PBZ

Annual Report 2007

PBZ, a bank of INTESA SANPAOLO

Annual Report 2007

Who we are and what we do

We are the leading Croatian financial services Group engaged in retail and corporate banking, credit cards, investment banking, asset management, private banking, leasing and real estate activities and investment management services. We operate in entire area of Croatia and employ over 4.2 thousand people.
Our mission is to make a permanent and effective use of all resources at our disposal to continuously improve all aspects of our business activities, including human resources, the technology and the business processes.
Our vision is to be the model company and the center of excellence in creating new values, as well as in providing high-quality service in all of our activities to the benefit of our clients, the community, our stakeholders and employees.

* Comprises customers deposits, assets under management and in custody

1,563 thousand
TOTAL CUSTOMERS

624 thousand
CURRENT ACCOUNTS

HRK 63.4 billion
TOTAL CUSTOMER FUNDS*

HRK 6.3 billion
ASSETS UNDER MANAGEMENT

285 thousand
INTERNET BANKING USERS

227
TOTAL BRANCHES

HRK 40.1 billion
TOTAL CUSTOMER LOANS

HRK 8.4 billion
TOTAL HOUSING LOANS

2,026 thousand
TOTAL CARDS ISSUED

19,384
EFT POS

540
ATM MACHINES

77
DAY AND NIGHT VAULTS

Table of contents

4	Introduction
5	Five year summary and financial highlights
6	Report from the President of the Supervisory Board
7	Report from the President of the Management Board
9	Review of the international and Croatian economy in 2007
15	Financial and operating highlights
17	Organisational chart
18	Business description of the Bank
25	The Group
29	Review of activities in PBZ's Social Responsibility Program
32	Corporate governance
33	Statement of responsibilities of the Management Board
35	Independent Auditor's report
38	Financial statements for the Bank and the Group
44	Accounting policies
52	Notes to the Bank and the Group financial statements
103	Supplementary financial statements in EUR (unaudited)

Introduction

The Management Board of Privredna banka Zagreb d.d. has the pleasure of presenting its Annual report to the shareholders of the Bank. This comprises summary financial information, management reviews, the audited financial statements and accompanying audit report, and unaudited supplementary statements in EUR. Audited financial statements are presented for the Bank and the Group.

Croatian and English version
This document comprises the Annual Report of Privredna banka Zagreb d.d. for the year ended 31 December 2007 expressed in English. This report is also published in Croatian for presentation to shareholders at the Annual General Meeting.

Legal status
The Annual Report includes the annual financial statements prepared in accordance with International Financial Reporting Standards and audited in accordance with International Standards on Auditing.
The Annual Report is prepared in accordance with the provisions of the Companies Act and the Accounting Law, which require the Management Board to report to shareholders of the company at the Annual General Meeting.

Abbreviations
In this Annual Report, Privredna banka Zagreb d.d. is referred to as “the Bank” or “PBZ” or as “Privredna banka Zagreb”, and Privredna banka Zagreb d.d., together with its subsidiary undertakings are referred to as “the Group” or “the Privredna banka Zagreb Group”.
The central bank, the Croatian National Bank, is referred to as “the CNB”.
The European Bank for Reconstruction and Development is referred to as “EBRD”.
In this report, the abbreviations “HRK thousand”, “HRK million”, “USD thousand”, “USD million” and “EUR thousand” or “EUR million” represent thousands and millions of Croatian kunas, US dollars and Euros respectively.

Exchange rates
The following mid exchange rates set by the CNB ruling on 31 December 2007 have been used to translate balances in foreign currency on that date:

CHF 1 = HRK 4.412464
USD 1 = HRK 4.985456
EUR 1 = HRK 7.325131

Five year summary and financial highlights

(in HRK million)

Group	2007	2006	2005	2004	2003
Income statement and balance sheet					
Total gross revenue	5,350	4,519	3,936	3,768	3,564
Net interest income	1,918	1,714	1,583	1,517	1,492
Net operating income	3,405	3,039	2,688	2,570	2,424
Net profit for the year	1,141	963	814	735	695
Total assets	67,550	61,974	51,810	43,799	42,441
Loans and advances to customers	40,147	36,910	28,640	24,025	23,387
Due to customers	41,918	36,843	32,391	29,917	27,497
Shareholders' equity	8,503	7,625	4,820	4,286	3,790
Other data (as per management accounts)					
Return on average equity	15.45%	18.79%	21.22%	21.83%	26.85%
Return on average assets	1.73%	1.72%	1.73%	1.72%	1.77%
Assets per employee	15.3	14.8	12.4	11.1	11.3
Cost income ratio	50.51%	50.96%	53.47%	54.17%	53.96%

Bank	2007	2006	2005	2004	2003
Income statement and balance sheet					
Total gross revenue	4,263	3,652	3,341	3,138	2,777
Net interest income	1,697	1,535	1,425	1,354	1,268
Net operating income	2,474	2,270	2,149	2,008	1,767
Net profit for the year	932	847	750	678	575
Total assets	61,974	55,906	48,553	40,655	37,505
Loans and advances to customers	36,436	33,572	26,687	21,858	20,377
Due to customers	38,694	33,491	30,004	27,405	23,791
Shareholders' equity	7,847	7,114	4,433	3,915	3,355
Other data (as per management accounts)					
Return on average equity	13.35%	17.28%	20.00%	21.84%	20.16%
Return on average assets	1.56%	1.66%	1.72%	1.74%	1.66%
Assets per employee	17.1	16.2	13.7	12.6	13.1
Cost income ratio	48.90%	48.79%	51.36%	50.59%	51.00%

Report from the President of the Supervisory Board

On behalf of the Supervisory Board of Privredna banka Zagreb, it is my honour to present the business results of the Bank and the Group for 2007.
It was a very good year for Privredna banka Zagreb and its Group in terms of profitability, excellent products and services as well as market diversification. This performance is the consequence of having a well-grounded and robust strategy, and executing it well. This strategy has been appropriately aligned with our parent bank Intesa Sanpaolo and our strategic partner the European Bank for Reconstruction and Development. Intesa Sanpaolo's selective diversification by geography, by financial product as well as by customer segment helped it improve financial performance, manage risk soundly and create opportunities for synergy. Its presence in Croatia is proof of well-planned strategy and the results of Privredna banka Zagreb are sign of excellent implementation of that strategy.
In 2007, Croatian economy continued to record dynamic growth. The actual growth rate for the first semester of 2007 was 6.8 percent, whereas overall annual growth estimate stands at approximately 6 percent. This is higher than 4.5 percent average growth rate for the period from 2000 to 2006. The main contribution to overall GDP growth was from domestic demand and gross investments. However, Croatia was one of a long list of other European countries that experienced higher inflation. The average annual inflation rate for 2007 reached 2.9 percent vs. 2 percent in 2006. As a result of global inflationary pressures it is expected that an average inflation rate in Croatia will be somewhat more pronounced in 2008.
Croatia has made several key steps forward in negotiations for the European Union membership although a great deal of work still lies ahead. Tough challenges are still to be surpassed, especially in structural reforms and fiscal consolidation. However, positive political and macroeconomic environment created in 2004, when Croatia was given candidate status for accession to the EU, has not vanished. On contrary, it is expected that accession to the Union may take place in 2010 or 2011, whilst Croatia could enter the euro area in 2012 or 2013. Under these conditions, monetary policy remained restrictive in 2007. As marginal reserve requirement was kept at 55 percent and with no changes to the obligatory reserve requirement, the Croatian National Bank significantly tightened permissible credit growth measure (permitted growth rate of credit related portfolio without extra purchase of obligatory bills). This has affected banks in various ways. It imposed mandatory limits on growth, put significant pressure on internal efficiencies and narrowed decision-making possibilities.
Notwithstanding such a difficult environment, PBZ Group managed to achieve excellent results for 2007. Our performance was supported by three strong pillars: our business portfolio, our countrywide presence and the talent and skills of our management and employees. We again succeeded in meeting our goals and increasing the value of our shareholders.
Total gross revenue for PBZ Group exceeded HRK 5.3 billion. Consolidated net operating income amounted to HRK 3.4 billion whilst a net profit recorded HRK 1.1 billion. Our cost/income ratio, a key measure of our efficiency, again decreased and reached 50.5 percent, while the ROAE reached 15.5 percent. These are satisfactory figures since they represent a consistently strong performance over the last five years.
In 2007, PBZ Group has further reinforced its position as one of Croatia's foremost banks in terms of productivity, returns and value creation for its shareholders. We are the second largest group in the country with strong customer base of almost 1.6 million, with over 624 thousand current accounts and 227 branches.
Looking ahead, the top strategic objective of PBZ Group is to strengthen its market position and further improve its internal efficiency in order to continue to perform successfully. We have to succeed in a tough and highly competitive environment by meeting demands of our customers at the highest possible level and thus increasing their satisfaction.
The management of Privredna banka Zagreb enjoys full confidence of the shareholders. On behalf of the Supervisory Board, I would like to thank them for their strong leadership and outstanding performance. I would also like to express my gratitude and appreciation to all employees of the Group for their commitment and valued contribution. Finally, I want to express my great appreciation of the work of my colleagues on the Supervisory Board, as well as of the Audit Committee members, for their wise counsel and contribution.

Respectfully,

Dr. György Surányi
12 February 2008

Report from the President of the Management Board

Dear Shareholders,
It is a great honour and pleasure for me to present to you, on behalf of the Management Board of Privredna banka Zagreb, the financial results of the Privredna banka Zagreb Group for 2007.
Our performance in 2007 can be best described as very successful in a difficult and challenging environment. A great portfolio of assets and excellent managers and employees executing a consistent strategy remained our core strength. Our goals and aspirations have always been challenging and consistent which makes us proud of the overall results achieved throughout our areas of business.

Financial results and capital management

2007 was another successful year for PBZ Group. A quick look at what was achieved over the last year shows that operating income improved by HRK 366 million or 12 percent. The net attributable profit rose by 18.5 percent to HRK 1,141 million. Higher revenue was achieved in all aspects of our operations, especially in commission and fees from card and payment activities.
Net interest income grew 11.9 percent whilst commission and fees increased by 23.9 percent to HRK 1,064 million. Net non-interest income of the Group reached 43.7 percent of total operating income, slightly higher than 43.6 percent in 2006.
All performance indicators show excellent achievements and provide evidence of improvements in profitability and productivity. The return on average equity at the level of the Group was 15.5 percent.
The consolidated return on average assets reached the very respectable level of 1.73 percent. Earnings per share, the most evident reflection of the value we create for our shareholders, increased by 5.5 percent, amounting to HRK 60 per share.
At the same time, we managed our costs carefully and, as a result, the cost to income ratio, on a consolidated basis, decreased to 50.5 percent in 2007.
The balance sheet of the PBZ Group increased by 9 percent and surpassed the amount of HRK 67.5 billion.
The loan portfolio grew 8.8 percent due to very restrictive monetary measures effective in the past year. Shareholders' equity increased by 11.9 percent to HRK 8.5 billion. Economic Value Added (ΔEVA®), which is value generated in excess of capital costs rose from HRK 524 million in 2006 to HRK 602 million in 2007.

Qualitative results and market share

I am pleased to report that we see encouraging trends in electronic channels of distribution in Croatia, in which PBZ Group maintains the leading role. From the total number of all transactions in the Group, 77.5 percent were carried out electronically through Internet banking, ATM machines, EFT POS devices and cell phones (mPay product). Also, I am proud to report that in 2007 we launched the very first trading platform in the country developed for retail and corporate investors interested in Croatian equity market. This product surpassed our expectations in terms of popularity among our clients. On a similar note, the number of Internet banking users increased in 2007 alone by 85 thousand to the current level of 285 thousand users.
With a base of more than 1.6 million clients, both corporate and private, the PBZ Group is today a modern, universal-type banking group whose market share, measured by the size of the balance sheet, stands at 18.5 percent whereas in retail banking that share reached almost 21 percent. PBZ Group holds the leading position on the credit and debit card market with market share of 33.2 percent.
Moreover, total indirect deposits, i.e. funds under management of PBZ Invest (investment funds) and PBZ Croatia osiguranje (pension fund) as well as funds and securities received in custody on behalf of third parties, collectively surpassed HRK 21.5 billion, which is an increase of 35 percent compared to 2006 and 239 percent compared to 2005.
Privredna banka Zagreb retained a prominent role on the capital market and in investment banking. PBZ is today the leading underwriter and arranger of debt securities in Croatia. In the past 5 years there were close to 100 tranches of commercial bills with total value exceeding HRK 3.5 billion. PBZ arranged approximately 84 percent of total turnover. In 2007 alone, PBZ arranged 20 tranches of commercial bills with total value of debt reaching HRK 774 million or 71 percent of total transactions. We can claim to be the most trusted financial institution on the capital market of corporate entities, government agencies and municipalities.

Corporate and social responsibility

We at PBZ Group care about corporate and social responsibility. We care about the needs of the local community we operate in.
We continued to make substantial progress in pursuit of our objective of ensuring that PBZ Group is one of the leading entities in the field of corporate responsibility. For number of years we have been developing a social responsibility programme named PBZ Prijatelj (PBZ Friend).
We have been actively involved in

many social-awareness projects through financial support of a number of humanitarian and social institutions. We have supported programmes in education and sports as well as numerous cultural institutions. In 2007, we donated over HRK 5.8 million and took on sponsorships amounting to HRK 15 million.

In terms of environmental management, in 2007 PBZ started with the experimental stage of monitoring electric and thermal energy consumption, paper and clean water consumption as well as waste generation. This was useful in highlighting any wastage in the system and providing data to estimate energy optimisation that may be needed in the future. We, therefore, intend to increase awareness of global warming issues and the necessity of implementing European Union energy policies regarding climate change in our society.

Needless to say that much of our success has been achieved by sound investment in our employees and managers. With specific programmes put in place focused on enhancing work force capabilities we managed to improve the overall picture significantly. Namely, the proportion of employees with a university degree increased from 27 percent several years ago, to 39 percent, whilst the average age of all employees decreased from 41.3 years to 38.9 years. More than 74 percent are women. PBZ is among the top desired employers as indicated in number of independent surveys in Croatia. In fact, in the survey conducted by the job seeking portal MojPosao.net, PBZ is the most desirable bank employer among the population looking for a first job.

Last year I mentioned the launch of PBZ Corporate Academy, a programme designed for lower, middle and senior management of the Bank. I am happy to announce that this project has grown in terms of importance and number of participants. Currently, 412 managers and employees of the Bank attend PBZ Corporate Academy compared to 240 in 2006. We feel that this programme is our best investment for the future.

Business environment and look into the future

Internationally, second half of 2007 was characterized by financial distress and a slowdown in the world growth with rising inflation. During 2007 Croatia experienced above average GDP dynamics (domestic demand driven), especially in the first half of the year. However, 2007 was a challenging year for banks. This is true especially for its second part due to changes in monetary regulation, constant unfolding of new global disturbances on the financial markets (with repricing of risks and costs of funds going up) and increase in domestic inflation.

Macroeconomic fundamentals of the Croatian economy are sound, with external imbalances under control, but the balance of risks is changing. For 2008 in Croatia we expect a slowdown in GDP growth toward long term sustainable rates, fiscal and monetary policy contributing to sustained macroeconomic stability and stable exchange rate toward the Euro. Further progress to NATO and the EU membership should more than compensate for some increased geopolitical risks in the region. Financial markets will continue to grow in size and sophistication, albeit at a slower rate. We are confident that within the stable macroeconomic framework and our clear strategic goals, PBZ will have another successful year creating additional value for our shareholders.

Conclusion

In 2007, PBZ was a recipient of numerous awards, including “The Euromoney Awards for Excellence” for the best bank in Croatia from The Euromoney, “The Best Bank Award 2007” for the best bank in Croatia from Global Finance, and “Das Beste Kroatiens” from Adria Zeitung newspaper publisher. In that context, on behalf of PBZ’s management team, I would like sincerely to thank our shareholders, customers and local communities for their constant support and understanding, which continues to bolster our growth. I thank our employees for hard work and strong dedication. Finally, I would like to express my most sincere gratitude to all members of the Supervisory Board of the Bank for their most valuable cooperation and business advice.

Božo Prka, M.S.
President of the Management Board
12 February 2008

Review of the international and Croatian economy in 2007

Primary goal of this part of the PBZ annual report is to give to shareholders/readers an assessment of international and domestic macroeconomic en-vironment in which PBZ and the Group operated during 2007. This should help understand the results from a more objective perspective.

In 2007 the international economy was marked by financial distress and slowdown...

What has started as a sub prime mortgage crises in the fall of 2006 in the United States (single-sector single-country event) became a global financial distress during 2007. And it will continue to be felt in 2008, with yet unknown consequences (as of February 2008). Credit crunch, liquidity crisis with record high liquidity interventions by major central banks, repricing of risks, loss of confidence in banks, cases of bank insolvency are only some of the features of financial turbulence in 2007. Total sub prime credit loss forecasts in February 2008 increased to a huge amount of USD 400 billion, far more than US Federal Reserve's initial estimates for sub prime losses of USD 100 to 150 billion done in mid-2007. The global financial markets turmoil started to reflect itself on the real sector i.e. economic growth of the world's largest economies like the US and the European Union. Growth in the United States slowed notably in the fourth quarter of 2007, with recent indicators showing further weakening of manufacturing and housing activity, employment and consumption. Growth has also decelerated in the Western Europe (including Euro zone), and confidence indicators have generally deteriorated. In January 2008 the International Monetary Fund (IMF) has reduced its projections of the world economy growth to 4.1 percent in 2008, down from 4.9 percent in 2007. The projections for the advanced economies have been reduced significantly as well: in the US to 1.5 percent (2.2 percent in 2007) and for the Euro area to 1.6 percent (2.3 percent in 2007).

.... as well as rising global inflation.

Unfortunately financial markets turmoil was not the only bad news in 2007. Since mid-2007 headline inflation increased in both advanced and emerging markets primarily due to the increased prices of agricultural products and oil (as well as some other commodities). The US FED started to aggressively cut interest rates in response to increased downside risks to economic activity, while monetary policy has been, at least so far, on hold in Euro area, primarily due to inflation well above the 2 percent target (January HICP figure was 3.2 percent). Thus, monetary policymakers face the difficult challenge of balancing the risks of higher inflation and slower economic activity.

Croatia experienced exceptionally high growth...

Unexpectedly high real growth rates of 7.0 percent and 6.6 percent respectively in the first and second quarters of 2007 resulted in a dynamic growth rate of 6.8 percent in the first half of the year. However, third quarter brought us back down-to-earth with 5.1 percent growth, lowering overall annual growth estimates to around 6 percent. This is still higher than Croatia's medium term potential growth rate (estimated to be around 4.5 percent).

Even though slightly slowing down, the highest contribution to overall GDP growth in 2007 is still coming from domestic demand (both personal and public) and gross investment. The moderation of personal consumption (from 7.1 percent growth in first quarter down to 6.2 percent growth in third quarter) took place despite a relatively strong growth of wages and employment at the time when inflationary pressures started to emerge. Regardless of one of most successful tourist seasons that marked third quarter; overall net foreign

demand contribution was negative. In 2007 in real sector developments industrial production accounted for 5.6 percent growth (4.1 percent in 2006), 5.3 percent real growth in retail trade and 2.4 percent growth in construction works.

... which is expected to slow down in 2008 to its long term trend.

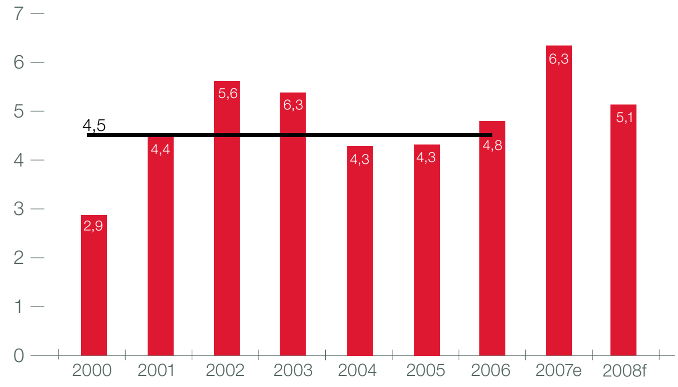
Unfortunately, 2007 economic upswing did not last long. As mentioned, 2007 third quarter data indicated economic slowdown which in our opinion will affect year 2008 much stronger than anticipated. Our forecasted growth range for 2008 is between 4.2 and 5.4 percent real growth, with stronger downside risks than upside ones. As a major downside risks, we see negative impact of the EU and world economic growth deceleration, the EU negotiations problems, possible further tightening of monetary policy, uncertain fiscal policy and possible delays in most needed structural reforms. Related to the international environment one has to take into account that the overall effects of the financial market turmoil are still not fully acknowledged and that the global economy started to show signs of slowdown (in the case of the US even recession, while the EU a slowdown). This might have a negative impact on the Croatian foreign trade developments and subsequently overall economic growth.

This growth generated positive labor market developments...

Strong economic growth in 2007 resulted in a total of 1.48 million persons were registered as employed (+0.9 percent on annual basis) in December 2007. The number of unemployed persons fell in the same period by as much as 13.2 percent and the rate of registered unemployed at the end of last year was 14.7 percent (2006: 17 percent).

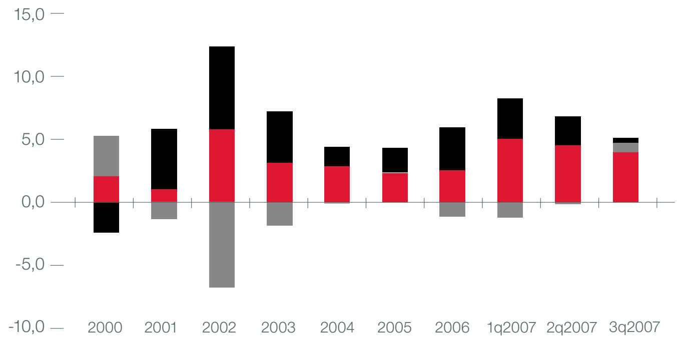
The fall in unemployment recorded by the registered unemployed rate is also confirmed by the results of the Labor Force Survey for the third quarter of last year. The survey unemployment rate was at its all time low of 8.4 percent. Nevertheless, when compared with the European Union member countries, it is still quite high (EU 27 average 6.9 percent), with only Slovakia (11.3 percent) and Poland (9.0 percent) having higher unemployment rate than Croatia in Q3 2007. We expect that positive labor market developments will continue in 2008, even though at somewhat slower pace than last year.

Increased employment was accompanied with 5.2 percent nominal growth in net wages (January-November 2007 data), and in 2008 we expect a moderate continuation of wage growth fuelled mainly by a private sector productivity growth and a wage increase in public sector. Real income growth however will be more moderate due to the increased inflationary pressures meaning that wage purchasing power will be reduced with weaker support to overall personal consumption.



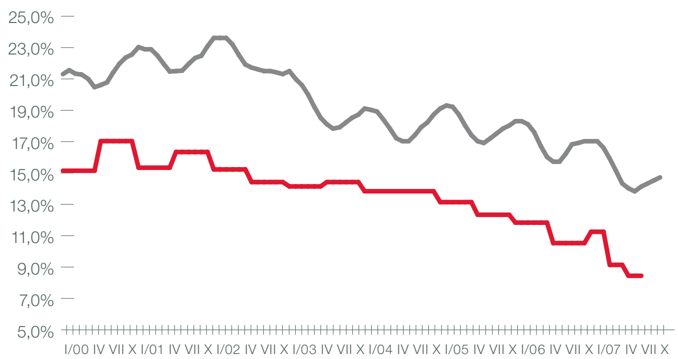
GDP real growth rates
in %
(source: CBS, estimate and forecast PBZ)

Average 2000-06
Real growth rates



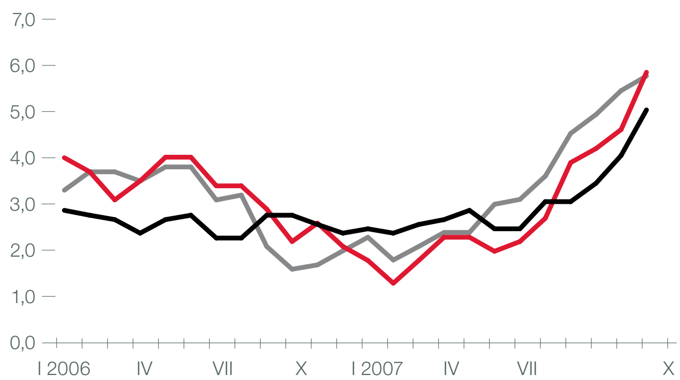
Contribution of domestic and foreign demand to GDP growth
(source: CBS, estimate and forecast PBZ)

Domestic consumption
Net foreign consumption
Gross investment



ILO Survey and Registered unemployment rate
in %
(source: CBS)

Resitered unemployment
ILO unemployment rate



Prices, annual growth rates
in %
(source: CBS)

Producer prices
Consumer prices
Core consumer prices

... shadowed by serious increase in inflationary pressures in the second part of 2007.

Except for the high economic growth, 2007 (especially second half of the year) will be remembered as a year of increased inflationary pressures that continued to grow in early 2008. The year end inflation rate jumped to 5.8 percent (average annual 2.9 percent) mainly at the account of increased food and beverages prices. The speeding inflation originated mostly from increased world market prices of food and other agricultural products as well as oil and other raw materials. But the supply shock was not the only factor as rapid growth of domestic consumption contributed to inflation as well. For 2008 we estimate that average yearly inflation could be in the range from 4 to 6 percent, with higher risks on the upside. The main challenge for policy-makers will be to avoid second round effects on inflation (mostly via wages and increased inflationary expectations) of the cost-push impact on prices. Croatia is not the only country in the region facing inflationary challenges. Some of the new EU member states are confronted with challenges of low-teen inflation, not seen in those countries for a long time.

In 2007 monetary regulation was frequently changed, affecting banks' behavior...

During 2007, decision making in banks was to a large degree influenced by monetary policy framework and changes in regulation. Central bank, with the goal to curb down growth of total external debt and alleviate external imbalances in Croatia, introduced a 12 percent credit ceiling at the beginning of the year. Banks, whose credits would grow more than that, would have to buy compulsory CNB bills. This regulation has been changed several times. First it was relaxed from the monthly limit (1 precent) to a yearly one. However in the second part of the year it was tightened to separately report for off balance sheet items growth (to stop banks from substituting on and off balance sheet items). Than it was tightened to a growth of 0,5 percent per month after June 2007 (meaning banks could grow by only 3 precent for the second part of the year). Final change meant consolidating the growth of financial institutions owned by banks in the 12 percent limit (like leasing, credit card companies etc). The decision on the minimum required amount of foreign currency claims (32 percent) was changed in the course of 2007 (July) which translated into additional tightening for banks (incorporating forex indexed items in a forex position). Combined with other regulatory measures (from high reserve requirement to tightening of prudential regulation especially introducing provisioning for currency induced credit risk) we may conclude that the year was marked by frequent regulatory changes, most of them toward tightening of monetary policy affecting banks decision making.

...but money continued to grow at double digit figures, with some slowing down.

By the end of 2007 broad money reached the level of HRK 250 billion or about 80 percent of GDP indicating further deepening of financial markets. Broad money increased in 2007 by 18 percent, the same number as in 2006. Narrow money, M1, went up by 19.3 percent, which is lower than 25 percent in 2006, but is much higher than nominal GDP growth.

Rapid loan growth started to slow down as well, mostly the ones to enterprises.

In 2007, as mentioned, banking sector operated largely under influence of 12 percent loan growth limit. Total assets (consolidated) of commercial banks grew by 12.3 percent on annual basis reaching 336 billion HRK (which represents 123 percent of estimated GDP). This growth rate is a slowdown when compared with 2006.
Total loans increased by 13.4 percent, out of which loans to households posted 18 percent and loans to enterprises 10.2 percent rise. As previously, the steepest rise was recorded for the housing loans, although, as with all other types of loans, due to the growth limitations its annual growth rate slimmed from 33.9 percent in 2006 to last year's 22.5 percent.
Total deposits in banks (excluding central government deposits) reached 198 billion HRK at the end of 2007, which is a 19 percent annual increase, slightly above the level of the year before. Household deposits growth was somewhat slower than in 2006 and it amounted to 10.5 percent, while deposits of enterprises, in spite of slower loan growth, posted strong 25 percent annual increase. Regarding currency structure, although the banks strived to increase HRK deposits to adjust their balance sheets, its share did not rise significantly, representing 48 percent of total deposits at the year-end.

