to minimise the potential increase of credit risk exposure, the Bank focused more on the business with small and medium sized corporate enterprises or banks with good credit rating or retail customers providing sufficient collateral.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

31 December 2007

	Loans and advances to customers							
	Individual (retail customers)				Corporate entities			
	Overdrafts	Credit cards	Other loans	Mortgage and housing loans	Large corporate customers	Small and medium sized corporate customers	Total loans and advances to customers	Loans and advances to banks
Grades:								
Fully recoverable investments	46,859	31,021	792,684	103,536	173,760	365,117	1,512,977	530,205
Total	**46,859**	**31,021**	**792,684**	**103,536**	**173,760**	**365,117**	**1,512,977**	**530,205**

31 December 2006

	Loans and advances to customers							
	Individual (retail customers)				Corporate entities			
	Overdrafts	Credit cards	Other loans	Mortgage and housing loans	Large corporate customers	Small and medium sized corporate customers	Total loans and advances to customers	Loans and advances to banks
Grades:								
Fully recoverable investments	48,778	29,658	611,944	112,982	134,348	358,721	1,296,431	536,826
Total	**48,778**	**29,658**	**611,944**	**112,982**	**134,348**	**358,721**	**1,296,431**	**536,826**

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary.

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2007					
	Individual (retail customers)				
	Overdrafts	**Credit cards**	**Mortgage and housing loans**	**Other**	**Total**
Past due up to 30 days	1,025	160	172	4,426	5,783
Past due 30 - 90 days	374	64	454	4,366	5,258
Total	**1,399**	**224**	**626**	**8,792**	**11,041**
Fair value of collateral	-	-	939	9,005	9,944

	Corporate entities		
	Large corporate customers	**SMEs**	**Total**
Past due up to 30 days	-	7,577	7,577
Past due 30-90 days	-	7,319	7,319
Total	**-**	**14,896**	**14,896**
Fair value of collateral	-	17,875	17,875

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by referring to the market price or indexes of similar assets.

31 December 2006					
	Individual (retail customers)				
	Overdrafts	**Credit cards**	**Mortgage and housing loans**	**Other**	**Total**
Past due up to 30 days	928	146	-	4,770	5,844
Past due 30 - 90 days	453	71	1,001	6,292	7,817
Total	**1,381**	**217**	**1,001**	**11,062**	**13,661**
Fair value of collateral	-	-	1.502	11.339	12.841

	Corporate entities		
	Large corporate customers	**SMEs**	**Total**
Past due up to 30 days	-	16,013	16,013
Past due 30-90 days	-	7,783	7,783
Total	**-**	**23,796**	**23,796**
Fair value of collateral	-	28,555	28,555

(c) Loans and advances individually impaired

Loans and advances to customers

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is HRK 155,580 thousand (2006: HRK 196,269 thousand).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

31 December 2007	Individual			Corporate entities			
	Overdrafts	Credit cards	Mortgage and housing loans	Other	Large corporate customers	SMEs	Total
Individually impaired loans	8,455	1,246	14,870	35,404	-	95,605	**155,580**
Fair value of collateral	-	-	17,980	28,818	-	67,926	**114,724**

31 December 2006							
Individually impaired loans	8,526	1,091	13,965	38,143	-	134,544	**196,269**
Fair value of collateral	-	-	16,897	30,928	-	94,516	**142,341**

Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2007 was HRK 3,345 thousand (2006.: HRK 3,345 thousand). No collateral is held by the Bank, and a full impairment provision has been made against the gross amount.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the Management Board, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to loans for corporate customers financing. Within these loans there were no renegotiated loans that would otherwise be past due or impaired either at 31 December 2007 or 2006.

3.1.6. Debt securities

Total investments in debt securities have at fully recoverable investments –internal credit rating A. There are no past due amounts.

3.1.7. Repossessed collateral

During 2007, the Bank obtained assets by taking possession of collateral held as security as follows:

Nature of assets	Carrying amount
Residential premises	HRK 338 thousand

Repossessed property is classified in the balance sheet within other assets. The value of assets repossessed in the exchange for unpaid receivables as at 31 December 2007 amounted to HRK 2,414 thousand (2006: HRK 4,071 thousand).

3.1.8. Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2007. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Croatia	European Union	Other countries	Total
Loans and advances to banks	237,971	267,799	24,435	530,205
Loans and advances to customers:				
Loans to individuals:				
- Overdrafts	47,737	-	-	47,737
- Mortgage and housing loans	113,100	-	-	113,100
- Credit cards	31,393	-	-	31,393
- Other	805,830	-	-	805,830
Loans to corporate entities:		-	-	
- Large corporate customers	173,760	-	-	173,760
- SMEs	405,050	-	-	405,050
Trading assets – debt securities	23,281	-	-	23,281
Investment securities :		-	-	
- Debt securities available for sale	6,099	-	-	6,099
- Debt securities held to maturity	54,223	-	-	54,223
Other assets	6,611	-	-	6,611
As at 31 December 2007	**1,905,055**	**267,799**	**24,435**	**2,197,289**
As at 31 December 2006	**1,777,889**	**206,580**	**39,618**	**2,024,087**

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

	Financial institutions	Manu-facturing	Real estate	Whole-sale and retail trade	Public sector	Other industries	Individuals	Total
Loans and advances to banks	530,205	-	-	-	-	-	-	530,205
Loans and advances to customers:	-	-	-	-	-	-	-	-
Loans to individuals:	-	-	-	-	-	-	-	-
– Overdrafts	-	-	-	-	-	-	47,737	47,737
– Credit cards	-	-	-	-	-	-	31,393	31,393
– Term loans	-	-	-	-	-	-	805,830	805,830
– Mortgage and housing loans	-	-	-	-	-	-	113,100	113,100
Loans to corporate entities:	-	-	-	-	-	-	-	-
– Large corporate customers	13	92,733	-	41,224	-	39,790	-	173,760
– SMEs	24,193	142,856	25,801	138,992	2,325	70,883	-	405,050
Trading assets- debt securities	23,281	-	-	-	-	-	-	23,281
Available-for-sale debt securities	-	-	-	-	6,099	-	-	6,099
Held-to-maturity debt securities	-	-	-	-	54,223	-	-	54,223
Other assets	45	-	-	-	1,382	5,184	-	6,611
At 31 December 2007	**577,737**	**235,589**	**25,801**	**180,216**	**64,029**	**115,857**	**998,060**	**2,197,289**
At 31 December 2006	551,867	253,707	21,795	159,352	66,764	113,838	856,764	2,024,087

3.2. Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rates, currencies and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios. The market risks arising from trading and non-trading activities are concentrated in the Bank Treasury, and monitored by two teams separately. Regular reports are submitted to the Management Board. The president of the Management Board and the person in charge of monitoring the Treasury Sector daily obtain basic data on the balance of the Bank's HRK and foreign currency liquidity including information on the most significant changes in the trend of movements of interest rates and foreign exchange rates.

Management receives weekly reports from the Treasury Sector including information on foreign currency risk exposure and the realised level of coverage of foreign currency liabilities by foreign currency receivables. In addition, the Risk Management Sector delivers to the Bank Management a monthly report on the total foreign currency risk exposure. Responsible persons in the Treasury Sector who are in charge of keeping the Bank's Book provide the Management with data on the value of the Book, as well as the effects of purchase and sale and the value of adjustments. Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale investments.

3.2.1. Market risk measurement techniques

As part of the risk management process, the Bank operates a risk hedging strategy. The Bank applies a 'value at risk' methodology (VAR) to open foreign currency positions for the purpose of assessing the maximum amount of expected losses, based upon a number of assumptions for various changes in market conditions. The methodology expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (99% and 95%). The Bank applies historical changes in exchange rates directly to its current positions – this method is known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The most significant measurement techniques used by the Bank for measuring and controlling market risk are presented below. At 31 December 2007, if the EURO had weakened/strengthened by 0.5% and 1% for 2006 against the HRK, with all other variables remaining constant, the net profit for the reporting period would have been HRK 8,215 thousand (2006: HRK 23,980 thousand) higher/(lower), mainly as a result of foreign exchange gains/(losses) on translation of EURO denominated foreign cash funds, loans and advances, deposits and borrowings. At 31 December 2007, if the USD had weakened/strengthened by 5% against the HRK and 2% for 2006, with all other variables remaining constant, the net profit for the reporting period would have been HRK 4,245 thousand (2006: HRK 1,284 thousand) higher/(lower), mainly as a result of foreign exchange gains/(losses) on translation of USD denominated foreign cash funds, loans and advances, deposits and borrowings.

