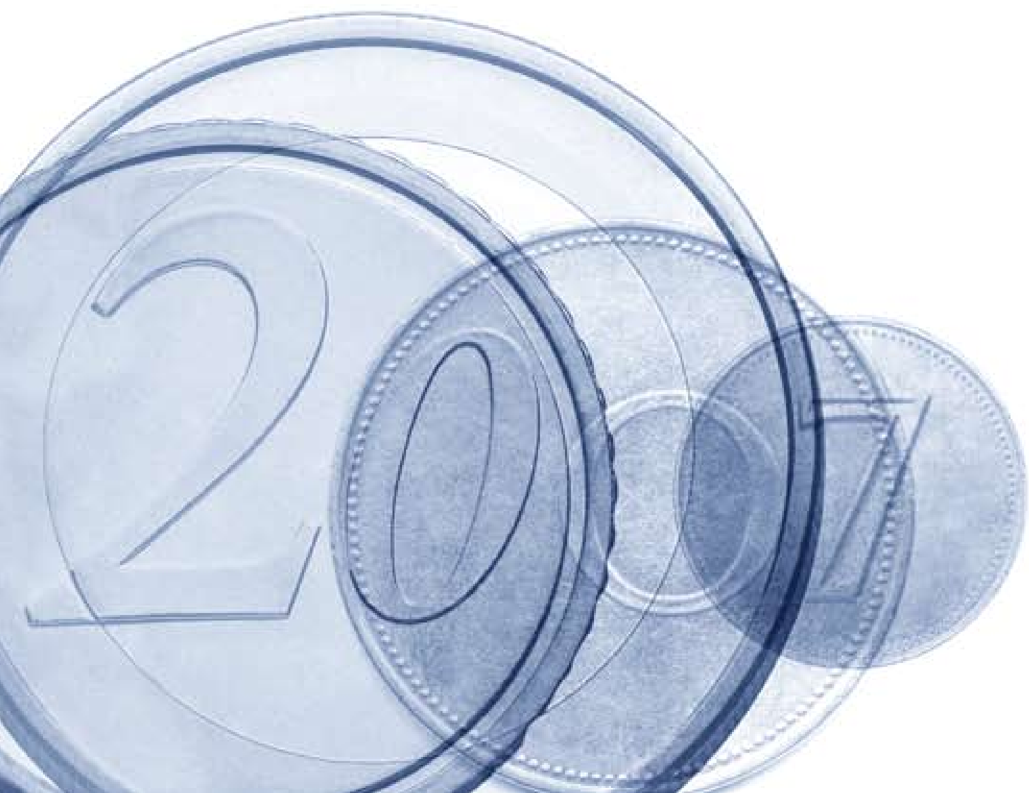
Annual report 2007



vaba
Banka Varaždin

Vaba d.d. banka Varaždin, Varaždin

Financial statements
For the year ended 31 December 2007
Together with Independent Auditor's Report


2007

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Foreword by Chairman of the Management Board

Igor Čičak
Chairman of the Management Board

Results of operations of Vaba d.d. banka Varaždin within past year as well as projects which have additionally furthered and strengthened our position on Croatian banking market in the year 2007, have confirmed that we have chosen the right path, and that plans, which have been set before us a bit more than a year ago, are more than achievable.

Please allow me to present you, through pages of this year's report, business results of Vaba d.d. banka – still one of the fastest growing banks in the Republic of Croatia.

Overall balance of the bank has grown during the past year for more than 50 percent, reaching the amount of 1.2 billion kuna, while net profit amounts to 490 thousand kuna. Simultaneously, operating income has reached nearly 60 million kuna, representing growth in excess of 100 percent relative to the previous year and is a direct indicator of increasing recognition of our bank quality by our clients. Along with exceptional increase of our client base, the growth has been enhanced by additional capital increase by more than 91 million kuna, and it amounts now to 153 million kuna.

Listing at Official market of public joint stock companies of Zagreb Stock Exchange has provided additional proof of attained position of the Bank, as well as ensured insight deservedly expected by our shareholders.

Clear strategy of further expansion and growth has been affirmed by purchase of 35,000 shares of Slatinska banka, thus initiating procedures regarding strategic cooperation of two good Croatian banks which jointly possess the ability to create a leading bank in the north-western and the eastern Croatia.

Following signing of contracts with renowned partners such as HAMAG, Varaždin County, Croatia osiguranje d.d. and KD Investments d.o.o. we have additionally enriched services offered by our Bank, while a number of newly opened branch offices as well as our new Varaždin headquarters during the past year have made our services even more accessible to our clients.

A lot has been achieved in 2007. I would like to take this opportunity to sincerely thank our employees who have, every one of them in their own segment, made Vaba d.d. banka special and different, made it a bank daily recognized by increasing number of clients, and also who have all by themselves, taking part in the recapitalization, recognized it as quality partner for an outstanding investment.

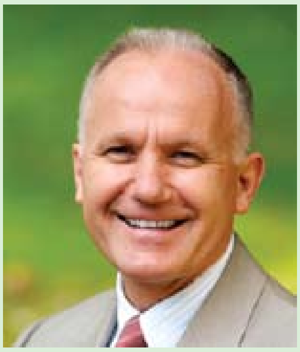
I would like to thank all our clients who have recognized advantages and quality of Vaba banka financial products and services, and enabled its strong growth. Trust of clients is recognition of our quality performance, but it requires us to continuously improve and expand our services.

We are grateful to our stockholders as well as new ones who have, actively participating in the additional capital increase, made our Bank stronger and facilitated its further development and future stabile and safe business operations.

In 2008, new challenges await us, which we shall gladly address.

Igor Čičak
Chairman of Management Board

Foreword by Chairman of the Supervisory Board



Milan Horvat
Chairman of Supervisory Board

Business year 2007 has been very active, and moreover very successful for Vaba d.d. banka Varaždin.

One of the most significant activities within the past year has certainly been the additional capital incerase of Vaba d.d. banka Varaždin in the amount of 91 million kuna, and its listing with Zagreb Stock Exchange in public joint stock companies market, thus additionally strengthening position of the bank and by itself, improving the capital market in the Republic of Croatia as a whole.

Acquisition of a strategic partner with 19 percent of company share capital and growth of assets by 52 percent, thus reaching 1.2 billion kuna, have helped promote Vaba d.d. banka Varaždin as the fastest growing bank in Croatia. Today, Vaba d.d. banka Varaždin has a 0.4 percent market share in the national market.