Croatian capital market was very active in 2007, with broadening of shareholders base...

Several IPO and the increase in investments of broad public lead to rising attention brought to capital market (Zagreb stock exchange, which merged with Varaždin Stock Exchange in March 2007). Its performance for the year was extraordinary good. However, 2007 will be remembered mostly for the last few months of the year when the equities indices were "in red", following the world market turmoil and rising global uncertainties. Even so, the share index Crobex finished the year higher by 63 percent over the year before.

...while money market interest rates in the second part of the year showed increased volatility.

In the months after summer, the liquidity on domestic money market was relatively tight. One of the reasons was the irregularity of reverse repo auctions held by central bank, on which the banks were counting on in previous periods. Furthermore, events like IPO of T-HT contributed to volatility on domestic money market as well. This resulted in an increase and high volatility of HRK short-term and overnight interest rates. At some point interest rates on overnight loans were over 10 percent and the range of interest rates on overnight loans in the last three months of the year was from 2-11 percent, creating a costly and uncertain environment for those relying on them regularly.

Benchmark rates for Croatia were on the rise, with international repricing of risks affecting banks lending interest rates....

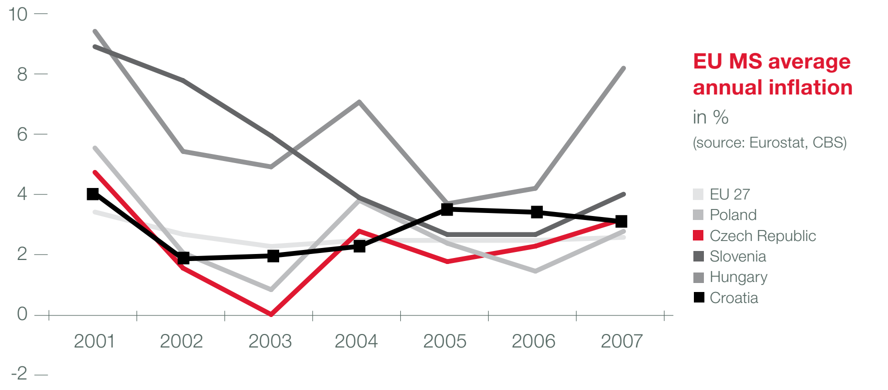
During 2007 the benchmark rates like EURIBOR and Swiss franc LIBOR also posted a significant increase compared with 2006. At the end of 207 3-month Swiss franc LIBOR was higher by 65 basis points compared with end 2006, and 3-month EURIBOR by almost 100 basis points.

Sovereign credit rating for Croatia did not change in 2007. However, as well as for most other emerging economies, credit default swap spreads (CDS) on government bonds started to increase by the end of 2007 indicating changes in risk preferences by creditors. Combined with increase of benchmark rates, this made external financing even more expensive for Croatian banks.

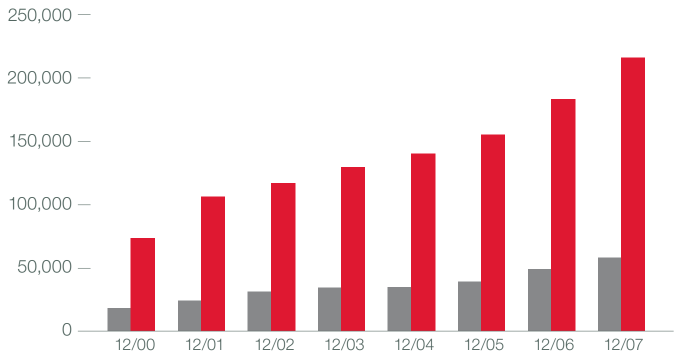
These developments, as well as impact of changes in monetary and prudential regulation, resulted in the increase of average loan interest rates by domestic banks. During 2007 the increase was fairly moderate - the average interest rate on foreign currency loans and HRK loans was in November last year higher by only 10 and 45 basis points compared with end 2006, respectively.

Balance of payments showed no improvement in 2007...

Even though the income from tourism was some 7 percent higher over a year before in the first nine months of 2007, this was far from sufficient to cover the rising trading gap which pushed the current account deficit for the period up by 13 percent, as high as EUR 1.3 billion. The trade deficit for entire year 2007 was higher by 21 percent than in 2006 - deficit in trade of crude petroleum was up by 30 percent and food and drinks by almost 40 percent. What can give a dose of optimism among all these figures is the fact that the imports of machinery and transport equipment increased by 20 percent on annual basis, signalizing the on-going technical renewal of domestic compa-

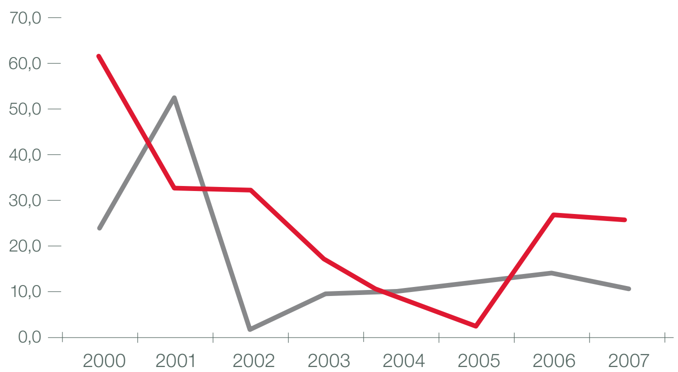


EU MS average annual inflation
in %
(source: Eurostat, CBS)

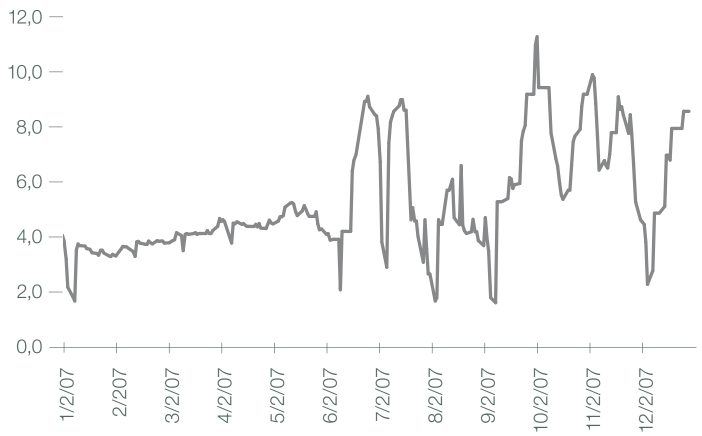


Money M1 and M4
in HRK million
(source: CNB)

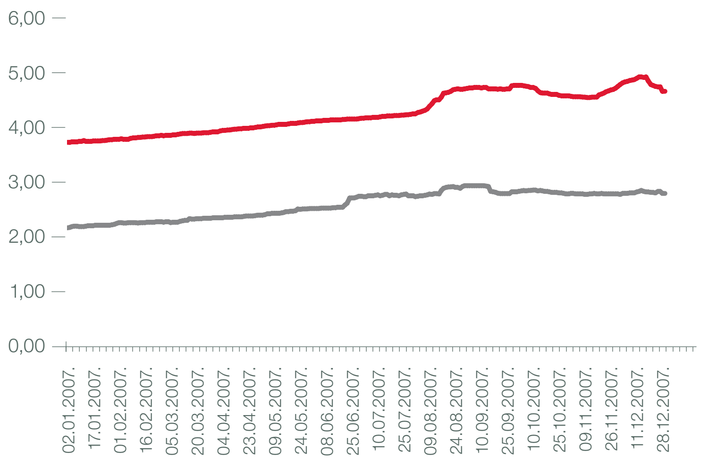
Loans to households and enterprises annual growth rates
in %
(source: CNB)



Deposits of households and enterprises, annual growth rates
in %
(source: CNB)

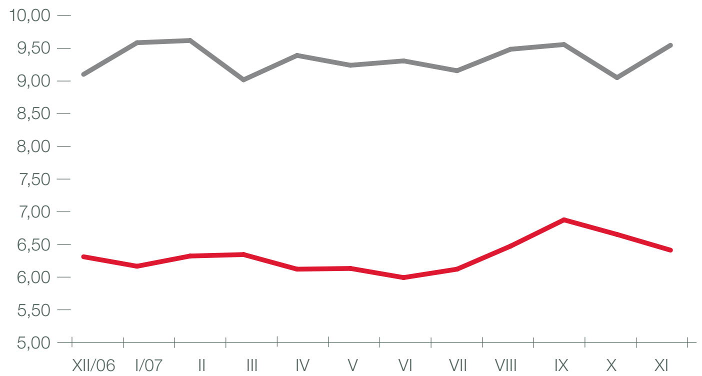


ZIBOR o/n
(source: Reuters)



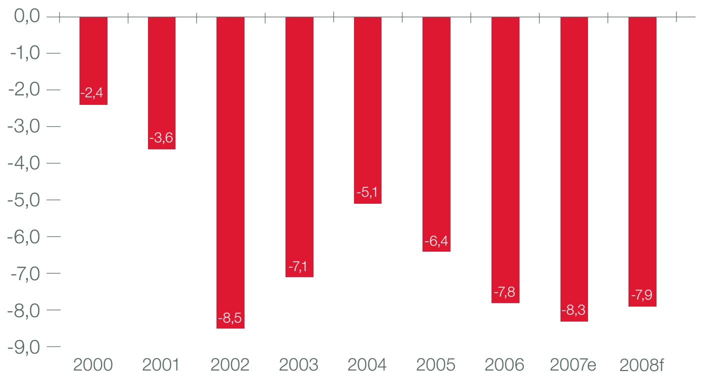
3M Euribor and CHF Libor
(source: Reuters)

3M CHF LIBOR
3M EURIBOR



Average interest rate on loans, annual
in %
(source: CBS)

fcc loans
kuna loans



BOP CAD
in % of GDP
(source: CNB and PBZ forecast)

nies (seen also through GDP figures on gross investments rise), which creates ground for further development of our industry. With 18 percent higher trade deficit in the last quarter and no major income at the same time, we expect the current account deficit to widen from 7.8 percent of GDP in 2006 to 8.3 percent in 2007. In 2008 slower domestic demand growth should lower the imports and the trade deficit. Consequently we project 2008 current account deficit to slightly shrink down to 7.9 percent of GDP.

...but growth of total foreign debt slowed down, with banks debt share significantly falling.

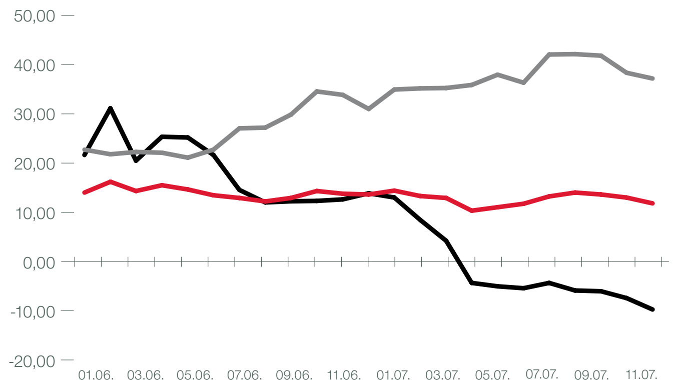
The increase in overall foreign debt was slowed down during 2007. At the end of year the debt stood at EUR 32.6 billion (or about 87 percent of estimated GDP). This is a positive development as foreign creditors (on which financing of our current account deficit depends on) started re-assessing Croatia's external vulnerabilities.
It has to be stressed that commercial banks, primarily due to monetary regulation and the impact of 55 percent marginal reserve requirement (combined with rising of benchmark interest rates) decreased their external debt significantly.

As in the last fifteen years, exchange rate toward the EURO was stable, easing inflationary pressures

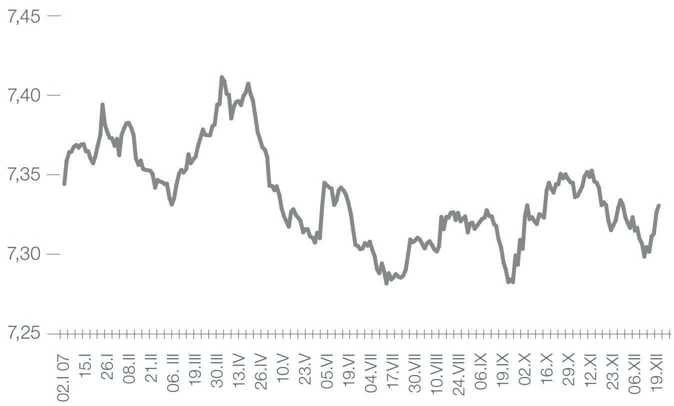
Average nominal exchange rate toward EURO, main anchor currency for Croatia, remained stable during 2007. During last year HRK strengthened against Euro on average by only 0.8 percent. The average HRK/Euro rate was 7.34 for the year. As a highly Euroized economy, stability of the nominal exchange rate toward the Euro significantly contributed to relatively moderate inflation. Weakness of US dollar towards Euro on international markets influenced directly HRK/USD rate - HRK strengthened against US$ by 8.5 percent on annual basis with the exchange rate falling to 5.37. US dollar depreciation eased passthrough pressures from oil (and other commodities prices in US$) increase.

Government consumption: Expansionary or not?

Although a rising trend in government consumption has been evident over the last two years, a 4.4 percent real growth in last year's third quarter was unexpected due to the fact that usual pre-election over spending was more or less earmarked for the last quarter. However, first half of 2007 brought 13.9 percent higher budget revenues. Government quickly responded with budget revision and increased expenditures. Since, 2007 budget outturn is still unknown, we decided to adopt the Ministry of finance estimate of 2.6 percent of GDP deficit. As the 2008 budget has not been passed in time for this analysis (due to the election first quarter of 2008 was budgeted through the so-called Temporary Financing Plan), fiscal plans are quite uncertain. However, not to jump with conclusions, our expectations are that the Ministry of Finance will stick to the plans as envisaged by Pre-accession Economic Program and that the deficit will be around 2,3 percent of GDP.
Beside the increase in government consumption, 2007 was the second year in a row marked with the so-called pensioners' debt repayment in the amount of around 1.2 percent of GDP (in 2006 around 1 percent of GDP) - that strongly affected personal consumption over the last two years. Although, this repayment is not part of official budget expenditures, it can not be disregarded and should be monitored as quasi-fiscal expenditure. The total repayment for the year 2006-2013 surpasses HRK 10 billion.
In summing up, 2007 was a challenging year for banks to operate in. This is true especially for its second part due to: first, changes in monetary regulation, second, constant unfolding of global disturbances in the financial markets (with repricing of risks) and third, increase in domestic inflation. Macroeconomic fundamentals of the Croatian economy are not questioned, but the balance of risks is changing. It is in commercial banks' best interest to operate in a stable macroeconomic framework in the medium term.

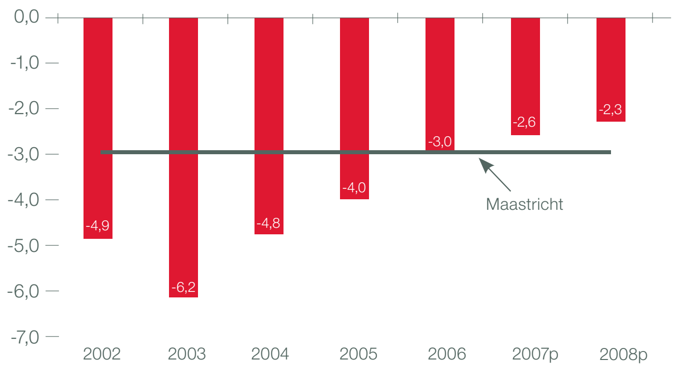


Croatia: External debt, annual growth rates
(source: CNB)



EUR/HRK
(source: CNB)

USD/HRK
(source: CNB)

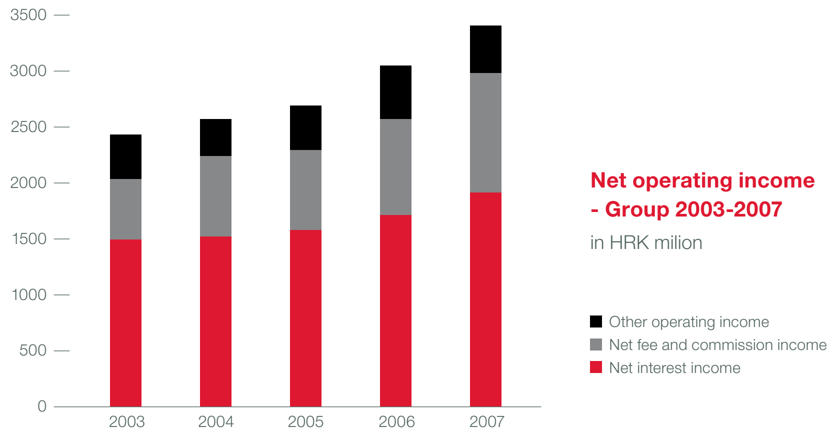


Consolidated General Government Deficit
as % of GDP
(source: Ministry of finance)

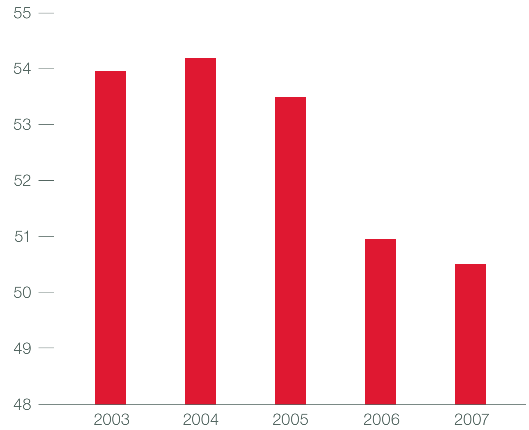
Financial and operational highlights

Group results

The past year was particularly challenging for financial institutions. A relatively flat yield curve made it difficult to earn a satisfactory return on lending activities. The rise in short-term rates and the competitive commercial loan market squeezed profit margins throughout the industry. Monthly growth limitation of 1 percent (dropped to 0.5 percent in the second half of the year) of eligible assets and off-balance sheet items represented a major backdrop in the profitability of the banking system. Against this backdrop of challenging industry and economic dynamics, PBZ Group enjoys a number of unique strengths that provide considerable competitive advantage. The Group succeeded in improving its consolidated net operating income by 12 percent to HRK 3,405 million in 2007. Two major drivers of income, commissions and interest income grew by 20.7 percent and 21.8 percent respectively. Net interest income amounted to HRK 1,918 million or 11.9 percent up on the figure from the previous year. Due to innovative customer offerings, net fee and commission income grew by 23.9 percent to HRK 1,064 million. Commercial fees, including cash management and bankcard fees, experienced especially strong growth this past year, with the non-interest income of the Group reaching 43.7 percent of total operating income. Personnel expenses increased by 9.8 percent. Base salaries grew by 9.2 percent relative to the previous year due the larger headcount of 109 additional employees on average. Increased security standards, expansion of the network, stronger marketing presence and lease costs of premises resulted in an 11 percent increase in general and administrative expenses. Our branch-building program remains robust as we expand within the growing market. In 2007, the Group added eight new branches in existing markets and performed significant renovations to a number of others. Overall, operating expenses rose by 11.1 percent against last year and amounted to HRK 1,578 million reflecting investments to support the growth of the business. As part of operating expenses, deposit insurance charges grew by 9.4 percent compared to the previous year due to increased amounts of deposits insured. Nonetheless, the cost to income ratio improved to 50.5 percent from 51. percent in 2006, as the operational cost base over operating income improved by a better-than-expected 20 basis points above plan. Profit before taxes stood at HRK 1,446 million. Impressive upward trend in value creation was continued in 2007 with ΔEVA® of 14.9 percent over the underlying 2006. The group's balance sheet total increased by 9 percent relative to 2006 and stood at HRK 67.5 billion. This advance was largely attributable to an increase in loans to customers of HRK 3.24 billion. As apparent from the above table, Banking is the main source of the Group's profit (Privredna banka Zagreb and Međimurska banka collectively). Banking segment, on aggregate, continues to make strongest contribution to the consolidated results. Its operating income reached HRK 2,623 million. The largerst individual contribution of the Group results was accounted for by Privredna banka Zagreb (the Bank). Net profit by the Bank amounted to HRK 932 million



Net operating income - Group 2003-2007
in HRK milion



Cost income ratio - Group 2003-2007
in %

Group results by business segment in HRK million	2007	2006
Banking	2,623	2,407
Card services	649	566
Leasing	140	122
Other financial services	113	52
Non-financial services	32	19
Consolidation adjustments	(152)	(127)
Operating income	3,405	3,039

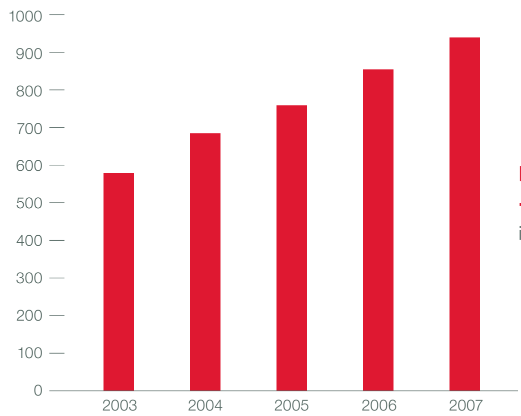
(2006: HRK 847 million). The associated companies contributed HRK 209 million (2006: HRK 116 million) to the consolidated profit of the Group.

Changes in the Group

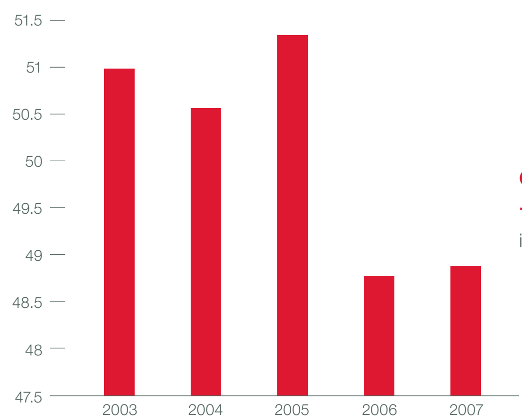
In December 2006, the Bank completed its acquisition of 66.99 percent of the share capital of LT Gospodarska banka d.d. following the approvals given by the appropriate regulatory authorities. The subsidiary was first consolidated as of 31 December 2006, having no effect on 2006 results of the Group. If the combination had taken place at the beginning of the year, the total profit for the year attributable to equity holders of the Bank would have been HRK 53 thousand higher. In August 2007 LT Gospodarska banka d.d. was integrated into UPI banka d.d. Sarajevo. Privredna banka Zagreb presently holds 18.95 percent of the share capital of UPI banka and this investment is classified within financial assets available for sale. UPI banka d.d. is under controlling interest of Intesa Sanpaolo, main shareholder of Privredna banka Zagreb. Furthermore, Cards d.o.o. Skopje, a wholly owned subsidiary of PBZ Card engaged in credit cards operations was liquidated in September 2007. PBZ Card recorded net effect of liquidation in amount of HRK 85 thousand as a debit to retained earnings.

Bank results

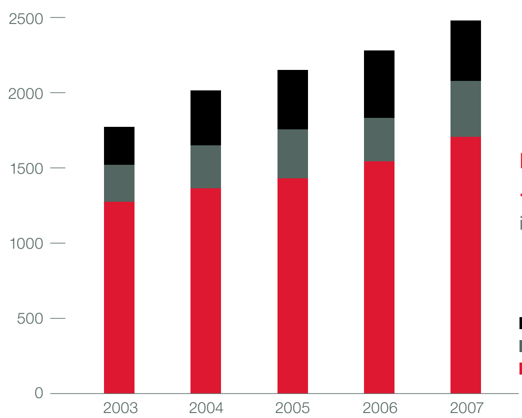
Below we provide an overview of the 2007 operating results of Privredna banka Zagreb. In 2007 Privredna banka Zagreb once again recorded an outstanding result. Net profit for the year of HRK 932 million surpassed the last year's amount of HRK 847 million by 10 percent. Underlying profit before tax rose 10.2 percent to HRK 1,147 million. Total revenue increased 16.7 percent to HRK 4,263 million driven by the increase of HRK 4.3 billion in volume of kuna loans on average combined with the growth of increasing participation of non-interest income in the Bank's total revenue. The increased burden of compulsory reserves requirements combined with the increasing competitive-ness in the market resulted in a decrease in the Bank's average rate on kuna placements and in upward shift on the Bank's customer deposit rates. Nonetheless, net interest income increased by 10.6 percent to HRK 1,697 million due to steady growth and deft balance sheet management. Innovative offerings of non-interest products increased net fee and commission income by 28.2 percent to HRK 373 million. Significant growth in payment system and other banking service fees of 19.9 percent raised the total fee and commission income by additional HRK 97 million in 2007. Among notable market actions, introduction of an on-line trading platform (PBZ Investor) together with the expansion of sales network resulted in higher commissions on automated products of 35 percent. On average, 60 additional people and appraisal program raised the total personnel expenses by 8.7 percent. Rent, marketing and municipal tax as well as other general expenses increased total operating expenses by 10.3 percent to HRK 1,111 million. Moreover, deposit premium grew by 5.4 percent compared to the previous year due to increased amounts of deposits insured. Overall, cost management programmes enhanced in 2007, which, as expected, should lead to further savings in the next periods.