At 31 December 2007, if interest rates had been 1% and 0,8% for 2006 higher/lower, with all other variables remaining constant, net profit for the year would have been HRK 35,593 thousand (2006: HRK 25,183 thousand) lower/higher, mainly as a result of higher/lower interest income on floating rate investments. At 31 December 2007, if stock market indices (CROBEX) had increased/decreased by 69% and by 43% for 2006, with all other variables remaining constant, equity reserves would have been HRK 2,588 thousand (2006: HRK 305 thousand) higher/lower as a result of gains/losses from available-for-sale equity securities. At 31 December 2007, if stock market indices (CROBIS) had increased/decreased by 3% and by 1% for 2006, with all other variables remaining constant, the net profit for the reporting period would have been HRK 12,693 thousand (2006: HRK 6,369 thousand) higher/lower as a result of gains/losses from financial assets at fair value through profit and loss.

3.2.2. Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets principles and limits for foreign currency exposures which are monitored daily. The Bank directs its business activities trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency, and maintaining the daily business activities within daily potential loss limits. The parameters are regularly reviewed in accordance with fluctuations in foreign currency rates and correlations between currencies. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Concentrations of currency risk – on- and off-balance sheet financial instruments

(in thousands of HRK)	HRK	EUR	USD	Other currencies	Total
At 31 December 2007					
ASSETS					
Cash and balances with banks	106,752	76,676	11,938	13,836	209,202
Cash and balances with Central bank	208,838	40,183	9,426	-	258,447
Loans and advances to banks	179,269	333,825	6,069	11,042	530,205
Loans and advances to customers	806,698	751,454	14,794	3,924	1,576,870
Trading assets	22,034	17,995	-	-	40,029
Investment securities:				-	-
- available-for-sale	21,226	-	-	-	21,226
- held-to-maturity	54,223	-	-	-	54,223
Other assets	6,229	371	5	6	6,611
Total financial assets	**1,405,269**	**1,220,504**	**42,232**	**28,808**	**2,696,813**
LIABILITIES					
Deposits from banks	-	44,400	-	-	44,400
Due to customers	1,139,099	1,129,943	37,316	24,287	2,330,645
Other borrowed funds	106,642	45,773	-	-	152,415
Other liabilities	16,840	2,342	317	25	19,524
Total financial liabilities	**1,262,581**	**1,222,458**	**37,633**	**24,312**	**2,546,984**
Net on-balance sheet financial position	**142,688**	**(1,954)**	**4,599**	**4,496**	**149,829**
Off balance sheet items	**255,051**	**61,423**	**6,087**	**83**	**322,644**

At 31 December 2006					
Total financial assets	**1,061,485**	**1,318,563**	**36,704**	**27,018**	**2,443,770**
Total financial liabilities	**936,590**	**1,300,940**	**37,107**	**21,501**	**2,296,138**
Net on-balance sheet financial position	124,895	17,623	(403)	5,517	147,632
Off balance sheet items	158,209	57,383	2,790	457	218,839

3.2.3. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

(in thousands of HRK)	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-3 years**	**Over 3 years**	**Non interest bearing**	**Total**
At 31 December 2007							
ASSETS							
Cash and balances with banks	63,349	-	-	-	-	145,853	209,202
Obligatory reserve with Central bank	-	130,928	87,739	30,280	9,318	182	258,447
Loans and advances to banks	527,533	-	1,440	-	1,232	-	530,205
Loans and advances to customers	1,375,398	11,510	63,701	39,746	75,514	11,001	1,576,870
Trading assets	-	-	-	-	-	40,029	40,029
Investment securities:	-	-	-	-	-	-	-
- available-for-sale						21,226	21,226
- held-to-maturity	-	-	-	-	53,755	468	54,223
Other assets	-	-	-	-	-	6,611	6,611
Total financial assets	**1,966,280**	**142,438**	**152,880**	**70,026**	**139,819**	**225,370**	**2.696.813**
LIABILITIES							
Deposits from banks	44,396	-	-	-	-	4	44,400
Due to customers	956,848	377,397	706,552	198,930	60,690	30,228	2,330,645
Other borrowed funds	89,158	3,811	21,520	12,986	24,592	348	152,415
Other liabilities	-	-	-	-	-	19,524	19,524
Total financial liabilities	**1,090,402**	**381,208**	**728,072**	**211,916**	**85,282**	**50,104**	**2,546,984**
Total interest repricing gap	**875,878**	**(111,231)**	**(341,845)**	**(25,032)**	**98,573**	**175,266**	**149,829**

(in thousands of HRK)	Up to 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	Non interest bearing	Total
At 31 December 2006							
Total financial assets	1,801,113	123,344	91,040	85,325	123,996	218,952	2,443,770
Total financial liabilities	1,483,868	205,096	431,323	94,583	16,236	65,032	2,296,138
Total interest repricing gap	**317,245**	**(81,752)**	**(340,283)**	**(9,258)**	**107,760**	**153,920**	**147,632**

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lenders.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank manages liquidity reserves daily, ensuring also accomplishment of all customer needs.

3.3.1. Funding approach

Sources of liquidity are regularly reviewed by the Bank's Treasury to maintain a wide diversification by currency, geography, provider, product and term.

3.3.2. Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date.

(in thousands of HRK)	Up to 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	Total
At 31 December 2007						
LIABILITIES						
Due to banks	134,225	3,838	22,135	14,100	27,405	201,703
Due to customers	989,930	380,671	731,069	219,639	69,114	2,390,423
Other liabilities	17,894	639	-	-	991	19,524
Total liabilities (contractual maturity dates)	**1,142,049**	**385,148**	**753,204**	**233,739**	**97,510**	**2,611,650**
Total loan commitments (contractual maturity dates)	**20,873**	**44,556**	**191,822**	**-**	**-**	**257,251**
	1,162,922	**429,704**	**945,026**	**233,739**	**97,510**	**2,868,901**

(in thousands of HRK)	Up to 1 month	1- 3 months	3-12 months	1-3 years	Over 3 years	Total
At 31 December 2006						
LIABILITIES						
Due to banks	117,354	21,360	29,542	33,576	17,157	218,989
Due to customers	839,414	343,491	656,389	194,550	63,668	2,097,512
Other liabilities	7,920	9,343	15,068	5,055	-	37,386
Total liabilities (contractual maturity dates)	**964,688**	**374,194**	**700,999**	**233,181**	**80,825**	**2,353,887**
Total loan commitments (contractual maturity dates)	**46,700**	**25,497**	**62,448**	**-**	**-**	**134,645**
	1,011,388	**399,691**	**763,447**	**233,181**	**80,825**	**2,488,532**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection, loans and advances to banks and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Bank would also be able to meet unexpected net cash outflows by selling securities.

3.3.3. Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 33), are summarised in the table below.

(b) Other financial facilities

Other financial facilities (Note 33), are also included below based on the earliest contractual maturity date.

At 31 December 2007	No later than 1 year	1-3 years	Over 3 years	Total
Loan commitments	257,251	-	-	257,251
Guarantees, acceptances and other financial facilities	56,538	8,855	-	65,393
Total	**313,789**	**8,855**	**-**	**322,644**

At 31 December 2006				
Loan commitments	134,645	-	-	134,645
Guarantees, acceptances and other financial facilities	78,194	5,909	194	84,297
Total	**212,839**	**5,909**	**194**	**218,942**

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since the business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.
The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest–bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.
Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

3.3.4. Fair values of financial assets and liabilities

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

(a) Financial instruments measured at fair value using a valuation technique
The total amount of the change in fair value estimated using a valuation technique that was recognised in profit or loss during the period is HRK 1,876 thousand (2006: HRK 4,090 thousand).