Likewise, 2007 has been marked by a series of exceptionally high-quality projects; performance of payment transactions has been upgraded, internet banking has been modernized, a contact centre has began operations, while Cash- pool and student loan projects, all conducted in cooperation with the City of Varaždin and Varaždin County, have achieved great success.

All those activities, along with continuous expansion of bank branch offices, have contributed to even greater recognition of quality bank services and operations, resulting in turn with listing of Vaba d.d. banka Varaždin among top ten banks in Croatia in terms of quality and excellence, brand recognition and consumer preference.

The bank currently operates in four financial centres and thirteen branch offices in six counties in Croatia: Varaždin, Međimurje, Istria, Brod-Posavina, Sisak-Moslavina and the City of Zagreb, and it is the only smaller bank in the Republic of Croatia which has been awarded a Super-brand status.

Ongoing merger with Slatinska banka, following after the completed due diligence, shall represent another quality step in bank operations, which shall additionally improve position of both banks, but shall primarily provide their clients with additional opportunities for greater satisfaction regarding quality and range of service.

Achieved results in the past business year are a result of quality work but also of togetherness and cooperation of all employees and bank management, Supervisory Board and of course, those people without whom this all would not be possible - our satisfied clients.

Milan Horvat
Chairman of Supervisory Board of Vaba d.d. banka Varaždin

Key financial indicators

000 HRK	2007	2006	%
Assets	1,206,590	795,584	51.66%
Loans and advances to customers	706,523	512,614	37.83%
Total deposits	805,752	724,901	11.15%
Share capital	153,355	62,226	146.45%
Interest Income	27,480	8,875	209.63%
Net fees and commissions income	8,288	421	1,868.65%
Operating income	59,842	29,379	103.69%
Operating expenses	55,694	33,139	68.06%
Profit before tax	490	823	(40.46)%
Net profit	490	1,106	(55.70)%
Return on Average Assets	0,05%	0,20%	
Return on Average Capital	0,41%	1,95%	
Income/Expenses ratio	93,07%	112,80%	

During the past year, the Bank has reaffirmed its status as one of the fastest growing banks in Croatia by achieving exceptionally high growth rates despite challenging environment (restrictive monetary policy, increased competition on the national financial market, instability of the international financial market...).

The additional capital increase the Bank in 2007 has created a potential for further dynamic growth and development without endangering stability, simultaneously complying with mandated capital demands.

Despite record growth, and more than doubled operating income, net profit for 2007 has been reduced relative to 2006, primarily due to significant investments in information technology, increase of standards of existing branch offices and opening new branch offices, hiring new employees, and restructuring of inherited portfolio.

We expect that this choice of investment strategy shall facilitate strong growth and development of the Bank in the following years to satisfaction of clients, employees, owners and other interest groups.

Income statement

Net interest income

Strong growth of net interest income in 2007 (210% at annual level) in exceptionally difficult and challenging environment continues the tendency of strong increase of net interest income (annual increase in 2006 was 108%).

Within framework of restrictive monetary policy (placement growth limit, unchanged obligatory reserve rate, retained special and limit reserves) and intensified competition, the Bank has successfully developed loan and deposit operations, and despite increased cost of assets on the market, it has improved its net interest margin (ratio of net interest income and interest income) in 2007.

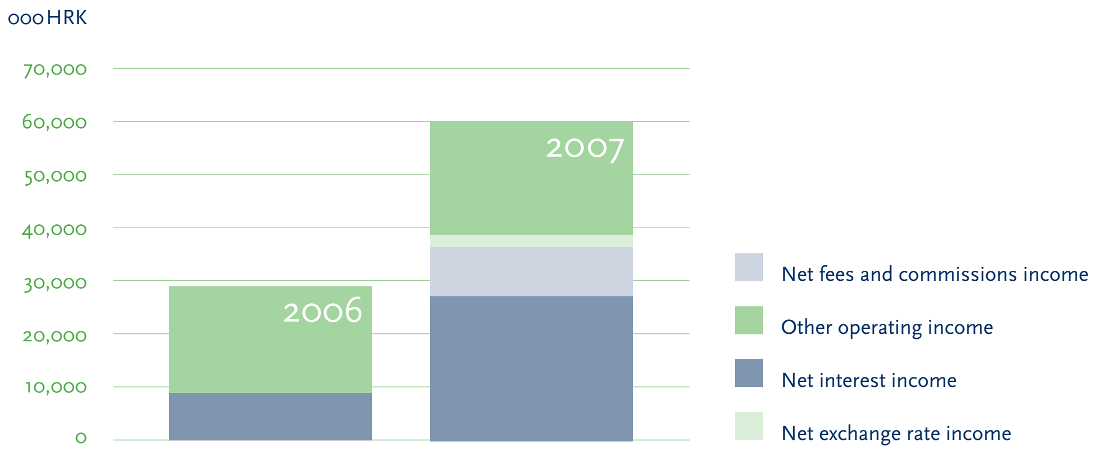
Net income generated by fees and commissions

Exceptionally successful operations of investment banking has been principal impetus for growth of net income generated by fees and commissions by impressive 1,869% at annual level (8,288 thousand HRK in 2007, relative to 421 thousand HRK in 2006). By providing of high added value services, the above-average margin has been achieved (portion of net income generated by fees and commissions in income generated by fees and commissions) of 76%.

Total operating income

As a result of increased value of two key components of total income (net interest income and net fees and commissions income), total operating income has increased by 104% on annual level.

Structure of operating income



Operating expenses

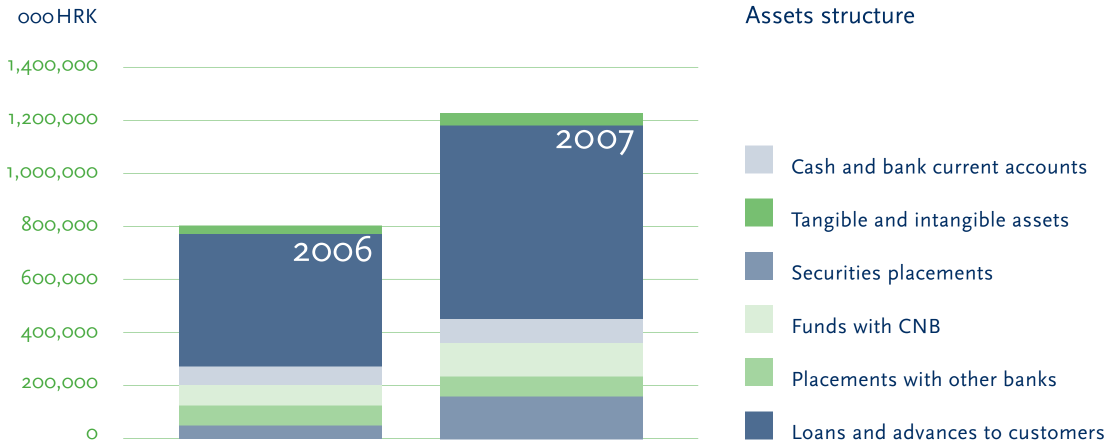
Increase of operating expenses is a consequence of increased number of employees (161 at the end of 2007, 97 at the end of 2006), investments in branch offices, IT systems and infrastructure.