Net profit for the year - Bank 2003-2007
in HRK milion



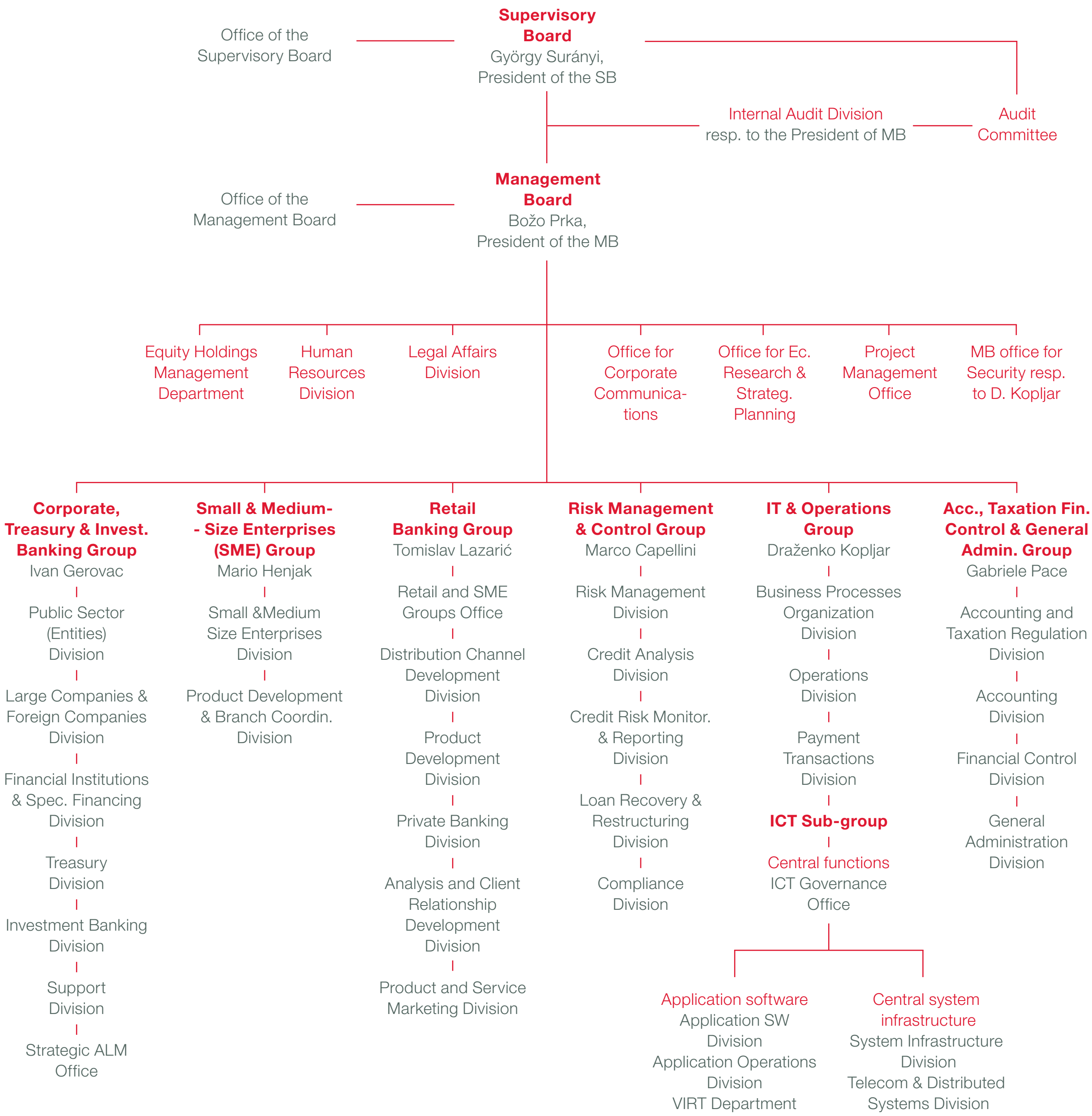
Cost income ratio - Bank 2003-2007
in %



Net operating income - Bank 2003-2007
in HRK milion

- Other operating income
- Net fee and commission income
- Net interest income

Organisational chart



Business description of the Bank

Privredna banka Zagreb d.d. is one of the largest and among the oldest financial institutions in the Republic of Croatia, with a long continuity of banking operations. It was founded in 1962 as an universal bank on the basis and banking tradition of The First Croatian Savings Bank which was initially established in 1846 in Zagreb by the members of the Farming Association of Croatia and Slavonia.
During all periods of its history, PBZ supported the largest investment programs in tourism, agriculture, industrialisation, shipbuilding, electrification and road construction. PBZ has become a synonym for economic vitality, continuity and the Croatian identity. Privredna banka Zagreb today is a modern and dynamic financial institution, which has actively sought and won the role of market leader on the financial markets in Croatia. It is a fully licensed bank with nationwide branch network. With its nationwide network of branches and outlets, as well as a broad group of banking and non-banking subsidiaries, PBZ is one of the universal banks that cover the whole territory of the Republic of Croatia.

Organisational Structure and Business Activities

Nowadays, PBZ is the leading bank in Croatia in terms of subscribed share capital and the second bank in terms of total assets. It has consistently been a leading financial institution on the Croatian market with an established business base and recognised national brand name.
Upon successful privatisation in December 1999, PBZ became a member of Gruppo Intesa Sanpaolo - the largest Italian banking group and one of the most significant financial institutions in Europe. With this partnership, supported by the EBRD through its minority shareholding stake, PBZ has retained its business strategy aimed at modern forms of banking and new products, confirming its image of a dynamic and modern European bank, which meets the demands of the market and its clients. The benefits of strategic partnership are clearly visible in the continuously improving financial results of the Bank, as well as of the PBZ Group.
Along with the adoption of the business and corporate governance standards set by its parent bank, Privredna banka Zagreb has maintained the strategic development orientation of a modern, client oriented, technically innovative universal financial institution. PBZ is focused on the continued advancement of its economic performance well into the future, as well as solidifying its position as a product leader in offering the most progressive banking products, through the optimal mix of traditional and modern distribution channels. This ensures that PBZ will continue to be able to set standards of the highest quality for product innovations and services offered to both its domestic and international clients.
This commitment to quality and advanced banking practices is clearly seen in the fact that Privredna banka Zagreb received the Best Bank in Croatia award from Euromoney in 2001, 2002, 2004 and 2007. In 2005 PBZ received The Best Debt House in Croatia award by Euromoney. PBZ also received The Banker's Award for the Croatian Bank of the Year in 2002 and 2005. In 2003, 2004, 2005, 2006 and in 2007, PBZ's quality was confirmed again when it received Global Finance's Award for the Best Bank in Croatia. In 2003, 2004, 2005 and in 2006 PBZ received the domestic prestige awards - the Golden Share Award for the Best Banking Share in the country, and the Golden Kuna Award in 2004 and 2005.
In addition, Privredna banka was listed among the world's top 500 financial brands for 2007 by Global 500 Financial Brands Index. This report, initially published in 2006, was the first publicly available table analysing the financial value of the world's leading banking brands.
Privredna banka Zagreb currently employs some 3,618 employees and provides a full range of specialized services in the areas of retail, corporate and investment banking services. The business activities of the Bank are organized into 3 principal client-oriented business groups.

Retail Banking Group

With respect to the retail banking segment, PBZ holds a comparative advantage over its competitors given its wide spread branch network in Croatia, consisting of 210 organisational units in 18 regions which cover the entire territory of the country. Moreover, the banking subsidiary in the Group, Međimurska banka covers the Međimurska County and provides an effective presence in that particular region.
In accordance with its business philosophy of focusing on client needs and demands, five years ago the Bank introduced personal bankers and the 0-24 hour self-service banking zones to the branch networks, while increasing the quality of services through continued staff training and undertaking quality control measures such as the "Mystery Shopper" project. These activities are constantly in development with the emphasis being placed on the standardisation of business processes. To illustrate this orientation we would like to mention the package of products (named Innovation) by which the Bank rewards its clients who are owners of several groups of products, giving them discount on certain forms of fees and awarding them an incentive interest rate if they have placed their funds on time deposit with the Kuna Plus savings account. On top of that, PBZ has introduced Private banking, a specially designed service aimed at VIP clients. In addition to restructuring and repositioning the traditional distribution channel of the business network, PBZ also continues to develop and improve the distribu-

tion channel of direct banking. It has extended its network of ATMs which accept Maestro, MasterCard, Visa Classic and Visa Electron as well as American Express cards (a total of 540 ATMs have been installed). The number of EFT POSs (points of sale) has increased from 3,500 at the end of 2000 to the present 19,384.
As a leader in modern technologies, PBZ has also expanded its distribution channels and products by applying the most advanced technology in order to implement its PBZ 365 services; PBZ365TEL telephone banking service and PBZ365SMS service. With Internet banking PBZ365NET (PBZ365-Optima and PBZ365-Lite) and PBZ365WAP services a client can access his/her accounts 24 hours a day from any location in the world. In 2004, PBZ introduced mPay - a system of payment using mobile phones, as the first bank in Croatia offering such a service, with 95,215 clients today. These achievements have firmly established PBZ as the market leader in electronic banking as well as the technological leader on the financial market in the country.
PBZ is the first bank in Croatia which has implemented secure e-commerce based on 3 D Secure technology (Verified by Visa). At present, approximately half of all transactions with retail customers are executed through electronic channels.
The Bank is constantly modifying and supplementing its wide range of retail products and services. Thus, it has introduced several types of new loans on the basis of credit scoring.
Besides the consumer and cash loans for PBZ Card card-holders, from 2002 to 2007 the Bank launched five very successful tranches of so called quick loans (cash loans at demand to customers with sound credit scoring). Overall in the period from 2000 until present time, PBZ established itself as the market leader in retail loans with a 20.1 percent share of the loan market.
In the area of customer deposits, PBZ has significantly increased its deposits to more than HRK 25.6 billion to date, which is 20.6 percent of the Croatian retail deposit market. On a consolidated level, PBZ Group holds almost 22 percent of the overall Croatian retail deposits.
In the card products segment, PBZ, as a card issuer and acceptor, replaced all cheque cards of retail current accounts with the internationally accepted Cirrus Maestro debit card; it offered internationally valid Visa Electron debit card linked to a foreign currency account and issued internationally valid Visa Business Electron debit cards linked to gyro account of private persons, craftsmen and corporates, as well as MasterCard and Visa revolving credit and charge products, and it is the only Bank in Croatia offering Maestro prepaid gift cards.
In January 2006 card operations of PBZ were shifted to the new company, PBZ Card (former PBZ American Express), that deals with all card operations of the PBZ Group. Together with PBZ Card, the Bank has issued more than 2 million cards to its clients which accounts for 33.2 percent of the domestic card market. Retail operations in Privredna banka Zagreb comprise the following divisions: the Division for the development of distribution channels, the Division for product development, the Division for private banking, the Division for analysis and client relationshiop development, the Division for product and service marketing and the Office for retail and SME groups.

Division for the Development of Distribution Channels

This division is responsible for defining, structuring, implementing and monitoring classical and direct distribution channels for the delivery of retail products and services (branch network, ATM and EFT POS network, PBZ 365 services - telephone banking, internet banking, SMS banking, WAP banking, mPay, personal bankers, retail network education). It prepares and coordinates the budget and supervises the achievement of its goals for all distribution channels. It chooses the appropriate distribution channels for end products intended for specific targeted client groups. In association with the Division for product development and the Division for the development of client relationships and marketing, it chooses the right moment for the launch of a new product/service and is responsible for informing the distribution channels of all pursuant marketing activities which may have an effect on them.

Division for Product Development

In cooperation with the Division for the Analysis and Client Relationship

Development and the Division for the Development of Distribution Channels, this Division monitors the macroeconomic environment, the activities of direct competitors as well as the market position of the Bank in retail operations. It controls the entire process of defining products for a targeted group of clients, determines the prices of the products and delivers end products to the Division for the development of distribution channels, to which it proposes an appropriate approach and suitable moment for the product launch.
In cooperation with the Division for the development of distribution channels, it participates in the monitoring of overall profitability (product distribution).

Private Banking Division
The Private Banking Division provides financial services to high net worth individuals and their families in Croatia.

Utilising the most suitable products from the marketplace, the Private Banking Division works with its clients to offer both traditional and innovative ways to manage and preserve wealth whilst optimising returns. Specialist advisers of the Division are available to deliver products and services that are tailored to meet the full range of financial needs requested by our VIP clients. These services include asset manage-ment, financial consulting, monitoring and evaluation of the clients' investments, custodian services, special deposit taking, sale of insurance policies, etc. The Division has recently introduced bespoke electronic platform which enables clients to place orders on-line.

Division for Analysis and Client Relationship Development
The Division for Analyis and Client Relationship Development is responsible for the analysis and development model which includes supervision and implementation of measuring key indicators for performance assessment of the distribution network and products for retail customers.
The activities relating to the analysis and segmentation of the market include: monitoring the profitability of segmented client databases, the analysis of existing products and services intended for individual client segments and their requirements. This Division also engages in the development of models for measuring the quality of client service by executing Mystery shopper activities, structured market researches, monitoring customer complaints and the overall satisfaction of our clients.

Division for Product and Service Marketing
The prime role of the Division for Product and Service Marketing is marketing management for all the products and services for retail clients of the entire PBZ Group. The activities of this Division include the selection and coordination of appropriate marketing campaigns, selection of the most suitable communica-tion channels to the defined market segment and media planning as well as planning and defining marketing messages in the branch network. It continuously monitors and improves the quality of services throughout the branch network. It also prepares proposals for the marketing budget and oversees it throughout the year.

Corporate, Treasury and Investment Banking Group

Privredna banka Zagreb is one of the leading Croatian banks when it comes to corporate banking. With a wide range of products and services offered to its corporate clients both locally and internationally it is hard to find a major company in Croatia today that does not bank with Privredna banka Zagreb.

Supported by powerful electronic distribution channels, our network of well-organised branches is the key driving force in serving our clients effectively. We strive to create additional value by providing integrated financial solutions to meet the individual requirements of our clients.
PBZ has thoroughly developed a platform for supporting classic cash and non-cash transactions for corporate clients within the Bank's network. Due to its wide network of correspondent banks, Privredna banka Zagreb offers its clients fast and affordable services in the area of international payments. Also, PBZ has significantly changed the process of handling domestic payments. The Bank directly partici-

pates in the Croatian RTGS system (HSVP) and in the national clearing system (NKS) and thus has the ability to process any payment through the most appropriate channel. Improved with the new functionality, Internet banking for corporate clients - PBZ COM@NET service - is available for both domestic and international payments.
In terms of finance banking, Privredna banka Zagreb is a dominant participant on the Croatian market. PBZ has originated many contemporary products and has largely initiated the development of the financial market in the country. Consequently, PBZ, with its active role in the foreign exchange market, money market and primary and secondary capital market, has earned the title of market leader. We are determined to be recognized as the best financial services company

in the region. We have achieved this recognition from our clients through our ability to deliver the best quality in everything we do.
Following the adoption of the new organisation of Privredna banka Zagreb, the Corporate Banking Group and the Finance Banking Group created the Corporate, Treasury and Investment Banking Group with particular emphasis on banking with large companies, financial institutions and the Government institutions and agencies.
The Corporate, Treasury and Investment Banking Group consists of the following divisions: Public Sector Division, Large Companies and Foreign Companies Division, Financial institutions and special financing division, Treasury Division, Investment Banking Division and Support Division.

Public Sector (Entities) Division

Public Sector (Entities) Division is responsible for performing transactions with government institutions, local and self-government units, public enterprises and public utility companies, insurance companies, large companies, affiliates and institutions.
Recognising and taking into account the requirements of its clients for banking products and services, the Division offers all types and forms of short-term and long-term financing, purchase of receivables, B/E discounting, factoring, letters of guarantees, letters of credit, and renders services involving the opening of business accounts, cash pooling, contracting Internet banking, multi-purpose facilities, providing financial support to export businesses, active participation in the conclusion of deals of its clients abroad, as well as different models of deposit transactions and other innovative solutions adjusted to the requirements of each single client.
Apart from the operations mentioned, it is also important to highlight the services in agency business - transactions performed on behalf and for the account of the ordering party, and commission business - deals made in its own name and for the account of the ordering party.
We particularly wish to bring into focus our financial advising services, applicable to whatever line of business/branch a legal entity is associated with, and the creation of the best possible solution for the respective entity.
In coordination with other units of the Bank, we participate in cross selling of all the PBZ Group products. By managing the overall business relationship between the Bank and the client, through a synergic effect we strive for the creation of new supplementary value for our clients.
Appreciating the diversity of its clients' business activities, employees of the Public Sector (Entities) Division, through their individual approach to each client, as well as in team work, provide support to clients in all aspects of their business activities by affording them the use of a wide range of the Bank's services and products, thus developing long-term business relations and partnerships.
In every segment of its business activities, operations and service rendering, the Division endeavours to promote the highest quality banking standards, first and foremost in being professionally and flexibly oriented, both to its present, and to its potential clients.

Large Companies and Foreign Companies Division

The Large Companies and Foreign Companies Division is responsible for business transactions with large domestic companies, companies in foreign ownership, as well as with foreign legal entities - non-residents.
The Division offers all types of banking products and services rendered in cooperation with other Bank's organisation units - opening business accounts, offering Internet banking accounts, approving loan facilities, purchase of

receivables, B/E discounting, issuing of letters of guarantees and opening of letters of credit, cash handling services (organising, transporting, collecting and transferring cash, cash pooling, global cash management), card operations, leasing, retail products and other. Major domestic clients are building companies (building construction and civil engineering), companies engaged in tourism, and large trading companies.
To companies engaged in the construction of residential and business premises intended for sale we offer the complete project implementation service - from the control of project documentation and building supervision to the financing of construction and of the sale of real estates to final buyers.

In view of the well-developed business network of Privredna banka Zagreb with as many as 210 branches and branch offices, we have successfully organised the complete conduct and management of cash transactions for some of our clients, who are also some of the largest chain stores, and companies engaged in tourism.
The International Desk forms part of the Division, and is in charge of performing transactions with domestic companies in foreign ownership and of coordinating activities of Privredna banka Zagreb and its parent bank - Intesa Sanpaolo. All banking and advisory services are provided by the International Desk to Intesa Sanpaolo Group clients present on the Croatian market, as well as to other companies in foreign ownership. Apart from conducting business relations, this unit also assists foreign investors in the process of setting up a new company in Croatia, provides advisory services and general information on business terms and conditions in Croatia, contacts clients and puts them in touch with institutions exigent in the performance of regular business activities.
The non resident department is responsible for establishing and developing co-operation with foreign entities (foreign companies and private individuals engaged in business activities, foreign diplomatic and consular representative offices and representative offices of foreign legal entities, foreign associations, foundations and other non-profit organisations, international missions).
Co-operation includes opening and managing of accounts, depositing funds, providing the clients with all necessary information required for conducting business in Croatia, which requires the constant monitoring of all national currency regulations (close co-operation with CNB and Ministry of Finance-Foreign Exchange Inspectorate in money laundry prevention issues).

Financial Institutions and Special Financing Division

The key responsibilities of this Division are establishing, monitoring and promoting the complete range of business relations with domestic and international banks and financial institutions.
In order to provide better services to PBZ clients and fully utilize its internal synergies, the Documentary Business (i.e. Guarantees and Documentary Credits) became part of the Financial Institutions and Special Financing Division in 2006.
As part of the special financing services, this Division offers all the Bank's clients tailor made financing solutions including trade and project financing, credit and special arrangements with financial institutions (both domestic and international) as well as with supranational organizations (e.g. EBRD, etc.), buyer's credits for the promotion of Croatian exports, open lines of credit guaranteed by state export agencies, commodity loans for export and import financing. One of the most notable financial services provided by this Division has been arranging and participating in syndicated loan facilities on behalf of the Bank and its clients (PBZ is the market leader in Croatia in arranging syndicated loans). Through this Division PBZ is an active participant in the secondary loan market and forfeiting transactions.
The PBZ's Group funding has also been a part of this Division's responsibilities.

Treasury Division

The PBZ Treasury Division is an important and among the top players on the Croatian market with a broad spectrum of financial solutions for large corporate and institutional investors.
The treasury division offers a comprehensive range of services, involving transactions on both the international and domestic money markets, capital markets, foreign currency markets and also manages the liquidity of the bank. The PBZ Treasury division is a reliable financial partner and has an active role in trading securities issued by the Ministry of Finance, currency and short-term cash derivatives on the money market.
The Treasury division consists of three sections: Securities, Foreign exchange, Money market. The Securities department operates with short, medium and long-term debt and owners' financial instruments. The money market section is involved in short-term securities, domestic and international T-bills, repo arrangements and deposits. In the foreign exchange section the most important segment of the

activities is covered by the Corporate desk. It is mainly oriented to corporate clients and fulfilling their needs, wants and demands.

The foreign exchange department operates with foreign currencies on spot and forward, options and banknotes. The banknotes segment covers delivering, dispatching, processing and warehousing various shipments of foreign currencies. Privredna banka Zagreb acts on the domestic market as one of the leading banks in this particular banking area. We are the market maker, especially in securities, commercial papers, government, municipal and corporate bonds issued on domestic and foreign markets. Considering the above, we can most proudly conclude that as well as participating domestically, as a priority we are focused and open towards the global markets.

Investment Banking Division

As the leader in the Croatian investment banking industry, the Bank's Investment Banking Division provides institutional and private clients with a wide spectrum of investment banking products and services through capital market activities, financial advisory and structured finance services, research, as well as asset management, brokerage and custody services. In cooperation with Banca Intesa and its affiliates in Hungary (CIB), Slovakia (VUB), Bosnia & Herzegovina (Upi banka) and Serbia (Banca Intesa Beograd), services to our clients are extended across South Eastern Europe.

With an outstanding reputation for innovative financial solutions, the Bank has been consistently recognized as the leading Underwriter and Arranger of debt issues in the Republic of Croatia. The Bank specializes in originating, underwriting and sales of a comprehensive range of debt securities, such as corporate commercial papers, eurobonds, corporate bonds, government bonds and municipal bonds. Through capital market activities, we provide financial solutions to a variety of debt issuers, including government entities, municipalities, corporate clients and institutional investors on the Croatian capital markets.

Within its structured finance activities, the Bank offers its clients services involving the origination and execution of securitization processes and project finance transactions. These encompass, among others, preparation of financial forecasts for planned projects; identification of structured transactions risks and proposals for risk reduction measures; due diligence processes and execution of securities issues for structured transaction purposes.

In the process of Croatia's transition to a market economy, encompassing numerous privatisations and company restructurings, the Bank introduced a series of financial advisory services to meet the requirements of the investment market. Our financial advisory services include: mergers and acquisitions; corporate restructuring and divestments; employee stock ownership programs; MBO's, LBO's and other transaction-based projects. We provide valuable insights into how companies can grow and enhance their shareholder value. Aligned with our industry capability and strong network base, we understand the dynamics of the marketplaces in which our clients operate as well as the intricacies of deal structuring and negotiations. We have represented clients in numerous industries, including oil and gas, IT, pharmaceuticals, food processing, confectionery, tourism, banking, retail, paper and paper products, sporting goods and others.

The Bank's research capacities are an indispensable information source to our investment banking operations. Through company valuations, financial analyses, credit potential analyses, company profiles and industry research reports, our clients are supplied with valuable information required for their investment banking decisions.

Through asset management services, the Bank provides clients with customized strategic investment solutions in a range of traditional and alternative asset classes. Our offer includes: advisory services; asset allocation; cash management; investment management in equities and fixed income; real estate and other alternative areas. While maintaining an ongoing trustworthy relationship with our clients, assessing their investment objectives and respecting their risk tolerances, we strive to ensure that each client achieves competitive returns and maximum value added on assets invested.

In addition to the purchase and sale of securities on domestic and foreign stock exchanges, the Bank's brokerage services consist of providing detailed information on trading activities, supply and demand readily available through electronic trading systems, prompt reporting of securities transactions and margin loans.

As the leader on the Croatian market, the Bank provides high quality custody services to institutional clients from all over the world who have faced the critical challenge of finding the right partner to deliver efficient local custody

services with in-depth expertise in local market practice. The Bank is proud to emphasize that it is a sub-custodian for five of the world's largest and well-known global custodians. At the same time, by establishing and continuously developing its own custody network, the Bank offers domestic institutional and private clients access to local and foreign markets. As a depository bank for top Croatian investment funds, we ensure that investors' assets are protected, managed and valued according to regulatory requirements and acknowledged accounting standards. Our dedicated staff in the Investment Banking Division, focused know-how and experience, combined with the ability to access local and regional markets effectively, provide our clients with top quality products and services and the assurance required in successfully accomplishing all their business goals.

Support Division
This division offers full business support to all organisational units of the Corporate, Treasury and Investment Banking Group. In order to improve communication and relations with clients, the Support division has established an Information Centre where clients can obtain all relevant information pertaining to the products and services of the Corporate, Treasury and Investment Banking Group.

Small and Medium-size Enterprises Group

As part of the new organizational structure of the Bank, which has been in force since February 2006, the Small and Medium-size Enterprises Group was formed, so instead of the previous sector within the Corporate Banking Group, this segment of its operations has been raised to the highest organizational level.
A new form of business was introduced in 2006 with small and medium sized enterprises based on Credit Scoring and today the Bank has a number of products based on Credit Scoring. Credit Scoring enables flexibility and ensures proactive, direct approach to clients.
Project factoring was also introduced last year. Today the factoring desk is a modern and flexible part of the organization, with highly educated and motivated staff. Thanks to support from Intesa Mediofactoring, and the training and know how passed on, PBZ can now deal in international factoring, and PBZ is the only bank in Croatia to receive an international license in this field.
The "cluster" project was launched recently. In this way we have a special line of credit for sub-contractors of companies producing high quality and original Croatian products. It is planned to create similar lines for other products with confirmed Croatian quality, which are able to compete on the European market.
Currently, there are 51 SME desks already developed throughout PBZ's branch network. The development of the SME desk project for financial transactions has grown from a project into a permanent organizational structure.
RM online - new front line software application has recently been introduced to facilitate the work of our relationship managers. Through the use of this application, we will significantly reduce the paper work involved in the process today.
The SME Group consists of two divisions:

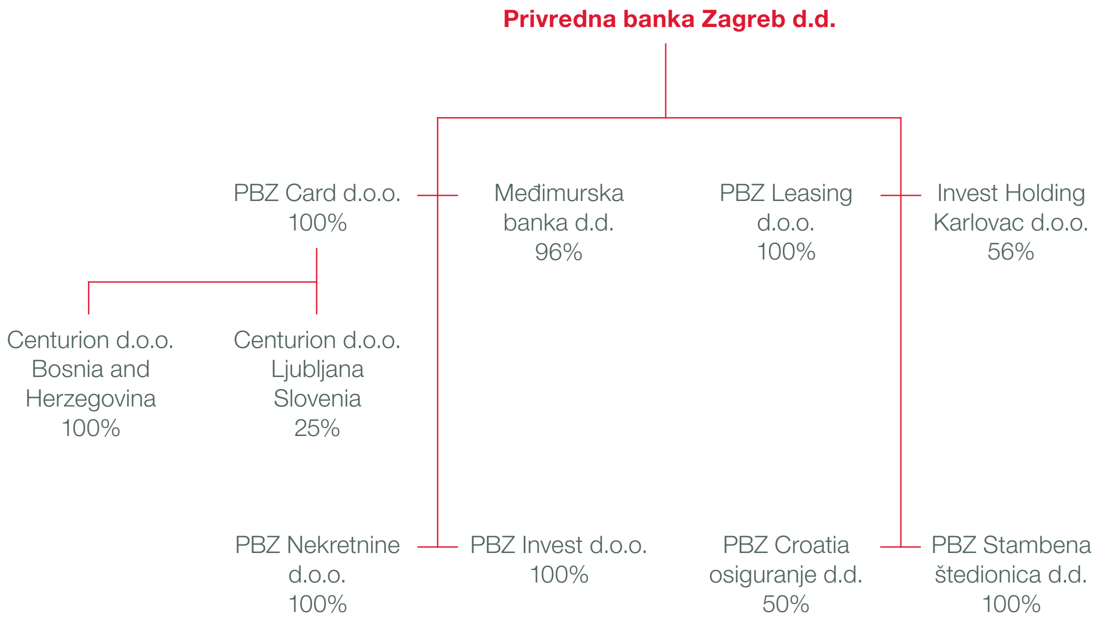
Small and Medium-size Enterprises (SME) Division
This division is responsible for operations with small-medium enterprises and companies owned by foreign institutions. In order to adequately run these operations the Division has split duties between three teams: Team for Small-Medium Enterprises, International Clients Acquisition Desk and Factoring Desk. In addition to the afore-mentioned duties, the Division also coordinates and supervises operations of the Bank's subsidiaries, PBZ Leasing and Međimurska banka, which are subordinated to and under the control of the Division.

Division for Product Development and Branch Coordination
This Division is responsible for market research, product development primarily oriented towards small and medium enterprises as well as craftsmen, development of payment systems, SME desk management, branch coordination, call centre supervision and SME credit administration.
With the aim of running these operations appropriately the Division is supported by the following teams and departments: Team for branch coordination, Department for product development, Department for distribution channels and Credit administration department.

Logistics areas

Business areas focusing on client requirements can only fully exploit their potential if they are provided with a reliable and efficient infrastructure.
The Accounting, Financial control and General Administration Group, led by the Chief Financial Officer, provide skilful and in-depth support with regard to all financial monitoring and reporting matters, financial planning and budgeting as well as administrative assistance to the business groups.
The IT and Operations Group represents a key part of the organisation that serves the entire Bank by providing IT and communications assistance, supporting distribution channels and feeding the system with financial information. Risk management and control is a crucial part of our commitment to providing consistent, high-quality returns for our shareholders. It is our belief that delivery of superior shareholder returns greatly depends on achieving the appropriate balance between risk and return. In this context, we established the Risk Management and Risk Control Group to protect the Bank from the risk of severe loss as a result of unlikely events arising from any of the material risks we face and to limit the scope of materially adverse implications to shareholder returns. Within the same Group there is a Loan recovery and restructuring division established with the goal of helping clients, who are unable to meet their financial obligations, to accomplish economic recovery through restructuring. The Subsidiaries management division, the Human resource division, the Legal affairs and taxation management division, the Corporate communications office, the Economic research and strategic planning office, the Project management office, the Management Board office as well as the Supervisory Board office are integral elements of the overall logistics and support of the business groups and the management.