(b) Financial instruments not measured at fair value
The table on the next page summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	Carrying value		Fair value	
	2007	**2006**	**2007**	**2006**
Financial assets				
Loans and advances to banks	530,205	536,826	530,205	536,826
Loans and advances to customers				
– Retail customers (individual)	996,060	838,980	980,276	816,045
– Large corporate customers	173,760	134,348	173,760	134,348
– SMEs	405,050	432,203	405,050	432,203
Investment securities (held-to-maturity)	54,223	51,426	54,223	51,426
Other assets	6,611	10,053	6,611	10,053
Total financial assets	**2,167,909**	**2,003,836**	**2,163,882**	**1,995,149**
Financial liabilities				
Due to banks	196,815	213,140	193,473	208,989
Due to customers	2,330,645	2,045,612	2,282,445	2,003,396
Other liabilities	19,524	37,386	19,524	37,386
Total financial assets	**2,546,984**	**2,296,138**	**2,495,442**	**2,249,771**

For the purpose of the fair value assessment of the Bank's financial instruments the following methods and assumptions have been used:

(a) Cash and funds with Central bank

The carrying amount of cash and amounts due from banks, obligatory reserve with the Croatian National Bank, and placements with banks, deposits from banks and deposits from companies and similar entities are deemed to reflect their fair value due to the short-term maturity of these financial instruments.

(b) Investment securities held-to-maturity

The fair value of securities held-to-maturity is calculated based on quoted market prices.

(c) Due from other banks

The estimated fair values of amounts due from other banks, which mature within a maximum of 180 days approximate their carrying amounts. The fair values of other amounts due from banks is estimated based on discounted cash flow analyses using prevailing interest rates for investments under similar terms (market rates adjusted by credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis. Allowances are not taken into consideration when calculating fair values.

(d) Loans and advances to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. Loans at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total loans and advances to customers approximates the carrying values as at the balance sheet date. Allowances are not taken into consideration when calculating fair values

(e) Due to other banks and customers

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

3.4. Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- to comply with the capital requirements set by the Central bank;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Croatian National Bank (the Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis. The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital in the amount of HRK 40 million and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at the minimum of 10%, which is above the internationally agreed minimum of 8%.

The Bank's regulatory capital is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares), retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment

allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

Investments in associates are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of six risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses. The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December.

	2007	**2006**
Tier 1 capital		
Share capital (net of treasury shares)	166,391	166,470
Reserves from profit after taxations	38,106	31,331
Capital gains	5,094	4,970
Reserves for treasury shares	16,830	5,890
Less: goodwill	(16,867)	(16,867)
Other	327	822
Total qualifying Tier 1 capital	**209,227**	**190,972**
Tier 2 capital		
Collective impairment allowance	10,685	19,535
Total qualifying Tier 2 capital	**10,685**	**19,535**
Less: investments in non-consolidated subsidiary	(1,530)	-
Total regulatory capital	**218,382**	**210,507**
Risk-weighted assets:		
On-balance sheet	1,955,374	1,798,742
Off-balance sheet	181,711	154,760
Total risk-weighted assets	**2,137,085**	**1,953,502**
Basel ratio	**10.14%**	**10.61%**

The increase of the regulatory capital in the year of 2007 is mainly due to the transfer of profit from 2006 to the Bank's reserves. The increase of the risk-weighted assets reflects the expansion of the business in 2007.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

Banka najmanje tromjesečno pregledava svoj kreditni portfelj u svrhu procjene The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experienced.

To the extent that if the net present value of estimated cash flows were to be higher by +2%, the provision would be estimated HRK 759 thousand lower.

(b) Impairment of available for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. In 2008, the Bank does not expect significant changes in the stock market. Meanwhile, if stock market indices had increased/decreased by 10%, with all other variables held constant, equity reserves would have been HRK 512 thousand higher/lower as a result of gains/losses from available-for-sale equity securities.

NOTE 5 – SEGMENT ANALYSIS

a) By business segment

The Bank is divided into two main business segments:

- Retail banking – incorporating private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages;
- Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

Other Bank operations comprise financial instruments trading and fund management, none of which constitutes a separately reportable segment.

(In thousands of HRK)	**Retail banking**	**Corporate banking**	**Other**	**Total**
At 31 December 2007				
Revenues	127,542	88,282	33,418	249,242
Segment result	74,379	36,825	24,334	135,538
Unallocated costs	-	-	-	(116,755)
Operating profit	-	-	-	18,783
Income tax expense	-	-	-	634
Net profit	**-**	**-**	**-**	**19,417**
Segment assets	998,060	578,810	1,061,331	2,638,201
Unallocated assets	-	-	-	165,800
Total assets	**-**	**-**	**-**	**2,804,001**
Segment liabilities	1,538,665	791,980	196,815	2,527,460
Unallocated liabilities	-	-	-	29,339
Total liabilities	**-**	**-**	**-**	**2,556,799**
Other segment items				
Capital expenditure	-	-	30,976	30,976
Depreciation	-	-	13,534	13,534
Impairment charge - loans	5,667	11,019	2,900	19,586
Other non-cash expenses		13	61	74

(in thousands of HRK)	Retail banking	Corporate banking	Other	Total
At 31 December 2006				
Revenues	107,210	61,300	28,698	197,208
Segment result	68,991	33,484	15,695	118,170
Unallocated costs	-	-	-	(99,966)
Operating profit	-	-	-	18,204
Income tax expense	-	-	-	361
Net profit	**-**	**-**	**-**	**18,565**
Segment assets	838,980	566,551	973,972	2,379,503
Unallocated assets	-	-	-	154,195
Total assets	**-**	**-**	**-**	**2,533,698**
Segment liabilities	1,312,911	732,701	213,140	2,258,752
Unallocated liabilities	-	-	-	47,385
Total liabilities	**-**	**-**	**-**	**2,306,137**
Other segment items				
Capital expenditure	-	-	9,885	9,885
Depreciation	-	-	13,319	13,319
Impairment charge - loans	2,675	(2,246)	4,230	4,659
Other non-cash expenses	-	-	3	3

The matching of assets and liabilities by segments with the Bank's assets and liabilities is summarized as follows:

(In thousands of HRK)	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Assets / Liabilities by segments	2,638,201	2,527,460	2,379,503	2,258,752
Unallocated:	165.800	29,339	154,195	47,385
Cash in hand	51,791	-	45,102	-
Instruments in the course of collection	210	-	9,112	-
Investments in subsidiaries	1,530	-	-	-
Intangible assets	19,299	-	19,748	-
Property and equipment	81,633	-	64,431	-
Deferred tax assets	2,155	-	1,522	-
Other assets	9,182	-	14,280	-
Other liabilities	-	29,339	-	47,385
Total	**2,804,001**	**2,556,799**	**2,533,698**	**2,306,137**

b) The geographical segment is disclosed in Note 3.1.

Over 90% of revenue from external customers was realised in Croatia.

NOTE 6 – NET INTEREST INCOME

a) Interest income

Analysis by source

(in thousands of HRK)	2007	2006
Retail customers	95,915	83,146
Corporate customers	52,025	34,971
State and public sector	5,763	5,073
Domestic banks	8,486	4,648
Foreign banks	10,824	3,713
	173,013	**131,551**

Analysis by product

(in thousands of HRK)	2007	2006
Debt securities	11,544	10,587
Obligatory reserve with Croatian National Bank	2,468	1,734
Loans and advances to banks	16,842	6,546
Loans and advances to clients	142,159	112,684
	173,013	**131,551**

Accrued interest on partially recoverable investments amounts to HRK 42,802 thousand (2006: HRK 54,022 thousand).

b) Interest expense

Analysis by source

(in thousands of HRK)	2007	2006
Retail customers	44,256	32,860
Corporate customers	19,829	15,230
State and public sector	5,977	3,821
Domestic banks	3,460	3,306
Foreign banks	589	1,025
Other foreign entities	2,275	2,360
	76,386	**58,602**

Analysis by product

(in thousands of HRK)	**2007**	**2006**
Deposits from banks	1,003	1,110
Deposits from legal entities	19,829	15,230
Deposits from public sector	5,977	3,821
Customers deposits	44,256	32,860
Deposits of other foreign entities	2,274	2,360
Other borrowed funds	3,047	3,221
	76,386	**58,602**

