HRVATSKA POŠTANSKA BANKA d.d.

- Annual Report 2007 -

Zagreb, March 2008

CONTENTS

INTRODUCTION

The Annual Report comprises the summary of financial information, description of operation and the audited financial statements, including Independent auditors' report for the year ended 31 December 2007, in Croatian and English.

Legal form

The Annual Report comprises the annual financial statements prepared in accordance with accounting regulations applicable to banks in the Republic of Croatia and audited in accordance with International Standards on Auditing.

The Annual Report is prepared in compliance with the Accounting Law and the Companies Act, which prescribe reporting of the Management Board to the shareholders at the General Assembly. According to the Accounting Law the statutory financial statements are balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements, and the Companies Act, paragraph 250.a and 250.b, prescribes submittion of the Annual Report showing the position of the Bank and other members of the HPB Group and consolidated Annual Report of the Group.

Abbreviations

In the annual financial statements, Hrvatska poštanska banka d.d. is referred to as "the Bank" or "HPB", Hrvatska poštanska banka Group is referred to as "HPB Group" or "the Group" , the Croatian National Bank as "the CNB", the Republic of Croatia as "RH" and the Croatian Bank for Reconstruction and Development as "HBOR".

Exchange rates

The following CNB exchange rates were used for translation of foreign currencies into Croatian kuna:

31 December 2007	1 EUR = 7.325131 HRK	1 USD = 4.985456 HRK
31 December 2006	1 EUR = 7.345081 HRK	1 USD = 5.578401 HRK

SUMMARY OF OPERATION AND KEY FINANCIAL INDICATORS

in HRK million

Group				restated	
	2007	2006	2005	2004	2003[1]
Key indicators					
Net profit for the year	129	90	90	60	84
Total assets	14,561	11,270	7,283	5,556	5,417
Loans and advances to customers	7,285	5,980	2,943	2,575	2,436
Deposits	10,714	8,654	5,056	4,365	4,369
Equity	956	825	749	656	590
Other indicators					
Return on share capital	22.05%	15.33%	15.42%	10.30%	14.43%
Return on assets	0.89%	0.80%	1.24%	1.08%	1.56%
Operating expenses[2]/operating income ratio	64.17%	73.39%	60.93%	48.62%	51.35%
Guarantee capital	1,181	888	682	619	535
Capital adequacy	12.19%	11.75%	16.45%	24.32%	25.65%

Bank				restated	
	2007	2006	2005	2004	2003[1]
Key indicators					
Net profit for the year	121	101	90	60	84
Total assets	14,536	11,278	7,283	5,556	5,417
Loans and advances to customers	7,283	5,998	2,943	2,575	2,436
Deposits	10,691	8,651	5,056	4,365	4,369
Equity	964	840	749	656	590
Other indicators					
Return on share capital	20.68%	17.29%	15.42%	10.30%	14.43%
Return on assets	0.83%	0.90%	1.24%	1.08%	1.56%
Operating expenses[2]/operating income ratio	63.65%	70.27%	60.93%	48.62%	51.35%
Guarantee capital	1,135	866	682	619	535
Capital adequacy	11.73%	11.45%	16.45%	24.32%	25.65%

[1] figures not restated

[2] general and administrative expenses and depreciation

PRESIDENT OF THE SUPERVISORY BOARD'S STATEMENT OF CONDITION

Dear shareholders,

We are proud to present the Annual Report of the HPB Group for the year ended 31 December 2007.

In 2007, Hrvatska poštanska banka accomplished its adopted strategic plans and successfully continued to develop its operations in dynamic banking market. According to operating results, the Bank increased its market share to 4.2% share in total assets of the banks. The operating results confirm the continuation of the Bank's exceptional performance commenced several years ago.

Despite stronger competition on the market and the restrictions of the monetary authorities, the Bank managed to accomplish valuable results. Among realised financial results, I would emphasize the increase in the Bank's assets by 28.9% in 2007, which amounted to HRK 14.5 billion as of 31 December 2007. Total net loans to customers have increased by 21.4% and total deposits by 23.6%, whereby time deposits increased by 27.8%. In 2007, a trend of an increase in profit after tax continued; profit after tax amounted to HRK 120.9 million what is an increase by 19.6% compared to 2006. Return on share capital is at the highest level since the foundation of the Bank and amounts to 20.7%, while the return on asset has diminished because of the growth of total assets and amounts to 0.83%. In 2007, the Bank's operating expenses, deducted for the impairment losses and provisioning, increased by 20.8%, while the operating income increased by 33.3%, which resulted in decrease of the operating expenses/operating income ratio to 63.7%, compared to 2006 when amounted to 70.3%. In addition, financial results of the HPB Group confirm exceptional performance.

In 2007, the Croatian economy was characterized by the economic growth rate above 5.6%, decrease in growth of a foreign debt, decrease in unemployment rate, stabile exchange rate and low average inflation rate. During 2007, the Croatian National Bank continued with restrictive monetary policy with the aim to restrain credit growth and discourage banks from borrowing abroad.

A very active development of the Croatian financial market in previous year influenced development of all business segments of HPB Group, primarily the investment. A wide scope of inovating products of the all Group members significantly contributed to the business result and the improvement of the quality of services. Focus on our clients and their needs resulted in development of the network of branches and channels of distribution and in supply of competitive and distinctive products for retail and corporate sector, especially small and medium entrepreneurship. I would like to emphasize that the Bank and the Group are strategically positioned and oriented towards Croatian economy and therefore is of great significance that Hrvatska poštanska banka, by founding Agro-Branch in Osijek, additionaly strengthened development opportunities for Croatian farmers. The Bank will continue to develop its offer having in mind the Croatian economic policy.

In order to encourage and develop the greater business initiative in 2007, the cooperation was made with the Croatian agency for small business, and Bank made a significant step towards the development of cooperation with the local authorities. Positive results have been made through the cooperation with towns of Pula, Gospić, Vinkovci and the Vukovarsko-srijemska county in a way that the Bank offered its business support, which beside the financial services and products, includes the knowledge and experience of its experts.

In 2007, the Bank was very successful in transactions with the corporate sector and operations on capital market and demonstrated its ability to keep pace with customer needs by improving its existing and introducing new products. Among significant projects of the Bank in 2007, I would stress the Bank's role of the agent in public issue of shares in third phase of privatisation of T-HT, which was among the most complex by now and which allowed Hrvatska poštanska banka to affirm itself as quality subject in a field of investment banking.

Other members of the HPB Group - HPB-Invest, HPB-Stambena štedionica and HPB-Nekretnine, contributed to the excellent business results in 2007. I would like to emphasize activities of HPB-Invest which has, besides successful managing of Umirovljenički fund, founded four new funds, and thereby demonstrated its leadership in innovation in Croatian investment fund market.

The success of HPB Group is a result of professional and quality team work, as well as good and opened cooperation between the Supervisory Board and the Management Board which continued with regular meetings held throughout the last year.

On behalf of the Supervisory Board of Hrvatska poštanska banka, I would like to thank to all our clients and business partners for their confidence during the previous year. I would also like to thank to all the employees of the Group on their high quality and professional performance, to all the Supervisory Board members for their cooperation and to the Management Board of Hrvatska poštanka banka for the professional and successful management of the Bank.

mr. sc. Grga Ivezić
President of the Supervisory Board

PRESIDENT OF THE MANAGEMENT BOARD'S STATEMENT OF CONDITION

Dear shareholders, business partners, customers,

On behalf of the Management Board, I am proud to present the Annual Report of the Bank for the year ended 31 December 2007.

During 2007, the HPB Group, the only domestic banking group in Croatia, has achieved further growth and exceptional business results thereby strengthening its position on the Croatian banking market. In 2007, the Bank and the HPB Group have continued to achieve excellent financial results through stable business performance, gaining an increasingly larger market share, and creating additional value for its shareholders.

The financial results for 2007 show another successful business year characterized by improved profitability and productivity. The Bank's assets amount to HRK 14.5 billion, representing a 28.9% increase compared to 2006. An increase in assets was the result of a significant increase in the loan portfolio and the deposit base in the retail and corporate sectors. Total net loans to customers amounted to HRK 7.3 billion, what is an increase of 21.4% compared to the end of the previous year. In the structure of loans, 65.2% relates to companies and institutions and 34.8% to retail clients. In the area of corporate finance, the Bank continued to significantly increase loans to commercial companies, while simultaneously decreasing the share of loans to state-owned organisations. Total deposits at year end amounted to HRK 10.7 billion, representing a 23.6% increase within the total deposits structure, with a 27.8% increase in term deposits. Profit after tax increased by 19.6% compared to 2006, amounting to HRK 120.9 million.

Through continuous and stable growth combined with various business activities in 2007, the Bank has managed to increase its market share from 3.7% to 4.2%.

The Hrvatska poštanska banka Group realised profits in the amount of HRK 128.9 billion, what represents an increase of 43.8% compared to last year. The HPB Group's total assets amount to HRK 14.6 billion, representing an increase of 29.2%.

Besides pure growth, 2007 was a year of continued quality improvement and further development of our financial product offering for the retail and corporate sectors.

Aiming to increase the availability of our products and services to our customers throughout the country, we have continued with the intensive development of our own operational network. Last year we opened seven new outlets (in Zagreb, Velika Gorica, Slavonski Brod, Gospić, Vinkovci, Virovitica and Osijek), founded two new branches, in Vinkovci and Osijek, and one representative office was opened. This kind of expansion strategy has proven to be a very successful method for attracting new customers. At 31 December 2007, the Bank's operational network consisted of 7 branches, 24 outlets and 2 representative offices, with distribution channels consisting of 192 ATMs and 1,498 EFTPOS terminals. Products and services are available to clients through 1,100 post offices, which makes the Bank's services available in practically every part of Croatia.

In the retail segment, we enlarged our portfolio of credit and savings products, we founded four new investment funds and expanded our offer of housing savings. Business performance improvement is also achieved through the continuous improvement of our existing portfolio, and through the implementation of recent technology solutions for electronic banking we have taken an additional step forward in the modernisation of our business by enabling our customers to carry out their financial transactions with greater efficiency.

In the corporate sector, with small and medium-entrepreneurship in particular, we made tremendous improvement last year. The foundation of Agro-Branch in the town of Osijek in October 2007, means closer cooperation between the Bank and the agricultural sector to which we offer competitive and distinctive products. We have created a special offer for farmers with the aim of facilitating the development of their economic activities, and with the services of the HPB EU Desk we have enabled easier access to financial resources from EU funds. Through issuing loans to small and medium-entrepreneurship we have continued to provide microloans within the EBRD loan programme and loans aimed at the development of tourism, as well as continuing our active cooperation with HBOR and relevant ministries on the entrepreneurial loan programmes "Incentives for success" and "Development of village tourism". We also enhanced our cooperation with clients at the county and city level, and in addition to financial services and banking products the Bank has shared the knowledge and experience of our banking experts through their provision of advisory and business support.

I would like to highlight projects which were started last year, e.g. cooperation with HAMAG and Infinitas group in respect of education and the recruitment of information technology experts, and cooperation with FINA with whom we established a shared foreign currency centre, thereby improving our money transfer services and gaining entry to the international market of ready foreign currency.

In the last two years the Bank has affirmed its position as a key player in the investment banking sector. We have provided our customers with up-to-date financial services, investment and financial assets management services which has led to an increased client base in the segment of assets management and custodian services. As an active participant of the financial market in Croatia and the region we were chosen to conduct the initial public offering of T-HT shares, where the Bank successfully performed the role of an issuing agent.

All members of the Group made significant contributions to last year's business results and service quality improvement as well as to our overall portfolio of innovative solutions for our customers. Recognising the requirements of investors and going beyond the limits of traditional domestic investment funds, HPB-Invest founded four new funds last year, one of which - HPB Titan - is the first specialised "commodity" fund established in Croatia. The quality of HPB-Invest is further confirmed through the establishment of the HPB WAV - DJE together with one of the leading German investment groups, the Dr. Jens Ernhardt Group. The confidence of HPB-Invest investors is reflected in the growth of assets under management amounting to HRK 1.3 billion, an increase of 183.5% in relation to 2006. Moreover, this last business year was marked by the successful realisation of payment of the final instalment of the Model A compensation to Umirovljenički fund members.

Being aware of its role in the community, another successful business year for the Bank has been marked by donations to various cultural, sports and humanitarian projects, as well as the organisation the first art exposition, the HPB Grand Prix 2007. The efforts on the part of the management and all employees of the HPB Group was recognised by the professional public which presented us with three prestigious awards. Hrvatska poštanska banka was awarded the "Golden share" prize, while HPB-Invest won the "Golden stake" award for the best investment fund management company in Croatia. We are especially proud of the "Golden kuna" award from the Croatian Chamber of Economy for the best bank in Croatia in 2007.

In the next period Hrvatska poštanska banka will continue to follow its strategy of strengthening its position as the largest bank in Croatian ownership and will aim to distinguish itself from the competition not only by the quality of its financial services offering and the competence of its staff, but through the continuous dedication to the interests and prosperity of all Croatian citizens and the Croatian economy.

On behalf of the Management Board and my closest team of colleagues, as well as personally, I would like to thank our valued clients and business partners for their confidence and professionalism and would also like to thank all Goup's employees for their dedicated work and diligence with which they contribute to the Bank's success. I would especially like to thank the shareholders and the Supervisory Board members for their cooperation, support and the confidence they have demonstrated.

Josip Protega
President of the Management Board

MACROECONOMIC MOVEMENTS IN THE REPUBLIC OF CROATIA IN 2007

Macroeconomic stability and economic growth accompanied with decrease in unemployment rate, fiscal consolidation, decrease in growth of public and foreign debt and continuation of negotiations for EU accession and strengthening of competitiveness of Croatian economy were all the basic goals of the Croatian economic policy in 2007.

In the first quarter of 2007 GDP has increased by 7.0%, in the second quarter growth rate was 6.6%, and in third quarter there was deceleration resulting in 5.1% growth. Based on preliminary data economic growth for 2007 will amount to 5.6%. In addition to financial services and transport services which traditionally have a high growth rates, to this growth contributed agricultural sector and manufacturing sector, tourism and catering sector. As opposed to previous years, in 2007 there is an evident growth of public and personal consumption. Total industrial production in previous year increased by 5.6%, and total nominal retail turnover increased by 8.4% (realistic 5.3%) compared to 2006.

At 2007 year-end, there were 1,480.9 thousand employed and 254.4 thousand unemployed citizens, and the unemployment rate amounted to 14.7%. An average nominal net salary for the 2007 (12 months, salary payed) amounted to HRK 4,841 and realistically representing an increase of 2.2% compared to the same period last year. Prices of goods and services for personal consumption, measured by consumption prices index, in last year were by 2.9% (average on average) higher compared to 2006. Although 2007 has followed seasonal movements, in the second half of the year inflation has started to accelerate as a result of spillover of prices of energy and swap of food production for biodiesel production, and in December annual inflation rate has reached 5.8%.

According to preliminary information, total export of the Republic of Croatia in 2007, amounted to USD 12,360 million, and import amounted to USD 25,829 million. Foreign trade deficit amounted to USD 13,469 million while export/import coverage ratio amounted to 47.9%. Direct foreign investments in the Republic of Croatia during the first three quarters of 2007 almost reached last-years record level and amounted to EUR 2.7 billion (growth by 50% in relation to the same period last year).

The foreign debt increased by EUR 3.7 billion, and at the end of December amounted to EUR 32.9 billion, with growth rate of 12.5%. Besides slowing down of the growth, changes occurred in sectoral structure of the debt; banks and state have

Total gross loan portfolio structure per sectors, %

diminished their shares in total debt, while other domestic sectors (commercial companies) have raised their share for more than 10 percentage points (52%).

At 2007 year-end, exchange rate towards Euro was nominally stronger by 0.3% in relation to last year's exchange rate.

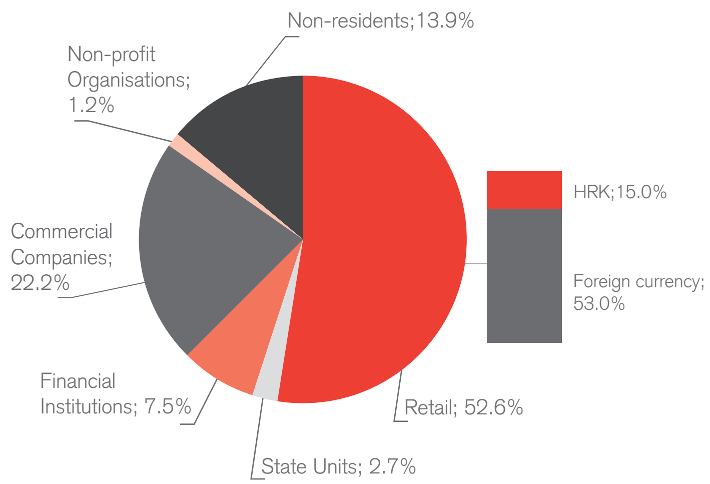
In 2007, Croatian National Bank continued its restrictive monetary policy in scope of limiting the growth of placements and destimulating further foreign indebtedness of banks. Placements increased in first quarter recording heavy growth whereby banks in first 6 months have utilised 2/3 of total annual increase (which is not recorded). As a result, in June 2007 the CNB restricted regulation of Decision of mandatory subscribing of treasury bills, whereby growth rate of placements which do not qualify for mandatory subscription amounts to 0.5% per month.

At 2007 year-end placements reached amount of HRK 211 billion, i.e. 15% increase compared to 2006 year-end. Meanwhile, in spite of the value growth, deceleration of their growth is noticeable. At the same time, total liquid assets (M4) have reached HRK 207.6 billion with annual growth rate of 15.6%.

The banking system of the Republic of Croatia in 2007 was stable, liquid and profitable. Total assets of banks, according to non-audited information published by the CNB, at the 2007 year-end amounted to HRK 345.0 billion, representing 13.3% increase compared to previous year. As in the 2006, the increase of the banks' assets mostly resulted from the increase in retail loans. In the banks credit portfolio structure retail loans represented 50.5% and loans to commercial sector 38.9%. Assets increase was enabled with deposits growth, which has reached HRK 233.1 billion (among them prevailing term retail deposits with foreign currency clause). According to non-audited information profit before taxation of all banks amounted HRK 5.14 billion which is an increase of HRK 901 billion or 21.3% in relation to last year. Return on average asset amounted 1.58%, while the rate of return on equity diminished to 11.6%.

Total assets of saving institutions at the end of November 2007 amount to HRK 6.13 billion. Assets of saving institutions have decreased by HRK 13 million in relation to end of last year prior as a consequence of decrease in term deposits.

Total deposits structure per sectors, %



DESCRIPTION OF THE GROUP'S OPERATION

Hrvatska poštanska banka d.d.

Hrvatska poštanska banka d.d., Zagreb, was founded and registered as a joint stock company in accordance with applicable regulations of the Republic of Croatia, and is authorised to perform banking activities in the Republic of Croatia. The Bank's Management Board is in Jurišićeva 4, in Zagreb. At 31 December 2007, the Bank operated through two representative offices, seven branches and twenty four outlets.

The Bank's main activity is operation in all kinds of deposit and loan activities for corporate and retail customers in domestic and foreign currency, performance of domestic and foreign payment transaction activities, issue of guarantees, sureties and other forms of guarantees, trade in foreign currency and securities and other banking activities.

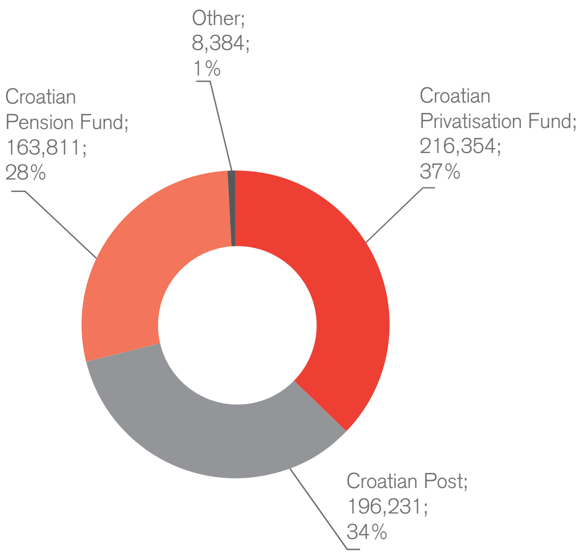
Hrvatska poštanska banka is recognised as a dominant financial mechanism offered to citizens throughout RH, available through its own network of outlets and post offices, and as a support to Croatian economy, especially in the segment of small and medium entrepreneurship.

As a domestic bank, HPB is in the group of leading banks in the Republic of Croatia, which, with its assets in the amount of HRK 14.5 billion and its share capital, is ranked seventh among 33 banks altogether.

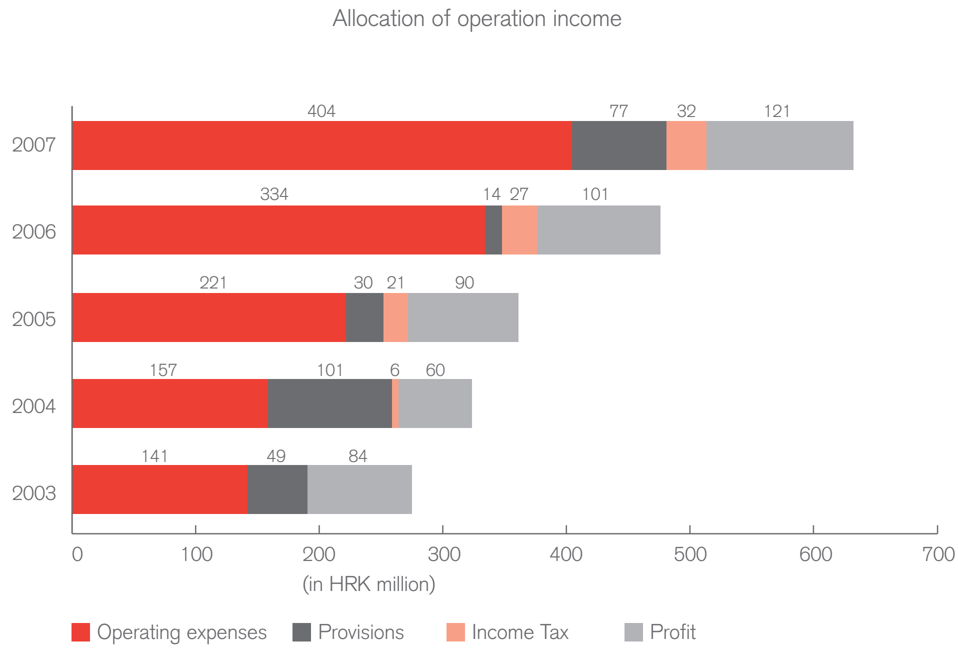
According to currently applicable Payment Transaction Law, Croatian Post is no longer the main payment system distribution channel, but is authorised to perform cash payment transactions on behalf and for Hrvatska poštanska banka, which makes her a participant in cash payment transactions.

The Bank is 100% owner of HPB-Stambena štedionica d.d., HPB-Invest d.o.o., the investment fund management company, and HPB-Nekretnine d.o.o., the company for real estate and construction, which together form the HPB Group.

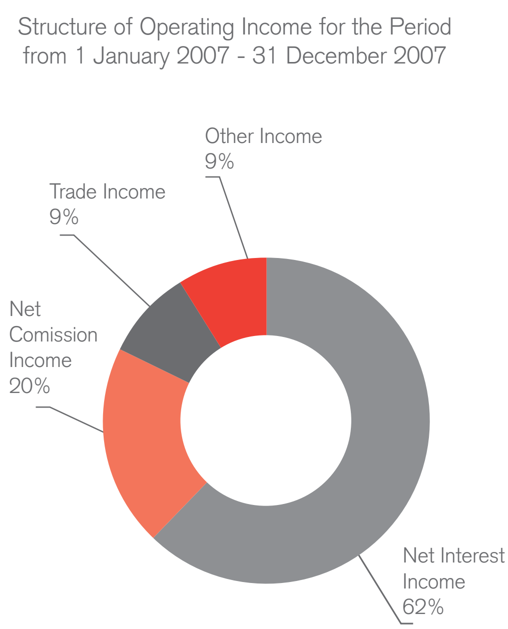
Shareholder structure as at 31 December 2007



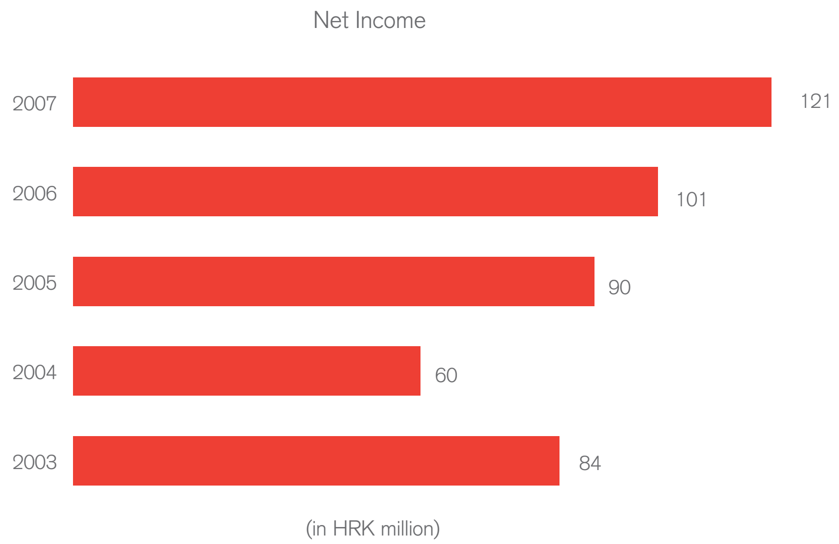
In 2007, the Bank realised HRK 634.3 million operating income from operation. The largest part of the income distribution structure were operating expenses (63.7%) and profit (19.1%). Operating expenses increased by 20.8% compared to 2006, while total impairment losses on loans and advances to customers, other assets and provisions for liabilities and charges increased by HRK 63.3 million compared to 2006.