The Group



The Privredna banka Zagreb Group is a Croatian based financial services group which provides a full range of retail and corporate banking services to customers in Croatia. The Group employs some 4,403 employees and serves almost 1.6 million both private and corporate clients in the country. PBZ Group today is a well-organized institution whose market share in the overall banking system stands at 18.5 percent. On 31 December 2007 the Group consisted of Privredna banka Zagreb and 8 subsidiaries and 2 associates. The composition of the Group and a brief description of each subsidiary are set out below.

Međimurska banka

Međimurska banka was established in 1954 under the name of Zadružna banka i štedionica čakovec. Since that time, the bank has experienced many changes both in name and organisational structure. It began operations under its current name in 1978 and became a joint stock company at the end of 1989. During 1996 Međimurska banka was among the first banks in Croatia to obtain the certificate for quality management standards in line with the ISO 9002 quality system. Privredna banka Zagreb acquired a majority stake in Međimurska banka at the end of 2000, making it a member of the PBZ Group and Gruppo Banca Intesa (now Gruppo Intesa Sanpaolo). Currently the bank has 17 branches located in the region of Međimurje. It uses its network to provide services to more than 5 thousand companies and over 150 thousand individual clients. While monitoring the global trends in banking, the bank has continuously worked on expanding and updating its products and services. The bank is recognised as a pioneer in electronic banking in the country. Its main activities are concentrated on lending, and several new products have been launched including customer deposits, direct banking, card operations, kuna and foreign currency processing. At the beginning of 1998, the bank introduced an interactive telephone banking service. Only a year later, they were the first in the country to launch the Internet banking system. The bank also significantly increased the number of ATMs and EFT POS units during the year. Međimurska banka successfully completed the implementation and launch of its payment system during the payment system reform in 2002. The bank operates the system independently. It opens and runs business accounts and payment transactions for corporate clients while offering them one-stop shop for banking services in less time and with lower costs. Međimurska banka plans to continue operating in all its different activities with the support of PBZ while maintaining its own legal and business identity that is recognized by the market.

PBZ Card

In late December 2005 charge, credit and debit card operations of PBZ were integrated with PBZ American Express into the new company, PBZ Card, that deals with all card operations of the PBZ Group. By combining all card brands - American Express, MasterCard and Visa, the largest card institution in the region has been established with more than 2 million cards issued. The new company has established a joint IT platform for processing American Express, MasterCard and Visa products in Croatia and also for companies in Gruppo Intesa Sanpaolo that reside in several foreign markets. The aim of PBZ Card is to be the leader in the launch of innovative products and development of new technologies in the region. The company will strive to maintain the leading position and to continue its market penetration that will further increase PBZ's market share in card operations. PBZ Card aims to be a centre of excellence and market leader in card processing for all brands not just in the PBZ Group but also in Intesa Sanpaolo. No matter if American Express, MasterCard or Visa cards, the three leading card brands in the world, are used for shopping or for taking advantage of the related benefits and services linked to these cards, PBZ Card makes this possible throughout the world. PBZ Card is providing service to its clients 365 days in a year. American Express is an internationally recognised trademark always associated with exceptional quality. The trademark has been present here on the Croatian market since 1965. PBZ American Express was operating as a subsidiary of Privredna banka Zagreb from 1998. It has grown into the largest company in the country with over 2 million issued cards (combined with

PBZ) being accepted at approximately 50,000 service establishments countrywide. The company recorded total turnover on all cards in circullation in amount of more than HRK 26 billion.

PBZ Invest

PBZ Invest is a subsidiary of Privredna banka Zagreb specialising in the establishment and management of investment funds. The company was established in 1998 and is fully owned by Privredna banka Zagreb. PBZ Invest is an active member of the Financial Brokerage Association within the Croatian Employers' Association, as well as a member of the Group of investment fund management companies within the Croatian Chamber of Commerce. Investment funds are state-of-the-art financial instruments managed by specialist managers that enable investors to earn a competitive return on money invested. PBZ Invest is confident that there is a good future for investment funds on the Croatian financial market. The company intends to offer its clients a wide range of investment funds, thus meeting the needs of investors with a variety of preferences and investment goals, ranging from conservative clients who prefer safety and liquidity of investment to those who are not averse to risk and want to see their investment grow over a long-term period. With that in mind, PBZ Invest commenced with its first fund in 1999 - PBZ Novčani fond, an open-ended investment fund. In recent years, seven new funds were established: PBZ Euro novčani fund, PBZ Kunski novčani fund, PBZ Global fund, PBZ Bond fund, PBZ Dollar fund, PBZ Equity fund and PBZ I-Stock fund. In cooperation with PBZ, during 2005, PBZ Invest launched two tranches of a structured product - PBZ Protecto. The product is a combination of investment funds and classic savings with a Bank, with guarantee for invested money. At the end of 2007, assets under management in all the funds run by the company have exceeded HRK 6.3 billion, which is almost two times higher compared to the previous year.

PBZ Novčani fond,
open-ended investment fund

PBZ Novčani fond is an open-ended investment fund with a strictly conservative investment philosophy, focusing on low risk investments and high liquidity. The goal of the fund is to offer all its investors a low-risk investment, an uninterrupted and unconditional liquidity option, return on investment that is competitive by market standards and protection from adverse movements in the kuna exchange rate (investment with a currency clause option). Purchasing units of the Fund enables investors to earn higher returns on their investment than would be in a case with the usual savings account.

PBZ Bond Fund,
open-ended investment fund

The investment fund was developed in association with Intesa Sanpaolo. The goal of the Fund is to enable both private and institutional investors to earn income by investing in first-class global bonds, issued by foreign governments, local governments and the most stable global corporations, denominated in stable global currencies.

PBZ Global Fund,
open-ended investment fund

The Fund's operations consist of attracting cash assets by public bidding of its shares and investment of assets thus collected in safe and profitable instruments, offered on both domestic and foreign financial markets. Given the strategy and the choice of instruments, the Fund is chosen by investors who want to invest their assets for a period of two to five years.

PBZ Euro novčani fond and PBZ Kunski novčani fond, open-ended investment funds

These funds are open-ended investment funds established in 2002, designed for domestic investors who wish their investments to be pegged to the Euro or Kuna.

PBZ Dollar Fund,
open-ended investment fund

This money market fund was launched in May 2005 as the first domestic Money Market Mutual Fund denominated in USD. Assets are invested into low risk short-term Government securities, primarily issued by USA and securities denominated in USD issued by member countries of the EU and OECD. It is suitable for conservative investors who are more inclined to invest in dollars.

PBZ Equity Fund,
open-ended investment fund

A higher risk fund that offers to its investors possibility of investing specifically in domestic and foreign shares. This fund is appropriate for individual investors interested in high return at significant risk.

PBZ I-Stock Fund,
open-ended investment fund

The newest fund of PBZ Invest is oriented to eastern equity and fixed capital markets. It offers its investors possibility of investing specifically in emerging economies of near and far east.

PBZ Nekretnine

PBZ Nekretnine is a wholly owned subsidiary of Privredna banka Zagreb which engages in property transaction services, construction management and real estate valuation. Privredna banka Zagreb established PBZ Nekretnine with the goal of providing its clients with a complete range of services relating to property and investment in business projects. PBZ Nekretnine offers apartments, houses, business premises, construction sites and other properties for sale. The activities of PBZ Nekretnine involve property transactions, property transaction services, property renting, construction, planning, construction supervision, construction evaluation, appraisal of property value, preparation of feasibility studies for investments, as well as legal supervision of works. PBZ Nekretnine has a professional team capable of answering all its clients' complex requests. The company provides all kinds of services related to the activities mentioned, no matter how specific and complicated the clients' demands are. PBZ Nekretnine employs highly trained employees, five of which are court experts in the field of construction.
The company has been operating successfully within the Group since it was founded at the beginning of 1999. For the needs of its clients, PBZ Nekretnine has developed a network of associates and at the moment collaborates with almost 60 associates.

PBZ Leasing

PBZ Leasing is wholly owned by Privredna banka Zagreb. It was founded in 1991 under the name of PBZ Stan. In the beginning it dealt with property appraisals and restructuring of the public housing fund. During 1995, the company commenced granting car purchase loans by placing funds of Privredna banka Zagreb. In the past several years, leasing has become core business activity of the company. Through both finance and operating leases, the company engaged in financing of real estates, vehicles, leasure boats, heavy machinery and equipment. By the end of 2007, PBZ Leasing made over 6.2 thousand lease arrangements with customers, which in financial terms reached almost HRK 1,2 billion.

PBZ Croatia osiguranje

PBZ Croatia osiguranje is a joint stock company for compulsory pension fund management. The company was incorporated on 26 July 2001 in accordance with the new changes in Croatian pension legislation and it is a mutual project of both Privredna banka Zagreb d.d. and Croatia osiguranje d.d. with ownership in the company of 50 percent belonging to each shareholder. The principal activities of PBZ Croatia osiguranje include establishing and management of the compulsory pension fund. After the process of the initial stages of gathering members, PBZ Croatia osiguranje fund became one of the three largest compulsory funds in the country. Despite fierce competition on the market, the company's pension fund continued to operate successfully during 2006. In the successful management of its funds, PBZ Croatia osiguranje relies on its positive experience to date in managing investment funds and association with Gruppo Intesa Sanpaolo asset management. At this point, the fund has over to 231 thousand members

and net assets in personal accounts exceeding HRK 3.6 billion which represents a sound base for the long-term stable and profitable operation of the company.

PBZ Stambena štedionica

PBZ Stambena štedionica is the third largest building society on the Croatian financial market. It was founded by Privredna banka Zagreb. Given the large number of our clients interested in housing savings, the company offers them three types of savings: Prima, Basic and Golden savings. At present there are more than 110 thousand savings contracts which amount to more than HRK 1.3 billion. Prima and Basic types are aimed at clients whose goal is to make use of a housing loan with exceptionally favourable interest rates. Golden savings are designed for clients whose first intention is long-term saving. These forms of saving are run with a foreign currency clause in euros whilst deposits are insured in accordance with the Banking Law. There is also the possibility of changing the type of savings account whilst saving. Clients have the opportunity to manage their own savings accounts from their own home by means of Internet banking through PBZ365@NET and PBZ365 Optima services.

Invest Holding Karlovac

Invest Holding is a limited liability company incorporated on 11 November 1990. On 22 November 1990 it was registered in the Court Register in Karlovac. The sole founder of the company was Karlovačka banka. On 12 December 1990 Karlovačka banka sold 56.38 percent of its shares in the company to Privredna banka Zagreb. The company is registered for various activities, however it mainly engages in renting its own premises acquired through the liquidation of Jugoturbina Karlovac.

PRIJATELJ

PROGRAM DRUŠTVENE ODGOVORNOSTI
PRIVREDNE BANKE ZAGREB

Review of Activities in PBZ's Social Responsibility Program

Review of Activities in PBZ's Social Responsibility Program

We are aware that success in business is not only measured by financial results but, in today's modern society, it equally implies activities in the field of social responsibility and a contribution to sustainable development. Therefore PBZ has directed its energy at playing a proactive role in society and endeavors to be the initiator and supporter of ideas aimed at improving and advancing the quality of life in Croatia.

Sponsorship and Donations

Privredna banka Zagreb endeavors to make a contribution and show its responsibility towards the wider community through sponsorship and donations. The Bank contributes to the development of local communities by actively involving our Regional branch offices in sponsorship and donation programs involving institutions, associations and individuals in Croatia.
PBZ endeavors, in the course of its work, to support and initiate many cultural events and happenings, and contribute to the improvement of the quality of life of our community.

Sponsorships

Science and education	633.365
Sport	13.816.925
Culture	629.141
Others	15.000
Total:	**15.094.431**

Through its sponsorship policy, as well as promoting its own brand name, PBZ also seeks to support and encourage a large number of projects in the fields of culture, sport and science, and in that way contribute to the development of Croatian society.

- From the very outset in 2003, PBZ has been involved in the major Caritas fundraising campaign "For One thousand Joys". The aim of the campaign is to raise money to help 1000 low income families in Croatia from funds which businesses set aside for Christmas and New Year's parties. As well as donating money, PBZ supports the campaign by buying Caritas Christmas cards.
- As a member of the Croatian Olympic POOL, PBZ earmarks funds every year to finance the Croatian Olympic Committee and in that way provides for the quality preparation of our Olympic sportsmen and women
- In 2007 the Bank sponsored the ATP Croatian Indoors tournament and also the Croatian Fo-otball Federation.
- The Bank is a sponsor of the Faculty of economics in Zagreb and the Mediterranean Institute for Life Sciences in Split
- The various cultural programs that PBZ has supported include sponsorship of the BBC Philharmonic Concert in Zagreb

Donations

Science and education	322,500
Sport	681,000
Culture	1,242,500
Social solidarity	1,468,167
Others	2,156,010
Total:	**5,870.177**

- We would like to point out the donations in 2007 to the traditional cultural event "Vinkovačke jeseni" (Vinkovci Autumn Festival) and the famous Dubrovnik Summer Festival.
- Donations began in 1999 to the Humanitarian Foundation for the Children of Croatia to provide support to 350 children under the care of the Foundation, with a monthly sum of HRK 300.00 per child. We are continuing to support this aid program.
- PBZ also actively supports local and regional sporting events and organizations

CSR Projects

As a part of the program "PBZ Prijatelj", PBZ cooperates with non profit organizations on several CSR projects:

- In cooperation with UNDP in Croatia and the Croatian Banking Association, PBZ is actively involved in a project of CSR in banking, organizing educational interactive workshops for the general public entitled "Managing your Personal Finances". In 2007 more than 600 citizens took part in the workshops and praised their usefulness and the organization. The CBA and the nine banks participating in the project have decided to go on running free workshops for citizens in 2008.
  The banks' workshops are a unique example of sector cooperation, where one branch of industry jointly runs an educational activity in the community, although they are competitors on the market.
  The workshops are run by teams made up of two bank employees, that are two people from two different banks, and the banks donate their staff's time to the community.
  Apart from the joint work of the banks, a partnership relationship has been established with the cities, and city entities (library, info centers, charities…) for locations for holding the workshops.

- PBZ has joined the international student exchange program for pupils aged 15 to 18 years run by the AFS (Associated Field Service), a highly regarded international voluntary, not-for-profit organization dealing in exchanges of pupils. PBZ sponsors two one year scholarships every year.

- This year again we continued with the PBZ Bridge loans program, and for five of the best students scholarships were provided, in cooperation with Banca Intesa, to attend the Double Degree Program at one of the most prestigious Italian faculties - the Politecnico di Milano.

- PBZ supports and participates in the work of the Community for Social Responsibility within the Croatian Chamber of Commerce, co-operates with the UNDP in Croatia on projects in the field of social responsibility and has joined the global initiative - Global Compact.

Education and professional development

- Based on the relevant information on each employee's development potential given by psychological testing, over 500 high-potential employees undertook a series of assessment courses. Consequently, a final pool of 240 key employees were identified and included in the first edition of the PBZ Business School established in February 2007.

PBZ BS consists of three levels of managerial programs:

1) GENERAL MANAGEMENT PROGRAM - 120 participants, young talents
2) OPERATIVE/SALES MANAGEMENT - 86 participants, line managers, experts
3) STRATEGIC MANAGEMENT - 24 participants, executive directors

The duration of each program is 3 years and every year there are 4 modules. Each module lasts for 3 days and is given by external providers at various locations in Croatia.

- In June 2007 we also launched the "eHR Management Portal" to support PBZ managers in their decision-making. It combines all relevant data (results of testing, career history, payrolls, appraisals...) about each of 3614 employees and serves as a crucial vehicle for all major HR activities.

Corporate governance

In accordance with the Companies Law and its Article of Association, the Bank has a Supervisory Board and a Management Board. The two boards are separate and no individual may be a member of both boards. The duties and responsibilities of members of both boards are regulated by the Companies Law.

Supervisory Board

The Supervisory Board consists of seven members. The Board meets quarterly and oversees the Management Board. The current members of the Bank's Supervisory Board, appointed on the three year term by the Extraordinary General Assembly held on 30 January 2007, are as follows:

György Surányi (President of the Supervisory Board, Intesa Sanpaolo)
Giovanni Boccolini (Vicepresident of the Supervisory Board, Intesa Sanpaolo)
Adriano Arietti (Member of the Supervisory Board, Intesa Sanpaolo)
Massimo Malagoli (Member of the Supervisory Board, Intesa Sanpaolo)
Massimo Pierdicchi (Member of the Supervisory Board, Intesa Sanpaolo)
Paolo Grandi (Member of the Supervisory Board, Intesa Sanpaolo)
Anne Fossemalle (Member of the Supervisory Board, EBRD)

Audit Committee

Pursuant to the Articles of Association of Privredna banka Zagreb, the Supervisory Board on its 15th meeting held at 10 December 2002 established the Audit Committee and adopted the Audit Committee Charter. The Audit Committee may consist of up to seven members, however, there are currently six members appointed by the Supervisory Board on 21 December 2007. The Committee is responsible for monitoring various important processes such as: the financial reporting, internal audit, risk management, compliance with laws, regulations as well as code of conduct in PBZ Group. Finally, the Audit committee acts as an important contact for the external auditor, whose independence it supervises. Members of the Audit Committee are the following:

Giampiero Trevisan, president
Massimo Pierdicchi, member
Tünde Barabás, member
Ezio Salvai, member
Beata Kissné Földi, member
Armando Sala, member

Management Board

The Management Board consists of seven members with each being allocated a specific area of responsibil-ity. The Management Board meets at least twice a month to discuss and determine the operating policies of the Bank. Following the three year term the mandate of the former Management Board expired on 6 February 2006. Accordingly, the new Management Board was appointed on the three year term effective from 7 February 2006.

Management Board members:

Božo Prka,
President of the Management Board
Marco Capellini,
Vicepresident of the Management Board, responsible for the Risk Management and Control Group - appointed on 1 November 2007
Tomislav Lazarić,
Vicepresident of the Management Board, responsible for the Retail Banking Group
Gabriele Pace, Chief financial officer, responsible for the Accounting, Financial Control and General Administration Group
Ivan Gerovac, responsible for the Corporate, Treasury and Investment Banking Group
Mario Henjak, responsible for the SME Banking Group
Draženko Kopljar, responsible for the Information Technology and Operations Group
---
Previous member in 2007 was also:
Giancarlo Miranda, Vicepresident of the Management Board, responsible for the Risk Management and Control Group - mandate expired on 31 October 2007

Annual questionnaire on Corporate governance

Corporate governance in Privredna banka Zagreb is conducted by complying with the regulatory requirements in Croatia. As a bank which shares are listed on the Zagreb Stock Exchange, PBZ applied the Corporate Governance Code jointly drawn by the Croatian Financial Services Supervisory Agency (Hanfa) and the Zagreb Stock Exchange, and subsequently stipulated by Hanfa (National Gazette No. 46/07). In that context, PBZ completed mandatory Annual Questionnaire for 2007 (available on our website in the Internet at www.pbz.hr) which discloses corporate governance practices in the Bank in relation to the recommendations set out in the Corporate Governance Code.
With the aim of protecting interest of the investors, shareholders, clients,

employees as well as other stakeholders, the Bank implemented the highest standards of the corporate governance well-grounded in the internationally recognized principles of the corporate governance. Privredna banka Zagreb ensured transparent business conduct which enabled sound and responsible governance in 2007 and successful supervision of operating and managerial functions.

Statement of responsibilities of the Management Board

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

The Management Board has a reasonable expectation that the Bank and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.
In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;

- judgements and estimates are reasonable and prudent;

- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and

- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

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

Signed on behalf of the Management Board

Božo Prka, M.S.
Privredna banka Zagreb d.d.
Račkoga 6
10000 Zagreb
Republic of Croatia

12 February 2008

Independent auditors' report

Deloitte.

Deloitte d.o.o.
ZagrebTower
Radnička 80
10 000 Zagreb, Croatia

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

Independent auditors' report

To the shareholders of Privredna banka Zagreb d.d.:

We have audited the accompanying financial statements of Privredna banka Zagreb d.d. (the 'Bank') and of Privredna banka Zagreb d.d. and its subsidiaries (the 'Group') (page 38 to 102), which comprise the balance sheet as at 31 December 2007, and the related income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of the Bank and of the Group as at 31 December 2007, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte d.o.o.
Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia
29 February 2008

Income statement

(in HRK million)	NOTE	GROUP 2007	GROUP 2006	BANK 2007	BANK 2006
Interest income	2	3,627	2,976	3,274	2,720
Interest expense	2	(1,709)	(1,262)	(1,577)	(1,185)
Net interest income		**1,918**	**1,714**	**1,697**	**1,535**
Fee and commission income	3	1,300	1,077	585	488
Fee and commission expense	3	(236)	(218)	(212)	(197)
Net fee and commission income		**1,064**	**859**	**373**	**291**
Other operating income	4	423	466	404	444
Operating income		**3,405**	**3,039**	**2,474**	**2,270**
Provisions	5	(121)	(153)	(54)	(57)
Other operating expenses	6, 7	(1,578)	(1,420)	(1,111)	(1,007)
Depreciation and amortisation of property and equipment and intangible assets	8	(268)	(255)	(162)	(165)
Share of the profit and loss accounted for using the equity method	18	8	8	-	-
Profit before income taxes		**1,446**	**1,219**	**1,147**	**1,041**
Income taxes	9	(303)	(254)	(215)	(194)
Net profit for the year		**1,143**	**965**	**932**	**847**
Attributable to:					
Equity holders of the parent		1,141	963	932	847
Minority interests		2	2	-	-
		1,143	**965**	**932**	**847**
			in HRK		**in HRK**
Basic/diluted earnings per share	47	60.0	56.9	49.0	50.1

The accompanying accounting policies and notes are an integral part of this Income statement.

Balance sheet

Assets (in HRK million)	NOTE	GROUP 2007	GROUP 2006	BANK 2007	BANK 2006
Cash and current accounts with other banks	10	2,471	2,576	2,356	2,328
Balances with Croatian National Bank	11	8,194	7,262	7,934	7,049
Financial assets at fair value through profit or loss	12	4,170	3,056	4,182	3,074
Derivative financial assets	13	33	44	33	44
Due from banks	14	7,245	7,235	6,726	6,935
Loans and advances to customers	15	40,147	36,910	36,436	33,572
Assets available for sale	16	1,853	1,305	482	53
Held to maturity investments	17	1,288	1,358	979	1,158
Equity investments in subsidiaries and associates	18	49	45	363	404
Intangible assets and goodwill	19	171	200	70	65
Property and equipment	20	1,378	1,381	847	883
Investment property	21	15	14	15	14
Non-current assets held for sale	22	-	18	-	18
Other assets	23	389	449	211	226
Deferred tax assets	9	147	121	97	83
Total assets		**67,550**	**61,974**	**60,731**	**55,906**

Balance sheet / continued

	NOTE	GROUP		BANK	
Liabilities (in HRK million)		2007	2006	2007	2006
Due to banks	24	3,129	4,518	3,127	4,503
Due to customers	25	41,918	36,843	38,694	33,491
Derivative financial liabilities	13	38	15	38	15
Financial liabilities held for trading	12	-	735	-	735
Other borrowed funds	26	11,760	9,956	10,244	9,147
Debt securities issued	27	66	119	-	-
Other liabilities	28	1,708	1,832	460	649
Accruals and deferred income	29	163	120	79	66
Provisions for risks and charges	30	265	211	242	186
Total liabilities		**59,047**	**54,349**	**52,884**	**48,792**
Equity attributable to equity holders of the parent					
Share capital	32	1,907	1,907	1,907	1,907
Treasury shares		(57)	(27)	(57)	(27)
Share premium		1,570	1,570	1,570	1,570
Reserves and retained earnings	33	3,918	3,167	3,495	2,817
Profit and loss attributable to equity holders of the parent entity		1,141	963	932	847
		8,479	7,580	7,847	7,114
Minority interests		24	45	-	-
Total shareholders' equity		**8,503**	**7,625**	**7,847**	**7,114**
Total liabilities and shareholders' equity		**67,550**	**61,974**	**60,731**	**55,906**

The accompanying accounting policies and notes are an integral part of this Balance sheet.
These financial statements were signed on behalf of the Management Board on 12 February 2008.

Božo Prka, M.S.
President of the Management Board

Gabriele Pace
Chief financial officer

Cash flow statement

(in HRK million)	GROUP 2007	GROUP 2006	BANK 2007	BANK 2006
Cash flow from operating activities				
Profit before tax	1,446	1,219	1,147	1,040
Provisions for bad and doubtful debts and other provisions	121	153	54	57
(Gains)/losses from sale of property and equipment	(14)	(38)	6	(37)
Depreciation and amortization	268	255	162	165
Unrealised (gains)/losses on securities at fair value through profit or loss	(6)	16	(6)	16
Valuation of derivatives	34	(31)	34	(31)
Share of results of associates	(8)	(8)	-	-
Taxes paid	(263)	(200)	(190)	(164)
	1,578	**1,366**	**1,207**	**1,046**
(Increase)/decrease in operating assets				
Balances with Croatian National Bank	(932)	(1,867)	(885)	(1,865)
Due from banks	147	307	214	147
Loans and advances to customers, net of provisions	(3,655)	(8,037)	(2,857)	(6,923)
(Acquisitions)/sale of assets held for trading and assets available for sale	(1,608)	480	(1,440)	1,367
Other assets	43	(139)	14	(39)
Increase/(decrease) in operating liabilities	**(4,427)**	**(7,890)**	**(3,747)**	**(6,267)**
Due to banks	(1,352)	1,208	(1,376)	592
Due to customers	5,564	3,963	5,203	3,487
Liabilities held for trading	(735)	(453)	(735)	(453)
Other liabilities	(139)	142	(226)	(171)
Net cash (used in)/from operating activities	**(1,089)**	**(3,030)**	**(881)**	**(2,812)**
Cash flows from investing activities				
Net purchase of property and equipment and intangible assets	(258)	(407)	(119)	(253)
Acquisition, disposal and recapitalisation of subsidiaries and associates	(165)	91	(40)	(106)
Repayment/(purchase) of assets held to maturity	70	(6)	179	171
Net cash (used in)/from investing activities	**(353)**	**(322)**	**20**	**(188)**
Cash flows from financing activities				
Dividends paid to equity holders of the parent	(190)	-	(190)	-
Dividends paid to minority interest	(2)	-	-	-
Additional paid in capital	-	1,811	-	1,811
Other borrowed funds	1,823	1,706	1,097	1,169
(Redemption)/proceeds from debt securities issued	(53)	100	-	(19)
Net proceeds from sale of treasury shares	(13)	4	(13)	4
Net cash (used in)/from financing activities	**1,565**	**3,621**	**894**	**2,965**
Net increase/(decrease) in cash	**123**	**269**	**33**	**(35)**
Cash and cash equivalents at the beginning of the year	9,047	8,778	8,507	8,542
Cash and cash equivalents at the end of the year	9,170	9,047	8,540	8,507
Supplementary information				
Interest paid	1,251	1,095	1,115	973
Interest received	3,045	2,494	2,692	2,202
Dividends received	6	5	144	104

The accompanying accounting policies and notes are an integral part of this Cash flow statement.