NOTE 7 - NET FEE AND COMMISSION INCOME

a) Fee and commission income

Analysis by source

(in thousands of HRK)	**2007**	**2006**
Retail customers	31,627	24,064
Corporate customers	19,106	16,922
Domestic banks	1,647	1,480
State and public sector	600	420
Foreign legal entities	254	364
	53,234	**43,250**

Analysis by product

(in thousands of HRK)	**2007**	**2006**
Guarantees and letter of credits given	6,524	5,371
Credit card transactions	17,849	15,502
Domestic and foreign currency transactions	15,955	13,848
Securities transactions	8,046	4,313
Other banking services	4,860	4,216
	53,234	**43,250**

b) Fee and commission expense

Analysis by source

(in thousands of HRK)	2007	2006
Corporate customers	11,519	10,919
Domestic banks	2,605	2,055
Foreign banks	216	190
	14,340	**13.164**

Analysis by product

(in thousands of HRK)	2007	2006
Domestic currency transactions	4,323	3,920
Cash transactions	6,952	6,541
Other banking services	3,065	2,703
	14,340	**13.164**

NOTE 8 – FOREIGN EXCHANGE DIFFERENCES - NET

(in thousands of HRK)	2007	2006
Net foreign exchange gains from operations	10,019	9,306
Net foreign exchange gains on translation of foreign currency assets and liabilities	1,809	4,705
	11,828	**14.011**

NOTE 9 – NET GAINS FROM PURCHASE AND SALE AND FAIR VALUE ADJUSTMENT OF FINANCIAL INSTRUMENTS

(in thousands of HRK)	2007	2006
Gains less losses from securities at fair value through profit or loss	7,381	4,826
	7,381	**4,826**

NOTE 10 – OTHER OPERATING INCOME

(in thousands of HRK)	**2007**	**2006**
Consultancy services provided	1,319	2,649
Dividends from available-for-sale financial assets	765	108
Rental income	833	371
Collection of insurance claims	544	301
Court expenses refund	158	502
Other income	600	456
	4,219	**4,387**

NOTE 11 – ADMINISTRATIVE EXPENSES

(in thousands of HRK)	**2007**	**2006**
Staff costs		
Wages and salaries	25,271	22,665
Pension contributions	6,900	5,558
Social security contributions	5,803	5,262
Other contributions and taxes on wages and salaries	7,369	7,573
Termination benefits	61	56
Other staff benefits	1,274	1,460
	46,678	**42.574**
Other administrative expenses	43,191	34,045
Depreciation and amortisation (Notes 22 and 23)	13,534	13,319
	103,403	**89,938**

As at 31 December 2007, the Bank had 347 employees (2006: 346 employees).

NOTE 12 – OTHER OPERATING EXPENSES

(in thousands of HRK)	**2007**	**2006**
Sale of tangible assets	32	414
Deposit insurance premium	3,812	3,169
Rental cost	7,255	5,972
Software development costs	1,470	1,253
Taxes and contributions on income	1,214	1,035
Other state contributions	1,972	-
Other	1,409	1,354
	17,164	**13,197**

NOTE 13 – IMPAIRMENT CHARGE FOR CREDIT LOSSES-NET

(in thousands of HRK)	Note	2007	2006
Loans and advances to customers	19	19,601	4,091
Other assets	24	459	206
Provisions for off-balance items	28	(474)	362
		19,586	**4,659**

NOTE 14 – INCOME TAX EXPENSE

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

Adjustment of income tax is as follows:

(in thousands of HRK)	2007	2006
Deferred tax	(634)	(361)
Income tax credit	(634)	(361)

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

(in thousands of HRK)	2007	2006
At 1 January	1,521	1,160
Deferred tax assets recognised	635	604
Utilisation of deferred tax assets from previous periods	(1)	(243)
At 31 December	**2,155**	**1,521**

Deferred tax assets arose as a result of the following temporary differences:

(in thousands of HRK)	2007	2006
Unrealised gains on assets at fair value through profit or loss	96	3
Deferred loan origination fees	2,058	1,516
Other	1	2
Net deferred tax assets	**2,155**	**1,521**

The movement on the deferred tax assets account is as follows:

	Gains/losses on investments and assets at fair value through P&L	Deferred loan origination fees	Other	Total
At 31 December 2005	**243**	**915**	**2**	**1,160**
Transfer to income statement	(240)	601	-	361
At 31 December 2006	**3**	**1,516**	**2**	**1,521**
Transfer to income statement	93	542	**(1)**	**634**
At 31 December 2007	**96**	**2,058**	**1**	**2,155**

The reconciliation of the income tax expense for the period is presented below:

(in thousands of HRK)	2007	2006
Accounting profit before taxation	18,783	18,204
Expected tax at a rate of 20%	3,757	3,641
Effect of income not subject to tax	(4)	(243)
Effect of expenses not deductible for tax purposes	780	356
Taxable income of future period	638	498
Tax loss carried forward	(5,171)	(4,252)
Income tax	**-**	**-**
Effective tax rate	**0%**	**0%**

Tax loss

(in thousands of HRK)	2007	2006
Tax loss carried forward from previous periods	30,045	-
Increase from merger	-	51,306
Utilised during the year	(25,852)	(21,261)
Tax loss available for carry forward into the following periods	4,193	30,045

Tax loss available for carry forward may be utilised until 2010 and it relates to the tax loss of Požeška banka d.d. from 2005.

In accordance with the regulations of the Republic of Croatia, the Tax authorities may at any time inspect the Company's books and records within 3 years following the year in which the tax liability was reported, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 15 – EARNINGS PER SHARE

Basic

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of existing shares (ordinary) for the period, excluding own shares.

	2007	2006
Profit after tax (in thousands of HRK)	19,417	18,565
Weighted average number of shares	418,202	299,708
Basic earnings per share – ordinary (in HRK)	**46,43**	**61,94**

Diluted

Diluted earnings per share for 2007 and 2006 is equal to basic earnings per share, since the Bank did not have any convertible instruments and share options during both years.

NOTE 16 – CASH AND BALANCES WITH BANKS

(in thousands of HRK)	2007	2006
Cash in hand	51,791	45,102
Instruments in the course of collection	210	9,112
Current accounts with domestic banks	17,887	7,810
Current accounts with foreign banks	63,712	60,334
Current accounts with Croatian National Bank	64,131	45,368
Other cash accounts	11,471	5,680
Funds included in cash and cash equivalents (Note 32)	**209,202**	**173.406**

NOTE 17 – OBLIGATORY RESERVE WITH THE CROATIAN NATIONAL BANK

(in thousands of HRK)	2007	2006
- in HRK	208,838	180,335
- in foreign currency	49,609	40,965
Total:	**258,447**	**221.300**

The obligatory reserve represents amounts required to be deposited with the Croatian National Bank ('CNB') and through balances of liquid receivables. The obligatory reserve consists of two parts, HRK and foreign exchange, calculated on a monthly basis.

The rate of the obligatory reserve as at 31 December 2007 and 2006 is 17% of received HRK and foreign currency deposits and foreign currency borrowings.

NOTE 18 – LOANS AND ADVANCES TO BANKS

(in thousands of HRK)	2007	2006
Deposits with other banks, maturity less than 1 year		
- with domestic banks, in HRK	4,716	4,541
- with foreign banks, in foreign currency	346,220	350,140
Loans to banks, maturity less than 1 year		
- with domestic banks, in HRK	182,614	185,490
	533,550	**540,171**
Less: allowance for impairment	(3,345)	(3,345)
Current	**530,205**	**536,826**

Reconciliation of the allowance account for losses on loans and advances to other banks:

	2007	2006
At 1 January	3,345	3,345
At 31 December	**3,345**	**3,345**

Allowance for impairment relates to domestic banks in bankruptcy.