Balance sheet

Total assets

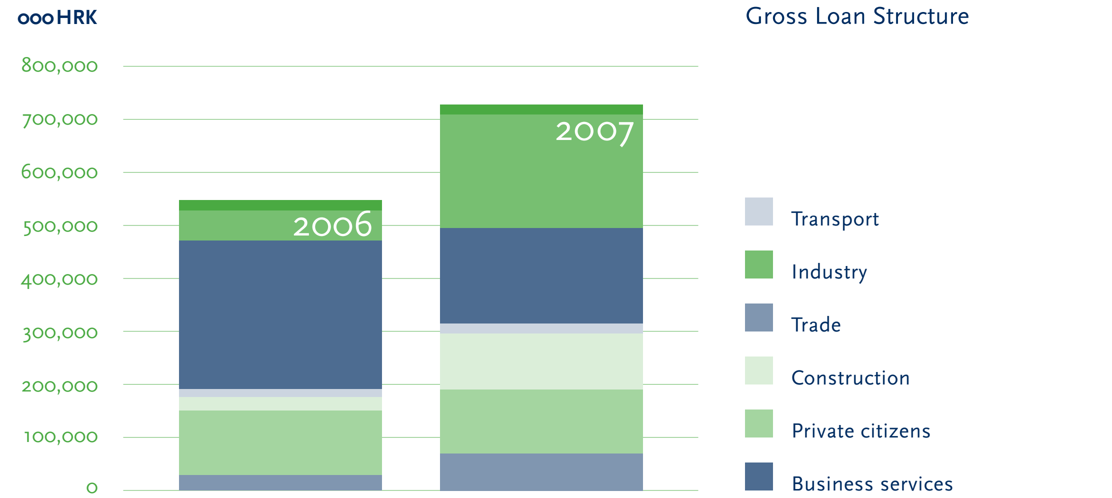
Through growth of total assets of 51.7% in 2007, the Bank has confirmed it status as one of the fastest growing banks in Croatia (growth of assets of 159.7% in 2006) despite limiting regulatory measures.

During 2007, the Bank has largely managed to restructure assets taken over from Primus banka in bankruptcy, and assets inherited from Brodsko-posavska banka, which has resulted in the increase in quality assets.



Loans and advances to customers

Expansion of operations is reflected in increase of loans and advances to customers by 37.8% in 2007. Out of total amount of loans and advances to customers, 445 million HRK has been placed with commercial companies and 262 million HRK with private citizens.



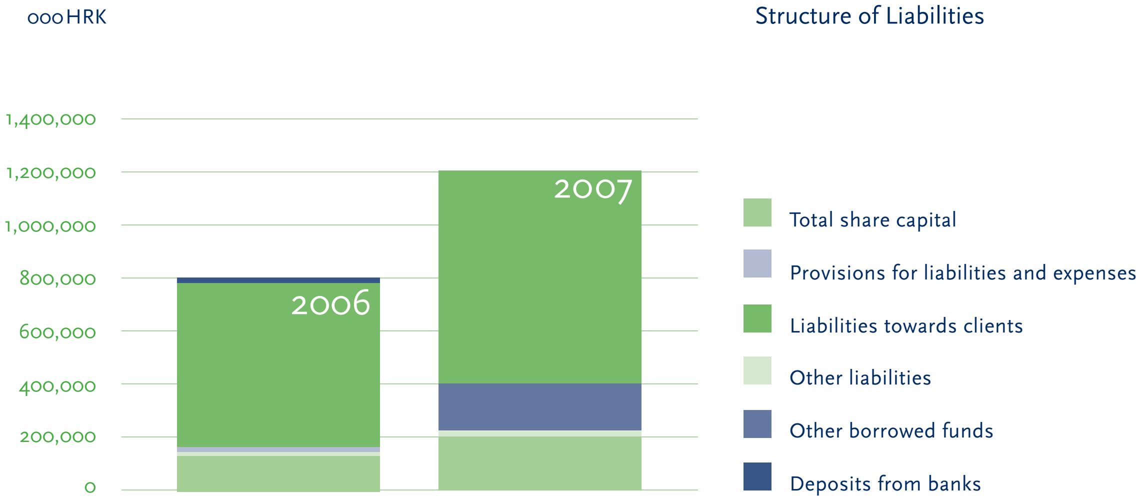
Liabilities

Fixed-term deposits have increased from 597.92 million HRK in 2006 to 743.74 million HRK in 2007, i.e. by 24.4 %, while demand deposits amount to 62 million HRK. The Bank has used borrowed funds (211 million HRK at the end of 2007) for placement financing.

Share capital

One of the major projects in the past year was the additional capital increase of the Bank, thereby increasing its share capital from 62.226 thousand HRK to 153.355 thousand HRK. The addiponal capital increase has facilitated preserving stability of the Bank while achieving high growth rates. Capital adequacy rate at the end of 2007 is significantly above legally required minimum of 10% and it amounts to 20%, while regulatory capital amounts to 183.650 thousand HRK.

Structure of Liabilities



Statement of Responsibility of the Management Board

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

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

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

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

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

Signed on behalf of the Management Board

Igor Čičak
President of the Management Board

Varaždin, 5 June 2008

Independent Auditor’s Report

To the Shareholders of Vaba d.d. Banka, Varaždin:

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

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’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 Company’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 opinion.

As disclosed in Note 4 to the financial statements, the Bank recognized loan origination fees as income immediately as they incurred. This accounting treatment is not in accordance with International Accounting Standard 39, Financial instruments: Recognition and measurements, that requires loan origination fees to be deferred over the underlying loan repayment period. The effect of such accounting treatment on the income statement for the year ended 31 December 2007 could not be determined.