Statement of changes in equity

	Attributable to equity holders of the parent						
(in HRK million)	Share capital	Treasury shares	Share premium	Reserves and retained profits	Total	Minority interests	Total equity
Group							
Balance at 1 January 2006	**1,666**	**(20)**	**-**	**3,152**	**4,798**	**22**	**4,820**
Net gains on available for sale financial investments	-	-	-	4	4	-	4
Capital gain on disposal of treasury shares	-	-	-	11	11	-	11
Total income and expense for the year recognised directly in equity	-	-	-	15	15	-	15
Net profit for the year	-	-	-	963	963	2	965
Total income and expense for the year	-	-	-	978	978	2	980
Increase of share capital	241	-	1,570	-	1,811	-	1,811
Net (purchase)/sale of treasury shares	-	(7)	-	-	(7)	-	(7)
Acquisition of LT Gospodarska banka	-	-	-	-	-	21	21
Balance at 31 December 2006	**1,907**	**(27)**	**1,570**	**4,130**	**7,580**	**45**	**7,625**
Net losses on available for sale financial investments	-	-	-	(39)	(39)	-	(39)
Capital gain on disposal of treasury shares	-	-		17	17	-	17
Total income and expense for the year recognised directly in equity	-	-	-	(22)	(22)	-	(22)
Net profit for the year	-	-	-	1,141	1,141	2	1,143
Total income and expense for the year	-	-	-	1,119	1,119	2	1,121
Equity dividends	-	-	-	(190)	(190)	-	(190)
Net (purchase)/sale of treasury shares	-	(30)	-	-	(30)	-	(30)
Divestment of LT Gospodarska banka	-	-	-	-	-	(21)	(21)
Dividends of subsidiaries	-	-	-	-	-	(2)	(2)
Balance at 31 December 2007	**1,907**	**(57)**	**1,570**	**5,059**	**8,479**	**24**	**8,503**

Statement of changes in equity / continued

(in HRK million)	Share capital	Treasury shares	Share premium	Reserves and retained profits	Total	Minority interests	Total equity
	Attributable to equity holders of the parent						
Bank							
Balance at 1 January 2006	**1,666**	**(20)**	**-**	**2,787**	**4,433**	**-**	**4,433**
Net gains on available for sale financial investments	-	-	-	19	19	-	19
Capital gain on disposal of treasury shares	-	-	-	11	11	-	11
Total income and expense for the year recognised directly in equity	-	-	-	30	30	-	30
Net profit for the year	-	-	-	847	847	-	847
Total income and expense for the year	-	-	-	877	877	-	877
Increase of share capital	241	-	1,570	-	1,811	-	1,811
Net (purchase)/sale of treasury shares	-	(7)	-	-	(7)	-	(7)
Balance at 31 December 2006	**1,907**	**(27)**	**1,570**	**3,664**	**7,114**	**-**	**7,114**
Net gains on available for sale financial investments	-	-	-	4	4	-	4
Capital gain on disposal of treasury shares	-	-	-	17	17	-	17
Total income and expense for the year recognised directly in equity	-	-	-	21	21	-	21
Net profit for the year	-	-	-	932	932	-	932
Total income and expense for the year	-	-	-	953	953	-	953
Equity dividends	-	-	-	(190)	(190)	-	(190)
Net (purchase)/sale of treasury shares	-	(30)	-	-	(30)	-	(30)
Balance at 31 December 2007	**1,907**	**(57)**	**1,570**	**4,427**	**7,847**	**-**	**7,847**

The amount of dividends distributed to equity holders during 2007 was 10 HRK per share. There was no distribution of dividends during 2006.
The accompanying accounting policies and notes are an integral part of this Statement of changes in equity.

Accounting policies

1 | Accounting policies

A summary of the Group's principal accounting policies is set out below.

Basis of accounting

The Bank and the Group maintain their accounting records in Croatian Kuna and in accordance with Croatian law and the accounting principles and practices observed by financial enterprises in Croatia.

Basis of preparation

The financial statements of the Bank and the Group are prepared in million of Croatian Kuna and all values have been rounded to the nearest million, unless stated otherwise.

These consolidated and Bank only financial statements are prepared in accordance with the International Financial Reporting Standards as published by the International Accounting Standards Board. The consolidated and Bank only financial statements are prepared under the historical cost convention as modified by the revaluation of assets available for sale and financial assets and financial liabilities at fair value through profit and loss.

The financial statements have been presented in a format generally accepted and internationally recognised by banks and in accordance with International Financial Reporting Standards.

Basis of consolidated (Privredna banka Zagreb Group) and Bank only financial statements

Financial statements are presented for the Bank and the Group. The Group financial statements comprise the consolidated financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in associates are accounted for by the equity method of accounting in the consolidated financial statements and at cost in the Bank's financial statements. These are undertakings over which the Group generally has between 20 percent and 50 percent of the voting rights, and over which the Group has significant influence, but which it does not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated undertakings includes goodwill. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking. Where necessary, the accounting policies used by the associate have been changed to ensure consistency with the policies adopted by the Group.

Business combination

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

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

Interest and similar income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income. As well savings deposits origination fees are recognized as an adjustment to the effective yield of deposit and adjust interest expense.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the financial asset.
When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Other fees receivable are recognised when earned. Dividend income is recognised when earned.
Interest income on financial instruments at fair value through profit or loss represent nominal coupon interest.
Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Fees and commission income

Fees and commission income are comprised mainly of fees receivable from enterprises for loans and guarantees granted and other services provided by the Bank and the Group, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions.
Fees and commissions are generally recognised on an accrual basis. Loan origination fees for loans which are likely to be drawn down, are generally deferred and recognised as an adjustment to the effective yield on the loan.

Operating income

Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, unrealised gains on securities at fair value, realised gains on securities classified as assets available for sale, foreign exchange revaluation, gains from disposal of fixed assets, dividends earned and other income.
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Foreign currencies

Income and expenditure arising from transactions in foreign currencies are translated to Croatian Kuna at the official rates of exchange on the transaction date. Assets and liabilities denominated in foreign currencies are translated to Croatian Kuna at the mid market exchange rate of the CNB on the last day of the accounting period. Gains and losses resulting from foreign currency translation are included in the income statement for the year.
The Group has receivables and liabilities originated in HRK, which are linked to foreign currencies with one-way currency clause. Due to this clause the Group has an option to revalue the asset by the higher of: foreign exchange rate valid as of the date of repayments of the receivabes by the debtors, or foreign exchange rate valid as of the date of origination of the financial instrument. In case of the liability linked to this clause the counterparty has this option. Due to the specific conditions of the market in Republic of Croatia the fair value of this option can not be calculated as the forward rates for HRK for periods over 9 months are generally not available. As such the Group revalues its receivables and liabilities linked to this clause by the agreed reference rate valid at the date of the balance sheet or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher.

Personnel expenses

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Personnel social contributions

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

	2007	2006
Contributions for Pension Funds	20.00%	20.00%
Contributions for State Health Care Fund	15.00%	15.00%
Contributions for Unemployment Fund	1.70%	1.70%
Injuries at work	0.50%	0.50%

The Group is also obliged to withhold contributions from the gross pay on behalf of the employee for the same funds.
The contributions on behalf of employees and on behalf of the employer are charged to expenses in the period to which they relate (refer to note 7).

Accounting policies

Retirement allowances
Under the Labour Code, if determined in the employment contract or the Regulation on Personal income, the Group and the Bank are obliged to pay a retirement allowance of HRK 8 thousand to individuals who are retiring.
IAS 19 Employee benefits requires post-retirement benefits and other long-term benefits to be recorded on an accrual basis. The Group and the Bank assessed their liabilities for long-term benefits in accordance with the IAS and recorded a provision in the accompanying financial statements.
The obligation and costs of pension benefits are determined using a projected unit credit method, which considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Certain actuarial assumptions were made by the Management in this assessment.

Taxation
Corporation tax payable is provided on taxable profits for the year at the current rate. Deferred taxes are calculated 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 using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.
Deferred tax assets and liabilities are recognised regardless of when the temporary timing difference is likely to reverse. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. On each balance sheet date, the Bank re-assesses unrecognised deferred tax assets and the appropriateness of carrying amount of the tax assets.
The Bank is subject to a tax rate of 20 percent in accordance with the Profit Tax Law.

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days remaining maturity, including cash and current accounts with other banks.

Financial instruments
Financial assets and financial liabilities recorded on the balance sheet include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term loans and leasing, deposits and investments. The accounting principles for these items are disclosed in the respective accounting policies.
The Bank recognises financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities held by the Group are categorised into portfolios in accordance with the Group's intent on the acquisition and pursuant to the Group's investment strategy. Financial assets and liabilities are classified as "At fair value through profit or loss", "Held to maturity", "Assets available for sale" or as "Loans and receivables". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements as described below.
Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.
Regular way transactions with financial instruments are accounted for at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value on the underlying asset or liability are recognised starting from trade date.
When a financial asset or financial liability is recognised initially, the Group measures it at its 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.

Financial instruments at fair value through profit or loss
Financial instruments included in this portfolio are carried at fair value financial instruments, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists, that are classified as held for trading. These instruments are initially recognised at fair value. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. All related realised and unrealised gains and losses are included in the income statement. Interest earned whilst holding these instruments is reported as interest income. Dividends earned are included in dividend income.

Financial liabilities held for trading
Trading liabilities include debt securities that the Group has sold to other parties but does not own at the balance sheet date ("short" selling). The Group is obliged to purchase securities at a future date to cover the short positions. Trading

liabilities are stated at fair value, with gains and losses from revaluation recognised directly in Income statement within Other operating income.

Held to maturity investments

Financial instruments included in this portfolio are non-derivative financial assets with fixed or determinable payments and fixed maturity, where management has both the intent and the ability to hold to maturity. All held-to-maturity financial instruments are carried at amortised cost, less any provision for impairment. Interest earned from held-to-maturity financial instruments is reported as interest income and recognized based on effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank and the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank and the Group upon initial recognition designates as available for sale; or (c) those for which the Bank and the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale. This portfolio comprises loans provided to customers.

Loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Group's grading process that considers asset type, counter party type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group.

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

Assets available for sale

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

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

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

For available-for-sale assets, gains and losses arising from changes in fair value are recognised directly in equity under the caption "Reserves and retained profits", until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss. Interest earned whilst holding available-for-sale securities is accrued on a daily basis using the effective interest rate method and reported as "Interest income" in the income statement.

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

Dividends on securities available for sale are recorded as declared and included as a receivable in the balance sheet line "Other assets" and in "Other operating income" in the income statement. Upon payment of the dividend, the receivable is offset against the collected cash.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of cost of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the income statement.

Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements and the counterparty is included in due to banks or customers as appropriate. Securities purchased under agreements to resell (reverse repo) are recorded as due from banks and loans and advances to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements.

Leases

Finance - Group as lessor

When assets are leased under finance lease arrangements, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Initial direct costs are recognised as expenses in the income statement in the period when incurred.

Operating - Group as lessor

Assets leased under operating lease arrangements are included in tangible assets in the balance sheet. They are depreciated over their expected useful lives which is based on the duration of lease contracts (see tangible fixed assets accounting policy). Initial direct costs incurred specifically to earn revenues from an operating lease are recognised as an expense in the income statement in the period in which they are incurred.

Operating - Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating lease arrangements. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation less any provision for impairment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the income statement in the period in which the costs are incurred.
Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction, property and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use and reclassified to the apropriate category of property and equipment.
Property and equipment is depreciated on a straight-line basis using useful lives. The useful lives are as follows:

	2007 years	2006 years
Buildings	40	40
Furniture	5	5
Computers	4	4
Motor vehicles	5	5
Equipment and other assets	2 to 10	2 to 10

Land is not depreciated.
The assets' residual values, useful lives and methods are reviewed, and adjusted if appropriate, at least at each financial year end.
The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets and goodwill

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight line basis over the best estimate of their useful lives. The amortization period and the amortization method are reviewed at each reporting period.
According to IFRS 3, Business Combinations, any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired on the date of the acquisition is presented as goodwill and recognized as an asset. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually, or more frequently if events or changes in circumstances that the carrying value may be impaired.
Impairment is determined by assessing the recoverable amount of the cash-generating unit (or the group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.
Intangible assets are amortised over the period of 4 years. Amortisation period and amortisation method are reviewed at least at each year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Investment property

Investment property, which is mainly property held to earn rentals, is measured initially at its cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. After initial recognition, investment property is stated at cost less accumulated depreciation and any provision for impairment. Investment property is depreciated on a straight-line basis using the useful lives of the assets in accordance with the policy stated under Property and equipment.
Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.
Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Accounting policies

Non-current assets held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.
A non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs of sale and is no longer depreciated.
Impairment losses on initial classification as held for sale are included in the income statement, as well as gains and losses on subsequent measurement.

Impairment of non financial assets

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

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet in accordance with the policy for initial recognition of financial instruments and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses on foreign exchange derivatives are included in Foreign exchange revaluation.

Provisions for contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The provision for possible commitments and contingent liabilities losses is maintained at a level the Group management believes is adequate to absorb probable future losses. The Group Management Board 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.

Managed funds

The Bank manages a significant amount of assets on behalf of third parties. A fee is charged for this service. These assets are not recorded in the Bank's balance sheet. The details are set out in note 35.

Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transaction, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined as a market value of shares at the date of grant. The cost of equity-settled transactions is recognised over the period in which the performance and/or service conditions are fulfilled.

Changes in accounting policies

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations does not have any effect on equity as at 1 January 2007.
In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007. The impact of the adoption of IFRS 7 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.
Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpreta-tions has not led to any changes in the Group's accounting policies.

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

International Financial Reporting Standards (IFRS)

IFRS 8	Operating segments

International Accounting Standards (IAS)

IAS 23	Borrowing costs, as revised in 2007

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 11	IFRS 2 - Group and treasury share transactions
IFRIC 12	Service concession arrangements
IFRIC 13	Customer loyalty programmes
IFRIC 14	IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application.

The Group has not early adopted any IFRS standards where adoption is not mandatory at the balance sheet date. Where transition provisions in IFRS adopted give an entity a choice whether to apply the new standards prospectively or retrospectively the Group has elected to apply the standard prospectively from the date of transition.

Significant accounting judgements and estimates

Judgements

In the process of applying the Group's accounting policies, the management made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating Lease Commitments - Group as Lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of properties which are leased out on operating leases.

Held to maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity, other than under specific circumstances (such as selling an insignificant amount close to maturity) it will be required to reclassify the entire class as available for sale and measure it at fair value instead of amortised cost.

Estimation uncertainty

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

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was HRK 59 million (2006: HRK 95 million). More details are given in note 19.

Notes to the Bank and the Group Financial Statements

2 | Interest income and expense (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Interest income				
Citizens	1,816	1,544	1,644	1,403
Companies	855	651	751	588
Bonds and securities	299	286	236	242
Banks	334	227	321	221
Public sector and others	323	268	322	266
	3,627	**2,976**	**3,274**	**2,720**
Interest expense				
Citizens	781	654	711	598
Companies	228	149	222	142
Banks	578	387	529	376
Public sector and others	122	72	115	69
	1,709	**1,262**	**1,577**	**1,185**

Interest income earned on financial assets, analysed by category of asset, is as follows:

	GROUP		BANK	
	2007	2006	2007	2006
Interest income				
Loans and receivables from customers and banks	3,156	2,545	2,866	2,332
Balances with Croatian National Bank	192	165	186	160
Financial assets at fair value through profit or loss	146	145	152	150
Held to maturity investments	82	84	67	77
Assets available for sale	51	37	3	1
	3,627	**2,976**	**3,274**	**2,720**

3 | Fee and commission income and expense (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Fee and commission income				
Fees and commission on credit card services	646	581	84	71
Payment transaction fees and commission	275	250	273	248
Investment management, brokerage and consultancy fees	179	90	47	44
Fees and commission on customer loans	35	32	34	30
Fees and commission on guarantees given	40	35	39	34
Fees and commission on customer services	32	27	28	24
Other fee and commission income	93	62	80	37
	1,300	**1,077**	**585**	**488**
Fee and commission expense				
Payment transaction charges	72	90	70	87
Fees and commission expense on credit card services	98	88	105	83
Bank charges	14	11	10	9
Commission to post offices for citizens' current accounts	1	1	1	1
Other fee and commission expense	51	28	26	17
	236	**218**	**212**	**197**

4 | Other operating income (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Foreign exchange trading gain	77	128	68	119
Net gains on securities at fair value	5	86	5	84
Foreign exchange revaluation	142	58	143	58
Operating lease	66	57	3	3
Gains/(losses) from disposal of non-current assets held for sale	(3)	24	(3)	25
Realised gains on securities classified as assets available for sale	22	22	21	20
Gains/(losses) from disposal of property and equipment	17	14	(3)	12
Dividends earned	2	1	144	104
Other income	95	76	26	19
	423	**466**	**404**	**444**

5 | Provisions (in HRK million)

	NOTE	GROUP		BANK	
		2007	2006	2007	2006
Provisions for loans and advances to customers	15	59	126	(7)	38
Provisions for legal claims	31	14	35	12	31
Provisions for guarantees and commitments	31	48	(8)	49	(12)
		121	**153**	**54**	**57**

6 | Other operating expenses (in HRK million)

	NOTE	GROUP		BANK	
		2007	2006	2007	2006
Personnel expenses	7	735	669	577	531
Materials and services		503	462	342	310
Deposit insurance premium		70	64	59	56
Indirect and other taxes		22	16	20	15
Other operating expenses		248	209	113	95
		1,578	**1,420**	**1,111**	**1,007**

7 | Personnel expenses (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Net salaries	345	316	273	255
Health insurance costs	80	73	63	58
Taxes and surtaxes due to local authorities	83	74	64	57
Pension insurance costs	102	94	81	75
Other personnel expenses	125	112	96	86
	735	**669**	**577**	**531**

Salaries and other related costs of employees include accrued expenses for bonus to the management and employees of the Bank in the gross amount of HRK 37.7 million (2006: HRK 30.2 million), of which the remuneration of the Bank's Management Board accounts for gross amount of HRK 6.4 million (2006: HRK 5.1 million).
During the year the average number of employees within the Group was 4,283 (2006: 4,174) of which the Bank accounted for 3,531 employees (2006: 3,471).

8 | Depreciation and amortization of property and equipment and intangible assets (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Depreciation of property and equipment	214	204	120	126
Depreciation of investment property	1	1	1	1
Amortisation of leasehold improvements	19	18	19	18
Amortization of intangible assets	34	32	22	20
	268	**255**	**162**	**165**

There is an amount included within depreciation and amortization of fixed and intangible assets related to the impairment and write off of property and equipment and intangible assets of the Group of HRK 1.2 million (2006: HRK 16.1 million) and the Bank of HRK 0.9 million (2006: HRK 14.5 million).

9 | Taxation

Profit tax is payable at the rate of 20 percent (2006: 20 percent) on adjusted operating income.
Generally, tax declarations remain open and subject to inspection for at least a three-year period. The management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant authorities could take differing positions with regard to interpretative issues.
Taxation expense comprises:

	GROUP		BANK	
(in HRK million)	2007	2006	2007	2006
Current income tax expense	(329)	(301)	(229)	(216)
Deferred tax assets utilised during the year	(121)	(73)	(83)	(60)
Deferred tax liabilities utilised during the year	2	1	2	1
Deferred tax assets relating to temporary differences	147	121	97	83
Deferred tax liability relating to temporary difference	(2)	(2)	(2)	(2)
Tax charge per income statement	**(303)**	**(254)**	**(215)**	**(194)**

The reconciliation between accounting profit and taxable profit is set out below:

	GROUP		BANK	
(in HRK million)	2007	2006	2007	2006
Accounting profit before taxation	**1,446**	**1,219**	**1,147**	**1,041**
Statutory tax rate	20%	20%	20%	20%
Expected nominal tax	**289**	**244**	**229**	**208**
Tax effects of:				
Non deductible expenses	86	89	70	57
Non taxable income	(46)	(32)	(70)	(49)
Current income tax expense	**329**	**301**	**229**	**216**
Effective tax rate	**22.8%**	**24.7%**	**20.0%**	**20.7%**

9 | Taxation / continued

Movements of deferred tax assets are as follows:

	GROUP		BANK	
(in HRK million)	2007	2006	2007	2006
Deferred tax assets recognised at 1 January	**121**	**73**	**83**	**60**
Tax (profits)/losses in the year recognised as deferred tax assets	147	121	97	83
Deferred tax (debit)/credit in the income statement	(121)	(73)	(83)	(60)
Deferred tax assets recognised at 31 December	**147**	**121**	**97**	**83**
Deferred tax assets consist of:				
Deferred loan origination fees as an adjustment to the effective yield	81	71	64	54
Retirement benefits	4	5	3	3
Impairment of real estate	8	8	7	7
Unrealised losses on negative revaluation of securities and derivatives	21	15	21	15
Other	33	22	2	4
	147	**121**	**97**	**83**

10 | Cash and current accounts with other banks (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Current accounts held with central bank	1,121	1,351	1,087	1,322
Cash in hand	1,132	1,026	1,070	946
Current accounts and amounts at call with foreign banks	186	178	177	42
Current accounts and amounts at call with domestic banks	18	7	16	5
Other cash items	14	14	6	13
	2,471	**2,576**	**2,356**	**2,328**

11 | Balances with Croatian National Bank (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Obligatory and marginal reserve	6,866	7,259	6,640	7,046
Compulsory bills	1,323	-	1,289	-
Other deposits	5	3	5	3
	8,194	**7,262**	**7,934**	**7,049**

Obligatory reserve represents the amount of liquid assets required to be deposited with the Croatian National Bank. At the end of each month the obligatory reserve is calculated on certain balances of attracted funds for the previous month. The obligatory reserve is calculated as 17 percent of HRK denominated (2006: 17 percent) and 17 percent of foreign currency denominated balances (2006: 17 percent). From that amount the banks should maintain at least 70 percent for the kuna obligatory reserve and 50 percent for the obligatory reserve in foreign currency with the Croatian National Bank.

Marginal reserve represents the amount of foreign and related parties' borrowings required to be deposited with the Croatian National Bank. In December of 2007, the marginal reserve requirement was 40 percent of net increase in funds received from non-residents and related parties from June 2004 and an additional 15 percent of net increase in funds received from non-residents and related parties from November 2005. Marginal reserve balances maintained with the Croatian National Bank bore no interest during 2007 (2006: nil).

The balances maintained with the Croatian National Bank earned annual interest of 0.75 percent for HRK amounts (2006: 0.75 percent). The balances in foreign currencies maintained with the Croatian National Bank bore annual interest of 1.75 to 2 percent for EUR amounts (2006: 2.25 percent for USD and 1.25 to 1.75 percent for EUR amounts). 50 percent of the foreign currency obligatory reserve should be maintained in HRK. USD and EUR rates are not fixed.

As of the year end, the Bank and the Group maintained 70 percent of its HRK obligatory reserve and 50 percent of its foreign currency obligatory reserve (in EUR) with the Croatian National Bank. The remaining 30 percent of the HRK obligatory reserve and 50 percent of the foreign currency obligatory reserve were maintained as balance on nostro accounts or deposits with other banks.

In December 2006, the CNB issued Decision on the Purchase of Compulsory Bills. During 2007 compulsory CNB bills were purchased when the growth of prescribed placements and off balance sheet exposures exceeded 1 percent per month with the purchase rate of 50 percent of the base, being the positive difference between permissible and actual growth. The compulsory CNB bills were issued at an interest rate of 0.25 percent per annum and with a maturity of 360 days. These bills were repaid in January 2008 by the CNB following the amendment of the Decision.

12 | Financial assets and financial liabilities at fair value through profit or loss (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Financial assets at fair value through profit or loss				
Domestic treasury bills	1,493	1,174	1,493	1,174
Foreign government bonds	439	473	439	473
Foreign corporate bonds	324	408	324	408
Foreign treasury bills	431	396	431	396
Domestic corporate bonds	305	204	317	222
Equities and shares	264	185	264	185
Domestic government bonds	839	165	839	165
Accrued interest	75	51	75	51
	4,170	**3,056**	**4,182**	**3,074**
Financial liabilities held for trading				
Foreign government bonds	-	735	-	735

13 | Derivative financial instruments (in HRK million)

	GROUP		BANK	
ASSETS	2007	2006	2007	2006
Fair values:				
Foreign exchange derivatives	32	44	32	44
Security derivatives	1	-	1	-
	33	**44**	**33**	**44**
Notional amounts:				
Foreign exchange derivatives	11,837	8,480	11,837	8,480
Security derivatives	546	-	546	-
	12,383	**8,480**	**12,383**	**8,480**
LIABILITIES				
Fair values:				
Foreign exchange derivatives	33	14	33	14
Security derivatives	5	1	5	1
	38	**15**	**38**	**15**
Notional amounts:				
Foreign exchange derivatives	11,841	8,447	11,841	8,447
Security derivatives	416	204	416	204
	12,257	**8,651**	**12,257**	**8,651**

13 | Derivative financial assets and liabilities / continued (in HRK million)

Foreign exchange derivatives mostly relate to foreign exchange currency deals bought and sold forward. Security derivatives include bonds bought forward.
The notional amounts of certain types of financials instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks.

14 | Due from banks (in HRK million)

		GROUP		BANK
	2007	2006	2007	2006
Term deposits	6,247	5,439	5,667	5,172
Demand deposits	2	2	-	-
Loans to banks	1,011	1,809	1,074	1,778
	7,260	**7,250**	**6,741**	**6,950**
Provisions	(15)	(15)	(15)	(15)
	7,245	**7,235**	**6,726**	**6,935**

Term deposits are normally short-term deposits (up to one month) with local and foreign banks bearing an average annual interest rate of 2.50 percent to 7 percent (2006: 3.20 and 5.48 percent respectively).
The Bank's placements with other banks include HRK 6.3 million (2006: HRK 9.3 million) related to refinanced borrowings due to the Republic of Croatia and HRK 50.5 million (2006: HRK 79.9 million) of refinanced borrowings due to Government agencies. For more details refer to note 26.
The related currency analysis is provided in note 44.

Geographical analysis

		GROUP		BANK
	2007	2006	2007	2006
Italy	1,514	1,959	1,469	1,916
Belgium	1,136	459	1,010	369
Republic of Croatia	955	1,359	946	1,433
Germany	828	1,244	733	1,186
Great Britain	754	826	702	799
France	252	448	252	448
Austria	90	13	73	1
Switzerland	40	263	-	247
United States of America	7	165	-	137
Other countries	1,684	514	1,556	414
	7,260	**7,250**	**6,741**	**6,950**
Provisions	(15)	(15)	(15)	(15)
	7,245	**7,235**	**6,726**	**6,935**

15 | **Loans and advances to customers** (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
a) Analysis by type of customer				
Citizens	24,357	20,602	21,555	18,021
Companies	13,570	13,968	12,045	12,678
Public sector and other	4,814	4,943	4,809	4,916
	42,741	**39,513**	**38,409**	**35,615**
Provisions	(2,005)	(2,078)	(1,551)	(1,661)
Deferred interest and fees recognised as an adjustment to the effective yield	(589)	(525)	(422)	(382)
	40,147	**36,910**	**36,436**	**33,572**
b) Analysis by sector				
Citizens	24,357	20,602	21,555	18,021
Wholesale and retail trade	3,276	3,414	2,768	2,873
Construction	3,073	1,513	2,893	1,355
Transport and communication	1,168	1,486	1,084	1,402
Hotels and restaurants	1,088	903	1,044	857
Agriculture, forestry and fishing	694	726	625	680
Food and beverages	395	438	361	420
Energy products	432	369	432	365
Oil refining and gas	62	100	62	100
Other	8,196	9,962	7,585	9,542
	42,741	**39,513**	**38,409**	**35,615**
Provisions	(2,005)	(2,078)	(1,551)	(1,661)
Deferred interest and fees recognised as an adjustment to the effective yield	(589)	(525)	(422)	(382)
	40,147	**36,910**	**36,436**	**33,572**

Within Loans and advances to customers are loans under reverse repurchase agreements of HRK 237.9 million (2006: HRK 1,241.8 million). Such agreements are secured with corporate bonds.