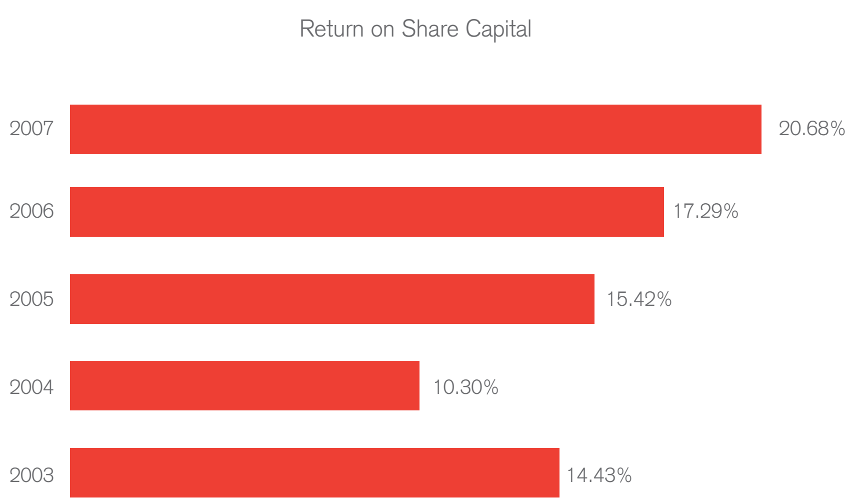
Total operating income increased by 33.3% compared to 2006. The most significant part of operating income is net interest income, representing 61.7% of total income.

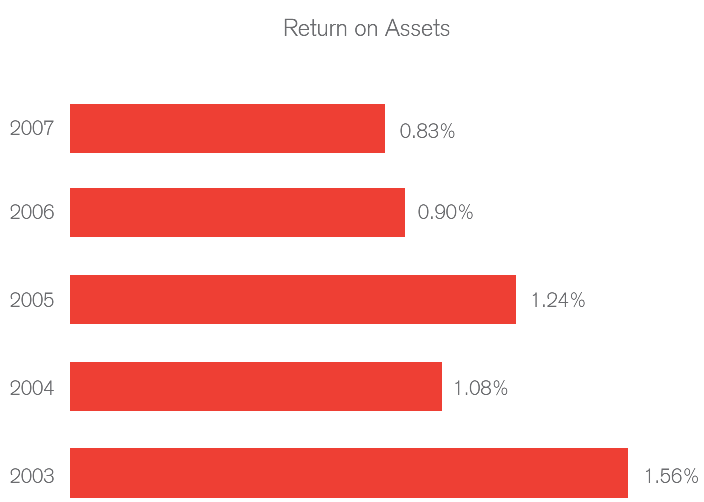


In 2007, profit for the year amounted to HRK 120.9 million, representing an increase of HRK 19.8 million compared to 2006.

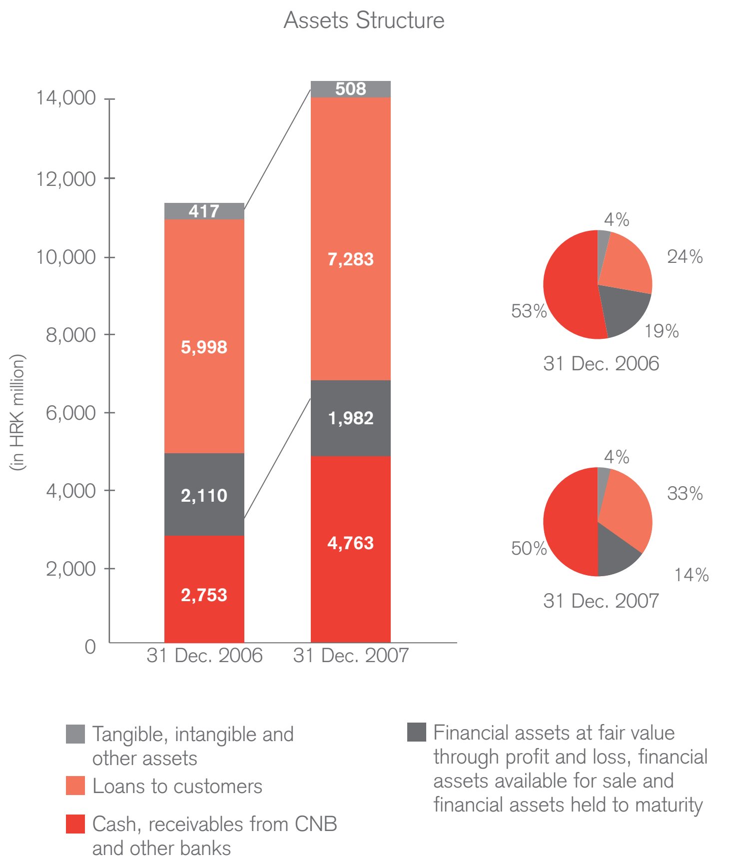


Movement in return on equity (ROE) and return on assets (ROA) for the period from 2003 to 2007 is presented below.

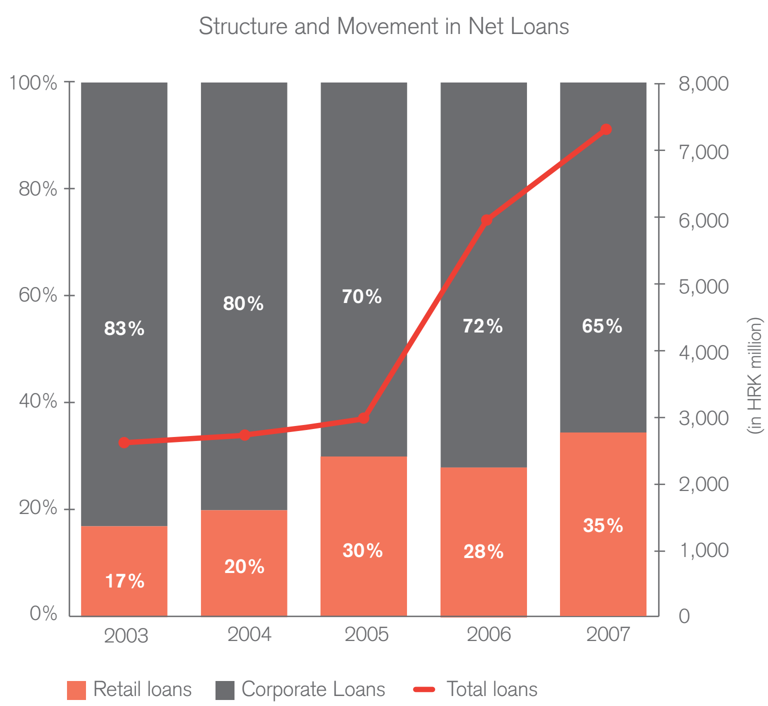




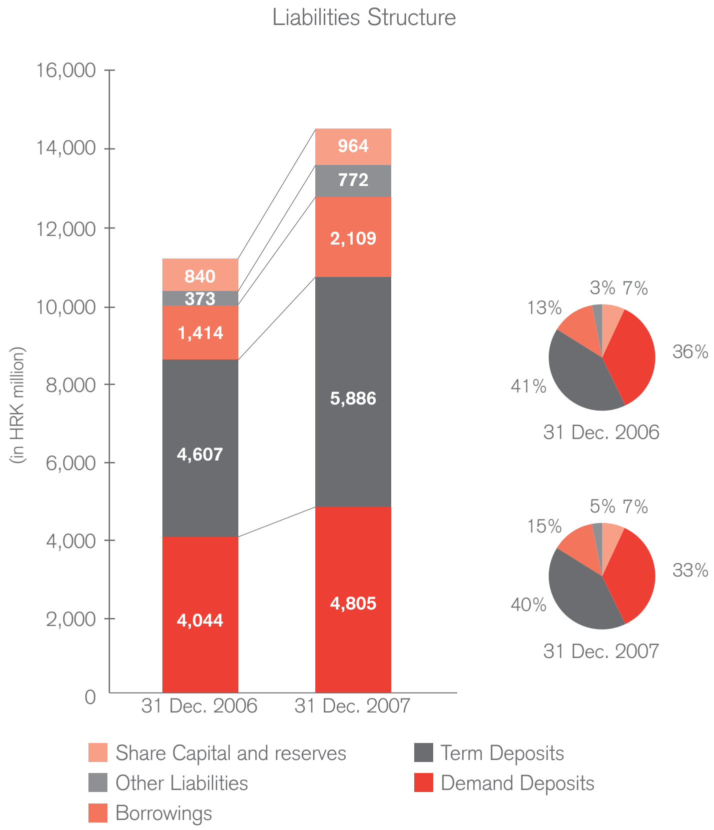
At 2007 year-end, the Bank's assets amounted to HRK 14,535.8 million, representing an HRK 3,257.9 million or 28.9% increase compared to 2006. The most significant part within assets structure are loans and advances to customers (50.1%), placements with and loans to other banks, financial assets at fair value through profit or loss, and the CNB obligatory reserve (37.2%).



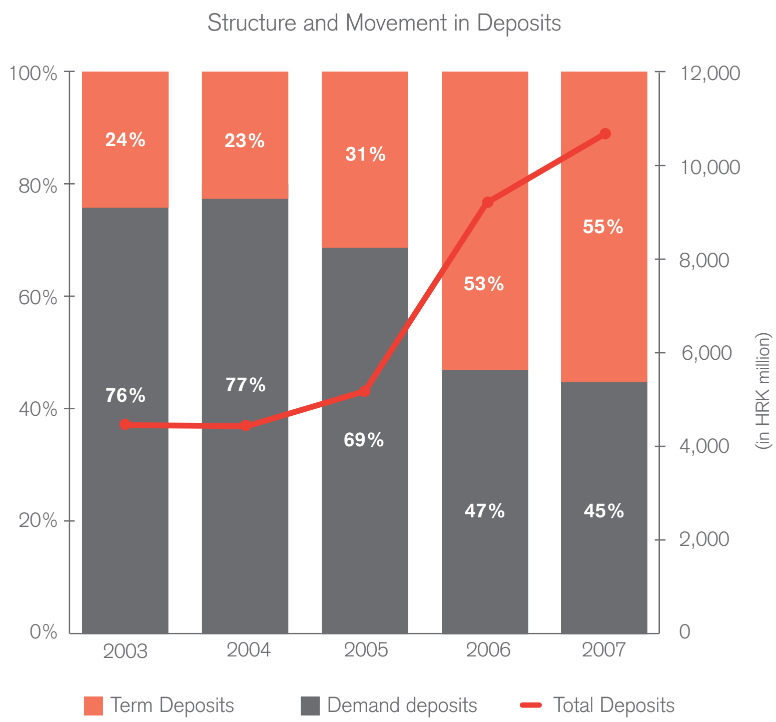
At 31 December 2007, total loans amounted to HRK 7,283.2 million, representing a 21.4% increase compared to 2006. The loan portfolio structure comprises 65.2% of corporate loans and 34.8% of retail loans.



The most significant part within liabilities are term deposits (40.5%), and demand deposits (33.1%).



In 2007 deposits from customers and banks increased by 23.6% compared to 2006. The structure of deposits is dominated by term deposits (55.1%), compared to demand deposits (44.9%). In 2007, term deposits increased by 27.8%, and their share within the structure of total deposits increased by 1.8 percentage points (from 53.3% to 55.1%). The Bank will continue its activities aimed at increasing deposits and improving maturity and foreign currency structure of term deposits, in scope of increasing long-term and foreign currency deposits.



Retail operation

HPB performs retail operation through its own operational network which comprises 7 branches, 24 outlets, 2 representative offices and through more than 1,100 post offices throughout the territory of the Republic of Croatia.

In accordance with its development strategy aimed at better acquaintance to customers with its products and services, in 2007, the Bank opened new outlets in Velika Gorica, Gospić, Slavonski Brod, Zagreb (Britanski trg and Praška), Osijek, Virovitica and Vinkovci.

Besides its operational network expansion, HPB continued to develop and improve direct banking distribution channels and installed 27 new ATMs and 77 EFTPOS terminals. At the end of 2007, the Bank had its own network of 192 ATMs and 1,498 EFTPOS terminals.

In scope of developing and improving the relationship with its retail customers, in 2007 the Bank expanded its palette of loans, savings and credit card products.

Retail deposits represent 42.4% of the total deposits, representing an increase of 35.3% and amounting to HRK 4.5 billion at 31 December 2007. Demand deposits amounted to HRK 2.4 billion, representing an increase of 24.6%, and term deposits amounted to HRK 2.1 billion, representing an increase of 51.3%. Higher growth in term deposits as compared to demand deposits results from the expansion of the Bank's business network, improvement of business cooperation with Croatian Post, and a stimulative interest rate policy for longer term and foreign currency savings.

In 2007, total gross retail loan portfolio increased by 53.8%, amounting to HRK 2.6 billion at 31 December 2007. In 2007, 27,169 retail loans totalling HRK 1.2 billion were granted. Retail loans represented 34.9% of total gross loans portfolio. The largest part of total retail loan portfolio are non-purpose loans, followed by used frame facilities on current accounts.

Among other activities within retail operation we point out the continuation of the improvement of business cooperation with Croatian Post, Financial Agency and other state institutions, especially in the field of payment of various fees, incentives from state budget and approval of loans on the basis of operation for and on behalf of third parties.

Corporate operation

During 2007, gross loans to commercial companies increased by 17.8% or HRK 688.3 million, amounting to HRK 4.6 billion at 2007 year end. In the structure of loans, long-term loans represent 74.0% and short-term loans 26.0% of total placements. In granting long-term loans, HBOR resources and own long-term resources were used. As of 31 of December 2007 total deposits from corporate customers amounted to HRK 5.7 billion what is an increase of HRK 877.2 billion or 18.2% compared to 2006.

According with strategic orientation during 2007 the Bank continued with spreading its business with small and medium entrepreneurship in all business segments. It all influenced the increase in the share of loans to small and medium entrepreneurship within total loans portfolio by 20.1%. An increase of loans portfolio, as well as increase of active users by 60% in this segment also was impacted by spreading of business network, development of new products and continuing investment in education of human resources.

The Bank also continued its cooperation with institutions providing support to small and medium entrepreneurship (HAMAG, USAID, the Ministry of Economy, Labour and Entrepreneurship, the Ministry of Sea, Traffic, Infrastructure, Tourism and Regional Development, and towns, municipalities and counties in the Republic of Croatia).

Managed funds for and on behalf of corporate and retail customers amounted to HRK 501 million, out of which HRK 119.7 million relates to Russian clearing debt, and the remaining amount on the other customers. Managed funds for and on behalf of corporate and retail customers are carried out/performed for 20 customers (including Russian clearing debt).

Investment banking

During 2007, the Investment Banking Division significantly extended the scope of its operation as an agent in trade of securities on the domestic as well as on regional financial markets. During the previous year, the Bank demonstrated its ability to serve as eligible partner in business cooperation related to use of margin loans which amounted to HRK 210 million as of 31 December 2007.

The Bank's realised annual turnover on the domestic stock markets amounted to HRK 1.56 billion, while the annual turnover on regional financial markets (Monte Negro, Macedonia, Serbia and Bosnia and Herzegovina) in EUR doubled compared to 2006.

In the segment of asset management, total business scope increased by more that three times compared to 2006.

Business activities of the Investment Banking Sector, besides securities operation and classic investment banking by organizing and selling issues of securities, are more frequently focused on strategic advisory regarding mergers and takeovers, organised employee shareholding. Additionally we point out preparation and entering into advisory segment in the field of development and optimal resources management for local government, towns and counties.

In 2007, Hrvatska poštanska banka was one of the agent issuers, and has successfully conducted the project of sales of shares based on the initial public offer of Hrvatske telekomunikacije d.d. In this occasion Republic of Croatia sold 32.5% of its share in Hrvatske telekomunikacije d.d., i.e. 26.6 million shares for a price of HRK 265 per share was sold. Initial public offer of Hrvatske telekomunikacije d.d. was the most extensive, most demanding and biggest in region.

Treasury operation

In 2007, the Treasury division successfully ensured the liquidity required to meet conditions of restrictive monetary policy, therefore supporting Bank's intensive growth and the growth of its client's activities.

The Bank significantly increased the number of repurchase transactions and money market transactions, reinforced its cooperation with investment funds, and therefore confirmed itself as a crucial key player on domestic money market. By improving politics of liquidity risk management in accordance with regulations and the Bank's internal acts the Bank successfully combined its own reserves with instruments and measures of CNB monetary policy. According to total number of underwritten treasury bills of Ministry of finance of Republic of Croatia the Bank is within leading investors.

The Bank arranged the issue of the RH Croatian Ministry of Finance bonds during 2007. The Bank was one of the leading actors in trading with debt securities on the Croatian market and the increase of first class debt and equity securities portfolio significantly contributed the overall Bank's result.

The Bank continued improving existing operation policies and procedures regulating the Treasury Products Sales Department and Department for foreign currency dealings and through foundation of collection center for foreign currencies, the Bank accomplished strategic cooperation with FINA. Throughout the year Treasury division has crucial role in conduction of largest and most significant financial projects in Republic of Croatia e.g. financing payment of due pension debt in Umirovljenički fund and initial public offer of shares of Hrvatske telekomunikacije d.d. whereby the Bank was the agent, and has successfully maintained liquidity and stability of the entire banking system.

Internal controls system and internal audit

Internal controls are specific task of the Management and all employees of the Bank. Control activities are built in Bank business processes, and its implementation lies within management of particular business area.

The internal control system is based on four principles:

- clear definition of responsibilities
- separation of duties and activities
- integrated control proceedings
- effective internal audit

The Bank's internal acts comprise internal control system principles.

The internal audit was organised as an independent function which directly reports to the Bank's Management Board, Audit Committee and the Supervisory Board.

The audit of all the organisational parts and functions of the Bank and the Group members is performed on the basis on the annual operating programme and quarterly operating plans.

The audit is performed in accordance with general internal audit standards and regulatory requirements, in four following steps:

- planning
- research
- reporting
- results monitoring

Report on audit results, which contain conclusions and recommendations, is submitted to the Bank's Management Board, Audit Committees and the Supervisory Board.

Development plan

In next period Hrvatska poštanska banka will continue to follow its strategy of strengthening its position as the largest bank in Croatian ownership and will try to defer from its competition not only through the quality of its financial offer and competence of its employees, but with constant care about interests and prosperity of all Croatian citizens and the Croatian economy. From the more significant events that will indicate the following period we should point out the recapitalization of the Bank which will insure adequate capital coverage for a future growth, and transition to new information system Finacle that will enable client of the Bank whole new line of new products and services accompanied with optimization of the Bank's business proceses at the same time, and accordingly more efficient business.

Risks

The most significant type of risks to whom the Bank is exposed: credit risk, liquidity risk, market risk and operating risk. Market risk involves risk of change in exchange rate, risk of interest rate gap and price risk. The Bank is managing risks according to policies assigned and procedures described in note 44.

HPB-Invest d.o.o.

HPB-Invest d.o.o. (further referred as Company), company for investment funds management. The Company is 100% owned by Hrvatska poštanska banka. It was founded on 22 July 2005 and started with operations on 5 October 2005. Issued capital of the Company amounts to HRK 13.5 million.

On 31 December 2007 Company was managing ten investment funds, and assets under management amounts to HRK 1.3 billion, which represents an increase by 183.5% in relation to previous year.

Asset structure under management:

Fond	Asset under management HRK '000	Yield from the beginning of the year %
HPB Global fund	649,302	28.7%
HPB Dynamic fund	210,391	36.6%
HPB Dionički fund	141,995	25.1%
HPB Novčani fund	133,921	4.4%
HPB Titan fund**	58,751	1.5%
HPB Obveznički fund	41,612	2.5%
HPB Alpha fund	24,061	102.3%
HPB Omega fund****	9,520	42.5%
HPB ZM-1 fund*	9,474	13.9%
HPB WAV***	7,818	7.3%

* starting 23 March 2007
** starting 24 July 2007
*** starting 04 September 2007
**** starting 26 September 2007

Additionally, HPB-Invest d.o.o. is managing Pension fund and making payments in accordance with selection of fund members and Pension funds Law. In 2007 the Company has made payments to members of Pension funds as follows:

Model A, basic register:

- HRK 1.2 billion, third instalment in June
- HRK 1.2 billion, fourth instalment in November

Model B, basic register:

- HRK 702.6 billion, first instalment in November

Model A, register of family pensions and highest pensions

- HRK 125.4 million, first instalment in June
- HRK 125.5 million, second instalment in November

As of 31 December 2007 the Company's total balance sheet amounted to HRK 25.0 billion; the Company achieved profit after tax in the amount of HRK 11.5 million being profitable for the first time after its foundation.

Development plan

The Company's goal in 2008 is management of funds accompanied with achieving defined yield with special attention towards minimising volatility of units prices, and maximising assets under management. In 2008 the Company will, beside ten existent opened investment funds, found and manage:

- HPB Real fund - real estate fund
- Sector fund

On the operating results significant impact will have cost minimising, which will arise as a result of lower Umirovljenički fund costs, as well as financial expenses due to repayment of borrowings towards the Bank.

Risks

The most significant types of financial risks which affect the Company are: credit risk, liquidity risk, market risk and operating risk. Market risk includes exchange rate risk, interest rate change risk and price risk. The Company manages risks in accordance with its prescribed policies and procedures of Hrvatska poštanska banka described in Note 44.

HPB-Stambena štedionica d.d.

HPB-Stambena štedionica ("the Company") was registered at Commercial court on 14 April 2006 and is 100% owned by Hrvatska poštanska banka.

After setup activities which began in May 2006, active sale of housing saving begun in September 2006.

As of 31 December 2007, HPB-Stambena štedionica realised 11,903 housing saving contracts, which represent increase by 75% compared to 31 December 2006.

Although there was a planned loss for the year 2007 in the amount HRK 3.7 million, HPB-Stambena štedionica has increased its share in the total amount of new housing saving contracts to 6% this year.

As at 31 December 2007, total balance sheet of the Company amounts HRK 59.9 million.

With an aim to facilitate operating activities, the Company was recapitalized by the parent company in the September 2007 in the amount of HRK 10 million, and the total founding capital of HPB-Stambena štedionica now amounts to HRK 40 million.

Development plan

In the following period, the Company expects significant increase in business activities and consequently profitable results, what is in line with the expectations of the owners and customers, and which should be accomplished through expansion of sales channels, predominantly via strategic partner Croatian Post, and through further broadening of the Bank's branches network, redesign of the existing products of housing savings and housing loans, and through sale of housing products with other products of the Bank.

Risk

The most significant types of risk that the Company is exposed to: credit risk, liquidity risk, market risk and operating risk. Market risk includes changes of exchange rates and risk of interest rate gap. The Company develops a system of managing the risk by implementing policies and procedures and determing acceptable limits of risk according to prescribed policies and procedures of Hrvatska poštanska banka described in note 44. Limits are determined for all types of risks in relation to guarantee capital.

HPB-Nekretnine d.o.o.

HPB-Nekretnine d.o.o. is a company specialized in real estate market, which started its business activities in August 2005. Issued capital amounts to HRK 50 thousand and the Company is a 100% subsidiary of the Bank.

The primary business activity of the Company is estimation of the real estate value, advisory and buying and selling of the real estate.

As of 31 December 2007 balance sheet of the HPB-Nekretnina d.o.o. amounted to HRK 11.5 million, while the net profit for the period amounted to HRK 512 thousand.

Development plan

In the upcoming period the focus will be on the active promotion on the market, quality of service and competitive prices, as for the Bank. Total efficiency and business activity will mostly depend on the expert team and their work, in the way to achieve planned goals and measurable financial results trough entering the competitive market.

In the future we can expect the rise in demand for specific services which the Company offers and this increase in demand is the Company's business and development policy. Therefore, the Group will become more recognizable and a synergy effect will be accomplished.

Risk

The most significant types of risk that the Company is exposed to: credit risk, liquidity risk, market risk and operating risk. Market risk includes changes of exchange rates, risk of interest rate gap and price risk. The Company manages its risks according to prescribed policies and procedures of Hrvatska poštanska banka described in note 44.

STATEMENT ON THE APPLICATION OF THE CORPORATE MANAGEMENT CODEX

Application of the Corporate Management Codex

Aiming to achieve higher standards of corporate management, the Croatian agency for financial services supervision (Hrvatska agencija za nadzor financijskih usluga - "HANFA") and the Zagreb Stock Exchange (Zagrebačka burza d.d.) established a Corporate Management Codex which was adopted by HANFA - Type: 011-02/07-04/28, File number: 326-01-07-02 on 26 April 2007.

The Resolution for adoption of the Corporate Management Codex was published in National Gazette number 46/2007, and the Codex was published on the Internet pages of HANFA and the Zagreb Stock Exchange.

As a company whose shares are publicly quoted on the Zagreb Stock Exchange, the Bank voluntarily implemented recommendations in accordance with the above-mentioned Codex during 2007, with some exceptions in respect of concentrated ownership structure and specificities of the banking sector. During 2007, the Supervisory Board did not set up an appointment committee or a reward committee, the majority of Supervisory Board members do not have independent member status, and no policy for Management and Supervisory Board rewards has been published. In 2007, detailed explanations relating to recommendations not adopted, or departures from certain Codex recommendations were included in an annual questionnaire published by the Bank. This questionnaire forms a constituent part of the Codex and is submitted to the Zagreb Stock Exchange together with the annual financial statements for public disclosure.

Together with Codex recommendations, the Bank's Management and Supervisory Boards made considerable efforts with the aim of conducting adequate corporate management in the Bank, with awareness of and focus on the Bank's structure and organisation, strategy and business goals, the distribution of authority and responsibility with particular emphasis on efficient procedures for the determination, measurement and monitoring of risks in the Bank's operations, as well as establishing corresponding internal control mechanisms.

A description of basic items of internal supervision in the Company and risk management in respect of financial reporting are provided in the description of the Bank's operations on page 16, and in the note 44.

Significant shareholders and limitations on share rights

The Republic of Croatia is the major indirect shareholder within the Bank's ownership structure, through funds which are not included in the state budget (the Croatian Institute for Pension Insurance and the Croatian Privatisation Fund and public companies (Croatian Post), so that the Republic of Croatia holds an indirect share amounting to over 98% of total share capital and with its voting rights at the General Assembly entirely controls the Bank. Besides the above, there are no shareholders in the Bank's ownership structure with special controlling rights. According to the Bank's Statute, voting rights are not limited in any way, nor are there any other limitations in respect of the realisation of voting rights.

Rules for the appointment and removal of Management Board members, bringing amendments to the Statute and certain Management Board authorities

In accordance with the Bank's Statute, the Management Board consists of a minimum of two and maximum of five members, and decisions regarding the number of members are brought by the Supervisory Board. Members of the Management Board and the President of the Management Board are appointed by the Supervisory Board for a period of up to five years, and can be reappointed with no restriction. Only individuals who meet the criteria prescribed in the Banking Act and who have the prior approval of the Croatian National Bank can be appointed as Management Board members.