The Bank has as disclosed in Note 19 to the financial statements recognized impairment losses in accordance with regulatory accounting requirements imposed by the Croatian National Bank. This accounting requirements are not in full compliance with International Financial Reporting Standards for the assessment of collective impairment losses for balance sheet and off-balance sheet items not identified as impaired on an individual basis. The International accounting standard 39, Financial instruments: Recognition and Measurements requires that future cash flows in a group of financial assets that are collectively evaluated for impairment should be estimated on the basis of historical loss experience for such assets with credit risk characteristics similar to those in the group and these losses can not be limited by any means. The Bank was not able to quantify any effect of any potential recognition of impairment losses on assets not individually identified as impaired or on off-balance sheet items, as required by IFRS, on the presented financial statements.

The Bank as disclosed in Note 16.1 to the financial statements valuated Helios Faros shares based on the closing price quoted on Zagreb stock exchange as of 31 December 2007. In our opinion, due to limited volume of trading we believe that closing price does not represent fair value of these shares. The fair value of shares can not be determine with certainty based on the information provided to us by the Bank. Due to this we where not able to determine reliable fair value of shares and we could not asses the effect on financial statements for the year ended 31 December 2007.

As disclosed in Note 10, in our opinion specific provision for loan losses should be higher for approximately 5,807 thousand kuna based on assessments made in accordance with IAS 39 requirements which requires that an allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due.

The Bank did not apply International Accounting Standard 19 “Employee Benefits” which requires the Bank to recognise short- term employee benefits when an employee has rendered service in exchange for those benefits. Given that the Bank did not recorded undiscounted amount of short-term employee benefits at the balance sheet date, the employee liabilities as of 31 December 2007 are understated for approximately 574 thousand, while retained earnings are overstated for approximately the same amount.

Opinion

In our opinion, except for paragraphs above, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2007, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in which are disclosed measures taken by the Croatian National Bank based on the supervision of the Bank’s activities.

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor

Deloitte
d.o.o.
Heinzelova 33
10000 ZAGREB
m.b. 0730851

Zagreb, Republic of Croatia
5 June 2008

Income Statement

For the year ended 31 December 2007

(All amounts are expressed in thousands of kunas)

	Notes	2007	2006
Interest and similar income	5a	61,781	25,620
Interest and similar expense	5b	(34,301)	(16,745)
Net interest income		**27,480**	**8,875**
Fee and commission income	6a	10,874	2,047
Fee and commission expense	6b	(2,586)	(1,626)
Net fee and commission income		**8,288**	**421**
Net foreign exchange gains	7	1,897	85
Other operating income	8	22,177	19,998
Operating income		**59,842**	**29,379**
Operating expenses	9	(55,694)	(33,139)
Impairment losses and provisions	10	(3,658)	4,583
Profit before taxation		**490**	**823**
Income tax	11	-	283
Net profit for the year		**490**	**1,106**
Earnings per share (in HRK)			
-basic and diluted	12	**0.52**	**1.78**

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

Balance Sheet

As at 31 December 2007

(All amounts are expressed in thousands of kunas)

	Notes	2007	2006
ASSETS			
Cash and amounts due from banks	13	104,462	57,284
Obligatory reserve with Croatian National Bank	14	112,975	78,366
Treasury bills with Croatian National Bank		12,684	-
Placements with other banks	15	61,265	73,055
Financial assets at fair value through profit or loss	16	97,135	23,599
Available-for-sale financial assets	17	41,396	4,018
Held-to-maturity financial assets	18	9,796	25,506
Loans and advances to customerss	19	706,523	512,614
Property, plant and equipment	20	28,703	8,655
Intangible assets	21	11,203	7,453
Other assets	22	20,448	5,034
Total assets		**1,206,590**	**795,584**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits from banks	23	-	28,000
Amounts due to customers	25	805,752	696,901
Other borrowed funds	24	210,702	5,003
Provisions for liabilities and charges	26	1,293	1,104
Other liabilities	27	5,048	7,302
Total liabilities		**1,022,795**	**738,310**
Share capital	28	153,355	62,226
Share premium		29,056	(3,367)
Reserve		2,600	-
Fair valuation reserve		(74)	47
Accumulated losses		(1,142)	(1,632)
Total shareholders' equity		**183,795**	**57,274**
Total liabilities and shareholders' equity		**1,206,590**	**795,584**
Contingent liabilities and commitments	30	**115,710**	**39,686**

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

These financial statements were approved by the Management Board on 5 June 2008 and signed by:

President of the Management Board: Igor Čičak

Senior Executive Manager: Domagoj Matasić

Vaba d.d. banka Varaždin 1

Statement of Cash Flows

For the year ended 31 December 2007

(All amounts are expressed in thousands of kunas)

	Notes	2007	2006
Operating activities			
Profit/(loss) before taxation		490	823
Adjustment of net result to net cash from operations:			
Depreciation and amortization		3,115	1,856
Net (income) / expense from sale and retirement of tangible assets		-	(1,345)
Decrease in other assets		(15,414)	12,839
Increase/(decrease) in other liabilities		(2,254)	5,541
Gains on sale of the Vis shares		-	(6,899)
Gains on security trading		(3,403)	(3,245)
Realised gains on available-for-sale financial instruments		(5,125)	(2,712)
(Decrease)/increase in impairment of loans and other assets, net		-	(8,729)
Increase/(decrease) in provisions for risks and charges		189	311
Operating result before changes in operating assets and liabilities		**(22,402)**	**(1,560)**
Changes in operating assets and liabilities:			
Increase in obligatory reserve with Croatian National Bank		(34,609)	(47,463)
Increase in treasury bills with Croatian National Bank		(12,684)	-
Decrease of placements with other banks		71	-
Increase in loans		(193,909)	(377,359)
Increase/(decrease) in deposits from other banks		(28,000)	27,981
Increase in deposits from customers		108,851	443,718
NET INCREASE/(DECREASE) IN CASH FROM OPERTING ACTIVITIES		**(182,682)**	**45,317**
Investing activities			
Increase in financial instruments held for trading		(70,133)	(8,286)
Decrease/(increase) in available-for-sale financial assets		(32,373)	3,931
Receipts from the sale of Vis		-	32,755
(Increase)/decrease in held-to-maturity financial assets		15,710	(14,490)
Purchases of tangible and intangible assets		(27,039)	(9,704)
Receipts from sale of tangible fixed assets		126	12,608
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(113,709)**	**16,814**
Financing activities			
Increase/(decrease) in borrowings		205,699	5,000
Increase in share capital		126,152	-
NET INCREASE IN CASH FROM FINANCING ACTIVITIES		331,851	5,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		35,460	67,131
Cash and cash equivalents at 1 January		130,267	63,136
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	29	**165,727**	**130,267**