15 | Loans and advances to customers / continued (in HRK million)

c) Provisions for losses	2007 Individual	2007 Collective	2007 Total	2006 Individual	2006 Collective	2006 Total
Group						
Balance at 1 January	**1,265**	**813**	**2,078**	**1,242**	**709**	**1,951**
Amounts collected	(139)	(10)	(149)	(172)	-	(172)
Amounts written off	(129)	(8)	(137)	(63)	-	(63)
Foreign exchange (gain)/loss	4	1	5	64	-	64
Amortisation of the discount	(5)	-	(5)	(41)	-	(41)
Provisions	164	49	213	235	104	339
Balance at 31 December	**1,160**	**845**	**2,005**	**1,265**	**813**	**2,078**
Reconciliation with Income statement line item Provisions for loans and advances to customers						
Provisions	164	49	213	235	104	339
Amounts collected	(139)	(10)	(149)	(172)	-	(172)
Amortisation of the discount	(5)	-	(5)	(41)	-	(41)
Charge in the income statement	**20**	**39**	**59**	**22**	**104**	**126**
Bank						
Balance at 1 January	**1,115**	**546**	**1,661**	**1,136**	**501**	**1,637**
Amounts collected	(97)	(8)	(105)	(90)	-	(90)
Amounts written off	(105)	-	(105)	(49)	-	(49)
Foreign exchange (gain)/loss	2	-	2	35	-	35
Amortisation of the discount	(5)	-	(5)	(41)	-	(41)
Provisions	103	-	103	124	45	169
Balance at 31 December	**1,013**	**538**	**1,551**	**1,115**	**546**	**1,661**
Reconciliation with Income statement line item Provisions for loans and advances to customers						
Provisions	103	-	103	124	45	169
Amounts collected	(97)	(8)	(105)	(90)	-	(90)
Amortisation of the discount	(5)	-	(5)	(41)	-	(41)
Charge in the income statement	**1**	**(8)**	**(7)**	**(7)**	**45**	**38**

15 | Loans and advances to customers / continued

The Group manages its exposure to credit risk by the application of a variety of control measures: regular assessment using agreed credit criteria; diversification of sector risk to avoid undue concentration in type of business or geographic terms. Where necessary, the Group obtains acceptable collateral to reduce the level of credit risk.
On 31 December 2007 the aggregate amount of non performing loans and receivables for the Group equalled HRK 857 million and for the Bank HRK 747 million (2006: HRK 947 million and HRK 837 million respectively).
During 2007 the Group sold the rights to 100 percent of the cash flows arising on a loan portfolio carried at HRK 546 million (2006: HRK 629 million) to third parties for a received payment of HRK 546 million (2006: HRK 629 million), excluding fees paid to the buyers amounting to HRK 2 million (2006: nil). The Group has determined that substantially all the risks and rewards of the portfolio have been transferred. Therefore the Group derecognised the transferred assets from its balance sheet.

(d) Loans and contingencies under guarantee

The state budget includes support for certain key industries in the Republic of Croatia. The recovery of such loans is provided from the state budget. In addition, the Republic of Croatia issues warranties for certain loans and contingent liabilities.
The support and guarantee of the Republic of Croatia was taken into consideration when determining the level of provisions required against loans to certain legal entities.
Total Bank and the Group loans and contingencies guaranteed by the Republic of Croatia or repayable from the state budget amount to HRK 2,413 million (2006: HRK 2,177 million).

(e) Refinanced loans

Included in loans and receivables are HRK 43.5 million (2006: HRK 64.9 million) related to refinanced borrowings due to the Republic of Croatia and HRK 167.2 million (2006: HRK 252.1 million) of refinanced borrowings due to the Government Agencies.
For more detail on refinanced loans refer to note 26.

(f) Collaterals repossessed

During the year, the Group took possession of real estates (business premises, houses, flats and land) with carried value of HRK 4.8 million and the Bank HRK 4.0 million (2006: 15.6 million and 13.6 million respectively). The collaterals repossessed, which the Group is in the process of selling, are disclosed within Other assets (note 23). In general, the Group does not occupy repossessed properties for business use.
During 2007 the Group has sold the collaterals with the total fair value of HRK 100 million (2006: HRK 97 million).

16 | Assets available for sale (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Balance at 1 January	**1,305**	**386**	**53**	**24**
Purchases	499	915	338	10
Reclassified from other investments	81	-	81	-
Fair value adjustments	(32)	4	10	19
Balance at 31 December	**1,853**	**1,305**	**482**	**53**
Debt securities	1,539	1,234	187	-
Equity investments	314	71	295	53
Total	**1,853**	**1,305**	**482**	**53**

During 2007 HRK 81 million was reclassified from Equity investments in subsidiaries due to lost of control stake of equity (refer to Note 18).

16 | Assets available for sale / continued (in HRK million)

The following table sets out equity investments considered available for sale.

EQUITY INVESTMENTS	COUNTRY	NATURE OF BUSINESS	2007 holding %	2006 holding %
Questus Private Equity Kapital	Croatia	finance	29	29
Alstom Power d.o.o.	Croatia	manufacturing	20	20
UPI banka d.d. Sarajevo	Bosnia and Herzegovina	banking	19	-
Europay Hrvatska d.o.o.	Croatia	card services	15	15
Hrvatski registar obveza po kreditima d.o.o.	Croatia	finance	14	14
Tehnološko inovacijski centar d.o.o.	Croatia	manufacturing	11	11
Agromeđimurje d.d.	Croatia	agriculture	11	11
Tržište novca i kratkoročnih vrijednosnica d.d.	Croatia	finance	8	8
Međimurske novine d.o.o.	Croatia	newspaper	7	7
Varaždinsko tržište vrijednosnica d.d.	Croatia	finance	-	3
Zagrebačka burza d.d.	Croatia	finance	3	2
Veterinarska stanica d.o.o. Čakovec	Croatia	food processing	2	2
MBU d.o.o.	Croatia	finance	1	1
Regionalna razvojna agencija Porin d.o.o.	Croatia	manufacturing	1	1
Središnja depozitarna agencija d.d.	Croatia	finance	1	1
Elan d.d.	Slovenia	manufacturing	1	1

The Group holds 29 percent (2006: 29 percent) of the ordinary share capital of Questus Private Equity Kapital, a private equity investment fund. The directors of the Group do not consider that the Group is able to exercise significant influence over Questus Private Equity Kapital.
The Group holds 20 percent (2006: 20 percent) of the ordinary share capital of Alstom Power d.o.o., a company involved in manufacturing.The directors of the Group do not consider that the Group is able to exercise significant influence over Alstom Power d.o.o.

17 | Held to maturity investments (in HRK million)

	GROUP 2007	GROUP 2006	BANK 2007	BANK 2006
Recapitalisation bonds	608	725	608	725
Rehabilitation bonds	320	379	320	379
Republic of Croatia bonds	306	196	-	-
Replacement bonds	28	27	25	24
Accrued interest	26	31	26	30
	1,288	**1,358**	**979**	**1,158**

Investment securities on 31 December 2007 were split into held to maturity investments and assets available for sale (refer to note 16) based on whether the management had the positive intent and ability to hold certain securities until maturity at that date.

Notes to the Bank and the Group Financial Statements

17 | Held to maturity investments / continued (in HRK million)

Republic of Croatia bonds relate to the bonds of the Ministry of Finance of the Republic of Croatia purchased by PBZ Stambena štedionica. They are denominated in EUR, bear interest rate from 4.25 percent to 6.88 percent and become due from 2008 to 2019.
Recapitalisation bonds and rehabilitation bonds were issued by the State Agency for Bank Rehabilitation and Deposit Insurance (DAB). These bonds are guaranteed by the Republic of Croatia.
Replacement bonds were originaly issued by the Ministry of Finance. These kuna denominated bonds that mature in 2011, bear an interest rate of 5 percent payable in semi annual instalments.

18 | Equity investments in subsidiaries and associates (in HRK million)

		GROUP		BANK
	2007	2006	2007	2006
Consolidated subsidiaries	-	-	335	376
Associates accounted for under equity method in Group accounts (cost in Bank accounts)	49	45	28	28
	49	**45**	**363**	**404**
Movements				
Balance at 1 January	**45**	**38**	**404**	**298**
Consolidation effect arising from equity method	8	8	-	-
Payment of additional capital	-	3	40	25
Payment of dividend	(4)	(4)	-	-
Acquired/(disposed of)	-	-	(81)	81
Balance at 31 December	**49**	**45**	**363**	**404**

The principal investments in subsidiaries and associates are as follows:

CONSOLIDATED SUBSIDIARIES	COUNTRY	NATURE OF BUSINESS	2007 holding %	2006 holding %
Međimurska banka d.d.	Croatia	banking	97	97
PBZ Card d.o.o.	Croatia	card services	100	100
PBZ Leasing d.o.o.	Croatia	leasing	100	100
PBZ Invest d.o.o.	Croatia	finance	100	100
PBZ Nekretnine d.o.o.	Croatia	real estate	100	100
PBZ Stambena štedionica d.d.	Croatia	building society	100	100
Invest Holding Karlovac d.o.o.	Croatia	finance	56	56
Centurion financijske usluge d.o.o.	Bosnia and Herzegovina	card services	100	100
Cards d.o.o.	Macedonia	card services	-	95
LT Gospodarska banka d.d.	Bosnia and Herzegovina	banking	-	67
ASSOCIATES				
PBZ Croatia osiguranje d.d.	Croatia	finance	50	50
Centurion d.o.o.	Slovenia	card services	25	25

18 | Equity investments in subsidiaries and associates / continued (in HRK million)

Share of consolidated companies in equity reserves of the Group:

	2007	2006
Privredna banka Zagreb d.d.	4,427	3,664
Međimurska banka d.d.	124	98
PBZ Card d.o.o.	427	316
PBZ Leasing d.o.o.	27	17
PBZ Invest d.o.o.	60	21
PBZ Nekretnine d.o.o.	26	14
PBZ Stambena štedionica d.d.	(55)	(20)
Invest Holding Karlovac d.o.o.	9	9
Centurion financijske usluge d.o.o.	(4)	(2)
PBZ Croatia osiguranje d.d.	18	13
Total equity reserves of the Group	**5,059**	**4,130**

PBZ Croatia osiguranje d.d. and Centurion are accounted for under the equity method. The following table illustrates summarised financial information of the Group's investment in associates:

	2007	2006
Share of the associates' balance sheet		
Current assets	90	45
Non current assets	4	4
Current liabilities	(14)	(2)
Non current liabilities	(31)	(2)
Net assets, being carrying amount of investment	**49**	**45**
Share of the associates' revenue and profit		
Revenue	29	18
Profit	8	8

In December 2006, the Bank completed its acquisition of 66.99 percent of the share capital of LT Gospodarska banka d.d. following the approvals given by the appropriate regulatory authorities. The cost of acquisition (including directly attributable costs) amounted HRK 81.1 million, out of which 36.1 million was allocated to goodwill. The subsidiary was first consolidated as of 31 December 2006, having no effect on 2006 results of the Group. If the combination had taken place at the beginning of the year, the total profit for the year attributable to equity holders of the Bank would have been HRK 53 thousand higher.

In August 2007 LT Gospodarska banka d.d. was integrated into UPI banka d.d. Sarajevo. Privredna banka Zagreb presently holds 18.95 percent of the share capital of UPI banka and this investment is classified within financial assets available for sale. LT Gospodarska banka recorded net loss for 8 months of 2007 in amount of HRK 1.5 million at integration date. Of that amount, HRK 1 million was attributable to the shareholders of PBZ Group and it was not disclosed separately under the result from discontinued operations as considered insignificant.

19 | Intangible assets and goodwill (in HRK million)

Group	Goodwill	Software	Other intangible assets	Assets in preparation	Total
Cost or revaluation					
Balance at 1 January 2006	**59**	**242**	**6**	**15**	**322**
Additions	-	59	-	6	65
Effect of LT Gospodarska banka acquisition	36	1	3	-	40
Disposals and eliminations	-	(31)	-	-	(31)
Balance at 31 December 2006	**95**	**271**	**9**	**21**	**396**
Balance at 1 January 2007	**95**	**271**	**9**	**21**	**396**
Additions	-	57	6	28	91
Effect of LT Gospodarska banka disposal	(36)	(1)	(3)	-	(40)
Disposals and eliminations	-	(1)	-	(46)	(47)
Balance at 31 December 2007	**59**	**326**	**12**	**3**	**400**
Amortization					
Balance at 1 January 2006	**-**	**175**	**-**	**-**	**175**
Charge for the year	-	32	-	-	32
Disposals and eliminations	-	(11)	-	-	(11)
Balance at 31 December 2006	**-**	**196**	**-**	**-**	**196**
Balance at 1 January 2007	**-**	**196**	**-**	**-**	**196**
Charge for the year	-	34	-	-	34
Disposals and eliminations	-	(1)	-	-	(1)
Balance at 31 December 2007	**-**	**229**	**-**	**-**	**229**
Net book value					
Balance at 31 December 2007	**59**	**97**	**12**	**3**	**171**
Balance at 31 December 2006	**95**	**75**	**9**	**21**	**200**

19 | Intangible assets and goodwill / continued (in HRK million)

Bank	Software	Assets in preparation	Total
Cost or valuation			
Balance at 1 January 2006	**196**	**12**	**208**
Additions	34	6	40
Disposals and eliminations	(27)	-	(27)
Balance at 31 December 2006	**203**	**18**	**221**
Balance at 1 January 2007	**203**	**18**	**221**
Additions	45	(16)	29
Disposals and eliminations	-	(2)	(2)
Balance at 31 December 2007	**248**	**-**	**248**
Amortization			
Balance at 1 January 2006	**146**	**-**	**146**
Charge for the year	20	-	20
Disposals and eliminations	(10)	-	(10)
Balance at 31 December 2006	**156**	**-**	**156**
Balance at 1 January 2007	**156**	**-**	**156**
Charge for the year	22	-	22
Balance at 31 December 2007	**178**	**-**	**178**
Net book value			
Balance at 31 December 2007	**70**	**-**	**70**
Balance at 31 December 2006	**47**	**18**	**65**

As from 1 January 2005, the date of adoption of IFRS 3, goodwill was no longer amortised but is now subject to annual impairment testing. Accumulated amortisation up to that date was eliminated accordingly.
Goodwill acquired through business combinations was allocated to two individual cash generating units for impairment testing - PBZ Card (American Express part of the business) and Međimurska banka. The recoverable amounts of cash generating units have been determined based on a value in use calculation using cash flow projections based on financial plans covering a five-year period. The discount rate applied to cash flow projections was 9.13 percent for PBZ Card and 8.07 percent for Međimurska banka, while the cash flows beyond the 5-year period were extrapolated using a no growth assumption (zero percent growth rate).

20 | **Property and equipment** (in HRK million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Property and equipment in preparation	Total
Cost or valuation						
Balance at 1 January 2006	**672**	**278**	**221**	**524**	**274**	**1,969**
Additions	351	171	56	69	(182)	465
Effect of LT Gospodarska banka acquisition	7	4	1	2	-	14
Reclassifications	-	19	(8)	(11)	-	-
Disposals and eliminations	(4)	(50)	(33)	(54)	(7)	(148)
Balance at 31 December 2006	**1,026**	**422**	**237**	**530**	**85**	**2,300**
Balance at 1 January 2007	**1,026**	**422**	**237**	**530**	**85**	**2,300**
Additions	81	115	102	42	(74)	266
Effect of LT Gospodarska banka disposal	(7)	(4)	(1)	(2)	-	(14)
Disposals and eliminations	(16)	(32)	(54)	(63)	(1)	(166)
Balance at 31 December 2007	**1,084**	**501**	**284**	**507**	**10**	**2,386**
Depreciation						
Balance at 1 January 2006	**197**	**161**	**69**	**370**	**-**	**797**
Reclassifications	-	9	(3)	(6)	-	-
Charge for the year	34	61	39	70	-	204
Disposals and eliminations	(2)	(18)	(18)	(44)	-	(82)
Balance at 31 December 2006	**229**	**213**	**87**	**390**	**-**	**919**
Balance at 1 January 2007	**229**	**213**	**87**	**390**	**-**	**919**
Charge for the year	26	77	46	65	-	214
Disposals and eliminations	(7)	(20)	(36)	(62)	-	(125)
Balance at 31 December 2007	**248**	**270**	**97**	**393**	**-**	**1,008**
Net book value						
Balance at 31 December 2007	**836**	**231**	**187**	**114**	**10**	**1,378**
Balance at 31 December 2006	**797**	**209**	**150**	**140**	**85**	**1,381**

Furniture and other equipment and Motor vehicles of the Group include assets leased under operating leases with a net book value of total of HRK 262.6 million (2006: HRK 176.5 million).

20 | Property and equipment / continued (in HRK million)

Bank	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Property and equipment in preparation	Total
Cost or valuation						
Balance at 1 January 2006	**533**	**225**	**21**	**410**	**165**	**1,354**
Additions	234	64	1	69	(73)	295
Disposals and eliminations	(14)	(15)	(3)	(168)	(7)	(207)
Balance at 31 December 2006	**753**	**274**	**19**	**311**	**85**	**1,442**
Balance at 1 January 2007	**753**	**274**	**19**	**311**	**85**	**1,442**
Additions	72	64	3	31	(77)	93
Disposals and eliminations	(13)	(16)	(2)	(54)	(1)	(86)
Balance at 31 December 2007	**812**	**322**	**20**	**288**	**7**	**1,449**
Depreciation						
Balance at 1 January 2006	**153**	**131**	**12**	**315**	**-**	**611**
Charge for the year	30	39	3	54		126
Disposals and eliminations	(6)	(14)	(4)	(154)	-	(178)
Balance at 31 December 2006	**177**	**156**	**11**	**215**	**-**	**559**
Balance at 1 January 2007	**177**	**156**	**11**	**215**	**-**	**559**
Charge for the year	20	46	4	50	-	120
Disposals and eliminations	(7)	(14)	(2)	(54)	-	(77)
Balance at 31 December 2007	**190**	**188**	**13**	**211**	**-**	**602**
Net book value						
Balance at 31 December 2007	**622**	**134**	**7**	**77**	**7**	**847**
Balance at 31 December 2006	**576**	**118**	**8**	**96**	**85**	**883**

21 | Investment property (in HRK million)

	GROUP	BANK
Cost or revaluation		
Balance at 1 January 2007	**28**	**28**
Transferred from Property and equipment	2	2
Balance at 31 December 2007	**30**	**30**
Depreciation		
Balance at 1 January 2007	**14**	**14**
Charge for the year	1	1
Balance at 31 December 2007	**15**	**15**
Net book value		
Balance at 31 December 2007	**15**	**15**
Balance at 31 December 2006	**14**	**14**

The estimated fair value of investment property held by the Bank as at 31 December 2007 amounted to HRK 24 million (2006: HRK 23 million). The fair value was estimated by PBZ Nekretnine, a wholly owned subsidiary of Privredna banka Zagreb, engaged in real estate management.
The property rental income earned by the Bank from its investment property, all of which was leased out under operating leases, amounted to HRK 3 million (2006: HRK 3 million).

22 | Non-current assets held for sale (in HRK million)

The Bank's Management Board resolved to dispose of two office buildings together with related fixtures and fittings in 2005. The assets were classified as non-current assets held for sale and presented separately in the balance sheet.
The sale of mentioned non current assets was realised in total during 2006 and 2007.
The major classes of assets comprising the non-current assets held for sale are as follows:

		GROUP		BANK
	2007	2006	2007	2006
Land and buildings	-	18	-	18
	-	**18**	**-**	**18**

23 | Other assets (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Leasehold improvements	53	51	53	51
Amounts due - deriving from foreign currency transactions	-	42	-	42
Amounts receivable from debtors	38	37	1	1
Collaterals received in satisfaction of non-performing loans	43	37	41	37
Accrued fees	39	32	34	24
Amounts to be debited under processing	27	24	27	23
Prepaid expenses	16	8	9	8
Other	173	218	46	40
	389	**449**	**211**	**226**

24 | Due to banks (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Term deposits	2,954	4,237	2,961	4,205
Demand deposits	175	281	166	298
	3,129	**4,518**	**3,127**	**4,503**

25 | Due to customers (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Term deposits	27,475	23,674	24,917	21,222
Demand deposits	14,443	13,169	13,777	12,269
	41,918	**36,843**	**38,694**	**33,491**
Retail deposits	29,525	27,163	26,658	24,163
Corporate deposits	8,625	6,959	8,268	6,607
Public sector and other	3,768	2,721	3,768	2,721
	41,918	**36,843**	**38,694**	**33,491**

26 | Other borrowed funds (in HRK million)

	GROUP		BANK	
	2007	2006	2007	2006
Domestic borrowings	4,114	2,836	4,036	2,541
Foreign borrowings	7,273	6,562	5,835	6,050
Refinanced debt	373	558	373	556
	11,760	**9,956**	**10,244**	**9,147**

(a) Domestic and Foreign borrowings

Domestic borrowings

Domestic borrowings of the Group include loans received from the Croatian Bank for Reconstruction and Development (HBOR) in amount of HRK 1.4 billion (2006: HRK 1.08 billion), borrowings from the Croatian National Bank arising from repurchase agreements in amount of 1.4 billion kuna (2006: HRK 1.1 billion), payables under repurchase agreements with other domestic banks and companies in total of HRK 205 million (2006: HRK 0.6 billion) as well as other borrowings from other domestic banks. In accordance with the overall agreement, borrowings from HBOR are used to funds loans to customers for eligible construction and development projects at preferential interest rates.

Foreign borrowings

Foreign borrowings of the Group include long-term loans received from foreign banks denominated mostly in EUR and with both fixed and floating interest rates. The following table is a summary of the Group's foreign borrowings by remaining maturities.

(in HRK million)	Due in 2008	Due in 2009	Due in 2010	Due in 2011	Due after 2012	Total 2007	Total 2006
GROUP							
Fixed rate	-	1,075	-	1	-	1,076	1,307
Floating rate	1,132	733	549	2,030	1,753	6,197	5,255
Total foreign borrowings	**1,132**	**1,808**	**549**	**2,031**	**1,753**	**7,273**	**6,562**

(b) Refinanced debt - Amounts due to the Republic of Croatia - London Club

These amounts relate to foreign currency borrowings from commercial banks falling due under the New Financing Agreement signed on 20 September 1988. Repayments of principal under this agreement were due to commence in February 1994 with the first of 26 semi-annual instalments. However, negotiations continued regarding the assumption of the liabilities of the former Yugoslavia, and interest payments since 25 May 1992 and capital payments were delayed. During 1996 HRK 4,030 million liabilities to commercial banks under the New Financing Agreement were transferred from the Bank to the Rehabilitation Agency as part of the Bank's rehabilitation. On 31 July 1996 the Government of the Republic of Croatia assumed responsibility for 29.5 percent of all rescheduled liabilities of the former Yugoslavia to commercial banks under the New Financing Agreement (London Club), representing the Republic of Croatia's share of the debt of the former Yugoslavia. This liability was settled by the issue of bonds of the Republic of Croatia and the first payment of principal and interest was made on 31 January 1997. Consequently, the Bank's liabilities to commercial banks under the New Financing Agreement were replaced by amounts due to the Republic of Croatia. The liabilities assumed by the Republic of Croatia were further rescheduled, for a period of 10 to 14 years; they are denominated in USD and carry interest at LIBOR + 13/16 percent. The amounts due to the Republic of Croatia by the Bank were similarly rescheduled and redenominated. The Bank expects to recover the majority of this amount from the Croatian companies who were the original borrowers of the funds.

(C) Refinanced debt - Amounts due to Government agencies - Paris Club

Repayments of foreign currency borrowings previously due between 1984 and 1988 were rescheduled and refinanced by the agreement concluded with the Paris Club. Under this agreement repayments of principal were to be made in 24 semi-annual instalments commencing January 1999. During 1996 further discussions were held with each of the contracting parties and substantially all of the Bank's liabilities were rescheduled under the series of Consolidation Agreements.
The Bank expects to recover this amount from the Croatian companies who were the original borrowers of the funds by rescheduling the loans in a manner similar to the above-described arrangements.

27 | Debt securities issued

In April and October 2006 PBZ Card issued two tranches of commercial bills in total nominal amount of HRK 140 million. These securities were issued with maturity of 364 days and carry interest of 4.41 percent and 5.11 percent per tranche respectively.
In April 2007 PBZ Card issued another tranche of commercial bills in total nominal amount of HRK 80 million. These securities were issued with maturity of 364 days and carry interest of 5.13 percent.

28 | Other liabilities (in HRK million)

		GROUP		BANK
	2007	2006	2007	2006
Amounts payable to creditors	1,144	1,098	17	49
Items in course of payment and other liabilities	345	479	284	422
Salaries and other staff costs	132	137	114	120
Taxes	87	118	45	58
	1,708	**1,832**	**460**	**649**

29 | Accruals and deferred income (in HRK million)

		GROUP		BANK
	2007	2006	2007	2006
Deferred tax liabilities	8	2	8	2
Deferred income	42	22	13	7
Accrued expenses	113	96	58	57
	163	**120**	**79**	**66**

30 | Provisions for risks and charges (in HRK million)

		GROUP		BANK
	2007	2006	2007	2006
a) Analysis				
Provisions for contingent liabilities and commitments	154	108	150	102
Provisions for legal claims	99	89	92	84
Provisions for other risks and charges	12	14	-	-
	265	**211**	**242**	**186**
b) Movements				
Balance at 1 January	**211**	**188**	**186**	**175**
Release of provisions	(7)	(4)	(4)	(8)
Provisions for guarantees and commitments (note 5)	49	(8)	49	(12)
Provisions for legal claims (note 5)	13	35	12	31
Foreign exchange loss	(1)	-	(1)	-
Balance at 31 December	**265**	**211**	**242**	**186**

31 | Contingent liabilities and commitments

Legal claims
As at 31 December 2007 there were several litigations outstanding against the Group. In the opinion of legal experts, there is a probability that the Group may lose certain cases. For this reason the level of provisions for potential loss in litigation as at 31 December 2007 made by the Group stood at HRK 99 million whilst the Bank provided HRK 92 million (refer to note 30).

Credit related contingencies and commitments
The primary purpose of these instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The Group assessed that a provision of HRK 154 million is necessary to cover risks due to default of the respective counterparties (refer to note 30).

The aggregate amounts of outstanding guarantees, letters of credit and other commitments at the end of the period were:

	GROUP		BANK	
	2007	2006	2007	2006
Undrawn lending commitments	11,686	10,565	11,460	10,360
Performance guarantees	1,745	1,478	1,714	1,407
Foreign currency guarantees	397	446	384	430
Foreign currency letters of credit	418	348	413	338
HRK guarantees	253	236	226	212
Other contingent liabilities	45	44	38	5
	14,544	**13,117**	**14,235**	**12,752**

On 31 December 2007 the Group and the Bank had long-term commitments in respect of rent for business premises and equipment lease agreements expiring between 2008 and 2012. The Management Board is confident that the future net revenues and funding will be sufficient to cover this commitment. The future minimum commitments for each of the next five years along with comparative numbers for 2007 are presented below:

	2007	2008	2009	2010	2011	2012	Total
Group							
Premises	34	47	51	55	59	61	307
Equipment	2	3	3	4	4	4	18
	36	**50**	**54**	**59**	**63**	**65**	**325**
Bank							
Premises	33	46	50	54	58	60	301
Equipment	2	2	2	3	3	3	15
	35	**48**	**52**	**57**	**61**	**63**	**316**

32 | Share capital

The total number of authorised registered shares on 31 December 2007 was 19,074,769 (2006: 19,074,769) with a nominal value of HRK 100 per share (2006: HRK 100 per share).

On 17 December 1999, the State Agency for Deposit Insurance and Bank Rehabilitation and Comit Holding International (now Intesa Holding International) through Banca Commerciale Italiana (now Banca Intesa) signed the Share Purchase Agreement in Relation to Privredna banka Zagreb. By this contract, which came into effect on 28 January 2001, Banca Commerciale Italiana acquired 11,046,005 ordinary shares amounting to 66.3 percent of the total share capital of the Bank. According to this agreement the State Agency for Deposit Insurance and Bank Rehabilitation kept 4,165,002 ordinary shares which accounted for 25 percent (plus two shares) of the total share capital of the Bank (prior to 28 January 2001 the State Agency for Deposit Insurance and Bank Rehabilitation was the majority shareholder holding 15,211,007 ordinary shares which accounted for 91.3 percent of total share capital of the Bank).

Furthermore, on 22 November 2002, the State Agency for Deposit Insurance and Bank Rehabilitation, Intesa Holding International and the European Bank for Reconstruction and Development signed a three-party Share Purchase Agreement Relating to Privredna banka Zagreb whereby the EBRD acquired 15 percent of the nominal capital whilst Intesa Holding International gained the remaining 10 percent from the State Agency for Deposit Insurance and Bank Rehabilitation.