NOTE 19 – LOANS AND ADVANCES TO CUSTOMERS

(in thousands of HRK)	2007	2006
Retail customers:		
Overdrafts	56,713	58,685
Mortgage and housing loans	119,032	127,948
Credit cards	32,491	30,966
Other loans and advances	836,880	661,149
	1,045,116	**878.748**
Corporate entities:		
-Large corporate customers	173,760	134,348
-SMEs	475,618	517,061
	649,378	**651,409**
Gross loans and advances	1,694,494	1,530,157
Less: Allowance for impairment	**(117,624)**	**(124,626)**
Net	**1,576,870**	**1,405,531**
Current	**877,461**	**732,284**
Non-current	**699,409**	**673,247**

(in thousands of HRK)	2007	2006
Loans and advances to customers		
- in HRK	1,669,167	1,492,878
- in foreign currency	25,327	37,279
	1,694,494	1,530,157
Allowance for impairment	(117,624)	(124,626)
	1,576,870	**1,405,531**

Reconciliation of allowance account for losses on loans and advances by class is as follows:

	Retail customers				Corporate entities:		
	Overdrafts	**Credit cards**	**Mortgage and housing loans**	**Others**	**Large corporate customers**	**-SMEs**	**Total**
At 1 January 2007	**8,519**	**942**	**5,289**	**25,018**	**-**	**84,858**	**124,626**
Provision for loan impairment	3,395	707	1,760	8,664	-	16,178	30,704
Unused amounts reversed	(2,913)	(551)	(1,117)	(2,376)	-	(3,936)	(10,893)
Foreign exchange differences	-	-	-	18	-	(229)	(211)
Write-offs	(25)	-	-	(274)		(26,303)	(26,602)
At 31 December 2007	**8,976**	**1,098**	**5,932**	**31,050**	**-**	**70,568**	**117,624**

	Retail customers				Corporate entities:		
	Overdrafts	**Credit cards**	**Mortgage and housing loans**	**Others**	**Large corporate customers**	**-SMEs**	**Total**
At 1 January 2006	**7,489**	**676**	**6,194**	**21,442**	**-**	**87,827**	**123,628**
Provision for loan impairment	3,260	567	712	4,560	-	4,836	13,935
Unused amounts reversed	(2,168)	(301)	(1,617)	(302)	-	(5,245)	(9,633)
Foreign exchange differences	-	-	-	18	-	(229)	(211)
Write-offs	(62)	-	-	(700)	-	(2,331)	(3,093)
At 31 December 2006	**8,519**	**942**	**5,289**	**25,018**	**-**	**84,858**	**124,626**

NOTE 20 – TRADING ASSETS

(in thousands of HRK)	**2007**	**2006**
Debt securities	23,281	12,369
Equity securities-listed	16,748	18,288
	40,029	**30.657**

The Bank has no investments, based on which it would gain significant influence in the companies in which the Bank holds shares.

NOTE 21 – INVESTMENT SECURITIES

(in thousands of HRK)	**2007**	**2006**
Available-for-sale securities		
Debt securities at fair value:		
- listed	6,099	7,880
Equity securities at fair value:		
- listed	**10,331**	**6,670**
- unlisted	6,022	1,234
	22,452	**15,784**
Provision for impairment	**(1,226)**	**(1,213)**
Total available-for-sale securities	**21,226**	**14,571**

Securities held to maturity		
Bonds of the Republic of Croatia in HRK	54,223	51,426
Total securities held to maturity	**54,223**	**51,426**

Total investment securities	**75,449**	**65,997**
Current	**17,339**	**8,858**
Non-current	**58,110**	**57,139**

Movements in investment securities may be summarised as follows:

(in thousands of HRK)	**Available for sale**	**Held to maturity**	**Total**
At 1 January 2007	14,571	51,426	65,997
Additions	7,499	4,171	11,670
Sales	(2,195)	(1,374)	(3,569)
Gain from changes in fair value (note 30)	1,364	-	1,364
Provision for impairment	(13)	-	(13)
At 31 December 2007	**21,226**	**54,223**	**75,449**
At 1 January 2006	106,270	-	106,270
Transfer bonds	(45,192)	45,192	-
Additions	-	6,859	6,859
Sales	(45,629)	-	(45,629)
Gain from changes in fair value (note 30)	335	-	335
Provision for impairment	(1,213)	-	(1,213)
At 31 December 2006	**14,571**	**51,426**	**65,997**

Losses from available-for-sale financial assets:

(in thousands of HRK)	**2007**	**2006**
Provision for impairment	(13)	-
Sale of available-for-sale financial assets	-	(261)
	(13)	**(261)**

Provision for impairment relates to unquoted investments in companies which are bankrupt.

NOTE 22 – INTANGIBLE ASSETS

	Software	Goodwill/i/	Investments in progress	Total
At 31 December 2005				
Cost	5,880	-	-	5,880
Accumulated amortisation	(4,778)	-	-	(4,778)
Net book amount	**1,102**	**-**	**-**	**1,102**
Year ended 31 December 2006				
Opening net book amount	1,102	-	-	1,102
Additions from merger	2,075	16,867	-	18,942
Other additions	1,043	-	-	1,043
Disposals and write-offs	(149)	-	-	(149)
Amortisation charge (Note 11)	(1,179)	-	-	(1,179)
Other	(11)	-	-	(11)
Closing net book amount	**2,881**	**16,867**	**-**	**19,748**
At 31 December 2006				
Cost	9,176	16,867	-	26,043
Accumulated amortisation	(6,295)	-	-	(6,295)
Net book amount	**2,881**	**16,867**	**-**	**19,748**
Year ended 31 December 2007				
Opening net book amount	2,881	16,867	-	19,748
Additions	387	-	51	438
Disposals and write-offs	(4)	-	-	(4)
Amortisation charge (Note 11)	(883)	-	-	(883)
Closing net book amount	**2,381**	**16,867**	**51**	**19,299**
At 31 December 2007				
Cost	9,508	16,867	51	26,426
Accumulated amortisation	(7,127)	-	-	(7,127)
Net book amount	**2,381**	**16,867**	**51**	**19,299**

/i/ Goodwill represents the excess of the acquisition cost over the Bank's interest in the net carrying value of the subsidiary Požeška banka d.d. which was merged as at 1 July 2006 (Note 34).

Goodwill is allocated to cash generating units acquired by merging with the subsidiary Požeška banka d.d. The recoverable amount of cash generating units is computed based on the profitability calculation. For the stated calculations cash flow projections are used, which are based on 5-year financial projections.

The planned gross margin is determined based on past experience and expected market development. The pre-tax discount rate of 6.875% (2006: 6.875%) was used, reflecting the specific risks relating to the relevant operating segment.

NOTE 23 – PROPERTY AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Office supplies and motor vehicles**	**Computers**	**Property and assets under construction**	**Total**
At 31 December 2006					
Cost	39,352	45,734	27,476	900	113,462
Accumulated depreciation	(25,678)	(28,267)	(21,319)	-	(75.264)
Net book amount	**13,674**	**17,467**	**6,157**	**900**	**38.198**
Year ended December 2006					
Opening net book amount	13,674	17,467	6,157	900	38.198
Additions from merger	25,567	3,048	874	374	29,863
Other additions	306	5,516	4,188	(1,168)	8,842
Disposals and write-offs	-	(313)	(42)	-	(355)
Depreciation charge (Note 11)	(1,258)	(6,836)	(4,046)	-	(12,140)
Other	(11)	7	27		23
Closing net book amount	**38,278**	**18,889**	**7,158**	**106**	**64,431**
At 31 December 2006					
Cost	71,122	55,982	33,026	106	160,236
Accumulated depreciation	(32,844)	(37.093)	(25.868)	-	(95.805)
Net book amount	**38,278**	**18,889**	**7,158**	**106**	**64,431**
Year ended December 2007					
Opening net book amount	38,278	18,889	7,158	106	64,431
Additions	17,007	8,393	5,040	(8)	30,432
Disposals and write-offs	-	(560)	(19)	-	(579)
Depreciation charge (Note 11)	(1,742)	(7,243)	(3,666)	-	(12,651)
Closing net book amount	**53,543**	**19,479**	**8,513**	**98**	**81,633**
At 31 December 2007					
Cost	88,129	60,303	35,858	98	184,388
Accumulated depreciation	(34,586)	(40,824)	(27,345)	-	(102,755)
Net book amount	**53,543**	**19,479**	**8,513**	**98**	**81,633**

Property with a net book amount of HRK 29,391 thousand (2006: HRK 11,900 thousand) was pledged as a guarantee for deposits from legal entities in the amount of HRK 28,000 thousand (2006: HRK 25,000 thousand).