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

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2007

(All amounts are expressed in thousands of kunas)

	Share capital	Share capital	Reserves	Fair valuation reserve	Revaluation reserve	Accumulated losses	Total
At 31 December 2005	**62,226**	**(3,367)**	**-**	**155**	**6,629**	**(9,367)**	**56,276**
Transfers from/(to)	-	-	-	-	(6,629)	6,629	-
Realised fair value	-	-	-	(108)	-	-	(108)
Result for the year	-	-	-	-	-	1,106	1,106
At 31 December 2006	**62,226**	**(3,367)**	**-**	**47**	**-**	**(1,632)**	**57,274**
Share capital increase	91,129	-	-	-	-	-	91,129
Share premium	-	35,023	-	-	-	-	35,023
Reserves for own shares	-	(2,600)	2,600	-	-	-	-
Losses from Available-for-sale financial assets	-	-	-	(121)	-	-	(121)
Realised revaluation reserve	-	-	-	-	-	-	-
Result for the year	-	-	-	-	-	490	490
At 31 December 2007	**153,355**	**29,056**	**2,600**	**(74)**	**-**	**(1,142)**	**183,795**

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

Notes to the financial statements

For the year ended 31 December 2007

(All amounts are expressed in thousands of kunas)

1. General

History and incorporation

Vaba d.d. Bank Varaždin (the "Bank") was established as Brodsko - posavska banka d.d., Slavonski Brod in 1994. On 27 December 2004 the Bank was renamed to Vaba d.d. Banka Varaždin, and its headquarters were relocated from Slavonski Brod to Varaždin, Anina 2. This change was a result of the changes in the ownership structure of the Bank, whose majority shareholder became Validus d.d. from Varaždin, with the consent of the Croatian National Bank and assurance that the Bank would operate in accordance with law.

In the General Shareholders' Meeting of 14 December 2006, the Bank issued a decision to increase the share capital by issuing 292 thousand of new shares, with a nominal value of HRK 100 per share through a private offering at a price of HRK 140 per share.

In the General Shareholders' Meeting held on 18 April 2007, a decision was made to increase the share capital by issuing 619 thousand new shares, with a nominal value of HRK 100 per share, which were offered to the Bank's existing shareholders at a price of HRK 140 per share by private offering. In 2007, the share capital of the Bank was increased, and the capital increase from HRK 62,226,400 to HRK 153,355,000 was registered at the Commercial Court in Varaždin by the Court decision dated 17 April 2007.

By Decision of the General Assembly dated 18 April 2007, the Bank's headquarters were changed to Aleja kralja Zvonimira 1, Varaždin.

Principal activity

As at 31 December 2007, the Bank was operating a total of 10 branches throughout the Republic of Croatia, primarily in the broader regions of Zagreb, Slavonski Brod and Varaždin.

The Bank's main areas of operation include:

- foreign currency payment operations in Croatia (exchange operations)
- cash intermediation
- providing all types of loans, opening documentary letters of credit, issuing warranties and bank guarantees, and assuming other financial obligation
- operations involving bills of exchange, cheques and deposit certificates for the Bank's own account and for the account of its customers
- derivative instrument (forwards, options, etc.) operations and trading for its own account or for the account of its customers current and term deposit accounts
- security operations for its own account or for the account of other persons
- issuing and managing payment instruments (cards, traveller's cheques and bank orders)
- finance lease and factoring
- providing customer creditworthiness information on customer request
- lending operations with foreign countries and local payment operations
- local payment operations (in accordance with the National Payment Operations Act)
- provision of other financial services prescribed or determined by the Croatian National Bank
- safe and vault rental
- custody operations, in accordance with the underlying securities issue and trading acts and regulations
- financial intermediation
- bank assurance business.

Governance and Management

The members of the Supervisory Board of Vaba d.d. banka during 2007 were as follows:

Milan Horvat, President
Stjepan Bunić, deputy President
Vladimir Koščec, member
Željko Filipović, member until 10 September 2007
Artur Gedike, member
Liljana Weissbarth, member
Mika Mimica, member until 10 September 2007
Anis Khan, member since 10 September 2007
Balz Merkli, member since 10 September 2007

The members of the Management Board during 2007 were as follows:

Igor Čičak, President
Marinko Benić, Member until 30 June 2007
Stjepan Bunić, Member from 1 April to 1 July 2007
Zvonimir Jasek, Member since 13 July 2007

At 20 March 2007 Supervisory Board decided to recall Management Board member Marinko Benić with date 30 June 2007. Since Marinko Benić was unable to perform his function, Stjepan Bunić was appointed as deputy Board member for the period of three months in accordance with the Banking Law.

2. Measures of the Croatian National Bank (the CNB)

Because of the circumstances surrounding the Bank's operations that prevented it to reach full compliance with the regulations governing commercial bank operations, the CNB placed the operations of the Bank in the period after 2000 under more strict supervision and issued certain measures that significantly affected the operations of the Bank.
In September 2005 the CNB issued a preliminary resolution for eliminating the identified irregularities and non-compliance, according to which:

- The Bank has to set up auxiliary records for its assets and liabilities for the assets and liabilities under the contract on purchase of assets and liabilities of Primus bank in forced liquidation;
- The Bank is repeatedly forbidden to conclude any new transactions with its related parties that would result in an increased exposure to those persons or an increase in the obligations representing either the current or the future cost of the Bank; this measure is effective until further notice;
- The Bank may not provide financial services for which it has not received an approval from the CNB.

During direct supervision, the following authoritative instructions were issued to the Bank on 6 April 2006 to eliminate the identified non-compliance issues and irregularities:

- The Bank has to set up auxiliary records for monitoring the balance and movements in small loans, by enabling that the accurate balance within the portfolio is determined, together with the required amount of impairment allowance.

In January 2008, the Bank was instructed to act as follows:

- As of 30 September 2007, the Bank shall determine the capital requirements for its position risks, the capital requirements in respect of settlement risk and counterparty risk.
- The Bank has to review the internal policies and procedures it uses as part of its credit risk management system, by detailing the criteria for the classification of small loans into risk groupings.