Following finalisation of the public tender, as required in such circumstances by the Croatian law on the take-over of joint stock companies, Intesa Holding International and the EBRD concluded a contract on 22 January 2003 for the purchase of 965,746 shares by the EBRD from Intesa Holding International.

In November 2006, following Decision of the Extraordinary General Assembly held on 31 August 2006, Intesa Holding International and the EBRD subscribed to additional capital of the Bank in amount of HRK 1,811,076,750 of which Intesa Holding subscribed HRK 1,423,143,750 and the EBRD HRK 387,933,000. The new share capital was registered in the Commercial Court in Zagreb on 16 November 2006. As of 31 December 2006, following the merger of Banca Intesa with Sanpaolo IMI, Intesa Holding International changed its name into Intesa Sanpaolo Holding International. The ownership structure as at 31 December 2007 was as follows:

The ownership structure as at 31 December 2007 was as follows.

	REGISTERED SHARES			
	31 December 2007		31 December 2006	
	Number of shares	**Percentage of ownership**	**Number of shares**	**Percentage of ownership**
Intesa Sanpaolo Holding International	14,609,532	76.6%	14,609,532	76.6%
EBRD	3,981,990	20.9%	3,981,990	20.9%
Minority shareholders	432,648	2.3%	439,858	2.3%
Treasury shares	50,599	0.2%	43,389	0.2%
	19,074,769	**100%**	**19,074,769**	**100%**

During the year the movement of treasury shares was as follows.

(number of shares)	**2007**	**2006**
Balance at 1 January	**43,389**	**48,129**
Increase	20,000	27,484
Decrease	(12,790)	(32,224)
Balance at 31 December	**50,599**	**43,389**

33 | Reserves and retained earnings

In accordance with local legislation, 5 percent of the net profit of the Bank is required to be transferred to non-distributable legal reserves to equal 5 percent of the share capital of the Bank.
On 5 April 2007, at their General Shareholders Meeting the shareholders of Privredna banka Zagreb approved the bonus payment to the management and employees of PBZ in amount of HRK 30,000,000 as a share based bonus payment.
During 2007, the Bank purchased a total of 20,000 treasury shares on the open market for own purposes.
In accordance with the CNB's Decision on the classification of placements and contingent liabilities, banks are obliged to form reserves in shareholders' equity for general banking risks based upon the annual growth of placements. Considering the growth of 28 percent in 2006, compared to 2005, the Bank allocated HRK 366 million of the net profit for 2006 to the reserves for general banking risks.
As of 31 December 2007 retained profits of the Group amounted to HRK 2,975 million and of the Bank HRK 2,851 million (2006: HRK 2,575 million and HRK 2,567 million, respectively). Retained profits are generally available to shareholders, subject to their approval, whilst other reserves within equity can not be distributed to shareholders.

34 | Cash and cash equivalents (in HRK million)

The table below shows reconciliation of cash and cash equivalents for the purposes of the cash flow statement.

		GROUP		BANK
	2007	2006	2007	2006
Cash and current accounts with other banks (note 10)	2,471	2,576	2,356	2,328
Due from banks with maturity of up to 3 months (note 14 and 45)	6,699	6,471	6,184	6,179
	9,170	**9,047**	**8,540**	**8,507**

35 | Managed funds for and on behalf of third parties (in HRK million)

		GROUP		BANK
	2007	2006	2007	2006
LIABILITIES				
Local authorities and similar organisations	445	447	444	446
Companies	4	4	4	4
Banks and other institutions	249	258	244	252
	698	**709**	**692**	**702**
LESS: ASSETS	676	703	670	696
	22	**6**	**22**	**6**

The Group manages funds for and on behalf of third parties, which are mainly in the form of loans to various organisations for capital investment. These assets are accounted for separately from those of the Group. Income and expenses arising from these funds are credited and charged to the corresponding sources and no liability falls on the Group in connection with these transactions. The Group is compensated for its services by fees chargeable to the funds.

36 | Leases

PBZ Leasing d.o.o., the company wholly-owned by the Bank, has entered as a lessor into both finance and operating lease arrangements of various items of equipment, vessels and vehicles. Net investments in finance lease in the Group financial statements are included within loans and advances to customers in the total amount of HRK 920.8 million (2006: HRK 773.1 million) (refer to note 15). The amounts related to operating lease arrangements are classified within property and equipment (refer to note 20). The net book value of leased property and equipment was HRK 262.6 million (2006: HRK 176.5 million).

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are set out below:

	Minimum payments	Present value of payments	Minimum payments	Present value of payments
(in HRK million)	**2007**	**2007**	**2006**	**2006**
Next year	263	196	216	163
Between one and five years	627	482	516	404
After five years	359	275	297	230
Total minimum lease payments receivable	**1,249**	**953**	**1,029**	**797**
Unearned finance income	(296)	-	(232)	-
Total investment in finance lease	**953**	**953**	**797**	**797**
Less: Allowance for uncollectable amounts	(32)	(32)	(24)	(24)
Net investment in finance lease	**921**	**921**	**773**	**773**

Future minimum rentals receivable under non-cancellable operating leases are as follows:
(in HRK million)

	2007	**2006**
Within one year	66	55
After one year but no more than five years	130	109
More than five years	63	67
	259	**231**

37 | Related party transactions (in HRK million)

As of 31 December 2007 Privredna banka Zagreb and its subsidiaries are under controlling interest of Intesa Sanpaolo, which owned 76.59 percent of the share capital at that date.
Related parties include companies controlled or influenced by the Bank by virtue of its shareholdings and also companies that can influence the Bank by virtue of their shareholdings in the Bank, together with other companies forming part of the Intesa Sanpaolo Group. In addition, companies influenced by the key management personnel of the Bank are also considered to be related parties.
The Bank grants loans to or places deposits with the companies to which it is related. Such loans are made in the ordinary course of business at terms and conditions available to third parties.
The volumes of related party transactions and outstanding balances at the year end were as follows:

	Key management personnel	Related companies
GROUP		
LOANS GIVEN		
Loans outstanding at 1 January 2007	**7**	**2,160**
Changes during the year	5	(181)
Loans outstanding at 31 December 2007	**12**	**1,979**
DEPOSITS AND LOANS RECEIVED		
Balance at 1 January 2007	**20**	**8,544**
Changes during the year	(5)	(1,448)
Balance at 31 December 2007	**15**	**7,096**
Contingent liabilities and commitments	-	167
Bank		
LOANS GIVEN		
Loans outstanding at 1 January 2007	**6**	**2,463**
Changes during the year	5	(426)
Loans outstanding at 31 December 2007	**11**	**2,037**
DEPOSITS AND LOANS RECEIVED		
Balance at 1 January 2007	**14**	**7,900**
Changes during the year	(1)	(1,941)
Balance at 31 December 2007	**13**	**5,959**
Contingent liabilities and commitments	-	94

No provisions were recognised in respect of loans given to related parties (2006: nil).

37 | Related party transactions / continued (in HRK million)

Key management compensation:

	GROUP		BANK	
	2007	2006	2007	2006
Salaries and other short-term benefits	31	28	18	16
Bonus payments	12	10	11	9
Termination benefits	-	1	-	-
	43	**39**	**29**	**25**

Key management personnel include Management Board and Supervisory Board members, as well as senior executive directors or executive directors responsible for the areas of strategic relevance.

38 | Financial risk management policies

This section provides details of the Group's exposure to risk and describes the methods used by the management to control risk. 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 equity price risk.
An integrated system of risk management is being established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group. The limits are set according to the amount of regulatory capital and apply to all types of risk. Methodology and models for managing operational risk have been developed.

Credit risk

The Group is subject to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counter parties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with counter parties of good credit standing, and when appropriate, obtains collateral.
The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard 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 31.
Commitments to lend or based on guarantees issued by the Group that are contingent upon customers maintaining specific standards (including the term of not worsening the solvency position of customers) represent liabilities that can be revoked. Irrevocable liabilities are based upon undrawn but approved loans and approved overdrafts because these liabilities are the result of terms determined by loan contracts.
Guarantees and approved letters of credit that commit the Group to make payments on behalf of customers in the event of a specific act carry the same credit risk as loans. Standby letters of credit that represent written guarantees of the Group in the client's name that the third party can withdraw funds up to the preapproved limit are covered with the collaterals, being the goods for which they were issued. Even though the credit risk for this type of product is significantly lower than for direct loans, the Group calculates impairment provisions on the same basis.
Exposure to credit risk has been managed in accordance with the Group's policies. Credit exposures to portfolios and individual group exposures are reviewed on a regular basis against the set limits. Breaches are reported to appropriate bodies and personnel within the Bank authorised to approve it. Any substantial increases in credit exposure are authorised by the Credit Committee. The Assets Quality Committee monitors changes in credit-worthiness of credit exposures and reviews proposed impairment losses. Credit risk assessment is continuously monitored and reported, thus enabling an early identification of impairment in the credit portfolio. The Group has been continually applying prudent methods and models used in the process of the credit risk assessment.

38 | Financial risk management policies / continued

Credit risk / continued

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements.

	NOTE	GROUP		BANK	
(in HRK million)		2007	2006	2007	2006
Cash and current accounts with other banks (excluding cash in hand)	10	1,339	1,550	1,286	1,382
Balances with Croatian National Bank	11	8,194	7,262	7,934	7,049
Financial assets at fair value through profit or loss	12	4,170	3,056	4,182	3,074
Derivative financial assets	13	33	44	33	44
Due from banks	14	7,245	7,235	6,726	6,935
Loans and advances to customers	15	40,147	36,910	36,436	33,572
Assets available for sale	16	1,853	1,305	482	53
Held to maturity investments	17	1,288	1,358	979	1,158
Other assets (excluding leasehold improvements and real estates pledged for non-performing loans)	23	293	361	117	138
Total		**64,562**	**59,081**	**58,175**	**53,405**
Contingent liabilities and commitments	31	14,544	13,117	14,235	12,752
Total credit risk exposure		**79,106**	**72,198**	**72,410**	**66,157**

Where financial instruments are recorded at fair value the amounts shown above represent the credit risk exposure at the balance sheet date but not the maximum risk exposure that could arise in the future as a result of changes in fair values. Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2007 was HRK 733 million (2006: HRK 222 million) before taking account of collateral or other credit enhancements.
The Group's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. As a rule, the Group approves a facility if there are two independent and viable repayment sources - cash flow generated by the borrower's activity and security instruments/collateral. The main types of collateral obtained are as follows:

- cash deposit for which the agreement stipulates that the Bank shall have the right to use the cash deposit for debt recovery and that the depositor may not use this deposit until the final settlement of all obligations under the approved facility,
- guarantee of the Government of the Republic of Croatia,
- pledge of securities issued by the Republic of Croatia or the Croatian National Bank,
- irrevocable guarantee or super guarantee issued by a domestic or foreign bank with adequate credit rating with the conditions of "payable on first demand" or "without objections" or similar,
- credit insurance policy issued by the Croatian Bank for Reconstruction and Development,
- credit insurance policy issued by an appropriate insurance company in accordance with the internal regulations of the Bank,
- pledge of units in investment funds managed by PBZ Invest,
- mortgage/lien/fiduciary transfer of ownership of property, movable property or securities of other issuers.

38 | Financial risk management policies / continued

Credit risk / continued

In general, a quality security instrument is an instrument with characteristics that provide a reasonable estimate of the Bank's ability to recover its dues secured by that instrument (in case of its activation), through market or court mechanisms, within a reasonable period of time. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. In 2007 the Bank initiated collateral management project aimed at substantive collateral (including real estate) redesign. The project focuses on developing a new platform for collateral management, collateral revaluation as well as allocation of the value of collateral against respective loan accounts. This project, currently in pilot phase, will enable the Bank to modernise and improve collateral revaluation process and will optimise its capital adequacy. Full compleation of the project has been planned for mid 2008.

Ageing analysis of past due receivables per class of financial assets is shown below. The exposures below include not just the portion of debt that is overdue but also total receivables outstanding at the balance sheet date.

GROUP 2007 (in HRK million)	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Loans and advances to customers					
Corporate lending	8,693	1,072	48	479	10,292
Housing loans	1,738	380	87	59	2,264
Other retail loans	3,172	932	226	500	4,830
Public sector and other	1,015	103	4	12	1,134
	14,618	2,487	365	1,050	18,520
Due from banks	150	-	-	120	270
Securities	3	-	-	-	3
Other due receivables	2,180	193	157	1,071	3,601
Total	**16,951**	**2,680**	**522**	**2,241**	**22,394**

GROUP 2006 (in HRK million)					
Loans and advances to customers					
Corporate lending	7,856	1,383	335	578	10,152
Housing loans	1,154	373	57	94	1,678
Other retail loans	2,710	1,173	302	528	4,713
Public sector and other	1,124	143	75	3	1,345
	12,844	3,072	769	1,203	17,888
Due from banks	440	-	-	15	455
Securities	-	-	-	-	-
Other due receivables	1,124	172	147	1,283	2,726
Total	**14,408**	**3,244**	**916**	**2,501**	**21,069**

38 | Financial risk management policies / continued

Credit risk / continued

BANK 2007 (in HRK million)	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Loans and advances to customers					
Corporate lending	8,067	860	37	420	9,384
Housing loans	1,731	375	84	55	2,245
Other retail loans	2,872	761	203	449	4,285
Public sector and other	1,010	103	2	12	1,127
	13,680	2,099	326	936	17,041
Due from banks	149	-	-	120	269
Securities	3	-	-	-	3
Other due receivables	2,139	175	155	902	3,371
Total	**15,971**	**2,274**	**481**	**1,958**	**20,684**

BANK 2006 (in HRK million)					
Loans and advances to customers					
Corporate lending	7,238	1,189	329	515	9,271
Housing loans	1,146	371	55	91	1,663
Other retail loans	2,298	1,037	276	469	4,080
Public sector and other	1,097	143	75	3	1,318
	11,779	2,740	735	1,078	16,332
Due from banks	439	-	-	15	454
Securities	-	-	-	-	-
Other due receivables	1,082	157	146	1,121	2,506
Total	**13,300**	**2,897**	**881**	**2,214**	**19,292**

The exposure is shown gross, before the effect of mitigation through collateral agreements. Other due receivables include accrued interest on overdue receivables. A portion of this interest, related to substandard and non performing loans, is not recognised in the balance sheet nor credited to the income statement until collected.
As of 31 December 2007 the total amount of the Group's past due receivables that were not individually impaired stood at HRK 19,201 million gross, before the effect of collaterals, while for the Bank the amount stood at HRK 17,735 million.

Credit risk per class of financial assets
Credit risk by type of financial assets for loans and receivables is monitored using internal classification of the credit risk. The table below provides an aggregated analysis of financial assets for the banking segment of the Group, as the main segment of consolidated balance sheet, broken down by risk grades as at 31 December 2007. The amounts provided are gross of specific or collective provisions.

38 | Financial risk management policies / continued

Credit risk / continued

(in HRK million)			RISK GRADES			
BANKING SEGMENT 2007	A	B1	B2	B3	C	Total
Due from banks	7,253	-	-	-	-	**7,253**
Loans to customers	37,577	744	566	69	798	**39,754**
of which Republich of Croatia, Government agencies and municipalities	3,582	4	-	-	-	**3,586**
of which corporate and SME customers	11,126	638	189	39	338	**12,330**
of which retail customers	22,579	102	377	30	444	**23,532**
of which other loans	290	-	-	-	16	**306**
Held to maturity investments	957	-	-	-	-	**957**
Assets available for sale	742	-	-	-	-	**742**
Other receivables	324	-	3	-	30	**357**
Total	**46,853**	**744**	**569**	**69**	**828**	**49,063**

Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at the appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.
The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings, subordinated liabilities including deposits, borrowings and share capital. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management. The Group adjusts its business activities in compliance with liquidity risk according to regulatory and internal policies for maintenance of liquidity reserves, matching of liabilities and assets, limits control, preferred liquidity ratios and contingency planning procedure. Needs for short-term liquidity are planned every month for a period of one month and controlled and maintained daily. The treasury manages liquidity reserves daily, ensuring also the fullfilment of all customer needs.

The Group uses the following basic models for measurement of the liquidity risk:
• stressed short term mismatches;
• maturity transformation rules;
• cumulative maturity mismatches of the Group's balance sheet by currencies;
• what if analysis
• funding and other structural indicators;
• cash flow projections.

For the purpose of the Group's liquidity risk exposure reporting, three main types of signals are defined:
• Hard limit - breach of a prescribed limit demands action according to the Liquidity risk management policy;
• Threshold of attention - breach of threshold acts as an early warning signal, demanding additional attention and action if decided by responsible persons;
• Information on various measures and indicators - serving as information to the relevant decision-making bodies.

Market risk

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognised at fair value, and all changes in market conditions directly affect net trading income. The Group manages its use of trading instruments in response to changing market conditions. The limits are defined following the needs and strategy of the Group and in accordance with senior management risk policy indications.

38 | Financial risk management policies / continued

Market risk / continued

Exposure to market risk is formally managed in accordance with risk limits approved by senior management and revised at least annually in terms of positional (nominal) exposure, VaR, PV01 and stop loss limits. The exposure figures and limit utilisation are delivered daily to the senior management and the lower management levels in the Treasury Division, which enables informed decision-making at all management and operational levels.
PBZ follows advanced market risk measurement and management principles promoted by Intesa Sanpaolo Group which are prescribed by Group-wide general policy guidelines and operative procedurals standards. Starting from 2004, the Bank has fully integrated advanced techniques for risk measurement into day-to-day risk management process (introduction of VaR - parametric approach as an official limits methodology starting from June 2004 with K+ support) which served as a basis for top management reporting on the Bank's market risk exposure. In addition to this, starting from 1 January 2007, PBZ started to use historical simulation (as Group standard VaR methodology) and RiskWatch (as Group wide VaR calculation engine), followed by all other supporting activities (pricing, back-testing, stress testing), which insured full compliance with Intesa Sanpaolo Group standards.

Bank's internal market risk management framework defines strict and clear procedures ensuring high quality and advanced systems for market risk measurement process. The major elements of the market risk management framework include:
- VaR Methodology and Backtesting,
- Fair Value Measurement,
- Risk Identification and Measurement Process,
- Stress testing,
- Internal Trading Book Regulation,
- Risk Management Organisation,
- PBZ Limits for Market Risk Exposures,
- General Policy guidelines for Investments into AFS Portfolio,
- Procedure for monitoring and measurement of counterparty and delivery risk exposure.

These measures, combined with regular control and reporting process, present a high quality and confident system for market risk measurement.
The VaR that the Bank measures is an estimate, using a confidence level of 99 percent, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99 percent confidence level means that, within a one day horison, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

(in HRK thousand)	Equity VaR	Fixed Income VaR	Money market securities VaR
2006 - 29 December	1,627	538	619
2006 - Average daily	2,600	2,468	1,263
2006 - Highest	5,288	3,966	2,879

Note: parametric simulation used for VaR calculations

(in HRK thousand)	Equity VaR	Interest rate VaR	FX VaR	Effects of correlation	Total
2007 - 2 January	4,463	3,218	835	(3,355)	5,161
2007 - 31 December	5,159	14,192	343	(1,161)	18,533
2007 - Average daily	4,992	7,979	1,843	(5,772)	9,042
2007 - Lowest	3,838	3,130	44	(2,025)	4,987
2007 - Highest	7,645	15,030	5,828	(9,100)	19,403

Note: historical simulation used for VaR calculations

38 | Financial risk management policies / continued

Market risk / continued

In terms of VaR applications, as of 01 January 2007 the market risks measured using VaR technique are:
• general interest rate in the trading book,
• equity risk in trading book and
• foreign exchange risk on the balance sheet level (both trading and banking book).
In practice the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation.

Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The foreign exchange risk exposure is monitored on the overall balance sheet level in terms of foreign exchange open position as prescribed by the regulatory provisions and additionally through the internal limits based on the advanced market risk models (FX VaR) on a daily basis.

Interest rate risk

Interest rate risk is the sensitivity of the Group's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in a given period generate interest rate risk.
The 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 the repricing characteristics of the various floating rate indices.
Asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate exchanges. Exposure to interest rate risk is monitored and measured using repricing gap analysis, net interest income and economic value of equity. Risk management activities are aimed at optimising net interest income and the economic value of equity, given market interest rate levels consistent with the Group's business strategies.

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment. The primary exposure to equity prices arises from equity securities held for trading and available for sale.

Derivative financial instruments

The Group enters into derivative financial instruments primarily to satisfy the needs and requirements of the customers. Derivative financial instruments used by the Group include foreign exchange swaps and forwards. Derivatives are contracts individually negotiated over-the-counter.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk. In order to efficiently measure and manage operational risk exposure at the Group level, the Bank is developing an internal model for operational risk exposure management in line with the Basel II prescribed framework. The main goals of the internal model are: to implement techniques enabling detailed insight into the profile of the Bank's risk exposure such as (quantitative ('ex-post') and qualitative (ex-ante') risk exposure assessment); to support the management decision making process by developing efficient policies for management and mitigation of operational risk at the Group level; adjustment of the pricing/provisioning policy by incorporation of expected losses and allocation of adequate economic/regulatory capital for unexpected losses.

39 | Capital

The Bank maintains an actively managed capital base to cover risks in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Croatian National Bank in supervising the Bank. During the past year, the Bank complied in full with all its externally imposed capital requirements.

BANK

(in HRK million)	2007	2006
Tier 1 capital	6,866	6,842
Tier 2 capital	206	426
Deductions	(434)	(312)
Total capital	**6,638**	**6,956**
Risk weighted assets and other risk elements	**43,402**	**44,157**
Tier 1 capital ratio	**15.82%**	**15.49%**
Total capital ratio	**15.29%**	**15.75%**

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, capital gains and other reserves. The other component of regulatory capital is Tier 2 capital, which includes provision for collective impairment up to 0.5 percent of total risk weighted assets.

40 | Fair values of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms length basis. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Loans and advances to customers and assets held to maturity are measured at amortised cost less impairment. Available for sale instruments are generally measured at fair value with exception of some equity investments which are more appropriate to be kept at cost less impairment given the lack of quoted market prices in an active market or whose fair value cannot be reliably measured. The following methods and assumptions have been made in estimating the fair value of financial instruments.

- As at 31 December 2007 marginal reserve with the Croatian National Bank earned no interest. The fair value of balances with the Croatian National Bank for the Group is estimated to be 8,181 million kuna and for the Bank 7,921 million kuna (carrying value being 8,194 and 7,934 million kuna, respectively);
- Loans and advances to customers are net of specific and other provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected future cash flows are estimated considering credit risk and any indication of impairment. As the Group has a limited portfolio of loans and advances with fixed rate and longer term maturity, the fair value of loans and advances is not significantly different from their carrying value;
- The fair value of securities is based on market prices, with the exception of unquoted equity investments where fair value is based on the latest available financial statements of the issuer;
- For some of investments carried at amortised cost less impairment a quoted market price is not available and fair value is, where possible, estimated using mark to model techniques and, as a result, their estimated fair value appeared not to be materially different from their carrying value. The fair value of securities held to maturity for the Group is estimated to be at HRK 1,313 million kuna and for the Bank 1,017 million kuna (carrying value 1,288 and 979 million kuna, respectively);
- For demand deposits and deposits with no defined maturities, fair value is determined to be the amount payable on demand at the balance sheet date.
- Most of the Group's long-term debt borrowings bear floating interest rates which are linked to market and reprice regularly. As such the management believes that the book value of the long term borrowings approximates their fair value.

In the opinion of the Management Board of the Bank there are no significant differences between the book values and the fair values of assets and liabilities.

41 | **Financial information by segment** (in HRK million)

The following tables present information on the income statement and certain assets and liabilities regarding the Group's business segments for the years ended 31 December 2007 and 2006. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing strategic segment units that offer different products and serve different markets.

GROUP	Banking	Card services	Leasing	Other financial services	Non financial services	Consolidation adjustments	Total
As at 31 December 2007							
Interest income	3,430	74	72	51	-	-	3,627
Interest expense	(1,626)	(7)	(46)	(30)	-	-	(1,709)
Intersegment	5	-	(6)	-	-	1	-
Net interest income	1,809	67	20	21	-	1	1,918
Fee and commission income	561	576	5	140	18	-	1,300
Fee and commission expense	(199)	(23)	-	(8)	(6)	-	(236)
Intersegment	40	(2)	-	(39)	-	1	-
Net fee and commission income	402	551	5	93	12	1	1,064
Other operating income	412	31	115	(1)	20	(154)	423
Operating income	2,623	649	140	113	32	(152)	3,405
Provisions, other operating expenses and depreciation and amortisation	(1,420)	(400)	(126)	(34)	(12)	25	(1,967)
Share of the profit and loss accounted for using the equity method	-	(1)	-	9	-	-	8
Income taxes	(227)	(53)	(4)	(15)	(4)	-	(303)
Minority interests	(2)	-	-	-	-	-	(2)
Net profit for the year	**974**	**195**	**10**	**73**	**16**	**(127)**	**1,141**
Segment assets	63,334	1,943	1,350	1,471	68	(665)	67,501
Equity investments in subsidiaries and associates	46	3	-	-	-	-	49
Total assets	**63,380**	**1,946**	**1,350**	**1,471**	**68**	**(665)**	**67,550**
Segment liabilities	55,189	1,486	1,306	1,351	2	(374)	58,960
Taxes payable	49	18	2	15	3	-	87
Total liabilities	**55,238**	**1,504**	**1,308**	**1,366**	**5**	**(374)**	**59,047**

41 | Financial information by segment / continued (in HRK million)

GROUP As at 31 December 2006	Banking	Card services	Leasing	Other financial services	Non financial services	Consolidation adjustments	Total
Interest income	2,837	58	53	28	-	-	2,976
Interest expense	(1,226)	(3)	(14)	(19)	-	-	(1,262)
Intersegment	22	3	(22)	6	-	(9)	-
Net interest income	1,633	58	17	15	-	(9)	1,714
Fee and commission income	497	504	4	55	17	-	1,077
Fee and commission expense	(193)	(11)	-	(6)	(8)	-	(218)
Intersegment	16	(12)	-	(12)	1	7	-
Net fee and commission income	320	481	4	37	10	7	859
Other operating income	454	27	101	-	9	(125)	466
Operating income	2,407	566	122	52	19	(127)	3,039
Provisions, other operating expenses and depreciation and amortisation	(1,324)	(371)	(111)	(24)	(9)	11	(1,828)
Share of the profit and loss accounted for using the equity method	-	-	-	8	-	-	8
Income taxes	(203)	(41)	(3)	(5)	(2)	-	(254)
Minority interests	(1)	-	-	-	(1)	-	(2)
Net profit for the year	**879**	**154**	**8**	**31**	**7**	**(116)**	**963**
Segment assets	58,883	1,668	1,067	1,060	55	(804)	61,929
Equity investments in subsidiaries and associates	41	4	-	-	-	-	45
Total assets	**58,924**	**1,672**	**1,067**	**1,060**	**55**	**(804)**	**61,974**
Segment liabilities	51,425	1,277	1,030	994	3	(498)	54,231
Taxes payable	59	48	5	5	1	-	118
Total liabilities	**51,484**	**1,325**	**1,035**	**999**	**4**	**(498)**	**54,349**

42 | Interest rate risk (in HRK million)

The following tables present the Group's and the Bank's assets and liabilities analysed according to repricing periods determined as the earlier of remaining contractual maturity and contractual repricing.