The Supervisory Board can bring a decision to remove the President of the Management Board and Members of the Board when there are valid grounds for such a decision, and the President and Members of the Management Board can resign by submitting their resignation in writing.

The Statute can only be amended with a General Assembly decision. A decision is considered brought if voted for by members representing at least three quarters of share capital represented at the General Assembly. A proposed Decision on amendments to the Statue are presented by the Management Board to the Supervisory Board who is authorised to accept the proposal and refer it to the General assembly for consideration, whereupon the proposed Decision on amendments to the Statue is published in the "National Gazette".

The authority, responsibilities and obligations of The Bank's Management Board in managing the Bank's operations, and in representation and presentation of the Bank are determined by the Commercial Companies Act, the Banking Act and the Bank's Statute.

The Bank's Management Board is authorised, with the prior written approval of the Supervisory Board, during the period up to 16 June 2010, to bring one or more decisions to increase the Bank's share capital with a cash payment, from a new issue of share's where the total amount of such share capital increase must not exceed HRK 200,000,000.00. The Bank's Management Board is authorised, with the prior written approval of the Supervisory Board, in respect of shares issued based on the above-mentioned authority, to exclude priority in the subscription of new shares. In respect of the rights from the shares issued based on the above-mentioned authority, and of the terms and conditions for the issue of such shares, decisions are taken by the Management Board with the prior written approval of the Supervisory Board. It is the obligation of the Supervisory Board to grant all approvals based on a majority vote of all members.

Supervisory Board members and activities

In accordance with the Companies Act and the Bank's Statute, the Supervisory Board's main responsibility is the constant supervision of the Bank's business management, and appointment and removal of the President and Members of the Management Board. Also, in accordance with the Banking Act, the Supervisory Board approves the Management Board's decisions on the Bank's business policies, financial planning and the framework annual internal audit programme.

Members of the Supervisory Board during the 2007 business year:

mr.sc. Ante Žigman	President
prof.dr.sc. Dragan Kovačević	Vice President
Jadranko Mijalić	Member
dr.sc. Miro Kovač	Member
mr.sc. Grga Ivezić	Member
Vera Babić	Member
prof.dr.sc. Drago Jakovčević	Member

The Supervisory Board has set up an Audit Committee as a supporting body.

Management Board members and activities

In accordance with Commercial Companies Act and the Bank's Statute, the Management Board's main responsibility is managing the Bank's business activities and representing and presenting the Bank to third parties. Also the Management Board is responsible for ensuring proper business conduct in accordance with risk management regulations as prescribed by the Banking Act and other legislation which regulates banking operations or the provision of other financial services and regulations brought in accordance with the Banking Act and other legislation, monitoring the risks to which the Bank is exposed in its operations and adopting appropriate procedures for management of the Bank's risks, systematic monitoring, evaluation and support strategy, or reaching adequate levels of capital in relation to the risks to which the Bank is exposed in its operations, internal control system functioning for all Bank's business areas, undisturbed performance of internal audit, maintaining business and other books and business documentation, collecting accounting documents, realistically estimating assets and liabilities, making financial and other reports in accordance with accounting regulations and standards and current laws and regulations, reporting and notifying the Croatian National Bank in accordance with the Banking Act and other regulations currently in force, as well as administering measures introduced by the Croatian National Bank.

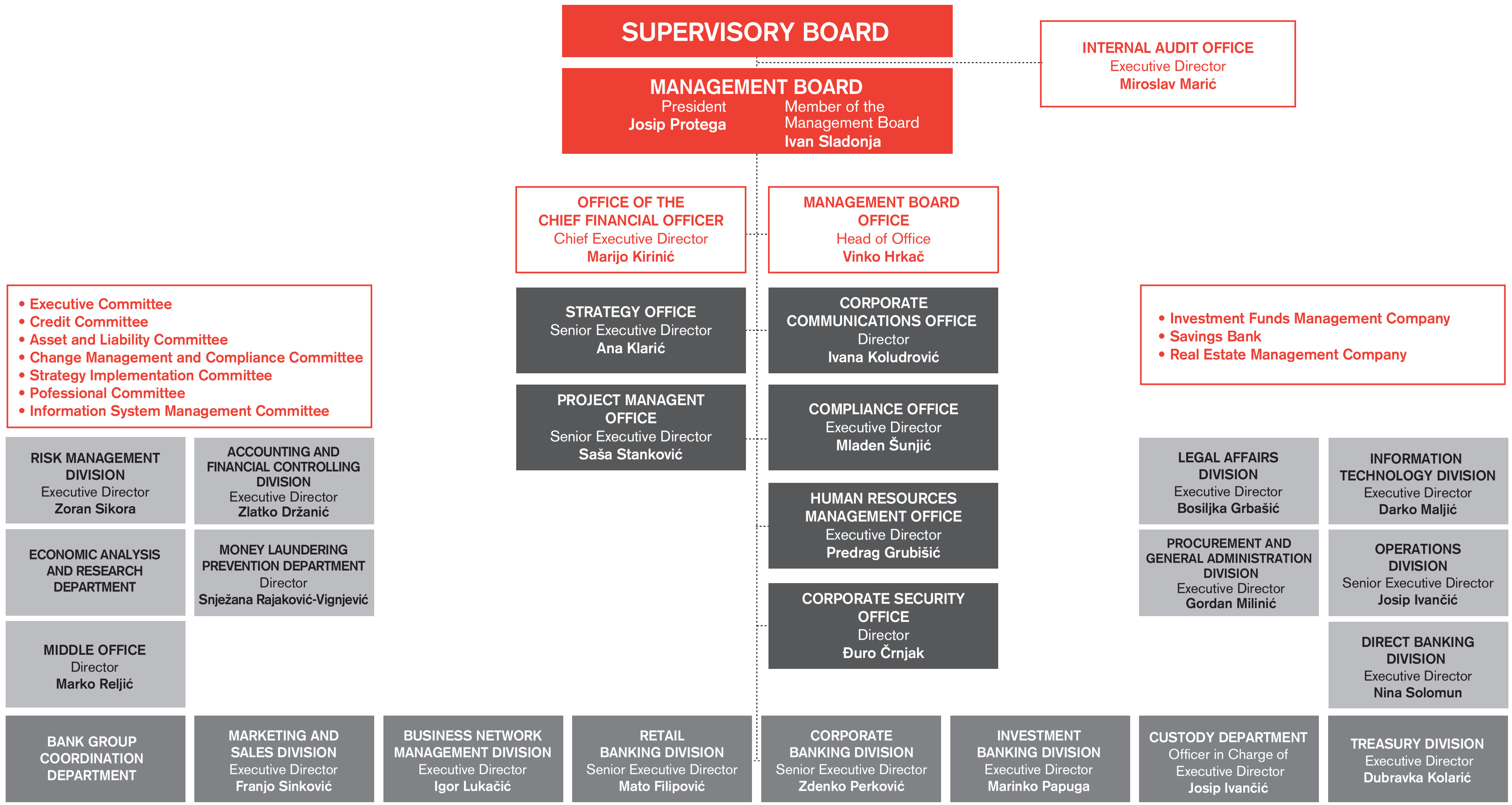
Management Board members during the 2007 business year:

Josip Protega	President of the Management Board
Ivan Sladonja	Member of the Management Board

The Management Board in accordance with business process requirements establishes permanent and temporary working committees, among which the following are permanent: the Executive Committee, the Credit Committee, the Assets and Liabilities Management Committee, Amendments and Adjustments Management Committee, the Strategy Implementation Committee and the Information System Management Committee.

12th March 2007 - FINA[1] and HPB presented the service of a collecting centre for foreign exchange

[1] Financial agency


SUPERVISORY BOARD
INTERNAL AUDIT OFFICE
Executive Director
Miroslav Marić
MANAGEMENT BOARD
President
Josip Protega
Member of the Management Board
Ivan Sladonja
OFFICE OF THE CHIEF FINANCIAL OFFICER
Chief Executive Director
Marijo Kirinić
MANAGEMENT BOARD OFFICE
Head of Office
Vinko Hrkač
• Executive Committee
• Credit Committee
• Asset and Liability Committee
• Change Management and Compliance Committee
• Strategy Implementation Committee
• Pofessional Committee
• Information System Management Committee
STRATEGY OFFICE
Senior Executive Director
Ana Klarić
CORPORATE COMMUNICATIONS OFFICE
Director
Ivana Koludrović
• Investment Funds Management Company
• Savings Bank
• Real Estate Management Company
PROJECT MANAGENT OFFICE
Senior Executive Director
Saša Stanković
COMPLIANCE OFFICE
Executive Director
Mladen Šunjić
HUMAN RESOURCES MANAGEMENT OFFICE
Executive Director
Predrag Grubišić
CORPORATE SECURITY OFFICE
Director
Đuro Črnjak
RISK MANAGEMENT DIVISION
Executive Director
Zoran Sikora
ACCOUNTING AND FINANCIAL CONTROLLING DIVISION
Executive Director
Zlatko Držanić
ECONOMIC ANALYSIS AND RESEARCH DEPARTMENT
MONEY LAUNDERING PREVENTION DEPARTMENT
Director
Snježana Rajaković-Vignjević
MIDDLE OFFICE
Director
Marko Reljić
LEGAL AFFAIRS DIVISION
Executive Director
Bosiljka Grbašić
INFORMATION TECHNOLOGY DIVISION
Executive Director
Darko Maljić
PROCUREMENT AND GENERAL ADMINISTRATION DIVISION
Executive Director
Gordan Milinić
OPERATIONS DIVISION
Senior Executive Director
Josip Ivančić
DIRECT BANKING DIVISION
Executive Director
Nina Solomun
BANK GROUP COORDINATION DEPARTMENT
MARKETING AND SALES DIVISION
Executive Director
Franjo Sinković
BUSINESS NETWORK MANAGEMENT DIVISION
Executive Director
Igor Lukačić
RETAIL BANKING DIVISION
Senior Executive Director
Mato Filipović
CORPORATE BANKING DIVISION
Senior Executive Director
Zdenko Perković
INVESTMENT BANKING DIVISION
Executive Director
Marinko Papuga
CUSTODY DEPARTMENT
Officer in Charge of Executive Director
Josip Ivančić
TREASURY DIVISION
Executive Director
Dubravka Kolarić

FINANCIAL STATEMENT AND INDEPENDENT AUDITORS' REPORT

RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARDS FOR THE PREPARATION AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Management Board of the Bank is required to prepare unconsolidated and consolidated financial statements of the Bank and the Group for each financial year which give a true and fair view of the financial position of the Bank and Group and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank and the Group together with the annual financial statements for acceptance. If the Supervisory Board approves the annual financial statements they are deemed confirmed by the Management and Supervisory Board.

The consolidated and unconsolidated financial statements set out on pages 27 to 86 were authorised by the Management Board on 26 March 2008 for issue to the Supervisory Board and are signed below to signify this.

On behalf of Hrvatska poštanska banka d.d.:

Josip Protega
President of the Management Board

Ivan Sladonja
Member of the Management Board

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HRVATSKA POŠTANSKA BANKA D.D.

We have audited the accompanying consolidated financial statements of Hrvatska poštanska banka d.d. and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2007, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have also audited the accompanying unconsolidated financial statements of Hrvatska poštanska banka d.d. ("the Bank"), which comprise the unconsolidated balance sheet as at 31 December 2007, the unconsolidated income statement, unconsolidated statement of changes in equity and unconsolidated 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 consolidated and unconsolidated financial statements in accordance with statutory accounting requirements for banks in Republic of Croatia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and unconsolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated and unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's and Group's preparation and fair presentation of the consolidated and unconsolidated 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 Bank's and Group's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and unconsolidated financial statements.

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

Opinion

In our opinion, the consolidated and unconsolidated financial statements give a true and fair view of the consolidated and unconsolidated financial position of the Bank and of the Group as at 31 December 2007, and of their consolidated and unconsolidated financial performance and cash flows for the year then ended in accordance with the statutory accounting requirements for banks in Republic of Croatia.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb, Croatia

Zagreb, 26 March 2008

For and on behalf of
KPMG Croatia d.o.o. za reviziju:

Ismet Kamal
Director

Ivana Matovina
Croatian Certified Auditor

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

ASSETS	Notes	Group 2007 HRK '000	Group 2006 HRK '000
Cash and amounts due from banks	4	1,033,020	579,716
Obligatory reserve with Croatian National Bank	5	1,657,335	1,026,742
Placements with and loans to other banks	6	2,096,927	1,151,817
Financial assets at fair value through profit or loss	7	1,672,708	1,810,616
Financial assets available for sale	8	119,374	331,001
Financial assets held to maturity	9	227,509	150
Loans and advances to customers	10	7,285,233	5,980,865
Property and equipment	12	207,020	182,718
Investment property	13	7,778	-
Intangible assets	14	118,711	71,788
Net deferred tax asset	15	16,040	11,759
Other assets	16	119,323	123,324
TOTAL ASSETS		**14,560,978**	**11,270,496**

LIABILITIES			
Financial liabilities at fair value through profit and loss	17	354	583
Deposits from banks	18	477,419	496,662
Deposits from customers	19	10,236,987	8,157,786
Borrowings	20	2,109,125	1,413,682
Subordinated debt	21	200,603	-
Provisions for liabilities and charges	22	31,900	26,030
Current tax liability		13,115	12,193
Other liabilities	23	535,257	338,627
TOTAL LIABILITIES		**13,604,760**	**10,445,563**

EQUITY			
Share capital	24	584,780	584,780
Treasury shares		(874)	(874)
Statutory reserve	24	18,822	12,776
General banking risk reserve	24	170,836	91,072
Fair value reserve	24	(3,493)	(885)
Revaluation reserve	24	4,956	-
Other reserves	24	36,606	36,606
Retained earnings	24	144,585	101,458
TOTAL EQUITY		**956,218**	**824,933**
TOTAL LIABILITIES AND EQUITY		**14,560,978**	**11,270,496**

The significant accounting policies and other notes on pages 35 to 86 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Group 2007 HRK '000	Group 2006 HRK '000
Interest and similar income	25	727,501	513,879
Interest expense and similar charges	26	(334,603)	(180,646)
Net interest income		**392,898**	**333,233**
Fee and commission income	27	601,756	565,225
Fee and commission expense	28	(437,295)	(474,649)
Net fee and commission income		**164,461**	**90,576**
Gains less losses arising from dealing securities	29	34,894	25,043
Gains less losses arising from investment securities	30	33	12,591
Gains less losses arising from dealing in foreign currencies		25,957	20,460
Other operating income	31	56,056	3,152
Dealing and other income		**116,940**	**61,246**
Operating income		**674,299**	**485,055**
General and administrative expenses	32	(377,938)	(321,792)
Depreciation and amortisation	12, 13, 14	(54,737)	(34,180)
Impairment losses on loans and advances to customers and other assets	33	(71,534)	(10,913)
Provisions for liabilities and charges	22	(5,938)	(3,316)
Operating expenses		**(510,147)**	**(370,201)**
PROFIT BEFORE TAX		**164,152**	**114,854**
Income tax expense	34	(35,215)	(25,216)
PROFIT FOR THE YEAR		**128,937**	**89,638**
Earnings per share in HRK	35	**242.90**	**168.87**

The significant accounting policies and other notes on pages 35 to 86 form an integral part of these consolidated financial statements.

22nd March 2007- HPB opened a sub-branch in Slavonski Brod

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

Group	Share capital HRK '000	Treasury shares HRK '000	Statutory reserve HRK '000	General banking risk reserve HRK '000	Fair value reserve HRK '000	Revaluation reserve HRK '000	Other reserves HRK '000	Retained earnings HRK '000	Total HRK '000
Balance at 1 January 2006	**584,780**	**(874)**	**7,720**	**31,609**	**10,248**	**-**	**-**	**112,945**	**746,428**
Unrealised losses on financial assets available for sale	-	-	-	-	(1,324)	-	-	-	(1,324)
Realised gains on financial assets available for sale	-	-	-	-	(12,591)	-	-	-	(12,591)
Deferred tax	-	-	-	-	2,782	-	-	-	2,782
Net expense recognised directly in equity	-	-	-	-	*(11,133)*	-	-	-	*(11,133)*
Profit for the year	-	-	-	-	-	-	-	89,638	89,638
Total recognised income and expense for 2006	-	-	-	-	*(11,133)*	-	-	*89,638*	*78,505*
Transfer to statutory reserve	-	-	5,056	-	-	-	-	(5,056)	-
Transfer to general banking risk reserve	-	-	-	59,463	-	-	-	(59,463)	-
Transfer to other reserves	-	-	-	-	-	-	36,606	(36,606)	-
Balance at 31 December 2006	**584,780**	**(874)**	**12,776**	**91,072**	**(885)**	**-**	**36,606**	**101,458**	**824,933**
Balance at 1 January 2007	**584,780**	**(874)**	**12,776**	**91,072**	**(885)**	**-**	**36,606**	**101,458**	**824,933**
Unrealised losses on financial assets available for sale	-	-	-	-	(3,227)	-	-	-	(3,227)
Realised gains on financial assets available for sale	-	-	-	-	(33)	-	-	-	(33)
Gain on revaluation of land and buildings	-	-	-	-	-	6,195	-	-	6,195
Deferred tax	-	-	-	-	652	(1,239)	-	-	(587)
Net income/(expense) recognised directly in equity	-	-	-	-	*(2,608)*	*4,956*	-	-	*2,348*
Profit for the year	-	-	-	-	-	-	-	128,937	128,937
Total recognised income and expense for 2007	-	-	-	-	*(2,608)*	*4,956*	-	*128,937*	*131,285*
Transfer to statutory reserve	-	-	6,046	-	-	-	-	(6,046)	-
Transfer to general banking risk reserve	-	-	-	79,764	-	-	-	(79,764)	-
Transfer to other reserves	-	-	-	-	-	-	-	-	-
Balance at 31 December 2007	**584,780**	**(874)**	**18,822**	**170,836**	**(3,493)**	**4,956**	**36,606**	**144,585**	**956,218**

The significant accounting policies and other notes on pages 35 to 86 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Group 2007 HRK '000	Group 2006 HRK '000
Cash flows from operating activities			
Profit before tax		164,152	114,854
Adjustment for:			
- Depreciation and amortisation	12, 13, 14	54,737	34,180
- Foreign exchange losses	32	2,196	6,564
- Impairment losses on loans and advances to customers and other assets	33	71,534	10,913
- Impairment losses on provisions for liabilities and charges	22	5,938	3,316
- Net unrealised gains on financial assets at fair value through profit or loss	29	(42,104)	(21,179)
- Reversal of impairment loss on land and buildings	31	(17,185)	-
Changes in operating assets and liabilities			
Increase in placements and loans to other banks		(40,395)	(64,957)
Decrease / (increase) in financial assets at fair value through profit or loss		178,760	(351,711)
Net increase in loans and advances to customers		(1,396,608)	(3,064,860)
Net increase in other assets		(10,692)	(49,973)
Net (decrease) / increase in deposits from banks		(17,132)	445,963
Net increase in deposits from customers		2,105,894	3,170,407
Net increase in other liabilities		184,223	119,060
Net cash inflow from operating activities before tax		**1,243,318**	**352,577**
Income tax paid		(26,887)	(18,556)
Net cash inflow from operating activities		**1,216,431**	**334,021**
Cash flow from investing activities			
Purchase of property and equipment and intangible assets		(110,359)	(111,477)
Disposal of financial assets available for sale		224,332	834,600
Acquisition of financial assets available for sale		(16,327)	(245,056)
Acquisition of financial assets held to maturity		(227,359)	(150)
Net cash (outflow)/inflow from investing activities		**(129,713)**	**477,917**
Cash flow from financing activities			
Increase in subordinated debt		200,000	-
Increase in borrowings		15,451,276	5,226,660
Decrease in borrowings		(14,753,145)	(5,062,372)
Net cash inflow from financing activities		**898,131**	**164,288**
Effect of foreign exchange differences on cash and cash equivalents		(5,975)	(7,566)
Net increase in cash and cash equivalents		**1,978,874**	**968,660**
Cash and cash equivalents at the beginning of the year	37	**2,575,811**	**1,607,151**
Cash and cash equivalents at the end of the year	37	**4,554,685**	**2,575,811**

The significant accounting policies and other notes on pages 35 to 86 form an integral part of these consolidated financial statements.

UNCONSOLIDATED FINANCIAL STATEMENTS

UNCONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

		Bank	Bank
		2007	2006
ASSETS	**Notes**	**HRK '000**	**HRK '000**
Cash and amounts due from banks	4	1,033,016	579,714
Obligatory reserve with Croatian National Bank	5	1,657,335	1,026,742
Placements with and loans to other banks	6	2,072,511	1,146,147
Financial assets at fair value through profit or loss	7	1,672,708	1,810,616
Financial assets available for sale	8	81,855	299,674
Financial assets held to maturity	9	227,509	150
Loans and advances to customers	10	7,283,228	5,998,224
Investment in subsidiaries	11	53,550	35,050
Property and equipment	12	204,084	172,288
Intangible assets	14	118,707	71,783
Net deferred tax asset	15	15,269	9,669
Other assets	16	116,030	127,796
TOTAL ASSETS		**14,535,802**	**11,277,853**
LIABILITIES			
Financial liabilities at fair value through profit and loss	17	354	583
Deposits from banks	18	477,419	496,662
Deposits from customers	19	10,213,471	8,153,937
Borrowings	20	2,109,125	1,413,682
Subordinated debt	21	200,603	-
Provisions for liabilities and charges	22	31,895	26,030
Current tax liability		11,841	12,169
Other liabilities	23	526,814	334,708
TOTAL LIABILITIES		**13,571,522**	**10,437,771**
EQUITY			
Share capital	24	584,780	584,780
Treasury shares		(874)	(874)
Statutory reserve	24	18,822	12,776
General banking risk reserve	24	170,836	91,072
Fair value reserve	24	(1,896)	(222)
Revaluation reserve	24	4,956	-
Other reserves	24	36,606	36,606
Retained earnings	24	151,050	115,944
TOTAL EQUITY		**964,280**	**840,082**
TOTAL LIABILITIES AND EQUITY		**14,535,802**	**11,277,853**

The significant accounting policies and other notes on pages 35 to 86 form an integral part of these unconsolidated financial statements.

UNCONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Bank 2007 HRK '000	Bank 2006 HRK '000
Interest and similar income	25	725,792	513,336
Interest expense and similar charges	26	(334,314)	(180,562)
Net interest income		**391,478**	**332,774**
Fee and commission income	27	559,623	554,655
Fee and commission expense	28	(434,632)	(473,731)
Net fee and commission income		**124,991**	**80,924**
Gains less losses arising from dealing securities	29	34,111	25,043
Gains less losses arising from investment securities	30	50	12,603
Gains less losses arising from dealing in foreign currencies		25,960	20,460
Other operating income	31	57,671	3,877
Dealing and other income		**117,792**	**61,983**
Operating income		**634,261**	**475,681**
General and administrative expenses	32	(349,247)	(300,100)
Depreciation and amortisation	12, 14	(54,469)	(34,144)
Impairment losses on loans and advances to customers and other assets	33	(71,327)	(10,631)
Provisions for liabilities and charges	22	(5,933)	(3,316)
Operating expenses		**(480,976)**	**(348,191)**
PROFIT BEFORE TAX		**153,285**	**127,490**
Income tax expense	34	(32,369)	(26,365)
PROFIT FOR THE YEAR		**120,916**	**101,125**
Earnings per share in HRK	35	**227.79**	**190.51**

The significant accounting policies and other notes on pages 35 to 86 form an integral part of these unconsolidated financial statements.

27th March 2007- HPB opened the first sub-branch in Gospić

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

Bank	Share capital HRK '000	Treasury shares HRK '000	Statutory reserve HRK '000	General banking risk reserve HRK '000	Fair value reserve HRK '000	Revaluation reserve HRK '000	Other reserves HRK '000	Retained earnings HRK '000	Total HRK '000
Balance at 1 January 2006	**584,780**	**(874)**	**7,720**	**31,609**	**10,248**	**-**	**-**	**115,944**	**749,427**
Unrealised losses on financial assets available for sale	-	-	-	-	(484)	-	-	-	(484)
Realised gains on financial assets available for sale	-	-	-	-	(12,603)	-	-	-	(12,603)
Deferred tax	-	-	-	-	2,617	-	-	-	2,617
Net expense recognised directly in equity	-	-	-	-	*(10,470)*	-	-	-	*(10,470)*
Profit for the year	-	-	-	-	-	-	-	101,125	101,125
Total recognised income and expense for 2006	-	-	-	-	*(10,470)*	-	-	*101,125*	*90,655*
Transfer to statutory reserve	-	-	5,056	-	-	-	-	(5,056)	-
Transfer to general banking risk reserve	-	-	-	59,463	-	-	-	(59,463)	-
Transfer to other reserves	-	-	-	-	-	-	36,606	(36,606)	-
Balance at 31 December 2006	**584,780**	**(874)**	**12,776**	**91,072**	**(222)**	**-**	**36,606**	**115,944**	**840,082**
Balance at 1 January 2007	**584,780**	**(874)**	**12,776**	**91,072**	**(222)**	**-**	**36,606**	**115,944**	**840,082**
Unrealised loss on financial assets available for sale	-	-	-	-	(2,042)	-	-	-	(2,042)
Realised gains on financial assets available for sale	-	-	-	-	(50)	-	-	-	(50)
Gain on revaluation of land and buildings	-	-	-	-	-	6,195	-	-	6,195
Deferred tax	-	-	-	-	418	(1,239)	-	-	(821)
Net income/(expense) recognised directly in equity	-	-	-	-	*(1,674)*	*4,956*	-	-	*3,282*
Profit for the year	-	-	-	-	-	-	-	120,916	120,916
Total recognised income and expense for 2007	-	-	-	-	*(1,674)*	*4,956*	-	*120,916*	*124,198*
Transfer to statutory reserve	-	-	6,046	-	-	-	-	(6,046)	-
Transfer to general banking risk reserve	-	-	-	79,764	-	-	-	(79,764)	-
Transfer to other reserves	-	-	-	-	-	-	-	-	-
Balance at 31 December 2007	**584,780**	**(874)**	**18,822**	**170,836**	**(1,896)**	**4,956**	**36,606**	**151,050**	**964,280**

The significant accounting policies and other notes on pages 35 to 86 form an integral part of these unconsolidated financial statements.

UNCONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Group 2007 HRK '000	Group 2006 HRK '000
Cash flows from operating activities			
Profit before tax		153,285	127,490
Adjustment for:			
- Depreciation and amortisation	12, 14	54,469	34,144
- Foreign exchange losses	32	2,201	6,554
- Impairment losses on loans and advances to customers and other assets	33	71,327	10,631
- Impairment losses on provisions for liabilities and charges	22	5,933	3,316
- Net unrealised gains on financial assets at fair value through profit or loss	29	(42,104)	(21,179)
- Reversal of impairment loss on land and buildings	31	(17,185)	-
Changes in operating assets and liabilities			
Increase in placements and loans to other banks		(35,776)	(67,699)
Decrease / (increase) in financial assets at fair value through profit or loss		177,977	(351,711)
Net increase in loans and advances to customers		(1,377,244)	(3,082,219)
Net increase in other assets		(4,210)	(56,231)
Net (decrease) / increase in deposits from banks		(17,128)	445,963
Net increase in deposits from customers		2,087,085	3,165,926
Net increase in other liabilities		182,753	124,893
Net cash inflow from operating activities before tax		**1,241,383**	**339,878**
Income tax paid		(26,887)	(18,554)
Net cash inflow from operating activities		**1,214,496**	**321,324**
Cash flow from investing activities			
Investments in subsidiaries		(18,500)	(30,000)
Purchase of property and equipment and intangible assets		(109,809)	(101,047)
Disposal of financial assets available for sale		221,408	834,590
Acquisition of financial assets available for sale		(7,201)	(213,437)
Acquisition of financial assets held to maturity		(227,359)	(150)
Net cash (outflow)/inflow from investing activities		**(141,461)**	**489,956**
Cash flow from financing activities			
Increase in subordinated debt		200,000	-
Increase in borrowings		15,451,276	5,226,660
Decrease in borrowings		(14,753,145)	(5,062,372)
Net cash inflow from financing activities		**898,131**	**164,288**
Effect of foreign exchange differences on cash and cash equivalents		(5,975)	(7,566)
Net increase in cash and cash equivalents		**1,965,191**	**968,002**
Cash and cash equivalents at the beginning of the year	37	**2,570,129**	**1,602,127**
Cash and cash equivalents at the end of the year	37	**4,535,320**	**2,570,129**

The significant accounting policies and other notes on pages 35 to 86 form an integral part of these unconsolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Hrvatska poštanska banka d.d. Zagreb ("the Bank") is a joint stock company incorporated and domiciled in the Republic of Croatia. The Bank is the parent of the Hrvatska poštanska banka d.d. Group ("the Group").These financial statements comprise both the separate and the consolidated financial statements of the Bank as defined in International Accounting Standard 27 "Consolidated and Separate Financial Statements".

These financial statements were authorized for issue by the Management Board on 26 March 2008 for approval by the Supervisory Board.

The principal accounting policies applied in the preparation of these financial statements are summarized below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards, reference may be made to certain Standards in describing the accounting policies of the Group; unless otherwise stated, these references are to Standards applicable at 31 December 2007.

a) Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. The Group's operations are subject to the Banking Law, in accordance with which the Group's financial reporting is regulated by Croatian National Bank ("the CNB") which is the central monitoring institution of the banking system in Croatia. These financial statements have been prepared in accordance with these banking regulations.

The accounting regulations of the CNB are based on International Financial Reporting Standards. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

- The CNB requires banks to recognize impairment losses, in income, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value). The Group and Bank have made portfolio based provisions of HRK 142,987 thousand and HRK 142,775 thousand respectively (2006: HRK 103,564 thousand and HRK 103,282 thousand respectively) in compliance with these regulations and have recognized a charge against income in respect of such provisions of HRK 39,618 thousand and HRK 39,493 thousand respectively as an expense within the charge for impairment losses for the year (2006: HRK 39,038 thousand and HRK 38,756 thousand respectively). Although, in accordance with International Financial Reporting Standards, such provisions should more properly be presented as an appropriation within equity, the Group and Bank continue to recognize such provisions in the income statement as a substitute for unidentified impairment losses calculated in accordance with the requirements of International Financial Reporting Standards.
- Although the Group calculates impairment losses on corporate lending as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate, in accordance with International Financial Reporting Standards, the CNB requires the amortization of the discount calculated to be presented in the income statement within the movement on impairment losses on loans and advances to customers and other assets, rather than as interest income, as required by International Financial Reporting Standards.
- Additionally the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognised in accordance with IFRS.

b) Basis of preparation

The financial statements are prepared on the fair value basis for derivative financial instruments, financial assets and liabilities at fair value through profit or loss, and assets available for sale, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

The financial statements have been prepared in a format generally adopted and internationally recognized by banks.

In preparing the financial statements, management has made judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the balance sheet date, as well as amounts of income and expense for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the result of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 2.

c) Standards, interpretations and amendments to published standards that are not yet effective

Certain regulations have been issued by the CNB as of the date on which these financial statements were authorised for issue, which were not effective at the balance sheet date, but which will be mandatory for accounting periods beginning on or after 1 January 2008. The Group considers that the following regulations may have a significant impact on the financial statements or otherwise have a significant financial impact on its operations:

- In order to regulate the growth of banking assets, the CNB has issued a decision which requires banks to acquire mandatory CNB treasury bills should they report growth in customer credit risk exposures (both on- and off-balance-sheet) in 2008 of more than 1% monthly, measured from the position at 31 December 2007. The CNB treasury bills will be required to be purchased at an amount equivalent to 75% of the excess over the threshold. Such bills have a maturity of 360 days and currently earn interest of 0.25% per annum. The decision became effective from 1 January 2008. Although a similar restriction was imposed by the CNB for most of 2007, this restriction was lifted on 24 December 2007 and was therefore not in force at the balance sheet date.
- Effective from 1 January 2008, a new regulation on capital adequacy comes into force, in accordance with which excess growth in placements and secondary funds is included in capital adequacy ratio calculation.

The Group also expects that, in the ordinary course of updating its accounting regulations, the CNB may have regard to the following Standards and Interpretations issued by the International Accounting Standards Board and its International Financial Reporting Interpretations Committee, which were in issue as of the date on which these financial statements have been authorised for issue, but which are applicable to entities reporting under IFRS in periods commencing after 1 January 2008, and which may have an impact on the Group, if adopted:

25th April 2007 - the assets of HPB-Invest surpassed one billion kunas

- IFRS 8 "Operating Segments" introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the financial statements of all entities that report under IFRS for 2009, will require the disclosure of segment information based on the internal reports regularly reviewed by an entity's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.
- Revised IAS 23 "Borrowing Costs" removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the 2009 financial statements of all entities that report under IFRS.
- IFRIC 11, "Group and Treasury Share Transactions" and amendments to IFRS 2 "Share-Based Payments" require a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the financial statements of all entities that report under IFRS for 2008, with retrospective application required.
- IFRIC 12 "Service Concession Arrangements" provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 becomes mandatory for financial statements of all entities that report under IFRS for 2009. The Group and the Bank do not expect this IFRIC will have any impact on their financial statements.
- IFRIC 13 "Customer Loyalty Programmes" addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the financial statements of all entities that report under IFRS for 2009, but the Group and the Bank believe that this IFRIC will not have any impact on their financial statements.

d) Functional and presentation currency

The Group's financial statements are presented in Croatian kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

The exchange rate as at 31 December 2007 was HRK 7.3251 to EUR 1 (2006: HRK 7.3451) and HRK 4.9855 to USD 1 (2006: HRK 5.5784).

e) Changes in presentation or classification of the items in the financial statements

Where necessary, comparative information has been reclassified to achieve consistency with current financial year amounts and other disclosures.

f) Basis of consolidation

Financial statements are presented for the Group and the Bank. The Group financial statements comprise the consolidated financial statements of the Bank and its subsidiaries HPB-Nekretnine d.o.o., a real estate agency, HPB-Invest d.o.o., an investment fund management company and HPB-Stambena štedionica d.o.o., a specialized financial institution, involved in deposit collection from retail customers and eventual granting of subsided housing loans to Croatian citizens in the Republic of Croatia. All subsidiaries are 100% owned by the Bank and are incorporated and domiciled in Croatia.

Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired including intangible assets, is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Transactions eliminated on consolidation

Intragroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

g) Interest income and expense

Interest income and expense are recognised in the income statement as they accrue for all interest bearing financial instruments, including those measured at amortised cost, at fair value through profit or loss and available for sale, using the linear interest rate method. Such income and expense is presented as interest and similar income or interest expense and similar charges in the income statement. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortisation, and other differences between the initial carrying amount of an interest bearing financial instrument and its value at maturity, recognised on an linear basis. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

h) Fee and commission income and expense

Fee and commission income and expense arises on financial services provided by the Group and received by the Group, and mainly comprises fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Group. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment fund management are recognised on an accruals basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

i) Dividend income

Dividend income from equity securities is recognized in the income statement when the rights to receive the dividend are established.

j) Gains less losses from dealing and investment securities

Gains less losses from financial instruments at fair value through profit or loss include unrealized and realized gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss.

Gains less losses arising from investment securities comprise realized gains from financial instruments available for sale.

k) Gains less losses arising from dealing in foreign currencies

Gains less losses from dealing in foreign currencies include unrealized and realized gains and losses arising from spot dealings in foreign currencies.

l) Foreign currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates ruling at the dates when the fair values were determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. The translation differences are recognized in the income statement as part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within general and administrative expenses in the income statement. Translation differences on non-monetary financial assets, such as equity instruments classified as available for sale, are included in the fair value reserve in equity.

m) Financial instruments

Classification

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, available for sale, held to maturity or financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The management determines the classification of financial instruments upon initial recognition.

Financial assets and financial liabilities at fair value through profit or loss

This category comprises two subcategories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. The Group designates financial assets and liabilities at fair value through profit or loss when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Loans and receivables

This category comprises non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money to a debtor with no intention of trading with the receivable and include loans and receivables from banks, loans to and receivables from customers, and the obligatory reserve with the CNB.

Financial instruments held to maturity

This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

Financial assets available for sale

This category comprises non-derivative financial assets which are defined as available for sale or are not included in loans and receivables or held-to-maturity investments, or classified as financial assets at fair value through profit or loss. Financial assets available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt and equity securities.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss.

Recognition and derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets held to maturity and available for sale, are recognised on the settlement date which is the date when the financial instrument is delivered to or transferred from the Group. Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders.

The Group derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial assets. It occurs when the Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. The Group derecognises financial liabilities only when the financial liability ceases to exist, ie when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

Initial and subsequent measurement

Financial assets and liabilities are recognized initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Group measures financial instruments at fair value through profit or loss and financial assets available for sale at their fair value, without any deduction for costs of sale. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment.

Loans and receivables and held-to-maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortized cost.

Gains and losses

Gains or losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognized in the income statement.

Gains or losses arising from a change in the fair value of available-for-sale monetary assets are recognized directly in a fair value reserve within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortization of premium or discount on available-for-sale monetary assets are recognized in the income statement. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognized in equity.

Dividend income is recognized in the income statement. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to the income statement.

Gains or losses arising from financial assets and financial liabilities carried at amortized cost are recognized as interest in the income statement over the period of amortization. Gains or losses may also be recognized in the income statement when a financial instrument is derecognized or when its value is impaired.

Determination of fair value of financial instruments

The fair value of quoted financial assets in an active market is based on their average prices. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Group uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

The fair value of non-exchange-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract on the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Impairment of financial assets

Impairment of assets identified as impaired

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The Group estimates and performs impairment of all financial assets, except financial assets at fair value through profit or loss.

If any evidence of impairment 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.

The recoverable amount of financial instruments measured at amortized cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original interest rate. Short-term balances are not discounted. Allowances for uncollectibility are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts (or lower amount if required by applicable CNB regulations). The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the impairment allowance account are recognized in the income statement. When a loan is known to be uncollectable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or impairment loss is reversed through the income statement.

Impairment of assets not identified as impaired

In addition to the above described impairment losses on assets identified as impaired, the Group recognises impairment losses, in income, on on- and off-balance-sheet credit risk exposures not identified as impaired at rates from 0.85 - 1.20%, in accordance with the accounting regulations of the CNB.

Debt securities carried at fair value were excluded from the basis of such calculation at the balance sheet date.

n) Specific financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks, placements with other banks with original maturities of three months and items in course of collection.

Derivative financial instruments

The Group uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Group does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency agreements, forward agreements, futures and other financial derivatives and are initially recognized at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealized gains and losses recognized in the income statement, unless there is no reliable measure of their fair value.

Changes in the fair value of derivatives are included in gains less losses arising from dealing securities.

Treasury bills and debt securities

Treasury bills and debt securities that the Group holds for the purpose of short-term profit taking are classified as at fair value through profit or loss or as available-for-sale assets, and are carried at fair value. Treasury bills and debt securities that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets.

Equity securities and investments in open ended investment funds

Equity securities and investments in open ended investment funds are classified as at fair value through profit or loss or as available-for-sale assets.

Placements with banks

Placements with banks are classified as loans and receivables and are carried at amortized cost less impairment losses.

Loans and advances to customers

Loans and advances are presented net of impairment losses. Purchased loans that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets.

In accordance with CNB requirements, the amortization of any discounts included within impairment losses is presented in impairment losses.

Investments in subsidiaries and associates

In the Bank's separate financial statements investments in subsidiaries are accounted for at cost less impairment losses.

Other equity securities are classified as at fair value through profit and loss or available-for-sale financial assets and measured at fair value.

Borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognized in the income statement over the period of the borrowings as interest.

Repurchase agreements and linked transactions

The Group enters into purchases / (sales) of investments under agreements to resell (repurchase) substantially identical investments or in a series of linked sales and buy back transactions at a certain date in the future at a fixed price. The amounts paid are recognized in loans and advances to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for the relevant financial asset at amortized cost or at fair value as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognized on an accrual basis over the period of the transaction and is included in interest income or expense.

o) Income tax

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the balance sheet. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group reassesses unrecognized potential deferred tax assets and the carrying amount of recognized deferred tax assets.

p) Property and equipment

Property and equipment are tangible assets that are held for use in the supply of services or administrative purposes.

Recognition and measurement

During 2007 the Group and the Bank changed the accounting policy for property, comprising of the land and buildings, from the cost to revaluation model which is applied prospectively in line with IAS 16 Property, plant and equipment meaning that the opening balance of equity is not adjusted and comparatives are not restated. To account for the effect of revaluation both the gross carrying amount of land and buildings and the related accumulated depreciation are adjusted proportionally.

After recognition as an asset, property whose fair value can be measured reliably shall be carried at the revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation shall be made with sufficient regularity to ensure that he carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The fair value of land and buildings is determined by the independent professional surveyor.

Any surplus arising on revaluation is recognised directly in a revaluation reserve within equity except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognised in profit or loss, in which case the credit, to that extent, is recognised in profit or loss. Any deficit on revaluation is recognised in profit or loss except to the extent that it reverses a previous revaluation surplus on the same asset, in which case it is taken directly to the revaluation reserve.

Equipment is measured at cost less accumulated depreciation and impairment losses.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land and assets under construction or development are not depreciated.

The estimated useful lives are as follows:

	2007	2006
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and equipment	3-4 years	3-4 years
Motor vehicles	5 years	5 years
Other assets	10 years	10 years

Residual values are not taken into account. Depreciation methods and useful lives are reassessed at the reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in the income statement.

q) Investment property

Investment properties are properties which are held by the Group either to earn rental income or for capital appreciation or for both. Investment property is carried at cost less accumulated depreciation and any impairment losses.

Depreciation is provided on all investment property, except for investment property not yet brought into use, on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset as follows:

	2007	2006
Investment property	40 years	40 years

Residual amounts are not taken into account.

r) Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment losses. Expenditure on development activities are capitalized if all of the features required by IAS 38 "Intangible Assets" are satisfied. Amortization is provided on a straight-line basis over the estimated useful lives of intangible assets. Costs associated with developing or maintaining intangible assets are recognised as an expense as incurred.

Intangible assets are amortized on a straight-line basis over their estimated useful economic lives as follows:

	2007	2006
Leasehold improvements	4 years	4 years
Software	3-7 years	3-7 years
Licences	3-7 years	3-7 years

s) Non-current assets held for sale

Initially, non-current assets held for sale are recognized at the lower of carrying amount and fair value less costs to sell.

The Group discontinues classifying assets as held for sale if the sale is no longer highly probable. The Group measures non-current assets that cease to be classified as held for sale at the lower of the asset's carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations and its recoverable amount at the date of subsequent decision not to sell. Any gain or loss from disposal or reclassification of non-current assets held for sale is recognized in the income statement as incurred.

t) Impairment of non-financial assets

The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

u) Provisions for liabilities and charges

The Group recognizes a provision when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the obligation.

Provision for liabilities and charges are maintained at a level which management believes is adequate to absorb probable future losses. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provisions are recognized at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

v) Operating leases

Leases where the Group as lessor retains substantially all the risks and rewards incidental to ownership are included in tangible and intangible assets at cost net of accumulated depreciation. Rental income under operating leases is recognised in the income statement on a straight-line basis over the term of the lease.

The Group leases office space under operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

w) Employee benefits

Defined pension contributions

The Group pays contributions to insurance plans on a mandatory, contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Provisions for severance payments and jubilee awards

In calculating provisions for severance payments and jubilee awards, the Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Group's management, best represent the time value of money.

16th May 2007 - Hrvatska poštanska banka made a profit of 40 million kunas in the first trimester

x) Share capital and reserves

Share capital and reserves

Share capital is stated in HRK at nominal value. The amount of consideration paid on repurchase of share capital, including directly attributable costs, is recognized as a deduction from equity and classified as treasury shares.

Dividends

Dividends are recognized as a liability in the period in which they are declared.

Reserve for general banking risks

The Group recognizes a reserve for general banking risks, which represents a reserve for potential losses in excess of those expected and provided for through recognized impairment losses. The reserve is calculated in accordance with applicable regulations which require that a certain percentage of net profit for the year be set aside as a reserve within equity if the growth of risk assets on an annual basis exceeds a specific level. The reserve for general banking risk cannot be transferred to retained earnings or other reserves or be otherwise distributed until the expiry of a consecutive three year period in which the Group has recorded annual growth not exceeding 15%.

Retained earnings

Any profit for the year after appropriations is transferred to reserves, in accordance with General Assembly decisions.

Earnings per share

The Group presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

y) Off-balance-sheet commitments and contingent liabilities

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

z) Managed funds for and on behalf of third parties

The Group manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Group's assets and are excluded from the balance sheet. For the services rendered, the Group charges a fee which is recognized in the income statement on an accruals basis. The Group also manages seven open ended funds: HPB Dionički fund, HPB Global fund, HPB Novčani fund, HPB Obveznički fund, HPB Dynamic fund, HPB Titan fund and HPB World Apsolute Value, and three open ended funds with private offer: HPB Alpha fund, HPB Omega fund and HPB ZM-1 fund. Group also manages HPB Umirovljenički fund, a special purpose fund, established by the Government, for payment of debt to the retired persons.

aa) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group has identified four primary segments: corporate banking, retail banking, treasury and investment banking (business segments) and its operations, total assets and the majority of its clients are located in Croatia (geographical segment).

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment losses on loans and receivables

The Group monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Group's on- and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans and advances to corporate and retail customers (summarized in Note 10), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of guarantees, documentary credits and undrawn loan commitments (summarized in Notes 22 and 38). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

Group	Notes	2007 HRK '000	2006 HRK '000
Summary of impairment losses for customers			
Impairment losses on loans and advances to customers	10	268,533	201,265
Provisions for off-balance-sheet exposures	22	22,196	16,875
Total		**290,729**	**218,140**

Bank	Notes	2007 HRK '000	2006 HRK '000
Summary of impairment losses for customers			
Impairment losses on loans and advances to customers	10	268,413	201,265
Provisions for off-balance-sheet exposures	22	22,191	16,875
Total		**290,604**	**218,140**

Financial assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures) and collectively for assets that are not individually significant (mainly retail exposures). However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

The Group estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults.

The Group takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgement in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Group also has regard to the ranges of specific impairment loss rates prescribed by the CNB.

At the year end, the gross value of specifically impaired loans and advances, and the rate of impairment loss recognized, was as follows:

Group and Bank			**2007 HRK'000**			**2006 HRK'000**
	Corporate	**Retail**	**Total**	**Corporate**	**Retail**	**Total**
Gross value of exposure	241,604	76,028	317,632	177,372	44,804	222,176
Impairment rate	37%	70%	45%	43%	84%	52%

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2007 would lead to the recognition of an additional impairment loss of HRK 3,176 thousand (2006: HRK 2,222 thousand).

The Group also seeks to recognize impairment losses which are known to exist at the balance sheet date, but which have not yet been specifically identified. In estimating unidentified impairment losses existing in collectively assessed portfolios, and in the absence of reliable data on historical loss rates and the emergence period for the identification of these impairment losses, the Group has regard to the range of impairment loss rates of 0.85% to 1.20% prescribed by the CNB to be calculated on all credit risk exposures except those carried at fair value, including off-balance-sheet amounts (lending commitments credit card limits) and Croatian sovereign risk. Amounts assessed as impaired on an individual basis are excluded from this calculation.

The amount of impairment allowance at 31 December 2007 estimated on a portfolio basis amounted to HRK 142,987 thousand (2006: HRK 103,564 thousand) of the relevant on- and off-balance-sheet exposure of the Group, and HRK 142,775 thousand (2006: HRK 103,282 thousand) of the relevant on- and off-balance-sheet exposure of the Bank. The total of these portfolio based impairment losses amounted to 1.15% of loans and advances to customers (2006: 1.74%) and to 1.00% (2006: 1.00%) of on- and off-balance-sheet exposure of the Group and 1.15% of loans and advances to customers (2006: 1.74%) and to 1.00% (2006: 1.00%) of on- and off-balance-sheet exposure in respect of the Bank, in both cases net of amounts individually assessed as impaired.

At the minimum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 21,448 thousand (2006: HRK 15,535 thousand) lower than the amount recognized by the Group and HRK 21,416 thousand (2006: HRK 15,492 thousand) lower than the amount recognized by the Bank. At the maximum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 28,597 thousand (2006: HRK 20,713 thousand) higher than the amount recognized by the Group and HRK 28,555 thousand (2006: HRK 20,656 thousand) lower than the amount recognized by the Bank.

Fair value of derivatives

The fair value of OTC derivatives is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

Fair value of treasury bills

The Group determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia, using an internal model which considers their remaining maturity and the latest available auction prices of equivalent instruments. As at 31 December 2007, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss was to HRK 961,258 thousand (2006: HRK 1,431,695 thousand).

Fair value of the financial instruments quoted in an active market

In estimating the fair value of quoted financial instruments, the Group does not use closing prices at the date of estimation, but applies average prices which are based on the individual transaction volumes of the specified instruments during the day of estimation. In the opinion of the Group's management, this method provides a more realistic indication of the real price of the instrument, and decreases the risk of inadequate or inappropriate estimation of fair value which may result from limited trading in the instrument just before the end of the trading period, at a price which significantly differs from the daily average. This policy resulted in financial assets at fair value through profit or loss of HRK 672,083 thousand (2006: HRK 329,717 thousand) being carried at amounts HRK 746 thousand higher (2006: HRK 134 thousand higher), and financial assets available for sale of HRK 109,965 thousand (2006: HRK 128,782 thousand) being carried at amounts HRK 4 thousand higher (2006: HRK 34 thousand higher), than had closing prices been applied.

Provisions for court cases initiated against the Group

In calculating provisions for court expenses, severance payments and jubilee awards, the Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in the opinion of the Group's management, best represent the time value of money.

Taxation

The Group provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records.

Regulatory requirements

The CNB is entitled to carry out regulatory inspections of the Group's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

3. SEGMENT REPORTING

Limited segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure. However, as the Group is unable to allocate overhead expenses and equity to segments, segment profitability is not reported.