As of date of authorisation of these financial statements the Bank had promulgated certain operating decisions the implementation of which resulted in bringing the Bank's operations in line with the applicable regulations and the specific requirements of the CNB, except for the limit set for related party transactions, where the Bank still has certain expenses, comprising only rental costs and overheads, as it shares several offices with its related parties most of the Bank's contractual arrangements with its related persons were cancelled by the end of 2007 and the rest in early 2008, so that there is no further basis for new exposures or liabilities to related parties.

The Croatian National Bank performed an on-site supervision at the Bank in the period from 18 February to 21 March 2008, and a draft supervisory inspection findings report was delivered to the Bank by the date of approval of these financial statements.

The Bank adopted a large number of recommendations resulting from the on-site supervision over its operations for the year ended 31 December 2007 and implemented them as of 31 March 2008, by adjusting the balance of accumulated losses by HRK 6,647 thousand, whereas the remaining recommendations resulted in additional costs of HRK 9,726 thousand being reported in the financial statements for the period ended 31 March 2008.

3. Assumption of the assets and liabilities of Primus Banka in liquidation

a) Background

On 29 July 2005, the Bank concluded with the State Deposit Insurance and Bank Rehabilitation Agency ("the Agency" or "DAB") and Primus Banka in liquidation an agreement to purchase a part of the assets and liabilities of Primus Banka.
The net positive effect of the transaction on the 2005 financial statements would amount to HRK 20,317 thousand.

b) Assets repurchased from Vaba by the Agency

Under the terms and conditions of the above-mentioned agreement, the Agency repurchased from Vaba, immediately upon the assets and liabilities being sold to Vaba, a portion of the assets and liabilities to the Croatian Bank for Reconstruction and Development (HBOR) for a cash consideration of HRK 45,610 thousand.

c) The process of transferring the relevant bookkeeping entries

The process of transferring accounting data was not performed immediately and as of 31 May 2005 but occurred in several stages, with the balances as of 31 July 2005. The transfer and reconciliation of the accounting data was completed, after which the balances were reconciled with the customers concerned, and the transactions involving those customers continued in the same manner as with other Vaba customers. The final reconciliation of balances in the accounts of the Bank was performed as of 31 December 2007, by applying retrospective restatements, which completed the process of a proper accounting for the assets and liabilities assumed from Primus banka d.d. in liquidation.

d) Guarantees of DAB for the fairness of assets and liabilities sold

Under the agreement, DAB continued to guarantee to Vaba for the reasonableness of the assets and liabilities stated as of 31 May 2005, with a permissible departure of +/- 5 ‰, specifically for the accuracy of the reported provisions for loans and advances. If the positions were found to be unfairly presented, DAB undertook to settle all potential and actual costs incurred not included in the balance sheet that might be chargeable to the assets acquired or Vaba as acquirer.
According to the Protocol A dated 20 March 2007 between Vaba and the Agency, the independent auditors of PricewaterhouseCoopers d.o.o. identified both positive and negative variances in the value of the assets and liabilities, that is, the adequacy of provisions as presented in the balance sheet of Primus banka d.d. as of 31 May 2005, based on which the Agency should pay to the Bank HRK 8,460 thousand as a compensation for insufficient provisions for the loans assumed from the lending portfolio of Primus banka in liquidation. The amount was settled by the Agency on 19 July 2007.

On 5 February 2008, Annex I to the Agreement on Purchase of Assets and Assumption of the Obligations of Primus banka d.d. in forced liquidation was entered into between the Agency and Primus banka d.d., under which the Agency paid to the Bank HRK 14,279 thousand, which represents the total receivables of the Bank from the debtors specified in Schedule 11, plus regular interest accrued on those receivables from the date of the Agreement until 31 December 2007. The amount was settled by the Agency on 7 March 2008.

Upon having conduced the Annex I, all the rights and obligations of the Bank and of the Agency under the host contract, except for the Bank's receivables from two debtors for which the Agency continues to guarantee, were extinguished.

The Bank wrote off accrued interest in the amount of HRK 378 thousand in respect of its customers listed in Schedule 11, which were not acknowledged by the Agency under the Annex I to the agreement made in February 2008 .Accordingly, the Bank made a provision of HRK 335 thousand for receivables arisen on the transfer of the data of Primus banka d.d., in liquidation, due to uncollectability. Also, the Bank made a provision of HRK 290 thousand in respect of attorney costs incurred for legal steps taken regarding those receivables, as they were not guaranteed by the Agency

4. Summary of significant accounting policies

a) Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as published by the International Accounting Standards Board. The financial statements have been prepared under the historical cost basis, except for certain financial instruments and properties that were carried at revalued amounts. The financial statements are presented in thousands of Croatian Kuna (HRK'000) which is the functional currency of the Bank.

The financial statements are prepared on an accrual basis of accounting, under the going concern assumption.

The Bank maintains its records and prepares its statutory financial statements and reports in accordance with the regulations and decisions of the Croatian National Bank (abbreviated: "the CNB"). The accompanying financial statements are based on the accounting records of the Bank, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with International Financial Reporting Standards.

b) Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

In the current year, the Bank has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Bank'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 Interpretations has not led to any changes in the Bank's accounting policies.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 11 IFRS 2: Group and Treasury Share Transactions (effective 1 March 2007);
- IFRIC 12 Service Concession Arrangements (effective 1 January 2008); and
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008).

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

Key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the balance sheet date and actual results could differ from those estimates.

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.

- The Bank monitors permanently the recoverable amount of its loans and receivables, as well as the col lection time, which serves as the basis for estimating future cash flows. As the assumed amounts and time of collection are subject to assumptions regarding the elements beyond the Bank's control (dura tion of litigation, selling price of collateral, future performance of its customers, etc.), the total actual losses may differ significantly from those currently estimated.

- The Bank is involved in various legal actions, the outcome of which is uncertain (see Note 23). Based on the consultation with legal counsel, the management's estimate is that no costs are likely to eventu ate on those actions. It should be noted that, despite the estimate, such costs may arise in the future.

c) Interest income and expenses

Interest income is recognized on accrual basis, by reference to the principal outstanding and at the effective interest rate applicable. Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments. Penalty interest is accrued as of the due date.
When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.
Interest income and expense include commission income and expense in respect of approved loans, as well as amounts due from customers, or loans from other banks, issued debt securities, premium amortisation or discount, as well as other differences between the opening carrying amounts of interest-bearing financial instruments and the amounts due on maturity, determined using the effective interest method.
The Bank does not defer any loan origination fees over the underlying loan repayment period but rather recognises them as income immediately because there is no technical possibility to defer those fees.
The Bank is currently not able to quantify precisely the amount of the fees included in interest income that should be deferred.
Such an accounting treatment is not compliant with Paragraph 9 of International Accounting Standard 39 Financial instruments: Recognition and measurement.

d) Fee and commission income and expense

Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for credit instruments issued by the Bank, except for loan origination fees.