GROUP As at 31 December 2007	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with other banks	194	-	-	-	2,277	**2,471**
Balances with Croatian National Bank	7,140	-	-	-	1,054	**8,194**
Financial assets at fair value through profit or loss	1,039	350	1,424	1,357	-	**4,170**
Derivative financial assets	33	-	-	-	-	**33**
Due from banks	6,727	508	3	-	7	**7,245**
Loans and advances to customers	33,394	321	1,100	3,515	1,817	**40,147**
Assets available for sale	384	51	131	1,265	22	**1,853**
Held to maturity investments	28	1	112	1,147	-	**1,288**
Equity investments in subsidiaries and associates	-	-	-	-	49	**49**
Intangible assets and goodwill	-	-	-	-	171	**171**
Property and equipment	-	-	-	-	1,378	**1,378**
Investment property	-	-	-	-	15	**15**
Other assets	2	-	7	-	380	**389**
Deferred tax assets	-	-	-	-	147	**147**
	48,941	**1,231**	**2,777**	**7,284**	**7,317**	**67,550**
Liabilities						
Due to banks	2,951	-	1	11	166	**3,129**
Due to customers	33,042	615	1,187	957	6,117	**41,918**
Derivative financial liabilities	38	-	-	-	-	**38**
Other borrowed funds	8,966	269	307	2,215	3	**11,760**
Debt securities issued	-	-	66	-	-	**66**
Other liabilities	-	-	-	-	1,708	**1,708**
Accruals and deferred income	-	-	-	-	163	**163**
Provisions for risks and charges	-	-	-	-	265	**265**
	44,997	**884**	**1,561**	**3,183**	**8,422**	**59,047**
Interest sensitivity gap	**3,944**	**347**	**1,216**	**4,101**	**(1,105)**	**8,503**

Notes to the Bank and the Group Financial Statements

42 | Interest rate risk / continued (in HRK million)

BANK **As at 31 December 2007**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with other banks	194	-	-	-	2,162	**2,356**
Balances with Croatian National Bank	6,880	-	-	-	1,054	**7,934**
Financial assets at fair value through profit or loss	1,016	350	1,459	1,357	-	**4,182**
Derivative financial assets	33	-	-	-	-	**33**
Due from banks	6,235	488	-	-	3	**6,726**
Loans and advances to customers	32,067	286	948	2,702	433	**36,436**
Assets available for sale	358	-	-	105	19	**482**
Held to maturity investments	26	-	-	953	-	**979**
Equity investments in subsidiaries and associates	-	-	-	-	363	**363**
Intangible assets and goodwill	-	-	-	-	70	**70**
Property and equipment	-	-	-	-	847	**847**
Investment property	-	-	-	-	15	**15**
Other assets	-	-	-	-	211	**211**
Deferred tax assets	-	-	-	-	97	**97**
	46,809	**1,124**	**2,407**	**5,117**	**5,274**	**60,731**
Liabilities						
Due to banks	2,949	-	1	11	166	**3,127**
Due to customers	31,285	604	664	79	6,062	**38,694**
Derivative financial liabilities	38	-	-	-	-	**38**
Other borrowed funds	8,869	112	293	970	-	**10,244**
Other liabilities	-	-	-	-	460	**460**
Accruals and deferred income	-	-	-	-	79	**79**
Provisions for risks and charges	-	-	-	-	242	**242**
	43,141	**716**	**958**	**1,060**	**7,009**	**52,884**
Interest sensitivity gap	**3,668**	**408**	**1,449**	**4,057**	**(1,735)**	**7,847**

42| **Interest rate risk / continued** (in HRK million)

GROUP As at 31 December 2006	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with other banks	177	-	-	-	2,399	**2,576**
Balances with Croatian National Bank	4,637	-	-	-	2,625	**7,262**
Financial assets at fair value through profit or loss	679	399	1,011	782	185	**3,056**
Derivative financial assets	-	-	-	-	44	**44**
Due from banks	7,189	42	4	-	-	**7,235**
Loans and advances to customers	31,700	565	1,115	3,530	-	**36,910**
Assets available for sale	60	120	148	974	3	**1,305**
Held to maturity investments	30	3	-	1,325	-	**1,358**
Equity investments in subsidiaries and associates	-	-	-	-	45	**45**
Intangible assets and goodwill	-	-	-	-	200	**200**
Property and equipment	-	-	-	-	1,381	**1,381**
Investment property	-	-	-	-	14	**14**
Non current assets held for sale	-	-	-	-	18	**18**
Other assets	-	-	-	-	449	**449**
Deferred tax assets	-	-	-	-	121	**121**
	44,472	**1,129**	**2,278**	**6,611**	**7,484**	**61,974**
Liabilities						
Due to banks	4,458	14	9	37	-	**4,518**
Due to customers	33,571	847	1,144	1,207	74	**36,843**
Derivative financial liabilities	-	-	-	-	15	**15**
Financial liabilities held for trading	735	-	-	-	-	**735**
Other borrowed funds	7,862	29	311	1,754	-	**9,956**
Debt securities issued	-	-	119	-	-	**119**
Other liabilities	-	-	-	-	1,832	**1,832**
Accruals and deferred income	-	-	-	-	120	**120**
Provisions for risks and charges	-	-	-	-	211	**211**
	46,626	**890**	**1,583**	**2,998**	**2,252**	**54,349**
Interest sensitivity gap	**(2,154)**	**239**	**695**	**3,613**	**5,232**	**7,625**

42 | Interest rate risk / continued (in HRK million)

BANK As at 31 December 2006	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with other banks	47	-	-	-	2,281	**2,328**
Balances with Croatian National Bank	5,224	-	-	-	1,825	**7,049**
Financial assets at fair value through profit or loss	697	399	1,011	782	185	**3,074**
Derivative financial assets	-	-	-	-	44	**44**
Due from banks	6,903	32	-	-	-	**6,935**
Loans and advances to customers	29,527	498	838	2,709	-	**33,572**
Assets available for sale	53	-	-	-	-	**53**
Held to maturity investments	30	-	-	1,128	-	**1,158**
Equity investments in subsidiaries and associates	-	-	-	-	404	**404**
Intangible assets and goodwill	-	-	-	-	65	**65**
Property and equipment	-	-	-	-	883	**883**
Investment property	-	-	-	-	14	**14**
Non current assets held for sale	-	-	-	-	18	**18**
Other assets	-	-	-	-	226	**226**
Deferred tax assets	-	-	-	-	83	**83**
	42,481	**929**	**1,849**	**4,619**	**6,028**	**55,906**
Liabilities						
Due to banks	4,479	12	-	12	-	**4,503**
Due to customers	31,648	787	968	88	-	**33,491**
Derivative financial liabilities	-	-	-	-	15	**15**
Financial liabilities held for trading	735	-	-	-	-	**735**
Other borrowed funds	8,075	14	220	838	-	**9,147**
Debt securities issued	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	649	**649**
Accruals and deferred income	-	-	-	-	66	**66**
Provisions for risks and charges	-	-	-	-	186	**186**
	44,937	**813**	**1,188**	**938**	**916**	**48,792**
Interest sensitivity gap	**(2,456)**	**116**	**661**	**3,681**	**5,112**	**7,114**

43 | Weighted average interest rates

The weighted average interest rates at year end are disclosed as follows:

	GROUP	GROUP	BANK	BANK
	Weighted average interest rate	Weighted average interest rate	Weighted average interest rate	Weighted average interest rate
	2007 (%)	2006 (%)	2007 (%)	2006 (%)
Cash reserves	0.87	0.84	0.86	0.78
Balances with the CNB	1.14	0.97	1.13	0.98
Securities held for trading	4.04	3.74	3.92	3.84
Due from banks	4.37	3.35	4.43	3.44
Loans and advances to customers	6.94	6.88	6.91	6.92
Public debt due from the Republic of Croatia	5.00	5.00	5.00	5.00
Replacement bonds	5.00	5.00	5.00	5.00
Due to customers	2.88	2.59	2.85	2.57
Other borrowed funds	4.22	3.03	4.30	3.03

44 | Currency risk (in HRK million)

The Group manages its exposure to currency risk through a variety of measures including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies, and foreign currency deals bought and sold forward.

GROUP As at 31 December 2007	EUR	CHF	USD	Other currencies	HRK	Total
Assets						
Cash and current accounts with other banks	540	30	52	38	1,811	**2,471**
Balances with Croatian National Bank	2,911	-	-	-	5,283	**8,194**
Financial assets at fair value through profit or loss	1,288	-	73	25	2,784	**4,170**
Derivative financial assets	-	-	-	-	33	**33**
Due from banks	4,675	22	1,800	303	445	**7,245**
Loans and advances to customers	17,687	5,141	342	19	16,958	**40,147**
Assets available for sale	1,134	-	64	127	528	**1,853**
Held to maturity investments	1,260	-	-	-	28	**1,288**
Equity investments in subsidiaries and associates	2	-	-	-	47	**49**
Intangible assets and goodwill	-	-	-	-	171	**171**
Property and equipment	-	-	-	-	1,378	**1,378**
Investment property	-	-	-	-	15	**15**
Other assets	15	1	2	1	370	**389**
Deferred tax assets	-	-	-	-	147	**147**
	29,512	**5,194**	**2,333**	**513**	**29,998**	**67,550**
Liabilities						
Due to banks	419	16	27	27	2,640	**3,129**
Due to customers	24,520	351	1,989	299	14,759	**41,918**
Derivative financial liabilities	-	-	-	-	38	**38**
Other borrowed funds	8,249	23	221	11	3,256	**11,760**
Debt securities issued	-	-	-	-	66	**66**
Other liabilities	400	10	7	10	1,281	**1,708**
Accruals and deferred income	5	-	-	-	158	**163**
Provisions for risks and charges	10	-	10	2	243	**265**
	33,603	**400**	**2,254**	**349**	**22,441**	**59,047**
Net on balance sheet position	**(4,091)**	**4,794**	**79**	**164**	**7,557**	**8,503**

44 | Currency risk / continued (in HRK million)

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

BANK As at 31 December 2007	EUR	CHF	USD	Other currencies	HRK	Total
Assets						
Cash and current accounts with other banks	430	27	51	34	1,814	**2,356**
Balances with Croatian National Bank	2,848	-	-	-	5,086	**7,934**
Financial assets at fair value through profit or loss	1,288	-	73	25	2,796	**4,182**
Derivative financial assets	-	-	-	-	33	**33**
Due from banks	4,137	20	1,789	299	481	**6,726**
Loans and advances to customers	15,181	5,090	342	10	15,813	**36,436**
Assets available for sale	19	-	64	127	272	**482**
Held to maturity investments	954	-	-	-	25	**979**
Equity investments in subsidiaries and associates	-	-	-	-	363	**363**
Intangible assets and goodwill	-	-	-	-	70	**70**
Property and equipment	-	-	-	-	847	**847**
Investment property	-	-	-	-	15	**15**
Other assets	13	1	1	-	196	**211**
Deferred tax assets	-	-	-	-	97	**97**
	24,870	**5,138**	**2,320**	**495**	**27,908**	**60,731**
Liabilities						
Due to banks	419	16	27	27	2,638	**3,127**
Due to customers	21,894	313	1,977	292	14,218	**38,694**
Derivative financial liabilities	-	-	-	-	38	**38**
Other borrowed funds	6,697	4	221	11	3,311	**10,244**
Other liabilities	53	10	13	2	382	**460**
Accruals and deferred income	5	-	-	-	74	**79**
Provisions for risks and charges	10	-	10	2	220	**242**
	29,078	**343**	**2,248**	**334**	**20,881**	**52,884**
Net on balance sheet position	**(4,208)**	**4,795**	**72**	**161**	**7,027**	**7,847**

44 | Currency risk / continued (in HRK million)

GROUP As at 31 December 2006	EUR	CHF	USD	Other currencies	HRK	Total
Assets						
Cash and current accounts with other banks	319	26	43	189	1,999	**2,576**
Balances with Croatian National Bank	3,638	-	-	-	3,624	**7,262**
Financial assets at fair value through profit or loss	1,403	-	87	30	1,536	**3,056**
Derivative financial assets	6	-	-	-	38	**44**
Due from banks	4,890	113	1,188	274	770	**7,235**
Loans and advances to customers	19,021	4,408	477	164	12,840	**36,910**
Assets available for sale	837	-	27	-	441	**1,305**
Held to maturity investments	1,331	-	-	-	27	**1,358**
Equity investments in subsidiaries and associates	-	-	-	45	-	**45**
Intangible assets and goodwill	-	-	-	4	196	**200**
Property and equipment	-	-	-	14	1,367	**1,381**
Investment property	-	-	-	-	14	**14**
Non current assets held for sale	-	-	-	-	18	**18**
Other assets	42	3	8	21	375	**449**
Deferred tax assets	-	-	-	-	121	**121**
	31,487	**4,550**	**1,830**	**741**	**23,366**	**61,974**
Liabilities						
Due to banks	1,212	559	40	35	2,672	**4,518**
Due to customers	23,081	395	2,244	492	10,631	**36,843**
Derivative financial liabilities	-	-	-	-	15	**15**
Financial liabilities held for trading	735	-	-	-	-	**735**
Other borrowed funds	7,586	28	338	20	1,984	**9,956**
Debt securities issued	-	-	-	-	119	**119**
Other liabilities	132	6	33	54	1,607	**1,832**
Accruals and deferred income	5	-	-	2	113	**120**
Provisions for risks and charges	8	-	12	1	190	**211**
	32,759	**988**	**2,667**	**604**	**17,331**	**54,349**
Net on balance sheet position	**(1,272)**	**3,562**	**(837)**	**137**	**6,035**	**7,625**

44 | Currency risk / continued (in HRK million)

BANK **As at 31 December 2006**	EUR	CHF	USD	Other currencies	HRK	Total
Assets						
Cash and current accounts with other banks	287	24	39	41	1,937	**2,328**
Balances with Croatian National Bank	3,574	-	-	-	3,475	**7,049**
Financial assets at fair value through profit or loss	1,403	-	87	30	1,554	**3,074**
Derivative financial assets	6	-	-	-	38	**44**
Due from banks	4,500	96	1,156	267	916	**6,935**
Loans and advances to customers	17,218	4,353	476	15	11,510	**33,572**
Assets available for sale	-	-	27	-	26	**53**
Held to maturity investments	1,133	-	-	-	25	**1,158**
Equity investments in subsidiaries and associates	-	-	-	45	359	**404**
Intangible assets and goodwill	-	-	-	-	65	**65**
Property and equipment	-	-	-	-	883	**883**
Investment property	-	-	-	-	14	**14**
Non current assets held for sale	-	-	-	-	18	**18**
Other assets	41	3	8	3	171	**226**
Deferred tax assets	-	-	-	-	83	**83**
	28,162	**4,476**	**1,793**	**401**	**21,074**	**55,906**
Liabilities						
Due to banks	1,196	559	38	16	2,694	**4,503**
Due to customers	20,618	345	2,209	265	10,054	**33,491**
Derivative financial liabilities	-	-	-	-	15	**15**
Financial liabilities held for trading	735	-	-	-	-	**735**
Other borrowed funds	6,712	5	338	17	2,075	**9,147**
Other liabilities	114	6	30	40	459	**649**
Accruals and deferred income	-	-	-	-	66	**66**
Provisions for risks and charges	8	-	12	-	166	**186**
	29,383	**915**	**2,627**	**338**	**15,529**	**48,792**
Net on balance sheet position	**(1,221)**	**3,561**	**(834)**	**63**	**5,545**	**7,114**

Notes to the Bank and the Group Financial Statements

45 | **Liquidity risk** (in HRK million)

GROUP As at 31 December 2007	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	2,471	-	-	-	-	**2,471**
Balances with Croatian National Bank	5,357	674	1,182	665	316	**8,194**
Financial assets at fair value through profit or loss	713	350	1,424	595	1,088	**4,170**
Derivative financial assets	33	-	-	-	-	**33**
Due from banks	6,173	526	136	332	78	**7,245**
Loans and advances to customers	5,502	1,562	6,272	14,828	11,983	**40,147**
Assets available for sale	338	26	145	588	756	**1,853**
Held to maturity investments	3	1	112	955	217	**1,288**
Equity investments in subsidiaries and associates	-	-	-	-	49	**49**
Intangible assets and goodwill	-	-	-	29	142	**171**
Property and equipment	-	-	-	302	1,076	**1,378**
Investment property	-	-	-	-	15	**15**
Other assets	329	16	43	1	-	**389**
Deferred tax assets	137	-	1	3	6	**147**
	21,056	**3,155**	**9,315**	**18,298**	**15,726**	**67,550**
Liabilities						
Due to banks	3,016	-	1	1	111	**3,129**
Due to customers	24,526	5,629	9,780	1,257	726	**41,918**
Derivative financial liabilities	38	-	-	-	-	**38**
Other borrowed funds	2,692	330	1,476	6,631	631	**11,760**
Debt securities issued	-	-	66	-	-	**66**
Other liabilities	1,670	5	22	11	-	**1,708**
Accruals and deferred income	120	3	39	1	-	**163**
Provisions for risks and charges	241	5	12	1	6	**265**
	32,303	**5,972**	**11,396**	**7,902**	**1,474**	**59,047**
Net liquidity gap	**(11,247)**	**(2,817)**	**(2,081)**	**10,396**	**14,252**	**8,503**

45 | Liquidity risk / continued (in HRK million)

BANK As at 31 December 2007	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	2,356	-	-	-	-	**2,356**
Balances with Croatian National Bank	5,223	643	1,130	622	316	**7,934**
Financial assets at fair value through profit or loss	689	350	1,424	595	1,124	**4,182**
Derivative financial assets	33	-	-	-	-	**33**
Due from banks	5,678	506	133	331	78	**6,726**
Loans and advances to customers	4,065	1,437	5,820	13,838	11,276	**36,436**
Assets available for sale	298	-	-	79	105	**482**
Held to maturity investments	-	-	-	953	26	**979**
Equity investments in subsidiaries and associates	-	-	-	-	363	**363**
Intangible assets and goodwill	-	-	-	-	70	**70**
Property and equipment	-	-	-	-	847	**847**
Investment property	-	-	-	-	15	**15**
Other assets	211	-	-	-	-	**211**
Deferred tax assets	97	-	-	-	-	**97**
	18,650	**2,936**	**8,507**	**16,418**	**14,220**	**60,731**
Liabilities						
Due to banks	3,014	-	1	1	111	**3,127**
Due to customers	23,734	5,359	8,815	104	682	**38,694**
Derivative financial liabilities	38	-	-	-	-	**38**
Other borrowed funds	2,841	309	1,239	5,236	619	**10,244**
Other liabilities	460	-	-	-	-	**460**
Accruals and deferred income	79	-	-	-	-	**79**
Provisions for risks and charges	233	4	5	-	-	**242**
	30,399	**5,672**	**10,060**	**5,341**	**1,412**	**52,884**
Net liquidity gap	**(11,749)**	**(2,736)**	**(1,553)**	**11,077**	**12,808**	**7,847**

Notes to the Bank and the Group Financial Statements

45 | Liquidity risk / continued (in HRK million)

GROUP **As at 31 December 2006**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	2,576	-	-	-	-	**2,576**
Balances with Croatian National Bank	4,522	651	1,065	805	219	**7,262**
Financial assets at fair value through profit or loss	485	399	1,033	686	453	**3,056**
Derivative financial assets	44	-	-	-	-	**44**
Due from banks	6,331	140	152	508	104	**7,235**
Loans and advances to customers	5,506	1,680	5,884	13,892	9,948	**36,910**
Assets available for sale	91	50	190	68	906	**1,305**
Held to maturity investments	30	3	-	24	1,301	**1,358**
Equity investments in subsidiaries and associates	-	-	-	-	45	**45**
Intangible assets and goodwill	-	-	-	24	176	**200**
Property and equipment	-	-	1	250	1,130	**1,381**
Investment property	-	-	-	-	14	**14**
Non current assets held for sale	-	18	-	-	-	**18**
Other assets	398	14	30	6	1	**449**
Deferred tax assets	112	-	1	4	4	**121**
	20,095	**2,955**	**8,356**	**16,267**	**14,301**	**61,974**
Liabilities						
Due to banks	4,347	23	11	25	112	**4,518**
Due to customers	18,866	5,288	8,700	3,285	704	**36,843**
Derivative financial liabilities	15	-	-	-	-	**15**
Financial liabilities held for trading	735	-	-	-	-	**735**
Other borrowed funds	1,362	225	685	6,980	704	**9,956**
Debt securities issued	-	-	119	-	-	**119**
Other liabilities	1,811	-	21	-	-	**1,832**
Accruals and deferred income	98	1	13	-	8	**120**
Provisions for risks and charges	191	6	7	1	6	**211**
	27,425	**5,543**	**9,556**	**10,291**	**1,534**	**54,349**
Net liquidity gap	**(7,330)**	**(2,588)**	**(1,200)**	**5,976**	**12,767**	**7,625**

45 | Liquidity risk / continued (in HRK million)

BANK As at 31 December 2006	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	2,328	-	-	-	-	**2,328**
Balances with Croatian National Bank	4,417	626	1,018	769	219	**7,049**
Financial assets at fair value through profit or loss	504	399	1,032	686	453	**3,074**
Derivative financial assets	44	-	-	-	-	**44**
Due from banks	6,053	126	145	507	104	**6,935**
Loans and advances to customers	4,353	1,611	5,382	12,980	9,246	**33,572**
Assets available for sale	53	-	-	-	-	**53**
Held to maturity investments	30	-	-	24	1,104	**1,158**
Equity investments in subsidiaries and associates	-	-	-	-	404	**404**
Intangible assets and goodwill	-	-	-	-	65	**65**
Property and equipment	-	-	-	-	883	**883**
Investment property	-	-	-	-	14	**14**
Non current assets held for sale	-	18	-	-	-	**18**
Other assets	226	-	-	-	-	**226**
Deferred tax assets	83	-	-	-	-	**83**
	18,091	**2,780**	**7,577**	**14,966**	**12,492**	**55,906**
Liabilities						
Due to banks	4,368	21	2	1	111	**4,503**
Due to customers	17,768	5,017	8,108	1,928	670	**33,491**
Derivative financial liabilities	15	-	-	-	-	**15**
Financial liabilities held for trading	735	-	-	-	-	**735**
Other borrowed funds	1,723	210	553	6,004	657	**9,147**
Debt securities issued	-	-	-	-	-	**-**
Other liabilities	649	-	-	-	-	**649**
Accruals and deferred income	66	-	-	-	-	**66**
Provisions for risks and charges	183	1	2	-	-	**186**
	25,507	**5,249**	**8,665**	**7,933**	**1,438**	**48,792**
Net liquidity gap	**(7,416)**	**(2,469)**	**(1,088)**	**7,033**	**11,054**	**7,114**

46 | Concentration of assets and liabilities (in HRK million)

	GROUP			BANK		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
As at 31 December 2007						
Geographic region						
Republic of Croatia	58,719	46,752	14,371	53,203	42,296	14,069
European Union	7,835	10,420	98	6,641	8,725	98
Other countries	996	1,875	75	887	1,863	68
	67,550	**59,047**	**14,544**	**60,731**	**52,884**	**14,235**
Industry sector						
Citizens	23,932	29,359	6,609	21,555	26,658	6,505
Finance	15,227	8,234	19	14,660	6,941	10
Government	6,860	1,757	984	5,171	1,729	959
Commerce	3,276	1,194	1,223	2,768	1,124	1,180
Tourism	1,107	233	27	1,044	225	27
Agriculture	694	64	53	625	61	51
Other sectors	16,454	18,206	5,629	14,908	16,146	5,503
	67,550	**59,047**	**14,544**	**60,731**	**52,884**	**14,235**
As at 31 December 2006						
Geographic region						
Republic of Croatia	55,418	41,988	12,988	49,719	36,475	12,623
European Union	5,479	10,642	4	5,151	10,604	4
Other countries	1,077	1,719	125	1,036	1,713	125
	61,974	**54,349**	**13,117**	**55,906**	**48,792**	**12,752**
Industry sector						
Citizens	18,589	26,369	6,573	17,640	24,134	6,501
Finance	15,890	5,722	93	13,984	4,373	13
Government	7,726	1,178	711	6,697	1,108	711
Commerce	3,063	1,015	825	2,873	956	782
Tourism	860	189	40	857	189	40
Agriculture	705	41	72	680	38	49
Other sectors	15,141	19,835	4,803	13,175	17,994	4,656
	61,974	**54,349**	**13,117**	**55,906**	**48,792**	**12,752**

47 | Earnings per share

For the purpose of calculating earnings per share, earnings represent net profit after tax. 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 19,030,381 (2006: 16,913,334).

Supplementary financial statements in EUR (unaudited)

Income statement (in EUR million)

	GROUP 2007	GROUP 2006	BANK 2007	BANK 2006
Interest income	494	406	446	371
Interest expense	(233)	(172)	(215)	(161)
Net interest income	**261**	**234**	**231**	**210**
Fee and commission income	177	147	80	67
Fee and commission expense	(32)	(30)	(29)	(27)
Net fee and commission income	**145**	**117**	**51**	**40**
Other operating income	58	64	55	60
Operating income	**464**	**415**	**337**	**310**
Provisions	(16)	(21)	(7)	(8)
Other operating expenses	(215)	(194)	(152)	(138)
Depreciation and amortisation of property and equipment and intangible assets	(37)	(35)	(22)	(22)
Share of the profit and loss accounted for using the equity method	1	1	-	-
Profit before income taxes	**197**	**166**	**156**	**142**
Income taxes	(41)	(34)	(29)	(26)
Net profit for the year	**156**	**132**	**127**	**116**
Attributable to:				
Equity holders of the parent	156	132	127	116
Minority interests	-	-	-	-
	156	**132**	**127**	**116**

Income statement items were translated from measurement currency (HRK) to euro at the average exchange rates in 2007 (1 EUR = 7.336019 HRK) and in 2006 (1 EUR = 7.322849 HRK).

Supplementary financial statements in EUR (unaudited)

Balance sheet (in EUR million)

	GROUP		BANK	
	2007	2006	2007	2006
Assets				
Cash and current accounts with other banks	337	351	322	317
Balances with Croatian National Bank	1,119	989	1,083	960
Financial assets at fair value through profit or loss	569	416	571	419
Derivative financial assets	5	6	5	6
Due from banks	989	985	918	944
Loans and advances to customers	5,481	5,025	4,974	4,571
Assets available for sale	253	178	66	7
Held to maturity investments	176	185	134	158
Equity investments in subsidiaries and associates	7	6	50	48
Intangible assets and goodwill	23	27	10	16
Property and equipment	188	188	116	120
Investment property	2	2	2	2
Non-current assets held for sale	-	2	-	2
Other assets	53	61	29	31
Deferred tax assets	20	16	13	11
Total assets	**9,222**	**8,437**	**8,293**	**7,612**

Balance sheet items were translated from measurement currency (HRK) to euro at the closing exchange rates in 2007 (1 EUR = 7.325131 HRK) and in 2006 (1 EUR = 7.345081 HRK).

Balance sheet / continued (in EUR million)

	GROUP		BANK	
	2007	2006	2007	2006
Liabilities				
Due to banks	427	615	427	613
Due to customers	5,722	5,017	5,282	4,561
Derivative financial liabilities	5	2	5	2
Financial liabilities held for trading	-	100	-	100
Other borrowed funds	1,605	1,355	1,398	1,245
Debt securities issued	9	16	-	-
Other liabilities	233	249	63	88
Accruals and deferred income	22	16	11	9
Provisions for risks and charges	36	29	33	25
Total liabilities	**8,059**	**7,399**	**7,219**	**6,643**
Equity attributable to equity holders of the parent				
Share capital	250	250	250	250
Treasury shares	(8)	(4)	(8)	(4)
Share premium	214	214	214	214
Reserves and retained earnings	548	440	491	393
Profit and loss attributable to equity holders of the parent entity	156	132	127	116
	1,160	**1,032**	**1,074**	**969**
Minority interests	3	6	-	-
Total shareholders' equity	**1,163**	**1,038**	**1,074**	**969**
Total liabilities and shareholder's equity	**9,222**	**8,437**	**8,293**	**7,612**

Balance sheet items were translated from measurement currency (HRK) to euro at the closing exchange rates in 2007 (1 EUR = 7.325131 HRK) and in 2006 (1 EUR = 7.345081 HRK).

Publisher **Privredna banka Zagreb d.d.** • Design & Production **Euro RSCG Zagreb, a member of Unex Group**
Photography **Igor Michieli** • Printing **Intergrafika** • Edition **800**

Annual Report 2007 in pdf version is available for download on
www.pbz.hr