Business segments

The Group comprises the following primary business segments:

- ***Corporate Banking***
  Includes loans, deposits and other transactions and balances with corporate customers
- ***Retail Banking***
  Includes loans, deposits and other transactions and balances with retail customers
- ***Treasury***
  Undertakes the Group's funding and centralized risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities
- ***Investment Banking and Asset Management***
  Includes the Group's corporate and retail finance activities and asset management activities

Group						**2007 HRK'000**
	Corporate	**Retail**	**Treasury**	**Investment banking and asset managment**	**Unallocated**	**Total**
Net interest income	250,368	97,000	27,249	18,281	-	392,898
Net fee and commission income	8,633	94,881	(1,761)	62,708	-	164,461
Dealing income	-	-	60,884	-	-	60,884
Other income	21,744	14,440	350	263	19,259	56,056
Operating income	**280,745**	**206,321**	**86,722**	**81,252**	**19,259**	**674,299**
General and administrative expenses	-	-	-	-	(377,938)	(377,938)
Depreciation and amortisation	-	-	-	-	(54,737)	(54,737)
Impairment losses on loans and advances to customers and other assets	(18,162)	(19,194)	-	-	(34,178)	(71,534)
Provisions for liabilities and charges	-	(1,602)	-	-	(4,336)	(5,938)
Operating expenses	**(18,162)**	**(20,796)**	**-**	**-**	**(471,189)**	**(510,147)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**164,152**
Income tax expense	-	-	-	-	(35,215)	(35,215)
Profit for the year	**-**	**-**	**-**	**-**	**(35,215)**	**128,937**
Segment assets	5,128,233	2,544,930	6,208,057	209,868	-	14,091,088
Unallocated assets	-	-	-	-	469,890	469,890
Total assets	**5,128,233**	**2,544,930**	**6,208,057**	**209,868**	**469,890**	**14,560,978**
Segment liabilities	5,017,562	4,549,702	3,201,793	56,238	-	12,825,295
Unallocated equity and liabilities	-	-	-	-	1,735,683	1,735,683
Total equity and liabilities	**5,017,562**	**4,549,702**	**3,201,793**	**56,238**	**1,735,683**	**14,560,978**

Group						2006 HRK'000
	Corporate	**Retail**	**Treasury**	**Investment banking and asset managment**	**Unallocated**	**Total**
Net interest income	208,732	60,447	54,413	9,641	-	333,233
Net fee and commission income	2,416	67,204	-	18,979	1,977	90,576
Dealing income	-	-	58,094	-	-	58,094
Other income	1,393	643	6	3	1,107	3,152
Operating income	**212,541**	**128,294**	**112,513**	**28,623**	**3,084**	**485,055**
General and administrative expenses	-	-	-	-	(321,792)	(321,792)
Depreciation and amortisation	-	-	-	-	(34,180)	(34,180)
Impairment losses on loans and advances to customers and other assets	26,744	(1,244)	(798)	-	(35,615)	(10,913)
Provisions for liabilities and charges	-	-	-	-	(3,316)	(3,316)
Operating expenses	**26,744**	**(1,244)**	**(798)**	**-**	**(394,903)**	**(370,201)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**114,854**
Income tax expense	-	-	-	-	(25,216)	(25,216)
Profit for the year	**-**	**-**	**-**	**-**	**(25,216)**	**89,638**
Segment assets	4,617,930	1,729,195	4,428,588	141,200	-	10,916,913
Unallocated assets	-	-	-	-	353,583	353,583
Total assets	**4,617,930**	**1,729,195**	**4,428,588**	**141,200**	**353,583**	**11,270,496**
Segment liabilities	4,846,848	3,347,171	1,861,226	13,436	-	10,068,681
Unallocated equity and liabilities	-	-	-	-	1,201,815	1,201,815
Total equity and liabilities	**4,846,848**	**3,347,171**	**1,861,226**	**13,436**	**1,201,815**	**11,270,496**

21st May 2007 - Interim financing loan - new in the HPB-Stambena štedionica[2]

Bank						2007 HRK'000
	Corporate	**Retail**	**Treasury**	**Investment banking and asset managment**	**Unallocated**	**Total**
Net interest income	250,368	97,000	25,829	18,281	-	391,478
Net fee and commission income	3,230	94,657	(1,761)	28,865	-	124,991
Dealing income	-	-	60,121	-	-	60,121
Other income	21,745	14,440	350	263	20,873	57,671
Operating income	**275,343**	**206,097**	**84,539**	**47,409**	**20,873**	**634,261**
General and administrative expenses	-	-	-	-	(349,247)	(349,247)
Depreciation and amortisation	-	-	-	-	(54,469)	(54,469)
Impairment losses on loans and advances to customers and other assets	(18,162)	(18,987)	-	-	(34,178)	(71,327)
Provisions for liabilities and charges	-	(1,597)	-	-	(4,336)	(5,933)
Operating expenses	**(18,162)**	**(20,584)**	**-**	**-**	**(442,230)**	**(480,976)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**153,285**
Income tax expense	-	-	-	-	(32,369)	(32,369)
Profit for the year	**-**	**-**	**-**	**-**	**(32,369)**	**120,916**
Segment assets	5,128,233	2,533,041	6,208,057	209,868	-	14,079,199
Unallocated assets	-	-	-	-	456,603	456,603
Total assets	**5,128,233**	**2,533,041**	**6,208,057**	**209,868**	**456,603**	**14,535,802**
Segment liabilities	5,017,562	4,524,422	3,201,793	56,238	-	12,800,015
Unallocated equity and liabilities	-	-	-	-	1,735,787	1,735,787
Total equity and liabilities	**5,017,562**	**4,524,422**	**3,201,793**	**56,238**	**1,735,787**	**14,535,802**

[2] Housing Saving Association

Bank						2006 HRK'000
	Corporate	Retail	Treasury	Investment banking and asset managment	Unallocated	Total
Net interest income	208,732	60,447	53,954	9,641	-	332,774
Net fee and commission income	37	67,122	-	11,788	1,977	80,924
Dealing income	-	-	58,106	-	-	58,106
Other income	1,393	643	6	3	1,832	3,877
Operating income	**210,162**	**128,212**	**112,066**	**21,432**	**3,809**	**475,681**
General and administrative expenses	-	-	-	-	(300,100)	(300,100)
Depreciation and amortisation	-	-	-	-	(34,144)	(34,144)
Impairment losses on loans and advances to customers and other assets	26,744	(1,244)	(516)	-	(35,615)	(10,631)
Provisions for liabilities and charges	-	-	-	-	(3,316)	(3,316)
Operating expenses	**26,744**	**(1,244)**	**(516)**	**-**	**(373,175)**	**(348,191)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**127,490**
Income tax expense	-	-	-	-	(26,365)	(26,365)
Profit for the year	**-**	**-**	**-**	**-**	**(26,365)**	**101,125**
Segment assets	4,617,930	1,729,195	4,391,731	141,200	-	10,880,056
Unallocated assets	-	-	-	-	397,797	397,797
Total assets	**4,617,930**	**1,729,195**	**4,391,731**	**141,200**	**397,797**	**11,277,853**
Segment liabilities	4,846,848	3,342,771	1,861,226	13,436	-	10,064,281
Unallocated equity and liabilities	-	-	-	-	1,213,572	1,213,572
Total equity and liabilities	**4,846,848**	**3,342,771**	**1,861,226**	**13,436**	**1,213,572**	**11,277,853**

18th June 2007 - HPB Group winner of the "Zlatni udjel"[3] and "Zlatna dionica"[4] awards

4. CASH AND RECEIVABLES FROM BANKS

Group	2007 HRK '000			2006 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Cash in hand						
Held by the Group	84,874	43,970	128,844	96,090	22,137	118,227
Held by other parties	171,982	-	171,982	150,768	-	150,768
Cheques in the course of collection	-	4	4	-	2	2
	256,856	**43,974**	**300,830**	**246,858**	**22,139**	**268,997**
Amounts due from banks						
Current accounts with domestic banks	-	4,521	4,521	-	9,046	9,046
Current accounts with foreign banks	-	98,722	98,722	-	31,571	31,571
Giro account with the CNB	628,947	-	628,947	270,102	-	270,102
	628,947	**103,243**	**732,190**	**270,102**	**40,617**	**310,719**
Total	**885,803**	**147,217**	**1,033,020**	**516,960**	**62,756**	**579,716**

Bank	2007 HRK '000			2006 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Cash in hand						
Held by the Bank	84,870	43,970	128,840	96,088	22,137	118,225
Held by other parties	171,982	-	171,982	150,768	-	150,768
Cheques in the course of collection	-	4	4	-	2	2
	256,852	**43,974**	**300,826**	**246,856**	**22,139**	**268,995**
Amounts due from banks						
Current accounts with domestic banks	-	4,521	4,521	-	9,046	9,046
Current accounts with foreign banks	-	98,722	98,722	-	31,571	31,571
Giro account with the CNB	628,947	-	628,947	270,102	-	270,102
	628,947	**103,243**	**732,190**	**270,102**	**40,617**	**310,719**
Total	**885,799**	**147,217**	**1,033,016**	**516,958**	**62,756**	**579,714**

[3] Golden stake
[4] Golden share

5. OBLIGATORY RESERVE WITH CROATIAN NATIONAL BANK

	Group		Bank	
	2007 HRK '000	2006 HRK '000	2007 HRK '000	2006 HRK '000
Obligatory reserve				
- in HRK	1,083,327	912,815	1,083,327	912,815
- in foreign currency	103,409	80,575	103,409	80,575
Marginal obligatory reserve	47,555	32,708	47,555	32,708
Mandatory Croatian National Bank treasury bills	421,833	-	421,833	-
Interest receivable - due	758	567	758	567
Interest receivable - not due	453	77	453	77
Total	**1,657,335**	**1,026,742**	**1,657,335**	**1,026,742**

The CNB determines the requirement for banks to hold obligatory reserves, both in the form of amounts required to be deposited with the CNB and held in the form of other liquid receivables. The obligatory reserve with the CNB represents the amount required to be deposited with the CNB.

The obligatory reserve requirement at 31 December 2007 amounted to 17% (2006: 17%) of HRK and foreign currency deposits, borrowings and issued debt securities.

At 31 December 2007 the required minimum rate of maintenance of the kuna obligatory reserve with the CNB amounted to 70% (2006: 70%), while the remaining 30% (2006: 30%) could be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK (see below). In 2007, the annual interest rate on the kuna obligatory reserve payable by the CNB was 0.75% (2006: 0.75%).

60% of the foreign currency obligatory reserve (2006: 60%) is maintained with the CNB, while the remaining 40% (2006: 40%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). 50% (2006: 50%) of the foreign currency obligatory reserve is required to be held in HRK and is added to the HRK obligatory reserve (see above). At 31 December 2007, the annual interest rate on the foreign currency obligatory reserve payable by the CNB was 2% (2006: 1.75%).

In 2007, the marginal obligatory reserve requirement, whereby banks have to maintain funds on a non-interest earning account with the CNB, amounted to 40% of the net increase in certain liabilities to non-residents and related parties from June 2004 and an additional 15% from November 2005, when the basis for calculation was broadened and from May 2006 when the basis for calculation was further broadened.

Mandatory bills of the Croatian National Bank are subscribed to in respect of growth in eligible assets and off-balance-sheet items in excess of a threshold determined by the CNB. This measure was introduced in 2007. These bills earn interest equal to that on HRK obligatory reserve balances with the CNB (0.75% at 31 December 2007, annually), and were issued to mature 360 days from the date of subscription. However, in accordance with a CNB decision dated 24 December 2007, all such CNB treasury bills subscribed to in 2007 and held at 31 December 2007 were prepaid by the CNB on 1 January 2008.

6. PLACEMENTS WITH AND LOANS TO OTHER BANKS

	Group		Bank	
	2007 HRK '000	2006 HRK '000	2007 HRK '000	2006 HRK '000
Short-term placements with domestic banks	592,898	187,670	573,601	182,000
Short-term placements with foreign banks	1,251,892	782,257	1,251,891	782,257
Short-term loans to domestic banks	97,000	-	97,000	-
Total short-term placements and loans	**1,941,790**	**969,927**	**1,922,492**	**964,257**
Guarantee deposits with foreign banks	3,124	1,229	3,124	1,229
Long-term placements with domestic banks	142,000	173,000	137,000	173,000
Total long-term placements and loans	**145,124**	**174,229**	**140,124**	**174,229**
Short-term placements with domestic non-bank financial institutions	500	500	500	500
Long-term placements with domestic non-bank financial institutions	4,692	2,811	4,692	2,811
Total placements with non-bank financial institutions	**5,192**	**3,311**	**5,192**	**3,311**
Specific provision for placements with non-bank financial institutions	**(543)**	**(500)**	**(500)**	**(500)**
Interest receivable - not due	5,364	4,850	5,203	4,850
Total interest receivable	**5,364**	**4,850**	**5,203**	**4,850**
Total	**2,096,927**	**1,151,817**	**2,072,511**	**1,146,147**

Long-term placements with domestic banks include an amount of HRK 100,000 thousand (2006: HRK 100,000 thousand) held at domestic banks, pledged as collateral for the repayment of long-term borrowings repayable in 17 instalments from 14 September 2007 to 14 September 2015. Guarantee deposits mainly relate to deposits for card operations.

Movement in impairment allowance for placements with and loans to other banks

The movement in the impairment allowance for placements with and loans to other banks, recognized in the income statement, is as follows:

	Group		Bank	
	2007	2006	2007	2006
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as at 1 January	500	-	500	-
Increase in impairment loss of placements with banks and loans to other banks	43	500	-	500
Balance as at 31 December	**543**	**500**	**500**	**500**

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2007	2006	2007	2006
	HRK '000	HRK '000	HRK '000	HRK '000
Trading instruments				
Debt securities, quoted on active markets				
Bonds issued by Croatian Bank for Reconstruction and Development	29,679	30,420	29,679	30,420
Bonds issued by banks	6,790	9,750	6,790	9,750
Domestic government bonds	451,634	213,906	451,634	213,906
Corporate debt securities	22,488	34,746	22,488	34,746
Debt securities, quoted on active markets	**510,591**	**288,822**	**510,591**	**288,822**
Debt securities, non-quoted on active markets				
Treasury bills issued by Ministry of Finance	961,258	1,431,695	961,258	1,431,695
Units in investment funds, quoted on active markets	58,549	42,636	58,549	42,636
Equity securities, quoted on active markets	131,813	40,895	131,813	40,895
	1,662,211	**1,804,048**	**1,662,211**	**1,804,048**
Positive fair value of foreign exchange derivatives				
- forward contracts, OTC	1,032	233	1,032	233
- futures, quoted on active markets	1,029	1,496	1,029	1,496
	2,061	**1,729**	**2,061**	**1,729**
Interest receivable - not due	**8,436**	**4,839**	**8,436**	**4,839**
Total	**1,672,708**	**1,810,616**	**1,672,708**	**1,810,616**

8. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Debt securities, quoted on active markets				
Domestic government bonds	109,965	128,782	72,330	97,313
Bills of exchange	5,349	197,884	5,349	197,884
	115,314	**326,666**	**77,679**	**295,197**
Equity securities, non-quoted on active markets				
- corporate	2,066	790	2,066	790
- non-banking financial institutions	1,334	1,513	1,334	1,513
	3,400	**2,303**	**3,400**	**2,303**
Interest receivable - not due	**2,479**	**2,561**	**2,275**	**2,431**
Impairment allowance	**(1,819)**	**(529)**	**(1,499)**	**(257)**
Total	**119,374**	**331,001**	**81,855**	**299,674**

Movement in impairment allowance

The movement in the impairment allowance, recognised in the income statement, is as follows:

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Balance as at 1 January	529	-	257	-
Increase in impairment loss of financial assets available for sale	1,290	529	1,242	257
Balance as at 31 December	**1,819**	**529**	**1,499**	**257**

9. FINANCIAL ASSETS HELD TO MATURITY

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Bills of exchange	227,509	150	227,509	150
	227,509	**150**	**227,509**	**150**

10. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2007 HRK '000	2006 HRK '000	2007 HRK '000	2006 HRK '000
Short-term loans				
Corporate	1,266,858	1,955,123	1,266,858	1,956,006
Retail	783,337	560,456	783,337	560,456
Total short-term loans	**2,050,195**	**2,515,579**	**2,050,195**	**2,516,462**
Long-term loans				
Corporate	3,586,439	2,470,755	3,596,324	2,487,156
Retail	1,852,249	1,149,192	1,840,264	1,149,192
Total long-term loans	**5,438,688**	**3,619,947**	**5,436,588**	**3,636,348**
Total gross loans	**7,488,883**	**6,135,526**	**7,486,783**	**6,152,810**
Interest receivable - due	53,471	40,427	53,447	40,502
Interest receivable - not due	11,412	6,177	11,411	6,177
Impairment allowance	**(268,533)**	**(201,265)**	**(268,413)**	**(201,265)**
Total	**7,285,233**	**5,980,865**	**7,283,228**	**5,998,224**
Total impairment allowance as a percentage of gross loans and advances to customers	**3.59%**	**3.28%**	**3.59%**	**3.27%**

Movement in impairment allowance for loans and advances to customers

The movement in impairment allowance on loans and advances to customers is presented as follows:

Group	2007 HRK'000			2006 HRK'000		
	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	**114,858**	**86,407**	**201,265**	**220,380**	**50,792**	**271,172**
Increase/(decrease) in impairment losses	34,876	34,297	**69,173**	(14,857)	35,615	**20,758**
Amounts recovered during the year	-	-	**-**	(9,906)	-	**(9,906)**
Net foreign exchange gain	(303)	-	**(303)**	(450)	-	**(450)**
Usage	(1,602)	-	**(1,602)**	(80,309)	-	**(80,309)**
At 31 December	**147,829**	**120,704**	**268,533**	**114,858**	**86,407**	**201,265**

Bank	2007 HRK'000			2006 HRK'000		
	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	**114,858**	**86,407**	**201,265**	**220,380**	**50,792**	**271,172**
Increase/(decrease) in impairment losses	34,876	34,177	**69,053**	(14,857)	35,615	**20,758**
Amounts recovered during the year	-	-	**-**	(9,906)	-	**(9,906)**
Net foreign exchange gain	(303)	-	**(303)**	(450)	-	**(450)**
Usage	(1,602)	-	**(1,602)**	(80,309)	-	**(80,309)**
At 31 December	**147,829**	**120,584**	**268,413**	**114,858**	**86,407**	**201,265**

Concentration of credit risk by industry

Commercial lending is concentrated on companies and individuals domiciled in Croatia. An analysis of the concentration of credit risk by industry of loans and advances to companies is presented below:

	Group		Bank	
	2007	2006	2007	2006
	HRK '000	HRK '000	HRK '000	HRK '000
Agriculture and forestry	149,114	95,844	149,114	95,844
Industry	1,910,299	1,448,039	1,910,299	1,448,039
Construction	374,399	439,645	374,399	439,645
Transport, storage and communications	214,663	283,140	214,663	283,140
Trade	990,212	876,677	990,212	876,677
Tourism	328,270	164,107	328,270	164,107
Services	396,468	346,768	406,353	357,143
Ministry of Finance	147,267	578,420	147,267	578,420
Other	342,605	193,238	342,605	200,147
Total gross loans and advances to corporate customers	**4,853,297**	**4,425,878**	**4,863,182**	**4,443,162**
Loans and advances to individuals (gross)	2,635,586	1,709,648	2,623,601	1,709,648
Interest receivable	64,883	46,604	64,858	46,679
Impairment allowance	(268,533)	(201,265)	(268,413)	(201,265)
Total	**7,285,233**	**5,980,865**	**7,283,228**	**5,998,224**

28th June 2007 - New sub-branch of the bank on the British square in Zagreb

11. INVESTMENTS IN SUBSIDIARIES

a) The Group's subsidiaries are as follows:

	Industry	Domicile	Ownership at 31 December 2007 %
HPB-Invest d.o.o.	Investment fund management	Croatia	100
HPB-Nekretnine d.o.o.	Real estate agency	Croatia	100
HPB-Stambena štedionica d.d.	Banking	Croatia	100

All subsidiaries are fully consolidated in the Group financial statements.

b) Investments in subsidiaries are as follows:

	Bank	
	2007	2006
	HRK '000	HRK '000
HPB-Invest d.o.o.	13,500	5,000
HPB-Nekretnine d.o.o.	50	50
HPB-Stambena štedionica d.d.	40,000	30,000
Total	**53,550**	**35,050**

c) Movements in investment in subsidiaries were as follows:

	Bank	
	2007	2006
	HRK '000	HRK '000
Balance as at 1 January	**35,050**	**5,050**
Investment in HPB-Invest d.o.o.	8,500	-
Investment in HPB-Stambena štedionica d.d.	10,000	30,000
Balance as at 31 December	**53,550**	**35,050**

12. PROPERTY AND EQUIPMENT

Group 2007	Land and buildings HRK '000	Computers, equipment and vehicles HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost				
Balance as at 1 January 2007	136,064	142,390	18,451	296,905
Reversal of impairment loss	17,185	-	-	17,185
Revaluation of land and buildings	8,610	-	-	8,610
Additions	-	17	47,218	47,235
Written-off	-	(10,079)	-	(10,079)
Transfers to investment property during the year	(7,980)	-	-	(7,980)
Brought into use	1,203	49,659	(50,862)	-
Balance as at 31 December 2007	**155,082**	**181,987**	**14,807**	**351,876**
Accumulated depreciation				
Balance as at 1 January 2007	(37,383)	(76,804)	-	(114,187)
Transfers to investment property during the year	16	-	-	16
Charge for the year	(3,200)	(35,067)	-	(38,267)
Revaluation of land and buildings	(2,415)	-	-	(2,415)
Written-off	-	9,997	-	9,997
Balance as at 31 December 2007	**(42,982)**	**(101,874)**	**-**	**(144,856)**
Carrying value				
Balance as at 1 January 2007	98,681	65,586	18,451	182,718
Balance as at 31 December 2007	**112,100**	**80,113**	**14,807**	**207,020**

Group 2006	Land and buildings HRK '000	Computers, equipment and vehicles HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost				
Balance as at 1 January 2006	125,004	107,242	22,492	254,738
Additions	-	-	52,557	52,557
Written-off	-	(10,390)	-	(10,390)
Brought into use	11,060	45,538	(56,598)	-
Balance as at 31 December 2006	**136,064**	**142,390**	**18,451**	**296,905**
Accumulated depreciation				
Balance as at 1 January 2006	(34,225)	(63,141)	-	(97,366)
Charge for the year	(3,158)	(24,014)	-	(27,172)
Written-off	-	10,351	-	10,351
Balance as at 31 December 2006	**(37,383)**	**(76,804)**	**-**	**(114,187)**
Carrying value				
Balance as at 1 January 2006	90,779	44,101	22,492	157,372
Balance as at 31 December 2006	**98,681**	**65,586**	**18,451**	**182,718**

Assets in the course of construction comprise equipment at cost of HRK 14,807 thousand (2006: HRK 18,451 thousand).

As of 31 December 2007 the Group carried out revaluation of its property, based on a fair value estimation by an authorised valuer. The surplus arising on revaluation amounted to HRK 23,380 thousand, which was accounted for by reversing previously recognised impairment on the same property in the income statement in the amount of HRK 17,185 thousand, and recognising HRK 6,195 thousand as a revaluation gain on property within equity.

At the beginning of 2007, property with a cost of HRK 7,980 thousand and accumulated depreciation of HRK 16 thousand was transferred to investment property in accordance with the use of the underlying assets.

Bank **2007**	**Land and buildings HRK '000**	**Computers, equipment and vehicles HRK '000**	**Assets in the course of construction HRK '000**	**Total HRK '000**
Cost				
Balance as at 1 January 2007	126,089	142,304	18,045	286,438
Reversal of impairment loss	17,185	-	-	17,185
Revaluation of land and buildings	8,610	-	-	8,610
Additions	-	-	46,685	46,685
Written-off	-	(10,079)	-	(10,079)
Brought into use	1,203	49,624	(50,827)	-
Balance as at 31 December 2007	**153,087**	**181,849**	**13,903**	**348,839**
Accumulated depreciation				
Balance as at 1 January 2007	(37,364)	(76,786)	-	(114,150)
Charge for the year	(3,153)	(35,034)	-	(38,187)
Revaluation of land and buildings	(2,415)	-	-	(2,415)
Written-off	-	9,997	-	9,997
Balance as at 31 December 2007	**(42,932)**	**(101,823)**	**-**	**(144,755)**
Carrying value				
Balance as at 1 January 2007	88,725	65,518	18,045	172,288
Balance as at 31 December 2007	**110,155**	**80,026**	**13,903**	**204,084**

16th July 2007 - HPB Titan - new fond of HPB-Invest

Bank **2006**	**Land and buildings HRK '000**	**Computers, equipment and vehicles HRK '000**	**Assets in the course of construction HRK '000**	**Total HRK '000**
Cost				
Balance as at 1 January 2006	125,004	107,199	22,492	254,695
Additions	-	-	42,133	42,133
Written-off	-	(10,390)	-	(10,390)
Brought into use	1,085	45,495	(46,580)	-
Balance as at 31 December 2006	**126,089**	**142,304**	**18,045**	**286,438**
Accumulated depreciation				
Balance as at 1 January 2006	(34,225)	(63,139)	-	(97,364)
Charge for the year	(3,139)	(23,998)	-	(27,137)
Written-off	-	10,351	-	10,351
Balance as at 31 December 2006	**(37,364)**	**(76,786)**	**-**	**(114,150)**
Carrying value				
Balance as at 1 January 2006	90,779	44,060	22,492	157,331
Balance as at 31 December 2006	**88,725**	**65,518**	**18,045**	**172,288**

Assets in the course of construction comprise equipment at cost of HRK 13,903 thousand (2006: HRK 18,045 thousand).

As of 31 December 2007 the Bank carried out revaluation of its property, based on a fair value estimation by an authorised valuer. The surplus arising on revaluation amounted to HRK 23,380 thousand, which was accounted for by reversing previously recognised impairment on the same property in the income statement in the amount of HRK 17,185 thousand, and recognising HRK 6,195 thousand as a revaluation gain on property within equity.

13. INVESTMENT PROPERTY

Group	2007 HRK '000
Cost	
Balance as at 1 January 2007	-
Transfers from property and equipment during the year	7,980
Balance as at 31 December 2007	**7,980**
Accumulated depreciation	
Balance as at 1 January 2007	-
Transfers from property and equipment during the year	(16)
Charge for the year	(186)
Balance as at 31 December 2007	**(202)**
Carrying value	
Balance as at 1 January 2007	-
Balance as at 31 December 2007	**7,778**

14. INTANGIBLE ASSETS

Group 2007	Software HRK '000	Leasehold improvements HRK '000	Licences HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost					
Balance as at 1 January 2007	18,223	23,872	11,950	38,100	92,145
Additions	-	-	-	63,207	63,207
Brought into use	5,724	22,458	9,437	(37,619)	-
Balance at 31 December 2007	**23,947**	**46,330**	**21,387**	**63,688**	**155,352**
Accumulated depreciation					
Balance as at 1 January 2007	(11,067)	(4,031)	(5,259)	-	(20,357)
Charge for the year	(4,289)	(7,560)	(4,435)	-	(16,284)
Balance at 31 December 2007	**(15,356)**	**(11,591)**	**(9,694)**	**-**	**(36,641)**
Carrying value					
Balance at 1 January 2007	7,156	19,841	6,691	38,100	71,788
Balance at 31 December 2007	**8,591**	**34,739**	**11,693**	**63,688**	**118,711**

Group 2006	Software HRK '000	Leasehold improvements HRK '000	Licences HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost					
Balance as at 1 January 2006	12,019	7,239	8,848	5,080	33,186
Additions	-	-	-	58,959	58,959
Brought into use	6,204	16,633	3,102	(25,939)	-
Balance at 31 December 2006	**18,223**	**23,872**	**11,950**	**38,100**	**92,145**
Accumulated depreciation					
Balance as at 1 January 2006	(8,791)	(1,103)	(3,455)	-	(13,349)
Charge for the year	(2,276)	(2,928)	(1,804)	-	(7,008)
Balance at 31 December 2006	**(11,067)**	**(4,031)**	**(5,259)**	**-**	**(20,357)**
Carrying value					
Balance at 1 January 2006	3,228	6,136	5,393	5,080	19,837
Balance at 31 December 2006	**7,156**	**19,841**	**6,691**	**38,100**	**71,788**

As at 31 December 2007 assets in the course of construction comprise application software and licences at a cost of HRK 63,508 thousand (2006: HRK 36,983 thousand) and leasehold improvements at a cost of HRK 180 thousand (2006: HRK 1,117 thousand), which are being prepared for use by the Group.