Fees for payment transactions are recognized in the period when services are rendered.

e) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

f) Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Croatian National Bank ('CNB'), and current accounts with other banks, and treasury bills.

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

g) Financial assets and financial liabilities

Financial assets held by the Bank are categorized into portfolios in accordance with the Bank's intent on the acquisition and pursuant to the Bank's investment strategy. Financial assets and liabilities are classified as 'At fair value through profit and 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.

All financial assets and liabilities are recognized and derecognized on a trade date basis, where the purchase or sale of financial asset or liability is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

When a financial asset or financial liability is recognized initially, the Bank measures it at its cost increased for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Assets at fair value through profit or loss

Assets at fair value through profit or loss are financial assets (equity and debt securities, treasury bills, participation certificates) acquired or incurred principally for the purpose of selling or repurchasing it in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivative financial instruments (except for a derivatives that are a designated and effective hedging instrument) are classified as held for trading.

Upon initial recognition designated by the Bank as at fair value through profit or loss.

In accordance with the Bank's investment policy any financial asset within the scope of IAS 39 can be classified as designated at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Subsequent to initial recognition, financial assets at fair value through profit or loss are accounted for and stated at fair value which approximates the price quoted on recognized stock exchanges or which is determined using acceptable valuation models. The Bank includes unrealized gains and losses in 'Net profit/(loss) on financial operations.' Interest earned on assets at fair value through profit or loss is accrued on a daily basis based on effective interest method and reported as 'Interest income' in the profit and loss statement.

A financial asset for which there is no active market (or if the securities are not quoted) or if the fair value cannot be determined reliably by reference to market prices for any other reason, the Bank determines the fair value using valuation techniques, which take into account prices in recent transactions between knowledgeable and willing parties, by reference to other similar instruments, an analysis of discounted cash flows and option pricing models, maximising the use of market information and minimising the reliance on specific circumstance of the entity. When applying the discounted cash flows, the estimated future cash flows are based on the best management estimate and the discount rate is the market rate.

Dividends on trading securities are recorded when declared and included as a receivable in the balance sheet line 'Other assets' and in 'Net profit/(loss) on financial operations' in the profit and loss statement.

All purchases and sales of securities held for trading that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognized as spot transactions. Transactions that do not meet the 'regular way' settlement criterion are treated as financial derivatives.

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.

A financial asset for which there is no active market (or if the securities are not quoted) or if the fair value cannot be determined reliably by reference to market prices for any other reason, the Bank determines the fair value using valuation techniques, which take into account prices in recent transactions between knowledgeable and willing parties, by reference to other similar instruments, an analysis of discounted cash flows and option pricing models, maximising the use of market information and minimising the reliance on specific circumstance of the entity. When applying the discounted cash flows, the estimated future cash flows are based on the best management estimate, using the market rate as the discount rate.

For available-for-sale assets, unrealized gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period.

Impairment losses 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 and reported as "Interest income" in the income statement.

Dividends on securities available for sale are recorded as declared and included as a receivable in the balance sheet line 'Other assets' and in 'Net profit/(loss) on financial operations' in the profit and loss statement. Upon payment of the dividend, the receivable is offset against the collected cash.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loan and receivables are initially recognized at cost, 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.

An allowance for loan impairment is established if there is objective evidence that the Bank 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. Specific 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 the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Objective evidence of impairment for financial assets assessed collectively for impairment are adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments) or national or local economic conditions that correlate with defaults on the assets in the group.

When a loan is uncollectible, it is written off against the related allowance for impairment; subsequent recoveries are credited to the 'Impairment losses on loans and advances' line in the income statement.

The Bank charges penalty interest to borrowers when a portion of the loan falls overdue. Penalty interest is accounted for on a cash received basis in the caption 'Interest income'.

h) Employees 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.

Contributions on behalf of employees
Under Croatian laws, legal pension and health insurance contributions are paid on behalf of the Bank's employees. This obligation applies to all staff hired on the basis of permanent employment contracts. The contributions are paid at a certain percentage determined on the basis of gross salary.
The Bank has the obligation to withhold the pension insurance contributions from the employees' gross salaries.

Contributions paid on behalf of employees and the employer are recognised as an expense in the period in which they are incurred (see Note 9.1).

	2007	2006
Pension insurance contributions	20%	20%
Health insurance contributions	15%	15%
Employment Fund contribution	1,7%	1,7%
Occupational injury	0,5%	0,5%

i) Tangible and intangible assets

Property and equipment are started at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Small equipment with value less than HRK 2,000 is expensed when put into use. Significant improvements and replacement of assets are capitalized. Gains or losses on retirement or disposal of property and equipment are included in the statement of income in the period in which they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful lives of the applicable assets, which are as follows:

	2007	2006
Buildings	33 years	33 years
Office equipment	7 – 15 years	7 – 15 years
IT equipment	5 years	5 years
Motor vehicles	4 years	4 years
Software	5 years	5 years

j) Foreign currency translation

Transactions in currencies other than Croatian Kuna are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the balance sheet date. Translation gains and losses are included in the income statement for the period.
Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the statement of income for the period.
The Bank has assets and liabilities originated in HRK, which are linked to foreign currency with one-way currency clause. Due to this clause the Bank has an option to revalue the asset by higher of: foreign exchange rate valid as of the date of maturity, or foreign exchange rate valid as of the date of origination of the financial instrument. In case of liability linked to this clause the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia the fair value of this option can not be calculated

as the forward rates for HRK for periods over 6 months are not available.
As such the Bank values its assets and liabilities related to this clause by middle rate of Croatian National Bank valid at the date of balance sheet or foreign exchange rate agreed by the option (rate valid at origination) if higher.
The principal rates of exchange set forth by the Croatian National Bank and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

31 December 2007	EUR 1 = HRK 7.325131	USD 1 = HRK 4.985465
31 December 2006	EUR 1 = HRK 7.345081	USD 1 = HRK 5.578401

k) Off-balance sheet commitments

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

l) Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation. Management Board estimates the provisions based at the best estimate of expenditure to settle the Bank's obligation. Provisions are discounted to present value where the effect is material.

m) Fiduciary activities

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

n) Share capital and treasury shares

External costs directly attributable to the issuance of new shares, except for those resulting from transactions, are deducted from the equity, net of any related taxes.
Dividends on ordinary shares are recognized in equity in the period in which they are declared.
When the Bank purchases or becomes entitled to purchase its share capital, the consideration paid, including all transaction costs less any taxes, is presented as a deduction from the total equity. Gains and losses on the sale of treasury shares are credited and charged, respectively, to treasury shares within equity.

o) Comparative information

Where necessary, comparative information has been reclassified to conform with the current year's presentation and other disclosures.