As at 31 December 2007 and 2006, the Bank had no contracted capital commitments for any projects.

Net book amount of property, plant and equipment leased out under operating leases is as follows:

(in thousands of HRK)	**2007**	**2006**
Cost	4,639	1,700
Accumulated depreciation as at 1 January	(1,700)	(1,700)
Depreciation for the year	(95)	-
Net book value	**2,844**	**-**

NOTE 24 – OTHER ASSETS

(in thousands of HRK)	**2007**	**2006**
Calculated fees and commissions	3,572	3,421
Assets taken in exchange for uncollectible receivables	2,414	4,071
Prepayments for income tax	1,232	4,555
Other prepayments	1,815	521
Other assets	2,819	4,636
	11,852	**17,204**
Less: Allowance for impairment losses on other assets	(2,670)	(2,923)
	9,182	**14,281**
Current	**9,182**	**14,281**

The movement in the allowance for impairment losses on other assets is as follows:

(in thousands of HRK)	**2007**	**2006**
At 1 January	**2,923**	**2,763**
Provision for loan impairment	716	378
Unused amounts reversed	(256)	(171)
Foreign exchange differences	(1)	(1)
Write-offs	(712)	(46)
At 31 December	**2,670**	**2,923**

NOTE 25 – DEPOSITS FROM BANKS

(in thousands of HRK)	**2007**	**2006**
Term deposits from banks, maturity less than 1 year		
- in HRK	-	6,010
- in foreign currency	44,400	55,179
	44,400	**61,189**
Current	**44,400**	**61,189**

NOTE 26 – DUE TO CUSTOMERS

(in thousands of HRK)	2007	2006
Corporate customers		
Demand		
- in HRK	281,064	213,143
- in foreign currency	35,874	98,538
	316,938	**311,681**
Term		
- in HRK	368,418	248,994
- in HRK with currency clause	77,939	148,855
- in foreign currency	28,685	23,171
	475,042	421,020
Total corporate customers	**791,980**	**732,701**
Retail customers		
Demand		
- in HRK	235,784	184,645
- in foreign currency	134,710	136,527
	370,494	**321,172**
Term		
- in HRK	253,833	169,412
- in HRK with currency clause	150,167	253,094
- in foreign currency	764,171	569,233
	1,168,171	991,739
Total retail customers	**1,538,665**	**1,312,911**
Total	**2,330,645**	**2,045,612**

(in thousands of HRK)	2007	2006
Large corporate enterprises		
- current accounts	53,706	42,121
- term deposits	240,108	224,328
SMEs		
- current accounts	263,232	269,560
- term deposits	234,934	196,692
Citizens		
- current /demand accounts	370,494	321,172
- time deposits	1,168,171	991,739
	2,330,645	**2,045,612**

Current	**2,071,025**	**1,812,752**
Non-current	**259,620**	**232,860**

NOTE 27 – OTHER BORROWED FUNDS

(in thousands of HRK)	2007	2006
Repo-loans from domestic banks, in HRK	-	10,131
Short-term borrowings from domestic money-market banks	89,204	61,576
Borrowings from the Croatian Bank for Reconstruction and Development	63,211	63,382
Borrowings from foreign banks	-	**16,862**
	152,415	**151,951**

Borrowings from the Croatian Bank for Reconstruction and Development (HBOR) are intended for granting loans to legal entities and natural persons at interest rate ranging from 0% to 4% in accordance with the HBOR programme for the stimulation of SMEs, tourism and agriculture. Borrowings from HBOR were secured by bills of exchanged. Maturities of long-term borrowings form HBOR are as follows:

(in thousands of HRK)	2007	2006
Between 1 and 2 years	6,664	25,876
Between 2 and 3 years	6,322	4,963
Over 3 years	**24,592**	**15,341**
	37,578	**46,180**

NOTE 28 – OTHER LIABILITIES

(in thousands of HRK)	2007	2006
Calculated fees and commissions	963	1,174
Dividends payable	149	140
Payables to employees	4,705	4,403
Provisions for contingent liabilities	4,320	4,794
Payables in the course of settlement	4,345	21,103
Trade payables	4,284	2,566
Other liabilities	10,573	13,205
	29,339	**47,385**

The movement in provisions for off-balance sheet items was as follows:

(in thousands of HRK)	2007	2006
At 1 January	**4,794**	**4,432**
Provision for impairment	1,430	787
Unused amounts reversed	(1,895)	(416)
Foreign exchange differences	(9)	(9)
At 31 December	**4,320**	**4,794**

NOTE 29 – SHARE CAPITAL

(in thousands of HRK)	Number of shares	Ordinary shares	Preference shares	Share premium	Treasury shares	Total
At 1 January 2006	**157,256**	**58,902**	**4,000**	**3,713**	**(193)**	**66,422**
Issue of shares	3,125	1,250	-	3,015	-	4,265
Conversion of preference to ordinary shares	-	4,000	(4,000)	-	-	-
Issue of shares	160,381	64,153	-	-	-	64,153
Issue of shares	100,000	40,000	-	-	-	40,000
Purchase of treasury shares	-	-	-	(3,968)	(999)	(4,967)
Distribution of retained earnings of 2005	-	-	-	1,349	218	1,567
At 31 December 2006	**420,762**	**168,305**	**-**	**4,109**	**(974)**	**171,440**
Purchase of treasury shares	-	-	-	(690)	(3,004)	(3,694)
Sale of treasury shares	-	-	-	-	2,904	2,904
Distribution of retained earnings of 2006	-	-	-	675	159	834
At 31 December 2007	**420,762**	**168,305**	**-**	**4,094**	**(915)**	**171,484**

As at 31 December 2007 and 2006, share capital consists of 420,762 ordinary registered shares, with a nominal value of HRK 400 per share.

Up to 31 December 2005, the Bank had two issues of shares in which 147,256 ordinary and 10,000 preference shares were issued. In 2006, three issues of shares were performed. The third issue was carried out for the purpose of settling minority shareholders of the merged Požeška banka d.d. and 3,125 ordinary shares were issued. Based on the decision of the Extraordinary General Meeting of the Bank held on 28 August 2006, preference cumulative shares of the second issue have been transformed into ordinary shares, while share capital was increased by HRK 64,152 thousand, i.e. 160,381 new ordinary shares of the fourth issue, which have been transformed from legal reserves to the Bank's share capital. The Bank's capital was increased at the end of 2006 by issuing 100,000 ordinary shares of the fifth issue through a private offer.

As at 31 December 2007, the Bank has 2,289 treasury shares (31 December 2006: 2,288).

The Bank’s main shareholders as of 31 December are as follows:

	2007		2006	
	Number of shares	Ordinary shares	Number of shares	Ordinary shares
		%		%
Lorenzo Gorgoni	40,645	9.66	39,956	9.50
Assicurazioni Generali S.p.A.	39,284	9.34	38,618	9.18
Cerere S.R.L. Trieste	39,249	9.33	38,584	9.17
Antonia Gorgoni	37,156	8.83	36,543	8.68
Miljan Todorovic	34,320	8.16	33,738	8.02
Sigilfredo Montinari	23,727	5.64	23,325	5.54
Dario Montinari	23,725	5.64	23,323	5.54
Andrea Montinari	23,719	5.64	23,317	5.54
Piero Montinari	23,719	5.64	23,317	5.54
Custodial account	19,304	4.59	18,962	4.51
Giovanni Semeraro	17,247	4.10	16,955	4.03
Other shareholders (individually less than 3%)	98,667	23.43	104,124	24.75
	420,762	**100.00**	**420,762**	**100.00**

Based on the decision of the Bank’s Annual General Meeting, a part of profit realised in 2006 in the amount of HRK 850 thousand was allocated for payment to employees as a share in profit by distributing treasury shares. By implementing the stated decision, 397 ordinary shares with nominal value of HRK 159 thousand were transferred to employees from the treasury. In 2006, an amount of HRK 1,580 thousand was distributed to employees from profit for 2005 (544 shares with nominal value of HRK 218 thousand). The stated transactions were performed under commercial terms.