Bank 2007	Software HRK '000	Leasehold improvements HRK '000	Licences HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost					
Balance as at 1 January 2007	18,223	23,866	11,950	38,100	92,139
Additions	-	-	-	63,206	63,206
Brought into use	5,724	22,458	9,437	(37,619)	-
Balance at 31 December 2007	**23,947**	**46,324**	**21,387**	**63,687**	**155,345**
Accumulated depreciation					
Balance as at 1 January 2007	(11,067)	(4,030)	(5,259)	-	(20,356)
Charge for the year	(4,289)	(7,558)	(4,435)	-	(16,282)
Balance at 31 December 2007	**(15,356)**	**(11,588)**	**(9,694)**	**-**	**(36,638)**
Carrying value					
Balance at 1 January 2007	7,156	19,836	6,691	38,100	71,783
Balance at 31 December 2007	**8,591**	**34,736**	**11,693**	**63,687**	**118,707**

Bank 2006	Software HRK '000	Leasehold improvements HRK '000	Licences HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost					
Balance as at 1 January 2007	12,019	7,239	8,848	5,080	33,186
Additions	-	-	-	58,953	58,953
Brought into use	6,204	16,627	3,102	(25,933)	-
Balance at 31 December 2007	**18,223**	**23,866**	**11,950**	**38,100**	**92,139**
Accumulated depreciation					
Balance as at 1 January 2007	(8,791)	(1,103)	(3,455)	-	(13,349)
Charge for the year	(2,276)	(2,927)	(1,804)	-	(7,007)
Balance at 31 December 2007	**(11,067)**	**(4,030)**	**(5,259)**	**-**	**(20,356)**
Carrying value					
Balance at 1 January 2007	3,228	6,136	5,393	5,080	19,837
Balance at 31 December 2007	**7,156**	**19,836**	**6,691**	**38,100**	**71,783**

As at 31 December 2007 assets in the course of construction comprise application software and licences at a cost of HRK 63,507 thousand (2006: HRK 36,983 thousand) and leasehold improvements at a cost of HRK 180 thousand (2006: HRK 1,117 thousand), which are being prepared for use by the Bank.

15. NET DEFERRED TAX ASSET

a) Recognised deferred tax assets and liabilities - Group

Movements in Group temporary differences and components of deferred tax assets and deferred tax liabilities in 2007 are as follows:

Group 2007	2007 HRK '000	Income/ (expense) to income statement HRK '000	Credited/ (charged) to equity 'HRK '000	2006 HRK '000
Deferred tax assets				
Loans and advances to customers	12,180	5,679	-	6,501
Other provisions	2,792	159	-	2,633
Financial assets	2,527	1,107	-	1,420
Tax losses	-	(1,765)	-	1,765
Fair value reserve	872	-	652	220
Deferred tax liabilities				
Borrowings	(747)	(60)	-	(687)
Revaluation reserve	(1,239)	-	(1,239)	-
Prepaid expenses	(345)	(252)	-	(93)
Net deferred tax asset/(liability)	**16,040**	**4,868**	**(587)**	**11,759**

Movements in Group temporary differences and components of deferred tax assets and deferred tax liabilities in 2006 are as follows:

Group **2006**	**2006** **HRK '000**	**Income/ (expense) to income statement** **HRK '000**	**Credited/ (charged) to equity** **'HRK '000**	**2005** **HRK '000**
Deferred tax assets				
Loans and advances to customers	6,501	4,084	-	2,417
Other provisions	2,633	(3)	-	2,636
Financial assets	1,420	699	-	721
Tax losses	1,765	(300)	-	2,065
Fair value reserve	220	-	220	-
Deferred tax liabilities				
Borrowings	(687)	(169)	-	(518)
Fair value reserve	-	-	2,562	(2,562)
Prepaid expenses	(93)	1,221	-	(1,314)
Net deferred tax asset	**11,759**	**5,532**	**2,782**	**3,445**

30th August 2007 - the town of Pula and Hrvatska poštanska banka became partners in managing the town's budgets

b) Recognised deferred tax assets and liabilities - Bank

Movements in Bank temporary differences and components of deferred tax assets and deferred tax liabilities in 2007 are as follows:

Bank **2007**	**2007** **HRK '000**	**Income/ (expense) to income statement** **HRK '000**	**Credited/ (charged) to equity** **'HRK '000**	**2006** **HRK '000**
Deferred tax assets				
Loans and advances to customers	11,620	5,304	-	6,316
Other provisions	2,635	70	-	2,565
Financial assets	2,527	1,107	-	1,420
Fair value reserve	473	-	418	55
Deferred tax liabilities				
Borrowings	(747)	(60)	-	(687)
Revaluation reserve	(1,239)	-	(1,239)	-
Net deferred tax asset/(liability)	**15,269**	**6,421**	**(821)**	**9,669**

Movements in Bank temporary differences and components of deferred tax assets and deferred tax liabilities in 2006 are as follows:

Bank **2006**	**2006** **HRK '000**	**Income/ (expense) to income statement** **HRK '000**	**Credited/ (charged) to equity** **'HRK '000**	**2005** **HRK '000**
Deferred tax assets				
Loans and advances to customers	6,316	3,899	-	2,417
Other provisions	2,565	(71)	-	2,636
Financial assets	1,420	699	-	721
Fair value reserve	55	-	55	-
Deferred tax liabilities				
Borrowings	(687)	(169)	-	(518)
Fair value reserve	-	-	2,562	(2,562)
Net deferred tax asset	**9,669**	**4,358**	**2,617**	**2,694**

16. OTHER ASSETS

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Fees receivable	46,719	46,302	41,846	47,869
Assets held for sale	50,688	46,405	50,688	46,405
Items in course of collection	7,244	16,576	7,274	16,566
Deferred fee expense	5,457	3,899	3,734	3,434
Prepaid expenses	3,112	5,482	4,012	5,347
Other receivables	9,869	7,398	12,236	10,903
Total gross amounts	**123,089**	**126,062**	**119,790**	**130,524**
Allowance for impairment losses	(3,766)	(2,738)	(3,760)	(2,728)
Total	**119,323**	**123,324**	**116,030**	**127,796**

Assets held for sale comprise non-current assets acquired in lieu of uncollectible receivables. The market value of assets held for sale, which is the amount the Group expects to realise during 2008, exceeds the carrying amount by HRK 16 million.

Movement in impairment allowance for other assets

The movement in the impairment allowance for of other assets is presented below:

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Balance at 1 January	2,738	4,317	2,728	4,317
Increase in impairment losses	1,032	-	1,032	-
Amounts recovered during the year	(4)	(968)	-	(978)
Usage of impairment losses	-	(611)	-	(611)
Balance at 31 December	**3,766**	**2,738**	**3,760**	**2,728**

17. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Negative fair value of forward foreign exchange contracts	195	345	195	345
Negative fair value of cross currency swaps	159	238	159	238
Balance at 31 December	**354**	**583**	**354**	**583**

18. DEPOSITS FROM BANKS

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Demand deposits				
- in HRK	1,291	2,461	1,291	2,461
- in foreign currency	4,025	9,261	4,025	9,261
Term deposits				
- in HRK	431,010	448,537	431,010	448,537
- in foreign currency	40,514	36,145	40,514	36,145
Interest payable - not due	569	254	569	254
Interest payable - due	10	4	10	4
Total	**477,419**	**496,662**	**477,419**	**496,662**

19. DEPOSITS FROM CUSTOMERS

Group	2007 HRK '000			2006 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Demand deposits						
Retail	2,327,000	131,286	2,458,286	1,860,656	112,627	1,973,283
Corporate	1,418,405	237,919	1,656,324	1,038,697	254,958	1,293,655
Restricted deposits						
Retail	-	-	-	3,571	126	3,697
Corporate	594,206	86,203	680,409	680,894	76,748	757,642
	4,339,611	**455,408**	**4,795,019**	**3,583,818**	**444,459**	**4,028,277**
Term deposits						
Retail	1,093,828	997,588	2,091,416	682,507	687,658	1,370,165
Corporate	2,821,836	503,176	3,325,012	2,245,534	485,569	2,731,103
	3,915,664	**1,500,764**	**5,416,428**	**2,928,041**	**1,173,227**	**4,101,268**
Interest payable - due	18,746	577	19,323	20,873	534	21,407
Interest payable - not due	3,181	3,036	6,217	3,087	3,747	6,834
Total	**8,277,202**	**1,959,785**	**10,236,987**	**6,535,819**	**1,621,967**	**8,157,786**

Bank	2007 HRK '000			2006 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Demand deposits						
Retail	2,327,000	131,286	2,458,286	1,860,656	112,627	1,973,283
Corporate	1,420,169	237,919	1,658,088	1,039,248	254,958	1,294,206
Restricted deposits						
Retail	-	-	-	3,571	126	3,697
Corporate	594,206	86,203	680,409	680,894	76,748	757,642
	4,341,375	**455,408**	**4,796,783**	**3,584,369**	**444,459**	**4,028,828**
Term deposits						
Retail	1,093,828	972,308	2,066,136	682,507	683,258	1,365,765
Corporate	2,821,836	503,176	3,325,012	2,245,534	485,569	2,731,103
	3,915,664	**1,475,484**	**5,391,148**	**2,928,041**	**1,168,827**	**4,096,868**
Interest payable - due	18,746	577	19,323	20,873	534	21,407
Interest payable - not due	3,181	3,036	6,217	3,087	3,747	6,834
Total	**8,278,966**	**1,934,505**	**10,213,471**	**6,536,370**	**1,617,567**	**8,153,937**

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on Court orders.

20. BORROWINGS

Group	2007 HRK '000			2006 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Short-term borrowings from other financial institutions	205,333	-	205,333	3,673	-	3,673
Short-term borrowings from domestic banks	574,500	-	574,500	476,000	-	476,000
Long-term borrowings from banks	-	236,128	236,128	-	246,060	246,060
Long-term borrowing from HBOR (kuna and foreign currency clause)	1,084,363	-	1,084,363	680,012	-	680,012
Interest payable - due	3,727	-	3,727	1,507	-	1,507
Interest payable - not due	1,602	3,472	5,074	1,333	5,097	6,430
	1,869,525	**239,600**	**2,109,125**	**1,162,525**	**251,157**	**1,413,682**

Bank	2007 HRK '000			2006 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Short-term borrowings from other financial institutions	205,333	-	205,333	3,673	-	3,673
Short-term borrowings from domestic banks	574,500	-	574,500	476,000	-	476,000
Long-term borrowings from banks	-	236,128	236,128	-	246,060	246,060
Long-term borrowing from HBOR (kuna and foreign currency clause)	1,084,363	-	1,084,363	680,012	-	680,012
Interest payable - due	3,727	-	3,727	1,507	-	1,507
Interest payable - not due	1,602	3,472	5,074	1,333	5,097	6,430
	1,869,525	**239,600**	**2,109,125**	**1,162,525**	**251,157**	**1,413,682**

In accordance with their terms, borrowings from the Croatian Bank for Reconstruction and Development ("HBOR") are used to fund loans to customers of the Bank for financing eligible reconstruction and development projects at preferential interest rates. During 2007 Bank converted loans with one-way foreign currency clauses into HRK loans, whereas during 2006 the majority of those loans included a one-way foreign currency clause under which HBOR had the option to revalue the borrowing at a specific foreign exchange rate. During 2006 this represented an embedded derivative which the Bank had not separated and had not stated at fair value. As a result of the application of these clauses, borrowings, in 2006, carried at HRK 346 thousand higher than if the foreign exchange rate prevailing at the year end had been applied.

21. SUBORDINATED DEBT

	Group		Bank	
	2007 HRK '000	2006 HRK '000	2007 HRK '000	2006 HRK '000
Subordinated debt	200,000	-	200,000	-
Interest receivable - not due	603	-	603	-
	200,603	**-**	**200,603**	**-**

Subordinated debt in the amount of HRK 200,000 thousand was obtained by the Bank from Gradska banka d.d. (in receivership) in June 2007, with the following terms: maturity of 61 months and a fixed interest rate of 5.5%. This instrument is included in the computation of capital for the purpose of capital adequacy measurement and is, without any limitations, available to the Bank in receivership for the settlement of creditors. Repayment is subordinated to all other liabilities of the Bank.

22. PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Bank	
	2007 HRK '000	2006 HRK '000	2007 HRK '000	2006 HRK '000
Provisions for court cases	7,054	8,035	7,054	8,035
Provisions for potential and other liabilities	2,650	1,120	2,650	1,120
Provisions for off-balance-sheet exposures	22,196	16,875	22,191	16,875
Balance at 31 December	**31,900**	**26,030**	**31,895**	**26,030**

Movement in provisions for impairment

The movement in provisions for liabilities and charges is as follows:

	Group		Bank	
	2007 HRK '000	2006 HRK '000	2007 HRK '000	2006 HRK '000
Balance at 1 January	26,030	22,791	26,030	22,791
Increase in impairment losses	5,938	3,316	5,933	3,316
Usage	(68)	(77)	(68)	(77)
Balance at 31 December	**31,900**	**26,030**	**31,895**	**26,030**

23. OTHER LIABILITIES

	Group		Bank	
	2007	2006	2007	2006
	HRK '000	HRK '000	HRK '000	HRK '000
Suppliers	49,295	47,990	48,185	47,649
Salaries, deductions from salaries, taxes and contributions	21,272	18,420	19,757	17,681
Liabilities for retirement, severance payments and other liabilities	9,797	9,834	9,797	9,834
Fees payable	21,167	36,353	20,891	36,305
Items in the course of settlement	255,505	165,887	255,505	165,881
Deferred fee income	60,895	32,507	58,098	31,580
Other liabilities	117,326	9,294	114,581	7,436
Liabilities under called upon guarantees issued in favour of customers	-	18,342	-	18,342
Balance at 31 December	**535,257**	**338,627**	**526,814**	**334,708**

Liabilities in the course of settlement mainly relate to liabilities for repayment of pensions on behalf of the Croatian Pension Fund in the amount of HRK 161 million (2006: HRK 87 million) and liabilities for transfer of cash inflows from the Bank's account to non-Bank retail clients in the amount of HRK 55 million (2006: HRK 39 million).

24. EQUITY

a) Share capital

As at 31 December 2007 and 2006, authorised, issued and fully paid ordinary share capital amounted to HRK 584,779,800 and comprised 531,618 approved ordinary shares with a nominal value of HRK 1,100 each. The holders of the ordinary shares are entitled to receive dividends as declared at the General Assembly of Shareholders and are entitled to one vote per share. As of 31 December 2007, the Bank had 795 treasury shares (2006: 795) in the total amount of HRK 874 thousand (2006: HRK 874 thousand).

The shareholder structure is as follows:

	2007		2006	
	Paid capital HRK '000	Ownership %	Paid capital HRK '000l	Ownership %
Croatian Privatisation Fund	216,354	37.00%	216,354	37.00%
Croatian Post	196,231	33.56%	196,231	33.56%
Croatian Pension Fund	163,811	28.01%	163,811	28.01%
Other	8,384	1.43%	8,384	1.43%
Total	**584,780**	**100.00%**	**584,780**	**100.00%**

b) Statutory reserve

The Bank is required to build a legal reserve by appropriating 5% of net profit for the year until the reserve reaches 5% of share capital. Following a transfer from retained earnings of HRK 6,046 thousand, representing 5% of the net profit for the year, the balance on the legal reserve at 31 December 2007 amounted to HRK 18,822 thousand (2006: HRK 12,776 thousand), or 3.22% (2006: 2.18%) of share capital. The legal reserve may be used to cover prior period losses if the losses are not covered by current year profits or if other reserves are not available.

c) General banking risk reserve

The Group recognizes a reserve for general banking risks, which represents a reserve for potential losses in excess of those expected and provided for through recognized impairment losses.

In accordance with CNB regulations, the Bank is required to create and maintain provisions for general banking risks, if the growth in Bank's balance sheet and off-balance-sheet exposure exceeds 15% of balance sheet and off-balance-sheet exposure at the previous year end. The Bank has recognised an increase in the reserve for general banking risks in the amount of HRK 79,764 thousand (2006: HRK 59,463 thousand) as an appropriation within equity from retained earnings.

The reserve for general banking risk cannot be transferred to retained earnings or other reserves or be otherwise distributed until the expiry of a consecutive three year period in which the Bank has recorded annual growth not exceeding 15%.

d) Fair value reserve

The fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets available for sale, net of tax.

e) Revaluation reserve

A revaluation reserve in the amount of HRK 4,956 thousand, net of tax, arises from the revaluation of land and buildings of the Group.

f) Proposed dividends

Dividends payable are not accounted for until they have been ratified at the General Assembly of Shareholders. Management will not propose any dividend payment for the year ended 31 December 2007 (2006: Nil).

g) Other reserves

Other reserves as at 31 December 2007 amounted to HRK 36,606 thousand (2006: HRK 36,606 thousand) whose purpose is determined by Bank's Management and Supervisory Board.

h) Retained earnings

Retained earnings include accumulated earnings from previous years.

25. INTEREST AND SIMILAR INCOME

a) Analysis by product

		Group		Bank
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Loans and advances to customers				
- Corporate	350,262	269,561	350,281	269,988
- Retail	200,658	120,617	200,388	120,617
	550,920	**390,178**	**550,669**	**390,605**
Placements with and loans to banks	71,647	28,098	71,635	27,970
Debt securities	80,591	73,093	79,145	72,251
Bills of exchange	14,195	16,254	14,195	16,254
Obligatory reserve with the Croatian National Bank	10,148	6,256	10,148	6,256
Total	**727,501**	**513,879**	**725,792**	**513,336**

b) Analysis by source

		Group		Bank
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Companies	326,744	238,570	326,763	238,639
Individuals	200,658	120,617	200,388	120,617
State and the public sector	110,703	114,184	109,257	113,342
Banks and other financial institutions	88,078	39,069	88,066	39,299
Other organisations	1,318	1,439	1,318	1,439
	727,501	**513,879**	**725,792**	**513,336**

26. INTEREST EXPENSE AND SIMILAR CHARGES

a) Analysis by product

	Group		Bank	
	2007	2006	2007	2006
	HRK '000	HRK '000	HRK '000	HRK '000
Borrowings	62,471	39,458	61,631	39,400
Deposits from customers				
- corporate	162,245	82,070	162,245	82,070
- retail	80,662	49,824	80,354	49,806
	242,907	**131,894**	**242,599**	**131,876**
Deposits from banks	26,808	8,902	26,808	8,902
Other	2,417	392	3,276	384
Total	**334,603**	**180,646**	**334,314**	**180,562**

14th September 2007 - Hrvatska poštanska banka opened the first sub-branch in Vinkovci

b) Analysis by recipient

	Group		Bank	
	2007	2006	2007	2006
	HRK '000	HRK '000	HRK '000	HRK '000
Companies	78,421	44,921	77,581	44,921
Individuals	80,662	49,824	80,354	49,806
State and public sector	11,490	9,230	11,490	9,230
Banks and other financial institutions	160,479	75,723	160,479	75,657
Other	3,551	948	4,410	948
	334,603	**180,646**	**334,314**	**180,562**

27. FEE AND COMMISSION INCOME

	Group		Bank	
	2007	2006	2007	2006
	HRK '000	HRK '000	HRK '000	HRK '000
Commissions from cash based payment transactions	402,976	434,877	402,976	434,877
Commissions from non-cash-based payment transactions	32,791	34,678	32,803	34,688
Commissions from retail and credit card business	70,582	52,291	70,332	52,228
Commissions from letters of credit, guarantees and foreign currency payment transactions	17,721	14,718	17,721	14,718
Other commissions	77,686	28,661	35,791	18,144
Total	**601,756**	**565,225**	**559,623**	**554,655**

28. FEE AND COMMISSION CHARGES

	Group		Bank	
	2007	2006	2007	2006
	HRK '000	HRK '000	HRK '000	HRK '000
Commissions on cash based payment transactions	350,396	394,733	350,396	394,733
Commissions on non-cash-based payment transactions	49,112	51,464	49,121	51,464
Commissions on credit card transactions	20,066	13,339	20,066	13,339
Other commissions	17,721	15,113	15,049	14,195
Total	**437,295**	**474,649**	**434,632**	**473,731**

29. GAINS LESS LOSSES ARISING FROM DEALING SECURITIES

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Gains less losses from financial assets at fair value through profit or loss				
Realised losses on disposal of debt securities	(12,674)	(7,733)	(12,674)	(7,733)
Realised gains on disposal of equity securities	4,577	6,205	3,794	6,205
Realised gains on derivative instruments (classified as held for trading)	887	5,392	887	5,392
	(7,210)	**3,864**	**(7,993)**	**3,864**
Unrealised gains/(losses)				
- Debt securities	(5,439)	(4,131)	(5,439)	(4,131)
- Investment funds	7,452	7,334	7,452	7,334
- Equity securities	38,388	16,831	38,388	16,831
- Futures	1,028	(585)	1,028	(585)
- Forward foreign exchange contracts - OTC	675	1,730	675	1,730
	42,104	**21,179**	**42,104**	**21,179**
Total	**34,894**	**25,043**	**34,111**	**25,043**

30. GAINS LESS LOSSES ARISING FROM INVESTMENT SECURITIES

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Realised gains on disposal of debt securities available for sale	33	10,418	50	10,430
Realised gains on disposal of equity securities available for sale	-	2,173	-	2,173
Total	**33**	**12,591**	**50**	**12,603**

31. OTHER OPERATING INCOME

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Dividend income	494	473	494	473
Derecognition of liabilities on dormant customer accounts	13,335	113	13,335	113
Reversal of impairment loss on land and buildings	17,185	-	17,185	-
Other income	25,042	2,566	26,657	3,291
Total	**56,056**	**3,152**	**57,671**	**3,877**

32. GENERAL AND ADMINISTRATIVE EXPENSES

	Group		Bank	
	2007	2006	2007	2006
	HRK '000	HRK '000	HRK '000	HRK '000
Materials and services	100,518	87,762	97,673	86,457
Administration and marketing	46,752	41,970	45,278	36,866
Post and telecommunications	32,659	37,869	31,920	29,966
Personnel expenses	149,322	124,997	139,318	118,323
Deposit insurance expenses	14,390	10,875	14,330	10,871
Other general and administrative costs	32,101	11,755	18,527	11,063
Net foreign exchange loss from translation of monetary assets and liabilities	2,196	6,564	2,201	6,554
Total	**377,938**	**321,792**	**349,247**	**300,100**

21st September 2007 the first sub-branch in Virovitičko - podravska county

a) Personnel expenses

	Group		Bank	
	2007	2006	2007	2006
	HRK '000	HRK '000	HRK '000	HRK '000
Net salaries, severance payments and other expenses	68,108	61,542	62,470	59,208
Taxes and contributions (including employer's contributions)	74,733	57,486	71,666	55,034
Other payments to employees	4,868	3,773	4,678	3,635
Fees to Supervisory Board members	1,613	2,196	504	446
Total	**149,322**	**124,997**	**139,318**	**118,323**

As at 31 December 2007 the Bank had 742 employees (2006: 581), while the Group had 774 employees (2006: 601).

Personnel expenses of the Group include HRK 22,011 thousand (2006: HRK 17,466 thousand), while the Bank's personnel expenses include HRK 20,654 thousand (2006: HRK 16,403 thousand), of obligatory contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries.

33. IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS AND OTHER ASSETS

		Group		Bank	
		2007	2006	2007	2006
	Notes	HRK '000	HRK '000	HRK '000	HRK '000
Identified losses					
Loans and advances to customers	10	(34,876)	24,763	(34,876)	24,763
Financial assets available for sale		(1,242)	(257)	(1,242)	(257)
Other assets		(1,032)	968	(1,032)	978
Placements and loans to banks and non-banking financial institutions		-	(500)	-	(500)
Total (charge)/release		**(37,150)**	**24,974**	**(37,150)**	**24,984**
Unidentified losses					
Loans and advances to customers	10	(34,297)	(35,615)	(34,177)	(35,615)
Financial assets available for sale		(48)	(272)	-	-
Other assets		4	-	-	-
Placements and loans to banks and non-banking financial institutions		(43)	-	-	-
Total charge		**(34,384)**	**(35,887)**	**(34,177)**	**(35,615)**
Loans and advances to customers	10	(69,173)	(10,852)	(69,053)	(10,852)
Financial assets available for sale	8	(1,290)	(529)	(1,242)	(257)
Other assets	16	(1,028)	968	(1,032)	978
Placements and loans to banks and non-banking financial institutions	6	(43)	(500)	-	(500)
Total charge		**(71,534)**	**(10,913)**	**(71,327)**	**(10,631)**

34. INCOME TAX EXPENSE

Total recognised income tax expense calculated at the income tax rate of 20%, comprises income tax expense recognised in the income statement and movements in income tax liabilities recognised directly in equity, as follows:

Income tax expense recognised in the income statement

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Current income tax expense	(41,817)	(30,748)	(38,790)	(30,723)
Deferred income tax relating to the origination and reversal of temporary differences	6,602	5,532	6,421	4,358
Total income tax expense in income statement	**(35,215)**	**(25,216)**	**(32,369)**	**(26,365)**

Movement in income tax liabilities recognised directly in equity

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Deferred tax income relating to unrealised gains on available-for-sale investments recognised in fair value reserve	**652**	**2,782**	**418**	**2,617**
Deferred tax charges relating to revaluation reserve on land and buildings	**(1,239)**	**-**	**(1,239)**	**-**

Reconciliation of income tax expense

The reconciliation between tax expense and profit before tax is shown as follows:

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Profit before tax	164,152	114,854	153,285	127,490
Income tax at 20% (2006: 20%)	(32,830)	(22,971)	(30,657)	(25,498)
Expenses not deductible for tax purposes	(7,794)	(5,339)	(7,668)	(5,196)
Income not subject to tax	5,409	3,094	5,956	4,329
	(35,215)	**(25,216)**	**(32,369)**	**(26,365)**
Effective income tax rate	21.5%	22.0%	21.1%	20.7%

Deferred tax in respect of unused tax losses

As at 31 December 2007, a subsidiary of the Bank had gross tax losses of HRK 9,296 thousand (2006: HRK 15,014 thousand) available for relief against taxable profits of prospective periods.

The availability of tax losses for reduction of taxable profits of prospective periods is as follows:

	2007		2006	
		HRK '000		**HRK '000**
Expiry of tax losses	**Gross tax losses**	**Taxable profits**	**Gross tax losses**	**Taxable profits**
31 December 2010	-	-	8,827	1,765
31 December 2011	6,187	1,237	6,187	1,237
31 December 2012	3,109	622	-	-
Total tax losses carried forward	**9,296**	**1,859**	**15,014**	**3,002**

Based on expected future income, the Group estimated that it is not probable that these tax losses would be used to relieve taxable income of prospective periods and, accordingly, no deferred tax asset has been recognised (2006: HRK 1,765 thousand).