NOTE 30 – RESERVES AND RETAINED EARNINGS

(in thousands of HRK)	2007	2006
Statutory reserves	33,002	31,331
Other reserves	23,299	6,225
Retained earnings	19,417	18,565
	75,718	**56,121**
Movements in reserves:		
Statutory reserve		
At beginning of the year	31,331	82,224
Issue of shares	-	(64,152)
Transfer from retained earnings	1,671	13,259
At end of the year	**33,002**	**31,331**
Other reserves		
At beginning of the year	6,225	7,870
Fair value reserves (Note 21)	1,364	335
Transfer from retained earnings	16,045	910
Transfer to income statement after sale available-for-sale assets	(335)	(2,890)
At end of the year	**23,299**	**6,225**
Retained earnings		
At beginning of the year	18,565	16,029
Net profit for the year	19,417	18,565
Transfer to statutory reserves	(1,671)	(13,259)
Transfer to other reserves	(16,365)	(1,744)
Transfer to treasury shares	(513)	(733)
Dividend for previous year	-	(280)
Other	(16)	(13)
At end of the year	**19,417**	**18,565**

In accordance with national legislation, a portion of the net profit of the Bank is required to be transferred to a non-distributable statutory reserve until this reserve represents 5% of the share capital of the Bank.

Other reserves can only be distributed upon approval at the Annual General Meeting.

The Bank's distributable and non-distributable reserves have been determined and recorded in these financial statements in accordance with Croatian regulations and decision of the Croatian National Bank. As at 31 December 2007, in its financial statements the Bank recorded non-distributable reserves in the amount of HRK 33,002 thousand (31 December 2006: HRK 31,331 thousand).

NOTE 31 – DIVIDENDS PER SHARE

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting.

Dividends for 2007 will not be proposed (2006: HRK 28.00 per preference share).

NOTE 32 – CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents as at 31 December comprise the following:

(in thousands of HRK)	**Bilješke**	**2007**	**2006**
Cash and current accounts with banks	16	208,839	173,277
Placements to other banks with less than 90 days maturity	18	530,205	534,990
		739,044	**708,267**

NOTE 33 – CONTINGENCIES AND COMMITMENTS

Legal proceedings. At 31 December 2007 and 2006, there were a number of legal proceedings outstanding against the Bank. Professional advice indicates that it is unlikely that any significant loss will arise for the Bank.

Capital commitments. At 31 December 2007 and 2006, the Bank had no capital commitments in respect of buildings and equipment purchases.

Loan commitments, guarantees and other financial facilities

The following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments:

(in thousands of HRK)	**2007**	**2006**
Guarantees	44,787	54,247
Letters of credit	20,606	30,050
Undrawn portion of loans on giro and current accounts	188,396	77,252
Undrawn portion of loans	68,855	57,393
Less: Provision for off-balance sheet items (Note 28)	(4,320)	(4,794)
Total	**318,324**	**214,148**

The primary purpose for commitments to lend from guarantees and letters of credit is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risks as loans.

Commitments to lend represent unused portions of authorisations to lend in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to lend, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to lend are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments to be minimal.

Pledged assets. Properties have been pledged as security for deposits of legal entities.

(in thousands of HRK)	Asset		Related liability	
	2007	2006	2007	2006
Properties (see Note 23)	**29,391**	**11,900**	**28,000**	**25,000**

Operating leases commitments - where the Company is the lessor. Future aggregate lease payments receivable from non-cancellable operating leases are as follows:

(in thousands of HRK)	2007	2006
Not later than 1 year	727	20
Later than 1 and not later than 5 years	2,558	65
Over 5 years	1,229	-
Total	**4,514**	**85**

In 2007 and 2006, there were no contingent rents recognised as income in income statement. The lease terms are between 1 and 5 years. All lease agreements are renewable and the existing lessees have a priority right with respect to the extension of the lease agreement at market rate.

Operating leases commitments - where the Company is the lessee. Future aggregate lease payments from non-cancellable operating leases are as follows:

(in thousands of HRK)	**2007**	**2006**
Not later than 1 year	6,977	6,759
Later than 1 and not later than 5 years	21,415	23,493
Over 5 years	10,821	12,366
	39,213	**42,618**

The lease terms are between 1 and 5 years and the majority of lease agreements are renewable at the end of the lease period at market rate.

NOTE 34 – ACQUISITION AND MERGER OF SUBSIDIARY

Podravska banka d.d. acquired Požeška banka d.d. on 30 June 2005, and a consolidated subsidiary on 31 December 2005. As at 31 December 2005, investments of Podravska banka d.d. into the acquisition of 161,086 shares of Požeška banka d.d. amounted to HRK 19,068 thousand or 50.34%. The fair value of net assets of Požeška banka is as follows:

	30 June 2005
Net identified assets	16,127
Goodwill at acquisition	2,941
Paid amount 50.34%	19,068

In 2006, The Bank purchased minority interests or additional 111,685 shares of Požeška banka d.d. At the date of the merger, Podravska banka d.d. had an ownership share of 86.18%. The carrying value of assets and liabilities of Požeška banka is as follows:

	30 June 2006
Cash	53,210
Funds with Croatian National Bank	31,904
Due from other banks	28,683
Loans and advances to customers	179,634
Available-for-sale assets	12,614
Held-to maturity assets	25,962
Other assets	11,840
Tangible and intangible assets	31,938
Due to other banks	-
Due to customers	(273,017)
Other borrowed funds	(63,926)
Other liabilities	(4,904)
Provisions	(3,075)
Minority interests (13.82%)	(4,265)
Net identified assets	26,598
Goodwill at acquisition (Note 22)	16,867
Total purchase consideration 86.18%	(43,465)
Acquired cash and cash equivalents	81,893
Acquisition of subsidiary, net of cash acquired	**38,428**

In 2007, the Bank acquired an ownership share in the amount of HRK 1,530 thousand or 51% in the company Poba ICO d.o.o.. The subsidiary has not been consolidated in these financial statements since its net assets and loss are not material in respect of the Bank's net assets and profit.

The Bank's unconsolidated subsidiary is as follows:

Assets	Liabilities	Net assets	Loss
1,222	202	1,020	(1,982)

NOTE 35 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out under commercial terms and conditions and at market rates. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The volumes of related party transactions outstanding balances at the year-end are:

(in thousands of HRK)	Key management		Supervisory Board	
	2007	**2006**	**2007**	**2006**
Loans				
At beginning of the year	705	204	-	-
Increase	735	501	-	-
At 31 December	**1,440**	**705**	**-**	**-**
Interest income	68	22	-	-
Deposits				
At beginning of the year	4,144	2783	1,100	111
Increase	439	1,361	254	989
At 31 December	**4,583**	**4,144**	**1,354**	**1,100**
Interest expense	179	147	3	2

Key management compensation	**2007**	**2006**
Gross salaries and other short-term benefits	6,626	9,775
Bonuses (shares)	850	1,580

Management comprises 3 members.

NOTE 36 – FUNDS MANAGED ON BEHALF OF THIRD PARTIES

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

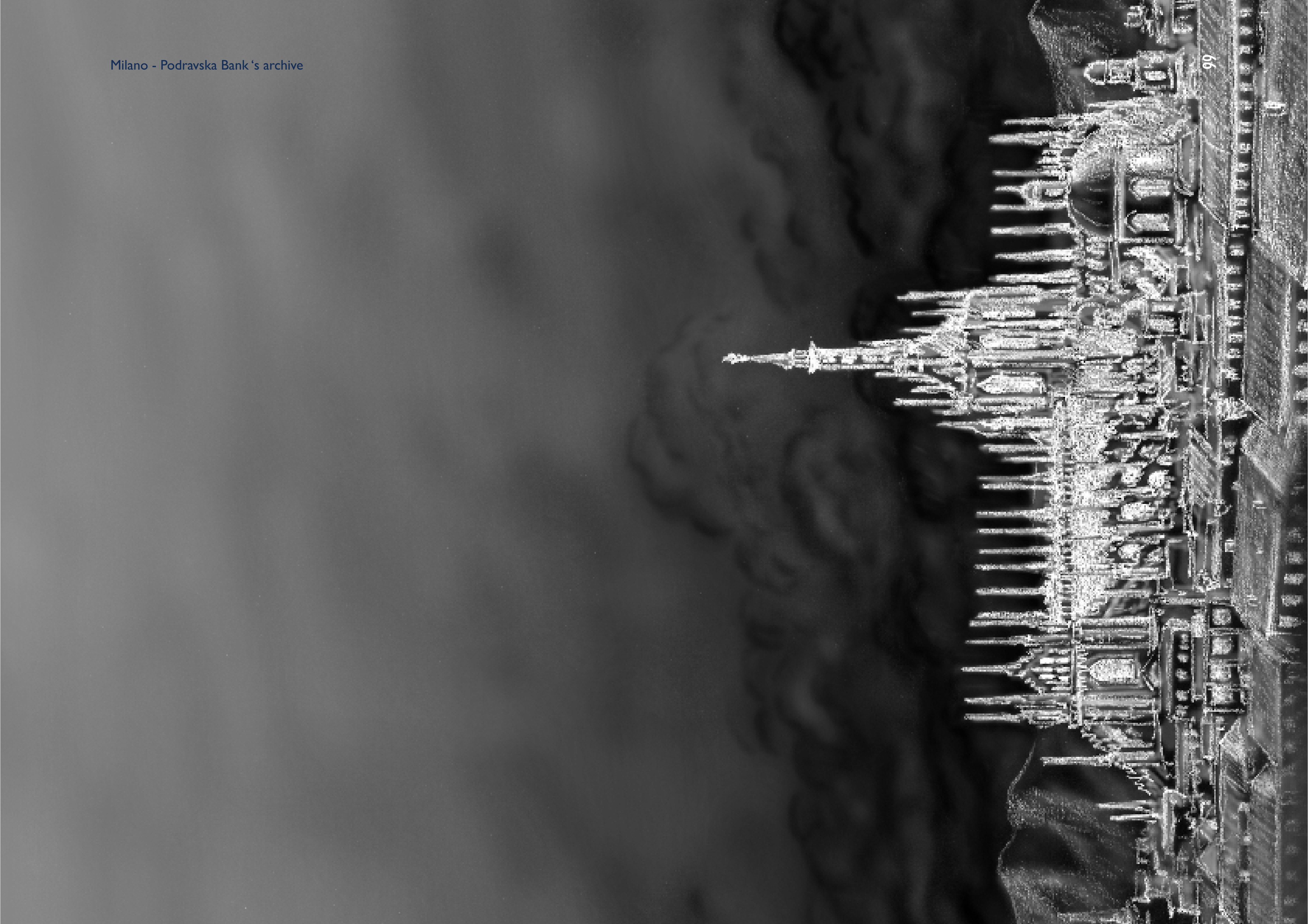
Funds managed in the name and on behalf of third parties can be analysed as follows:

(in thousands of HRK)	**2007**	**2006**
Assets		
Loans to citizens	29,181	30,782
Loans to companies	119,704	53,739
Cash	1,892	2,387
Total assets	**150,777**	**86.908**
Liabilities		
Public sector	26,215	28,210
Companies	108,954	43,103
Financial institutions	15,608	15,595
Total liabilities	**150,777**	**86,908**

The Bank provides custody services over securities. The market value of equity securities under custody as at 31 December 2007 amounted to HRK 460,184 thousand (2006: HRK 158,604 thousand).

Fifth part

About the Bank



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Management

The Bank's operations are controlled by the Supervisory Board, and run by the Board of Directors.

Members of the Supervisory Board

Miljan Todorovic, President
Sigilfredo Montinari, Vice President
Maurizio Dallocchio, Member
Filippo Disertori, Member
Dario Montinari, Member
Djuro Predovic, Member
Dolly Predovic, Member

Members of the Board of Directors

Julio Kuruc, Chairman
Davorka Jakir, Member of the Board
Marijan Marušić, Member of the Board

Business processes co-ordinator

Moreno Marson

Departments

Administration Department – Božana Kovačević
Human Resources Management – Božana Kovačević
Accounting Department – Vesna Laloš
Support – Dragica Hrkalović

Sectors

Commercial sector - Sanda Fuček Šanjić
Treasury - Snježana Pobi
Payment transactions - Snježana Pobi
Investment Banking - Željka Artner-Pavković
Risk management - Božica Širić

Commercial centres

Commercial centre Bjelovar
Commercial centre Koprivnica
Commercial centre Požega
Commercial centre Pula
Commercial centre Rijeka
Commercial centre Sisak
Commercial centre Split
Commercial centre Varaždin
Commercial centre Zadar
Commercial centre Zagreb I
Commercial centre Zagreb II
Commercial centre Zagreb III

LEGEND

- Commercial center
- Branches

Business network

Commercial centre Bjelovar

Bjelovar, Trg Eugena Kvaternika 12, tel. 043 220 840, fax. 043 220 850
Grubišno Polje, 77. samostalnog bataljuna ZNG 1, tel. 043 485 120, fax. 043 485 550
Veliki Grđevac, Kralja Tomislava 26, tel. 043 461 032, fax. 043 461 032
Osijek, Kapucinska 38, tel. 031 252 020, fax. 031 214 909
Đurđevac, Stjepana Radića 16, tel. 048 289 080, fax. 048 280 880
Garešnica, Trg hrvatskih branitelja 7, tel. 043 445 123, fax. 043 445 137
Križevci, I. Z. Dijankovečkog 2, tel. 048 279 270, fax. 048 271 407
FINA Virovitica, Kralja Tomislava 3, tel./fax. 033 726 133

Commercial centre Koprivnica

Koprivnica, Opatička 3, tel. 048 6550, fax. 048 655 174
Koprivnica, Trg bana Jelačića 10, tel. 048 622 731, fax. 048 221 618
Koprivnica, Trg Eugena Kumičića 11, tel. 048 240 400, fax. 048 221 620
Koprivnica, Ivana Meštrovića bb, tel. 048 655 133, fax. 048 655 138
Koprivnica, Ante Starčevića 32, tel/fax. 048 621 074
Gola, Trg kardinala A. Stepinca 6b, tel. 048 833 013, fax. 048 833 320
Đelekovec, P. Kvakana bb, tel. 048 834 009, fax. 048 834 317
Novigrad Podravski, Trg M. Gupca bb, tel. 048 832 030, fax. 048 832 615
Legrad, Trg Svetog Trojstva bb, tel. 048 835 151, fax. 048 835 442
Molve, Kralja Tomislava 32, tel/fax. 048 892 300
Ludbreg, Petra Zrinskog 32, tel. 042 811 500, fax. 042 811 532

Commercial centre Požega

Požega, Republike Hrvatske 1b, tel. 034 254 200, fax. 034 254 258
Požega, Trg Svetog Trojstva 8, tel. 034 272 736, fax. 034 312 771
Požega, Tina Ujevića 1, tel./fax. 034 291 844
Velika, Bana Josipa Jelačića 24, tel .034 233 060, fax. 034 233 939
Pleternica, Ivana Šveara 4, tel. 034 251 060, fax. 034 311 070
Kutjevo, Kralja Tomislava 2, tel. 034 255 054, fax. 034 255 945

Commercial centre Pula

Pula, Giardini 13, tel. 052 375 630, fax. 052 522 265

Commercial centre Rijeka

Rijeka, Ivana Zajca 18, tel. 051 324 570, fax. 051 321 672

Commercial centre Sisak

Sisak, Stjepana i Antuna Radića 6, tel. 044 515 151, fax. 044 510 065

Commercial centre Split

Split, Ulica slobode 33, tel. 021 559 810, fax. 021 530 110

Commercial centre Varaždin

Varaždin, Trg slobode 2, tel. 042 215 280, fax. 042 201 990

Commercial centre Zadar

Zadar, Stjepana Radića 2f, tel. 023 306 001, fax. 023 309 032

Commercial centre Zagreb I

Zagreb, Gajeva 5, tel. 01 4811 217, fax. 01 4811 219

Lučko, Puškarićeva 15, tel. 01 6531 830, fax. 01 6531 832

Commercial centre Zagreb II

Zagreb, Vlaška ulica 129, tel. 01 4686 920, fax. 01 4619 277

Dugo Selo, Josipa Zorića 23, tel. 01 2754 210, fax. 01 2754 858

Commercial centre Zagreb III

Zagreb, Miramarska cesta 23, tel. 01 6323 800, fax. 01 6043 249

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