35. EARNINGS PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the profit for the period attributable to equity holders of the Bank after deducting preference dividends. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic earnings per share was 530,823 (2006: 530,823). Given that there is no effect of options, convertible bonds or similar effect, the weighted average number of ordinary shares used for diluted earnings per share was the same as used to calculate basic earnings per share: 530,823 (2006: 530,823).

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Net profit for the year	128,937	89,638	120,916	101,125
Profit for the year attributable to ordinary shareholders	128,937	89,638	120,916	101,125
Average number of ordinary shares in issue (excluding treasury shares)	530,823	530,823	530,823	530,823
Earnings per share (in HRK)	**242.90**	**168.87**	**227.79**	**190.51**

36. CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts directly due from and to the Republic of Croatia. The amounts at year end, including accrued interest, are as follows:

		Group		Bank	
		2007	**2006**	**2007**	**2006**
	Notes	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Giro account with the CNB	4	628,947	270,102	628,947	270,102
Obligatory reserve with the CNB	5	1,657,335	1,026,742	1,657,335	1,026,742
Bonds issued by the Republic of Croatia		571,688	349,377	534,169	317,778
Ministry of Finance treasury bills		961,339	1,431,695	961,339	1,431,695
Loans and advances to the Republic of Croatia		51,081	583,368	51,081	583,368
Deposits from the Republic of Croatia		(942,239)	(901,976)	(942,239)	(901,976)
Repurchase agreements with the CNB		(574,754)	(476,366)	(574,754)	(476,366)
Total		**2,353,397**	**2,282,942**	**2,315,878**	**2,251,343**

The Bank's exposure towards local government and state institutions not directly funded by the State Budget (excluding state owned companies) is presented below:

	Group		Bank	
	2007	**2006**	**2007**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Loans and advances	102,581	2,635	102,581	2,635
Deposits	(405,645)	(440,381)	(405,645)	(440,381)
Total	**(303,064)**	**(437,746)**	**(303,064)**	**(437,746)**

37. CASH AND CASH EQUIVALENTS

		Group		Bank	
		2007	**2006**	**2007**	**2006**
	Notes	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Cash and receivables from banks	4	1,033,020	579,716	1,033,016	579,714
Obligatory reserve with Croatian National Bank	5	1,657,335	1,026,742	1,657,335	1,026,742
Placements to banks with original maturity up to 90 days		1,857,086	952,777	1,837,695	947,107
Items in course of collection	16	7,244	16,576	7,274	16,566
Total		**4,554,685**	**2,575,811**	**4,535,320**	**2,570,129**

38. COMMITMENTS AND CONTINGENCIES

	Group		Bank	
	2007	2006	2007	2006
	HRK '000	HRK '000	HRK '000	HRK '000
Guarantees denominated in HRK	415,908	396,734	415,908	396,734
Guarantees denominated in foreign currencies	30,881	19,607	30,881	19,607
Letters of credit	79,408	70,426	79,408	70,426
Accepted bills of exchange	109,578	24,285	109,578	24,285
Undrawn lending commitments	1,583,365	1,174,757	1,583,365	1,174,757
Other off-balance-sheet items	-	1,642	-	1,642
Total	**2,219,140**	**1,687,451**	**2,219,140**	**1,687,451**

At 31 December 2007, the Group and the Bank recognised portfolio based provisions for off-balance-sheet risks arising from the issue of guarantees, letters of credit and undrawn lending commitments, in the amount of HRK 22,196 thousand, (2006: HRK 16,875 thousand), which are included in Provisions for liabilities and charges (see Note 21).

39. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

The Group had the following derivative contracts, accounted for as trading instruments, open at year-end.

Group and Bank	Notional amount, remaining life					Fair values	
	Up to 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total	Assets	Liabilities
2007	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Forward foreign exchange contracts - OTC EUR	-	14,650	-	-	14,650	1,032	195
Cross currency swaps - OTC	175,760	-	-	-	175,760	-	159
Futures	65,926	-	-	-	65,926	1,029	-
	241,686	**14,650**	**-**	**-**	**256,336**	**2,061**	**354**

Group and Bank	Notional amount, remaining life					Fair values	
	Up to 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total	Assets	Liabilities
2006	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Forward foreign exchange contracts - OTC EUR	41,132	36,725	-	-	77,857	233	345
Cross currency swaps - OTC	9,940	-	-	-	9,940	-	238
Futures	94,017	-	-	-	94,017	1,496	-
	145,089	**36,725**	**-**	**-**	**181,814**	**1,729**	**583**

40. RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska poštanska banka Group. The key shareholders of the Bank and of the Group are the Croatian Privatisation Fund, Hrvatska pošta d.d. ("Croatian Post") and Hrvatski zavod za mirovinsko osiguranje ("HZMO") which together owned 98.57 % (2006: 98.57 %) of the Bank's shares at year end. The remaining 1.43% (2006: 1.43%) of the shares are publicly held. The Bank considers that it has an immediate related party relationship with its key shareholders; its subsidiaries and the investment funds managed by one of its subsidiaries, HPB-Invest d.o.o.; the Supervisory and Management Board members and other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

a) Key transactions with immediate related parties

Croatian Post performs domestic payment transactions for and on behalf of the Bank. Risk exposure to Croatian Post mainly comprises fees receivable based on domestic payment transactions performed for and on behalf of the Bank. Liabilities towards Croatian Post are mainly in respect of demand and term deposits. Expenses include commission expense for services provided and interest expense payable on its deposits with the Bank.

Income from HZMO arises from services provided in respect of payment of pensions and other fees payable by HZMO. Liabilities comprise HZMO demand deposits in kuna.

Key management personnel held no ordinary shares at the year-end (2006: nil shares).

Included in loans and receivables are HRK 31,041 thousand (2006: HRK 21,762 thousand) in respect of loans and advances granted to key management personnel. During 2007 the Group collected HRK 903 thousand (2006: HRK 605 thousand) of interest from these loans at interest rates of 4% - 12% (2006: 4% - 10%).

b) Amounts arising from transactions with immediate related parties

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the year ended 31 December 2007 and 31 December 2006 of the Group, arising from key transactions with related parties were as follows:

Group 2007	**Exposure* HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expense HRK'000**
Key shareholders				
Croatian Post	53,658	154,822	2,018	316,174
HZMO	662	-	7,447	6
Croatian Privatisation Fund	100,713	3,665	1,431	2
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	5,381	2,211	23	25,688
Long-term benefits (loans and deposits)	25,660	1,607	879	94
Severance payments	-	-	-	22
Companies under significant influence	48,346	297	3,752	39
Total	**234,420**	**162,602**	**15,550**	**342,025**

Group 2006	**Exposure* HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expense HRK'000**
Key shareholders				
Croatian Post	62,852	157,033	2,300	331,199
HZMO	2,879	19,193	36,002	397
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	4,607	1,789	12	27,050
Long-term benefits (loans and deposits)	17,155	1,701	593	53
Severance payments	-	-	-	8
Companies under significant influence	48,729	805	2,012	9
Total	**136,222**	**180,521**	**40,919**	**358,716**

*Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 32,865 thousand (2006: HRK 33,206 thousand) of off-balance-sheet exposure, where of HRK 28,536 thousand (2006: HRK 27,685 thousand) relates to Croatian Post and key management personnel.

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the year ended 31 December 2007 and 31 December 2006 of the Bank, arising from key transactions with related parties were as follows:

Bank 2007	**Exposure* HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expense HRK'000**
Key shareholders				
Croatian Post	53,658	154,822	2,018	316,174
HZMO	662	-	7,447	6
Croatian Privatisation Fund	100,713	3,665	1,431	2
Subsidiaries				
HPB-Invest	72,300	21,939	668	15
HPB-Nekretnine	10,112	311	1,487	972
HPB-Stambena štedionica	40,270	421	573	2
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	4,928	2,144	14	22.272
Long-term benefits (loans and deposits)	22,235	1,607	818	94
Severance payments	-	-	-	22
Companies under significant influence	48,346	297	3,752	39
Total	**353,224**	**185,206**	**18,208**	**339,598**

Bank 2006	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
Key shareholders				
Croatian Post	62,852	157,033	2,300	331,199
HZMO	2,879	19,193	36,002	397
Subsidiaries				
HPB-Invest	58,635	8,377	3,506	16
HPB-Nekretnine	11,201	160	637	188
HPB-Stambena štedionica	30,193	391	206	2
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	4,273	1,627	7	24,564
Long-term benefits (loans and deposits)	15,850	1,701	565	53
Severance payments	-	-	-	8
Companies under significant influence	48,729	805	2,012	9
Total	**234,612**	**189,287**	**45,235**	**356,436**

*Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 32,658 thousand (2006: HRK 32,960 thousand) of off-balance-sheet exposures, where of HRK 28,359 thousand (2006: HRK 27,439 thousand) relates to Croatian Post and key management personnel.

c) State owned companies

The three major shareholders of the Bank, who together own 98.57% of its shares, are state agencies or state owned companies, all mainly funded from the State Budget. Accordingly, transactions and balances with other state owned companies, including credit risk exposures guaranteed by the state, also represent related party relationships. The Bank has extensive banking relationships with such companies.

41. REPURCHASE AND RESALE AGREEMENTS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Further the Bank enters into series of linked sell and buy back transactions which in line with IAS 39 do not satisfy criteria for derecognition and accordingly are recognised in the same manner as related agreements.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognised and the proceeds are accounted for as interest bearing borrowings. At 31 December 2007 assets sold under repurchase agreements were as follows:

	Fair value of underlying assets HRK'000	Carrying amount of corresponding liabilities HRK'000	Repurchase date	Repurchase price HRK'000
Debt securities at fair value through profit or loss - repurchase agreements				
2007	751,065	735,840	January and February 2008	736,399
2006	494,851	479,862	January and February 2007	480,016
Linked transactions				
2007	84,345	83,895	January 2008	84,405

Linked transactions have been, in accordance with IAS 39, accounted for as repurchase agreements.

The Bank also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to customers and are accounted for as loans and advances to customers; the underlying financial instruments are not recognised. At 31 December 2007 assets purchased subject to agreements to resell them and linked transactions were as follows:

	Carrying amounts of receivable HRK'000	Fair value o assets held as collateral HRK'000	Repurchase date	Repurchase price HRK'000
Loans and advances to customers - reverse repurchase agreement				
2007	229,462	228,547	January 2008	229,637
2006	80,807	81,549	January 2007	80,852

42. SUBSEQUENT EVENTS

Subsequent to the year end, the Bank commenced arrangements to convert impaired loans with a carrying value of HRK 26,165 thousand due from H1 Telekom d.d. za telekomunikacijske usluge (the legal successor of Portus d.o.o,) into an equity shareholding, which will result in the Bank controlling or having significant influence over H1 Telekom d.d.

As of the date of issue of these financial statements, this transaction has not yet been completed, and accordingly, it is not possible to provide further information on the effects that this transaction will have on the Bank's financial statements.

13th October 2007 - HPB opened agro sub-branch office in Osijek

43. MANAGED FUNDS FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Bank provides trust and custody services to companies, banks, individuals, and investment funds (Group investment funds) whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognised in the balance sheet of the Bank. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2007, the total assets under custody held by the Bank on behalf of customers were HRK 8 billion, including custody of HPB funds (2006: HRK 2 billion).

In addition, at 31 December 2007, total assets of investment and pension funds to which the Bank is a depository bank, amounted to HRK 5.7 billion (2006: HRK 1.3 billion).

Further, the Bank manages a number of loans on behalf of third parties as follows:

	2007 HRK'000	2006 HRK'000
Assets		
Corporate	195,992	194,131
Retail	496,666	453,921
Giro accounts	30,543	22,640
Total assets	**723,201**	**670,692**
Liabilities		
Croatian Employment Office	34,018	36,243
Counties	33,699	36,648
Government of the Republic of Croatia	524,541	479,326
HBOR	14,785	11,659
Development and Employment Fund	97,276	96,423
Other liabilities	18,882	10,393
Total liabilities	**723,201**	**670,692**

44. RISK MANAGEMENT POLICIES

This section provides details of the Group's exposure to risk and describes the methods used by management to identify, measure and manage risk in order to safeguard capital. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

An integrated system of risk management is established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group and monitoring its implementation. The limits are set according to the amount of regulatory capital and apply to all types of risk. Additionally, the Group sets limits for annual potential loss measured by Value-at-Risk techniques for currency risk exposure and securities price risk exposure. Methodologies and models for managing operational risk are being developed.

The responsibility for determining the framework of the Group's risk management lies with the Bank's Management Board which has founded, for this purpose, an Asset and Liability Committee and a Credit Committee. Through these committees the Bank's Management Board supervises activities related to risk management.

1. Credit risk

The Group is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties.

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with counterparties of good credit standing, and when appropriate, obtains collateral.

At the balance sheet date the Group credit risk exposures to financial instruments classified at fair value through profit or loss are represented by the positive fair value of these instruments, as recorded on the balance sheet. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the Group's exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The Group's primary exposure to credit risk arises through its loans to and receivables from customers. The amount of credit exposure in this regard, and in respect of held-to-maturity debt securities recognised at amortised cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Group is exposed to off-balance-sheet credit risk through commitments to extend credit and guarantees issued - refer to note 38.

The Group manages its credit risk exposure in accordance with legislative requirements and regulations of the Croatian National Bank, as well as in accordance with its internal procedures.

Credit risk management comprises assessment of credit risk, regular monitoring of credit risk and quarterly assessment of adequacy of the impairment allowances identified and reporting to the Bank's Management Board.

Assessment of the individual credit risk exposure comprises the following:

- Debtor's credit standing
- Debtor's regularity in settlement of debtor's due debts
- Quality of collateral obtained

Monitoring of credit risk included continuous assessment whether elements exist which would indicate a deterioration of the client's financial position, the client's exposure to of currency risk or an increase in risk due to the decrease of collateral value.

2. Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of its positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings, subordinated loans and share capital. The Group continually assesses liquidity risk by identifying and monitoring changes in the level of funding required to meet business goals and strategic targets. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management.

Asset and liability management policies define measurement of the Group exposure toward structural risks (liquidity risk and interest rate risk of non-trading portfolios).

The liquidity risk management is conducted in compliance with legislative requirements and directives of domestic and foreign regulators, defined in internal policies and procedures which are regularly revised by the Risk Management Division, according to changes in the economic environment.

Risk Management Division reports quarterly to the Asset and Liability Committee on the Bank's exposure toward liquidity risk, and monthly on movement in the Bank's liquidity reserves.

3. Market risk

All dealing instruments are subject to market risk, that is, the risk that future changes in market conditions may make an instrument less valuable or more onerous. Dealing financial instruments are recognised at fair value, and all changes in market conditions directly affect dealing income. The Group manages its use of dealing instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments.

Market risk management of the Group and the Bank is conducted in accordance with legislative requirements and directives of domestic and foreign regulators, which is defined in internal policies and procedures which are regularly revised by Risk Management Division.

Risk Management Division reports on monthly basis to the Asset and Liability Committee on exposure to market risks.

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies.

Foreign currency exposure arises from credit, deposit-taking, investment and dealing activities. It is monitored daily in accordance to legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Group directs its business activities trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency.

The Bank monitors currency risk having regard to the regulations of the Croatian National Bank. Capital requirements for currency risk are calculated using the standard method in accordance with Croatian National Bank regulations; Value-at-Risk (VaR); and the capital requirements calculated an the internal model (VaR x 4). Value-at-Risk is the estimated maximum probable loss that will arise on the portfolio over a 10-day holding period from adverse market movements calculated with a 99 percent confidence level.

Potential exposure to currency risk calculated with the above methods is given in the following table

	Open foreign exchange position HRK'000	Percentage of guarantee capital %	Capital requirements (standard method) HRK'000	VaR HRK'000	Capital requirements (the Bank's model) '000 kn
2007	109,138	9.62	1,691	(762)	3,050
2006	19,202	2.22	10,914	(127)	508

Interest rate risk

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Group is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices.

Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

The majority of loans and receivables to companies and individuals and deposits from companies and individuals are initially contracted at an interest rate that allows the Bank to vary the interest rate at the Management Board's decision. These financial instruments are classified as instruments that bear variable interest rates. Based on past experience, the Management Board changes these rates two to three times a year, in response to changes in the prevailing market rates.

The Bank utilizes following measures for measurement of interest rate risk exposure: duration, price value of the portfolio in case of interest rate change by one basis point (PV01) and value at risk (VaR). Movement of exposure to interest rate risk in the Bank's trading portfolio is given in the following table:

	Total value of trading portfolio HRK'00	Duration Years	PV01 HRK'00	VaR HRK'00
2007	1,544,179	1.30	215	(14,588)
2006	1,817,830	1.93	252	(11,475)

Value-at-risk depends on the volatility of market interest rates which have risen during 2007 due to the increase of interest rates on placements denominated in kuna.

Capital requirements for interest rate risk are calculated by methods required by the Croatian National Bank as well as using an internal model, as follows:

	Standard method HRK'000	Method of modified duration HRK'000	The Bank's model HRK'000
2007	19,358	19,418	60,758
2006	19,042	18,839	49,597

Capital requirements calculated in accordance with the Croatian National Bank's Decision on capital adequacy are in line with the stable movement of the market values of debt securities while the movement of capital requirements calculated by the Bank's own method model's oscillates significantly during the year, due to dependence on movement of price volatility derived from prevailing market interest rates.

Equity price risk

For measurement of equity price risk exposure the Bank utilizes value at risk (VaR). The Bank calculates capital requirements for equity price risk using the standard method of the Croatian National Bank and using the Bank's own model (4 x VaR).

	Market valuet HRK'000	Value at risk HRK'000	Capital requirements (standard method) HRK'000	Capital requirements (internal model) HRK'000
2007	135,213	(9,097)	20,000	36,388
2006	43,198	(4,791)	6,580	19,164

The market value of equity securities portfolio tripled in 2007. The increase in the value of portfolio results in an increase of capital requirements calculated by the standard method.

Portfolio available for sale

Portfolio available for sale comprises mostly debt securities. Movement in market value, value at risk, PV01 and portfolio duration of portfolio available-for-sale is presented in following table.

	Total value of portfolio available for sale HRK'000	Duration Years	PV01 HRK'000	Value at risk HRK'000
2007	72,330	4.17	(25)	(688)
2006	97,313	5.32	(47)	(1,501)

During 2007, the total value of the available-for-sale portfolio decreased which has been followed by a decrease in all of the stated risk measures indicators.

4. Interest rate risk on the non-trading portfolio

Interest rate risk on the non-trading portfolio sheet is observed from two perspectives - gains and losses method and economic value of capital method.

Gains and losses method

Gains and losses method relates to a potential decrease in net interest income in the event of a change in the prevailing market interest rates. For measurement of the effect of interest rate risk on gains and losses the Bank utilizes a basic simulation of parallel changes in interest rates by ±2% in a period of 12 months. The Bank seeks to maintain a potential decrease in net interest income within a limit of 10% of the budgeted net interest income for the current year.

The following table provides a breakdown of the potential decrease in net interest income and utilisation of limits during 2007.

	Potential decrease of net interest income HRK'000	Potential decrease as a percentage of budgeted net interest income %
2007	4,660	1.05
2006	20,216	6.16

Economic value of capital method

Economic capital value method relates to a potential decrease in the market value of capital as a result of a change in the prevailing market interest rates. The Bank calculates the market value of capital by discounting the balance sheet positions using a rate of 5%. The economic value of capital is expressed as the difference between the present value of assets and the present value of liabilities. The Bank seeks to maintain the difference in the market value of capital in case of a parallel interest rate change by ± 2% within a limit of 10% of the market value of capital.

	Capital market value	Change at interest rate change by ±2%
	HRK'000	%
2007	830,521	4.4
2006	730,751	4.4

5. Operational risk

The Group is subject to operational risk in all its business activities. The Group seeks to manage its operational risk in accordance with defined principles and policies at Bank and Group level, with the final purpose being to mitigate or avoid operational risk.

As operational risk the Group and the Bank recognize the risk of an event occurrence which has or could have as a consequence a financial loss, gain or transmitted earnings, caused by inappropriate or unsuccessful internal procedures, systems, human resources or external influences. This definition also includes legal risk, but does not include strategic or reputational risk.

6. Capital management

Amount of capital allocated by individual activity is based primarily on regulatory requirements. The procedure of capital allocation for specific activities is performed independently from responsible personnel for certain activities.

Even though maximization of yield on risk weighted capital represents the most important basis used by determining capital allocation within the Group to individual activities, it is not the sole basis used for decision-making. Consideration is given to synergy with other activities, availability of the Management Board and other resources, and reconciliation of activities with the long-term strategic goals of the Group. The policies related to capital management and capital allocation are regularly reviewed by the management.

The rate of capital adequacy is calculated as the ratio between guarantee capital and the sum of credit risk weighted assets, exposure to position risks (capital requirements for position risks are enlarged 10 times) and the estimated exposure of the open foreign exchange position to currency risk.

Movement of capital adequacy rate, exposure to position and currency risks, movement of credit risk weighted assets and the Bank's guarantee capital is presented in the following table.

	2007	2006
	HRK'000	HRK'000
GUARANTEE CAPITAL		
Ordinary share capital	947,631	833,395
Supplementary capital	245,727	72,883
Deductions	(58,560)	(40,300)
Total guarantee capital	**1,134,798**	**865,978**
Credit risk weighted assets	9,145,319	7,288,323
Currency risk exposure	109,138	19,202
Position risk exposure	415,774	256,217
Settlement and counterparty risk exposure	4,893	22
CREDIT RISK WEIGHTED ASSETS AND OTHER RISK EXPOSURES	**9,675,124**	**7,563,764**
Capital adequcy ratio	**11.73**	**11.45**

45. CURRENCY RISK

Assets and liabilities with foreign currency clauses include HRK 687 thousand (2006: HRK 687 thousand) of loans and advances to customers and borrowings, which the Group, and lenders to the Group, have the option to revalue in line with HRK movements against EUR, if HRK depreciates against to EUR beyond a certain level.

At 31 December 2007 and at 31 December 2006, the amounts of total assets and liabilities denominated in HRK and foreign currencies (amounts denominated in HRK but with foreign currency clauses, disclosed in the table below, are mainly linked to EUR) were as follows:

Group 2007 HRK '000	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	885,803	-	69,845	77,372	1,033,020
Obligatory reserve with Croatian National Bank	1,506,285	-	151,050	-	1,657,335
Placements with and loans to other banks	782,285	-	868,910	445,732	2,096,927
Financial assets at fair value through profit and loss	1,417,880	161,515	93,313	-	1,672,708
Financial assets available for sale	50,741	16,503	50,853	1,277	119,374
Financial assets held to maturity	227,509	-	-	-	227,509
Loans and advances to customers	5,753,896	1,288,185	52,201	190,951	7,285,233
Property and equipment	207,020	-	-	-	207,020
Investment property	7,778	-	-	-	7,778
Intangible assets	118,711	-	-	-	118,711
Net deferred tax asset	16,040	-	-	-	16,040
Other assets	118,838	333	143	9	119,323
TOTAL ASSETS	**11,092,786**	**1,466,536**	**1,286,315**	**715,341**	**14,560,978**
LIABILITIES					
Financial liabilities at fair value through profit or loss	354	-	-	-	354
Deposits from banks	432,838	-	36,075	8,506	477,419
Deposits from customers	8,102,324	200,157	1,720,207	214,299	10,236,987
Borrowings	1,226,819	642,706	239,600	-	2,109,125
Subordinated debt	200,603	-	-	-	200,603
Provisions for liabilities and charges	31,900	-	-	-	31,900
Current tax liability	13,115	-	-	-	13,115
Other liabilities	423,323	2	111,924	8	535,257
Total equity	956,218	-	-	-	956,218
TOTAL LIABILITIES AND EQUITY	**11,387,494**	**842,865**	**2,107,806**	**222,813**	**14,560,978**
NET FOREIGN EXCHANGE POSITION	**(294,708)**	**623,671**	**(821,491)**	**492,528**	**-**

Group 2006 HRK '000	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	516,960	-	52,588	10,168	579,716
Obligatory reserve with Croatian National Bank	913,404	-	113,338	-	1,026,742
Placements with and loans to other banks	367,684	-	720,990	63,143	1,151,817
Financial assets at fair value through profit and loss	1,660,596	68,914	81,106	-	1,810,616
Financial assets available for sale	252,184	24,138	53,250	1,429	331,001
Financial assets held to maturity	150	-	-	-	150
Loans and advances to customers	4,221,445	1,525,387	59,463	174,570	5,980,865
Property and equipment	182,718	-	-	-	182,718
Intangible assets	71,788	-	-	-	71,788
Net deferred tax asset	11,759	-	-	-	11,759
Other assets	122,686	72	526	40	123,324
TOTAL ASSETS	**8,321,374**	**1,618,511**	**1,081,261**	**249,350**	**11,270,496**
LIABILITIES					
Financial liabilities at fair value through profit or loss	344	-	-	239	583
Deposits from banks	451,227	-	32,665	12,770	496,662
Deposits from customers	6,144,301	395,918	1,436,415	181,152	8,157,786
Borrowings	705,930	456,595	251,157	-	1,413,682
Provisions for liabilities and charges	26,030	-	-	-	26,030
Current tax liability	12,193	-	-	-	12,193
Other liabilities	318,980	18,365	1,255	27	338,627
Total equity	824,933	-	-	-	824,933
TOTAL LIABILITIES AND EQUITY	**8,483,938**	**870,878**	**1,721,492**	**194,188**	**11,270,496**
NET FOREIGN EXCHANGE POSITION	**(162,564)**	**747,633**	**(640,231)**	**55,162**	**-**

Bank 2007 HRK '000	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	885,799	-	69,845	77,372	1,033,016
Obligatory reserve with Croatian National Bank	1,506,285	-	151,050	-	1,657,335
Placements with and loans to other banks	757,869	-	868,910	445,732	2,072,511
Financial assets at fair value through profit and loss	1,417,880	161,515	93,313	-	1,672,708
Financial assets available for sale	25,786	3,939	50,853	1,277	81,855
Financial assets held to maturity	227,509	-	-	-	227,509
Loans and advances to customers	5,763,781	1,276,295	52,201	190,951	7,283,228
Investments in subsidiaries	53,550	-	-	-	53,550
Property and equipment	204,084	-	-	-	204,084
Investment property	-	-	-	-	-
Intangible assets	118,707	-	-	-	118,707
Net deferred tax asset	15,269	-	-	-	15,269
Other assets	115,715	163	143	9	116,030
TOTAL ASSETS	**11,092,234**	**1,441,912**	**1,286,315**	**715,341**	**14,535,802**
LIABILITIES					
Financial liabilities at fair value through profit or loss	354	-	-	-	354
Deposits from banks	432,838	-	36,075	8,506	477,419
Deposits from customers	8,104,088	174,877	1,720,207	214,299	10,213,471
Borrowings	1,226,819	642,706	239,600	-	2,109,125
Subordinated debt	200,603	-	-	-	200,603
Provisions for liabilities and charges	31,895	-	-	-	31,895
Current tax liability	11,841	-	-	-	11,841
Other liabilities	414,880	2	111,924	8	526,814
Total equity	964,280	-	-	-	964,280
TOTAL LIABILITIES AND EQUITY	**11,387,598**	**817,585**	**2,107,806**	**222,813**	**14,535,802**
NET FOREIGN EXCHANGE POSITION	**(295,364)**	**624,327**	**(821,491)**	**492,528**	**-**

29th October 2007 - TF Marketing in the finals of the London International Advertising Awards and Midas Awards New York for the design of HPB's annual report

Bank 2006 HRK '000	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	516,958	-	52,588	10,168	579,714
Obligatory reserve with Croatian National Bank	913,404	-	113,338	-	1,026,742
Placements with and loans to other banks	362,014	-	720,990	63,143	1,146,147
Financial assets at fair value through profit and loss	1,660,596	68,914	81,106	-	1,810,616
Financial assets available for sale	224,438	20,557	53,250	1,429	299,674
Financial assets held to maturity	150	-	-	-	150
Loans and advances to customers	4,238,804	1,525,387	59,463	174,570	5,998,224
Investments in subsidiaries	35,050	-	-	-	35,050
Property and equipment	172,288	-	-	-	172,288
Intangible assets	71,783	-	-	-	71,783
Net deferred tax asset	9,669	-	-	-	9,669
Other assets	127,158	72	526	40	127,796
TOTAL ASSETS	**8,332,312**	**1,614,930**	**1,081,261**	**249,350**	**11,277,853**
LIABILITIES					
Financial liabilities at fair value through profit or loss	344	-	-	239	583
Deposits from banks	451,227	-	32,665	12,770	496,662
Deposits from customers	6,144,852	391,518	1,436,415	181,152	8,153,937
Borrowings	705,930	456,595	251,157	-	1,413,682
Provisions for liabilities and charges	26,030	-	-	-	26,030
Current tax liability	12,169	-	-	-	12,169
Other liabilities	315,061	18,365	1,255	27	334,708
Total equity	840,082	-	-	-	840,082
TOTAL LIABILITIES AND EQUITY	**8,495,695**	**866,478**	**1,721,492**	**194,188**	**11,277,853**
NET FOREIGN EXCHANGE POSITION	**(163,383)**	**748,452**	**(640,231)**	**55,162**	**-**

46. MATURITY ANALYSIS

A maturity analysis of assets and liabilities of the Group and the Bank, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss which are analysed as current based on their classification and the Group's and the Bank's trading intention, as at 31 December 2007 and 31 December 2006, is presented below:

Group 2007 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
ASSETS						
Cash and amounts due from banks	1,033,020	-	-	-	-	1,033,020
Obligatory reserve with Croatian National Bank	1,657,335	-	-	-	-	1,657,335
Placements with and loans to other banks	1,879,699	62,203	55,025	-	100,000	2,096,927
Financial assets at fair value through profit and loss	1,664,272	8,436	-	-	-	1,672,708
Financial assets available for sale	3,850	2,275	1,742	-	111,507	119,374
Financial assets held to maturity	15,751	54,565	157,193	-	-	227,509
Loans and advances to customers	1,573,511	777,624	1,695,655	1,287,476	1,950,967	7,285,233
Property and equipment	-	-	-	-	207,020	207,020
Investment property	-	-	-	-	7,778	7,778
Intangible assets	-	-	-	-	118,711	118,711
Net deferred tax asset	-	-	-	-	16,040	16,040
Other assets	63,082	192	2,427	1,576	52,046	119,323
TOTAL ASSETS	**7,890,520**	**905,295**	**1,912,042**	**1,289,052**	**2,564,069**	**14,560,978**
LIABILITIES						
Financial liabilities at fair value through profit or loss	354	-	-	-	-	354
Deposits from banks	317,964	159,455	-	-	-	477,419
Deposits from customers	7,317,433	1,109,794	1,288,414	466,831	54,515	10,236,987
Borrowings	832,345	30,153	240,779	221,618	784,230	2,109,125
Subordinated debt	-	-	-	-	200,603	200,603
Provisions for liabilities and charges	5	7,683	-	2,021	22,191	31,900
Current tax liability	-	-	13,115	-	-	13,115
Other liabilities	458,534	8,898	31,544	16,800	19,481	535,257
Total equity	-	-	-	-	956,218	956,218
TOTAL LIABILITIES AND EQUITY	**8,926,635**	**1,315,983**	**1,573,852**	**707,270**	**2,037,238**	**14,560,978**
MATURITY GAP	**(1,036,115)**	**(410,688)**	**338,190**	**581,782**	**526,831**	**-**
CUMULATIVE MATURITY GAP	**(1,036,115)**	**(1,446,803)**	**(1,108,613)**	**(526,832)**	**-**	**-**

Group 2006 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
ASSETS						
Cash and amounts due from banks	579,716	-	-	-	-	579,716
Obligatory reserve with Croatian National Bank	1,026,742	-	-	-	-	1,026,742
Placements with and loans to other banks	951,280	26,850	73,000	-	100,687	1,151,817
Financial assets at fair value through profit and loss	1,805,777	4,839	-	-	-	1,810,616
Financial assets available for sale	53,944	54,962	93,470	-	128,625	331,001
Financial assets held to maturity	150	-	-	-	-	150
Loans and advances to customers	784,705	1,196,026	1,493,200	1,141,477	1,365,457	5,980,865
Property and equipment	-	-	-	-	182,718	182,718
Intangible assets	-	-	-	-	71,788	71,788
Net deferred tax asset	-	-	-	-	11,759	11,759
Other assets	119,451	612	492	1,283	1,486	123,324
TOTAL ASSETS	**5,321,765**	**1,283,289**	**1,660,162**	**1,142,760**	**1,862,520**	**11,270,496**

Group 2006 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
LIABILITIES						
Financial liabilities at fair value through profit or loss	583	-	-	-	-	583
Deposits from banks	141,938	62,786	291,938	-	-	496,662
Deposits from customers	5,123,495	930,044	1,711,961	383,671	8,615	8,157,786
Borrowings	487,648	11,203	122,770	296,315	495,746	1,413,682
Provisions for liabilities and charges	-	-	-	-	26,030	26,030
Current tax liability	-	-	12,193	-	-	12,193
Other liabilities	286,229	3,137	9,499	12,879	26,883	338,627
Total equity	-	-	-	-	824,933	824,933
TOTAL LIABILITIES AND EQUITY	**6,039,893**	**1,007,170**	**2,148,361**	**692,865**	**1,382,207**	**11,270,496**
MATURITY GAP	**(718,128)**	**276,119**	**(488,199)**	**449,895**	**480,313**	**-**
CUMULATIVE MATURITY GAP	**(718,128)**	**(442,009)**	**(930,208)**	**(480,313)**	**-**	**-**

Bank 2007 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
ASSETS						
Cash and amounts due from banks	1,033,016	-	-	-	-	1,033,016
Obligatory reserve with Croatian National Bank	1,657,335	-	-	-	-	1,657,335
Placements with and loans to other banks	1,860,308	62,203	50,000	-	100,000	2,072,511
Financial assets at fair value through profit and loss	1,664,272	8,436	-	-	-	1,672,708
Financial assets available for sale	3,850	2,275	-	-	75,730	81,855
Financial assets held to maturity	15,751	54,565	157,193	-	-	227,509
Loans and advances to customers	1,573,419	777,636	1,695,714	1,287,681	1,948,778	7,283,228
Property and equipment	-	-	-	-	53,550	53,550
Investment property	-	-	-	-	204,084	204,084
Intangible assets	-	-	-	-	118,707	118,707
Net deferred tax asset	-	-	-	-	15,269	15,269
Other assets	57,663	133	4,612	1,576	52,046	116,030
TOTAL ASSETS	**7,865,614**	**905,248**	**1,907,519**	**1,289,257**	**2,568,164**	**14,535,802**
LIABILITIES						
Financial liabilities at fair value through profit or loss	354	-	-	-	-	354
Deposits from banks	317,964	159,455	-	-	-	477,419
Deposits from customers	7,319,192	1,109,794	1,286,923	462,140	35,422	10,213,471
Borrowings	832,345	30,153	240,779	221,618	784,230	2,109,125
Subordinated debt	-	-	-	-	200,603	200,603
Provisions for liabilities and charges	-	7,683	-	2,021	22,191	31,895
Current tax liability	-	-	11,841	-	-	11,841
Other liabilities	454,991	8,898	27,173	16,800	18,952	526,814
Total equity	-	-	-	-	964,280	964,280
TOTAL LIABILITIES AND EQUITY	**8,924,846**	**1,315,983**	**1,566,716**	**702,579**	**2,025,678**	**14,535,802**
MATURITY GAP	**(1,059,232)**	**(410,735)**	**340,803**	**586,678**	**542,486**	**-**
CUMULATIVE MATURITY GAP	**(1,059,232)**	**(1,469,967)**	**(1,129,164)**	**(542,486)**	**-**	**-**

Bank 2006 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
ASSETS						
Cash and amounts due from banks	579,714	-	-	-	-	579,714
Obligatory reserve with Croatian National Bank	1,026,742	-	-	-	-	1,026,742
Placements with and loans to other banks	945,610	26,850	73,000	-	100,687	1,146,147
Financial assets at fair value through profit and loss	1,805,777	4,839	-	-	-	1,810,616
Financial assets available for sale	53,877	54,899	91,282	-	99,616	299,674
Financial assets held to maturity	150	-	-	-	-	150
Loans and advances to customers	802,064	1,196,026	1,493,200	1,141,477	1,365,457	5,998,224
Property and equipment	-	-	-	-	35,050	35,050
Investment property	-	-	-	-	172,288	172,288
Intangible assets	-	-	-	-	71,783	71,783
Net deferred tax asset	-	-	-	-	9,669	9,669
Other assets	124,416	109	492	1,283	1,496	127,796
TOTAL ASSETS	**5,338,350**	**1,282,723**	**1,657,974**	**1,142,760**	**1,856,046**	**11,277,853**
LIABILITIES						
Financial liabilities at fair value through profit or loss	583	-	-	-	-	583
Deposits from banks	141,938	62,786	291,938	-	-	496,662
Deposits from customers	5,124,042	930,044	1,711,961	383,180	4,710	8,153,937
Borrowings	487,648	11,203	122,770	296,315	495,746	1,413,682
Provisions for liabilities and charges	-	-	-	-	26,030	26,030
Current tax liability	-	-	12,169	-	-	12,169
Other liabilities	283,323	2,124	9,499	12,879	26,883	334,708
Total equity	-	-	-	-	840,082	840,082
TOTAL LIABILITIES AND EQUITY	**6,037,534**	**1,006,157**	**2,148,337**	**692,374**	**1,393,451**	**11,277,853**
MATURITY GAP	**(699,184)**	**276,566**	**(490,363)**	**450,386**	**462,595**	**-**
CUMULATIVE MATURITY GAP	**(699,184)**	**(422,618)**	**(912,981)**	**(462,595)**	**-**	**-**

47. INTEREST RATE GAP ANALYSIS

The following tables present the Group's and the Bank's assets and liabilities and equity analysed according to repricing periods determined as the earlier of remaining contractual maturity and contractual repricing.
The tables are management's estimate of the interest rate risk for the Group as at 31 December 2007 and 31 December 2006 and are not necessarily indicative of the positions at other times, but provide some indication of the sensitivities of the Group's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities and equity. The Group has a significant proportion of interest-earning assets and interest-bearing liabilities in foreign cu-rrency.

Group 2007 HRK '000	0-30 days	31-90 days	91-360 days	1 To 3 years	More than 3 years	Without interest	Total	Fixed interest
ASSETS								
Cash and amounts due from banks	732,194	-	-	-	-	300,826	1,033,020	-
Obligatory reserve with Croatian National Bank	1,608,569	-	-	-	-	48,766	1,657,335	-
Placements with and loans to other banks	1,979,604	57,000	54,959	-	-	5,364	2,096,927	1,991,655
Financial assets at fair value through profit and loss	1,471,849	-	-	-	-	200,859	1,672,708	1,485,608
Financial assets available for sale	3,850	-	1,743	-	107,902	5,879	119,374	113,494
Financial assets held to maturity	15,751	54,565	157,193	-	-	-	227,509	227,509
Loans and advances to customers	6,960,425	1,028	49,122	4,519	205,256	64,883	7,285,233	275,927
Property and equipment	-	-	-	-	-	207,020	207,020	-
Investment property	-	-	-	-	-	7,778	7,778	-
Intangible assets	-	-	-	-	-	118,711	118,711	-
Net deferred tax asset	-	-	-	-	-	16,040	16,040	-
Other assets	-	-	-	-	-	119,323	119,323	-
TOTAL ASSETS	**12,772,242**	**112,593**	**263,017**	**4,519**	**313,158**	**1,095,449**	**14,560,978**	**4,094,193**

Group 2007 HRK '000	0-30 days	31-90 days	91-360 days	1 To 3 years	More than 3 years	Without interest	Total	Fixed interest
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	354	354	-
Deposits from banks	355,340	121,500	-	-	-	579	477,419	121,500
Deposits from customers	9,420,207	520,296	239,220	4,716	21,604	30,944	10,236,987	946,410
Borrowings	2,025,756	5,790	8,674	8,727	51,377	8,801	2,109,125	786,865
Subordinated debt	-	-	-	-	200,603	-	200,603	200,603
Provisions for liabilities and charges	-	-	-	-	-	31,900	31,900	-
Current tax liability	-	-	-	-	-	13,115	13,115	-
Other liabilities	-	-	-	-	-	535, 257	535, 257	-
Total equity	-	-	-	-	-	956,218	956,218	-
TOTAL LIABILITIES AND EQUITY	**11,801,303**	**647,586**	**247,894**	**13,443**	**273,584**	**1,577,168**	**14,560,978**	**2,055,378**
INTEREST RATE GAP	**970,939**	**(534,993)**	**15,123**	**(8,924)**	**39,574**	**(481,719)**	**-**	**2,038,815**

20th November 2007 Pensioners who have opted for the shorter compensation model received the last payment

Group 2006 HRK '000	0-30 days	31-90 days	91-360 days	1 To 3 years	More than 3 years	Without interest	Total	Fixed interest
ASSETS								
Cash and amounts due from banks	310,719	-	-	-	-	268,997	579,716	-
Obligatory reserve with Croatian National Bank	993,390	-	-	-	-	33,352	1,026,742	-
Placements with and loans to other banks	1,056,967	17,000	73,000	-	-	4,850	1,151,817	1,042,927
Financial assets at fair value through profit and loss	1,720,517	-	-	-	-	90,099	1,810,616	1,720,518
Financial assets available for sale	53,877	52,468	93,470	-	126,312	4,874	331,001	326,127
Financial assets held to maturity	150	-	-	-	-	-	150	150
Loans and advances to customers	5,130,038	502,065	82,924	13,339	205,895	46,604	5,980,865	810,175
Property and equipment	-	-	-	-	-	182,718	182,718	-
Intangible assets	-	-	-	-	-	71,788	71,788	-
Net deferred tax asset	-	-	-	-	-	11,759	11,759	-
Other assets	-	-	-	-	-	123,324	123,324	-
TOTAL ASSETS	**9,265,658**	**571,533**	**249,394**	**13,339**	**332,207**	**838,365**	**11,270,496**	**3,899,897**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	583	583	-
Deposits from banks	141,934	62,532	291,938	-	-	258	496,662	484,683
Deposits from customers	6,097,196	531,319	1,366,779	127,830	6,421	28,241	8,157,786	2,437,279
Borrowings	1,402,072	3,673	-	-	-	7,937	1,413,682	479,673
Provisions for liabilities and charges	-	-	-	-	-	26,030	26,030	-
Current tax liability	-	-	-	-	-	12,193	12,193	-
Other liabilities	-	-	-	-	-	338,627	338,627	-
Total equity	-	-	-	-	-	824,933	824,933	-
TOTAL LIABILITIES AND EQUITY	**7,641,202**	**597,524**	**1,658,717**	**127,830**	**6,421**	**1,238,802**	**11,270,496**	**3,401,635**
INTEREST RATE GAP	**1,624,456**	**(25,991)**	**(1,409,323)**	**(114,491)**	**325,786**	**(400,437)**	**-**	**498,262**

Bank 2007 HRK '000	0-30 days	31-90 days	91-360 days	1 To 3 years	More than 3 years	Without interest	Total	Fixed interest
ASSETS								
Cash and amounts due from banks	732,190	-	-	-	-	300,826	1,033,016	-
Obligatory reserve with Croatian National Bank	1,608,569	-	-	-	-	48,766	1,657,335	-
Placements with and loans to other banks	1,960,308	57,000	50,000	-	-	5,203	2,072,511	1,967,307
Financial assets at fair value through profit and loss	1,471,849	-	-	-	-	200,859	1,672,708	1,485,608
Financial assets available for sale	3,850	-	-	-	72,330	5,675	81,855	76,179
Financial assets held to maturity	15,751	54,565	157,193	-	-	-	227,509	227,509
Loans and advances to customers	6,960,333	1,040	49,182	4,723	203,092	64,858	7,283,228	264,062
Property and equipment	-	-	-	-	-	53,550	53,550	-
Investment property	-	-	-	-	-	204,084	204,084	-
Intangible assets	-	-	-	-	-	118,707	118,707	-
Net deferred tax asset	-	-	-	-	-	15,269	15,269	-
Other assets	-	-	-	-	-	116,030	116,030	-
TOTAL ASSETS	**12,752,850**	**112,605**	**256,375**	**4,723**	**275,422**	**1,133,827**	**14,535,802**	**4,020,665**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	354	354	-
Deposits from banks	355,340	121,500	-	-	-	579	477,419	121,500
Deposits from customers	9,421,966	520,296	237,729	25	2,511	30,944	10,213,471	921,130
Borrowings	2,025,756	5,790	8,674	8,727	51,377	8,801	2,109,125	786,865
Subordinated debt	-	-	-	-	200,603	-	200,603	200,603
Provisions for liabilities and charges	-	-	-	-	-	31,895	31,895	-
Current tax liability	-	-	-	-	-	11,841	11,841	-
Other liabilities	-	-	-	-	-	526,814	526,814	-
Total equity	-	-	-	-	-	964,280	964,280	-
TOTAL LIABILITIES AND EQUITY	**11,803,062**	**647,586**	**246,403**	**8,752**	**254,491**	**1,575,508**	**14,535,802**	**2,030,098**
INTEREST RATE GAP	**949,788**	**(534,981)**	**9,972**	**(4,029)**	**20,931**	**(441,681)**	**-**	**1,990,567**

Bank 2006 HRK '000	0-30 days	31-90 days	91-360 days	1 To 3 years	More than 3 years	Without interest	Total	Fixed interest
ASSETS								
Cash and amounts due from banks	310,719	-	-	-	-	268,995	579,714	-
Obligatory reserve with Croatian National Bank	993,390	-	-	-	-	33,352	1,026,742	-
Placements with and loans to other banks	1,051,297	17,000	73,000	-	-	4,850	1,146,147	1,037,257
Financial assets at fair value through profit and loss	1,720,517	-	-	-	-	90,099	1,810,616	1,720,518
Financial assets available for sale	53,877	52,468	91,282	-	97,313	4,734	299,674	294,940
Financial assets held to maturity	150	-	-	-	-	-	150	150
Loans and advances to customers	5,147,322	502,065	82,924	13,339	205,895	46,679	5,998,224	810,175
Property and equipment	-	-	-	-	-	35,050	35,050	-
Investment property	-	-	-	-	-	172,288	172,288	-
Intangible assets	-	-	-	-	-	71,783	71,783	-
Net deferred tax asset	-	-	-	-	-	9,669	9,669	-
Other assets	-	-	-	-	-	127,796	127,796	-
TOTAL ASSETS	**9,277,272**	**571,533**	**247,206**	**13,339**	**303,208**	**865,295**	**11,277,853**	**3,863,040**

Bank 2006 HRK '000	0-30 days	31-90 days	91-360 days	1 To 3 years	More than 3 years	Without interest	Total	Fixed interest
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	583	583	-
Deposits from banks	141,934	62,532	291,938	-	-	258	496,662	484,683
Deposits from customers	6,097,743	531,319	1,366,779	127,339	2,516	28,241	8,153,937	2,432,879
Borrowings	1,402,072	3,673	-	-	-	7,937	1,413,682	479,673
Provisions for liabilities and charges	-	-	-	-	-	26,030	26,030	-
Current tax liability	-	-	-	-	-	12,169	12,169	-
Other liabilities	-	-	-	-	-	334,708	334,708	-
Total equity	-	-	-	-	-	840,082	840,082	-
TOTAL LIABILITIES AND EQUITY	**7,641,749**	**597,524**	**1,658,717**	**127,339**	**2,516**	**1,250,008**	**11,277,853**	**3,397,235**
INTEREST RATE GAP	**1,635,523**	**(25,991)**	**(1,411,511)**	**(114,000)**	**300,692**	**(384,713)**	**-**	**465,805**

48. AVERAGE INTEREST RATES

Average interest rates calculated as the weighted average of each category of interest-earning asset and interest-bearing liability, are presented below:

Group **Assets**	**Average interest rates** **2007**	**Average interest rates** **2006**
Cash and receivables from banks	0.50%	0.50%
Obligatory reserve with Croatian National Bank	0.83%	0.83%
Placements with and loans to other banks	5.94%	3.68%
Financial assets at fair value through profit and loss	3.69%	4.15%
Financial assets available for sale	5.85%	6.92%
Financial assets held to maturity	7.64%	9.00%
Loans and advances to customers	7.90%	7.30%
Liabilities		
Deposits from banks	8.05%	4.03%
Deposits from customers	3.32%	2.54%
Borrowings	4.15%	3.07%
Subordinated debt	5.50%	-

Bank **Assets**	**Average interest rates** **2007**	**Average interest rates** **2006**
Cash and receivables from banks	0.50%	0.50%
Obligatory reserve with Croatian National Bank	0.83%	0.83%
Placements with and loans to other banks	5.93%	3.68%
Financial assets at fair value through profit and loss	3.69%	4.15%
Financial assets available for sale	6.53%	6.92%
Financial assets held to maturity	7.64%	9.00%
Loans and advances to customers	7.91%	7.30%
Liabilities		
Deposits from banks	8.05%	4.03%
Deposits from customers	3.33%	2.54%
Borrowings	4.15%	3.07%
Subordinated debt	5.50%	-

49. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

Financial assets at fair value through profit or loss and financial assets available for sale are measured at fair value. Originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Loans

The fair value of loans and advances is calculated based on discounted expected future cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio based impairment allowances for performing loans calculated at rates prescribed by the CNB. Expected future cash flows for homogeneous categories of loans, such as residential mortgage loans, are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. As the Bank has a very limited portfolio of loans and advances with fixed rates and longer-term maturity, the fair value of loans and advances is not significantly different from their carrying value. Differences between the fair value of future losses from currently performing loans in the portfolio and the effect of the portfolio based provisions recognised in accordance with CNB rules, are not taken into account.

Investments carried at cost

For equity investments for which a quoted market price is not available, fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where discounted cash flow techniques provide insufficiently reliable valuations due to a number of uncertainties related to estimations of future cash flows, investments are carried at cost less impairment. Management believes that there is no indication for impairment of these investments.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Borrowings

Most of the Group's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the balance sheet date to the Group for new debt of similar type and remaining maturity. Again, the majority of the Group's long-term debt is with variable interest rates being market rates, hence the carrying amount of these borrowings approximates their fair value.

The following table represents the Group's estimate of the fair value of financial instruments as of 31 December 2007 and 31 December 2006.

			2007 HRK '000			**2006 HRK '000**
Group	**Carrying amount**	**Fair value**	**Unrecognised gains / (losses)**	**Carrying amount**	**Fair value**	**Unrecognised gains / (losses)**
Cash and receivables from banks	1,033,020	1,033,020	-	579,716	579,716	-
Obligatory reserve with the Croatian National Bank	1,657,335	1,657,335	-	1,026,742	1,026,742	-
Placements with and loans to other banks	2,096,927	2,094,477	(2,450)	1,151,817	1,149,714	(2,103)
Financial assets at fair value through profit and loss	1,672,708	1,672,708	-	1,810,616	1,810,616	-
Financial assets available for sale	119,374	119,374	-	331,001	331,001	-
Financial assets held to maturity	227,509	227,509	-	150	150	-
Loans and advances to customers	7,285,233	7,229,568	(55,665)	5,980,865	5,930,038	(50,827)
Financial liabilities at fair value through profit and loss	354	354	-	583	583	-
Deposits from banks	477,419	475,882	1,537	496,662	490,624	6,038
Deposits from customers	10,236,987	10,227,477	9,510	8,157,786	8,113,334	44,452
Borrowings	2,109,125	2,100,634	8,491	1,413,682	1,413,667	15
Total			**(38,577)**			**(2,425)**

Bank	2007 HRK '000 Carrying amount	Fair value	Unrecognised gains / (losses)	2006 HRK '000 Carrying amount	Fair value	Unrecognised gains / (losses)
Cash and receivables from banks	1,033,016	1,033,016	-	579,714	579,714	-
Obligatory reserve with the Croatian National Bank	1,657,335	1,657,335	-	1,026,742	1,026,742	-
Placements with and loans to other banks	2,072,511	2,070,215	(2,296)	1,146,147	1,144,044	(2,103)
Financial assets at fair value through profit and loss	1,672,708	1,672,708	-	1,810,616	1,810,616	-
Financial assets available for sale	81,855	81,855	-	299,674	299,674	-
Financial assets held to maturity	227,509	227,509	-	150	150	-
Loans and advances to customers	7,283,228	7,228,056	(55,172)	5,998,224	5,947,397	(50,827)
Financial liabilities at fair value through profit and loss	354	354	-	583	583	-
Deposits from banks	477,419	475,882	1,537	496,662	490,624	6,038
Deposits from customers	10,213,471	10,206,561	6,910	8,153,937	8,110,147	43,790
Borrowings	2,109,125	2,100,638	8,487	1,413,682	1,413,667	15
Total			**(40,534)**			**(3,087)**

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