5. Interest and similar income and expenses

a) Interest and similar income

	2007	2006
Individuals	22,387	7,424
Corporate entities	36,085	14,615
State and public sector	247	-
Croatian National Bank	780	404
Domestic banks	537	376
Foreign banks	1.741	1,033
Others	4	1,768
	61,781	**25,620**

b) Interest and similar expense

	2007	2006
Individuals	12,652	7,183
Corporate entities	8,382	6,231
Domestic banks and other financial institutions	11,414	2,320
Savings deposit insurance premium	768	524
State and public sector	117	7
Others	968	480
	34,301	**16,745**

6. Fee and commission income and expenses

a) Fee and commission income

	2007	2006
Individuals	666	281
Corporate entities	10,208	1,766
	10,874	**2,047**

b) Fee and commission expenses

	2007	2006
FINA	1,770	1,243
Domestic banks	255	90
Foreign banks	22	14
Others	539	279
	2,586	**1,626**

7. Net foreign exchange gains/(losses)

	2007	2006
Net foreign exchange gain on trading	1.592	296
Net (losses)/gains on translation of monetary assets and liabilities	305	(211)
	1,897	**85**

8. Other operating income

	2007	2006
Gains on sale of equity share in the subsidiary Vis	-	6,899
Realised gains on financial assets at fair value through profit or loss	6,235	1,595
Gains on available-for-sale assets	-	2,712
Unrealised gains on financial assets at fair value through profit or loss	3,403	3,105
Gains on sale of other tangible assets	6	3,969
Rental income	1,126	973
Income from receivables from DAB	10,253	-
Other income	1,154	745
	22,177	**19,998**

9. Operating expenses

	2007	2006
Staff costs (Note 9.1)	21,956	14,100
Rental costs	6,274	2,375
Advertising	1,922	2,045
Intellectual services	3,078	3,580
Depreciation and amortisation	3,125	1,856
Supervisory Board fees	984	836
Provisions for risks and charges	310	-
Security services	1,446	642
Postage, telecommunications and SWIFT charges	2,152	1,063
Office supplies, heating and energy	1,293	772
IT services	1,276	545
Grants and sponsorships	350	404
Entertainment	1,314	472
Taxes and duties payable irrespective of operating results	567	216
Other expenses	9,647	4,233
	55,694	**33,139**

Other expenses include sale of the Bank's receivables at a discount, promotion and similar costs.

9.1 Staff costs

	2007	2006
Net salaries	11,205	7,308
Taxes and surtaxes	3,198	2,175
Contributions	6,432	4,179
Other staff costs	1.121	438
	21,956	**14,100**

At the end of 2007, there were 161 persons employed by the Bank (2006: 97).

10. Impairment losses and provisions

	Notes	2007	2006
New allowances:			
Loans and advances to customers	19	(20,618)	(13,593)
Interest and other assets	22	(931)	(852)
Contingencies	26	(645)	(331)
		(22,194)	**(14,776)**
Collections and reversals:			
Loans and advances to customers	19	18,484	18,109
Interest and other assets	22	-	1.230
Provisions for contingencies and commitments	26	52	20
		18,536	**19,359**
		(3,658)	**4,583**

Specific provision for loan losses should be higher for approximately 5,807 thousand kuna based on assessments made in accordance with IAS 39 requirements which requires that an allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due.

11. Income tax expense

Income tax represents the amount payable in accordance with Croatian law. The income tax rate is 20% (2006: 20 %).

The reconciliation of accounting profit before tax and tax base is shown below:	2007	2006
Current tax	-	-
Deferred tax	-	(283)
Income tax credit	**-**	**(283)**

The movement in the deferred income tax account is provided as follows:	2007	2006
Balance at 1	283	-
Deferred tax assets recognised	-	283
Balance at 31 December	**283**	**283**

HRK 283 thousand relate to deferred tax assets in respect of deferred loan origination fees recognised by the Bank in 2006, whereas no deferral was made by the Bank in 2007, as disclosed in Note 4 and, therefore no deferred tax assets were recognised in 2007. Fee income of HRK 441 thousand was due in 2007, and the Bank should have reduced the deferred tax assets in respect of those fees by HRK 88 thousand. In the opinion of the management, the amount is not material and does not have a significant influence on the financial statements.

The reconciliation between the income tax and the profits as per the income statement is set out below:

	2007	**2006**
Accounting profit before tax	490	823
Tax disallowable expense, permanent differences	1,337	1,973
Adjusted by revaluation reserve	-	-
Tax benefits	(568)	(652)
Tax base before tax losses brought forward	**1,259**	**2,144**
Tax losses brought forward	(31,700)	(33,894)
Tax losses expired in this year	19,048	50
Tax losses carried forward	(11,393)	(31,700)
Tax base after the utilisation of tax losses brought forward	**-**	**-**
Income tax at the rate of 20%	-	-
Income tax liability	**-**	**-**

In the previous years the Bank incurred tax losses. The ability to carry forward tax losses expires in the fifth year from the year in which the tax losses are incurred. At 31 December 2007 tax losses available for carry forward expire as follows:

Year incurred	**Year of expiry**	**2006**	**Cumulative**
2003	2008	8,615	11,392
2005	2010	2,778	2,778
		11,393	

The Bank has not recognized any deferred tax assets in these financial statements as the management has estimated that the possibility of utilizing tax losses is remote.

12. Earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the net profit after tax for the period attributable to ordinary shareholders after deducting preference dividends.

	2007	**2006**
Profit /(loss) for the year (in HRK)	490,166.92	1,105,911.35
Weighted average number of shares	944,335	622,264
Earnings per share (in HRK) - earnings per share and diluted earnings per share	**0.52**	**1.78**

13. Cash and current accounts with banks

	31 December 2007	31 December 2006
Cash in hand	13,000	8,976
Current accounts with domestic banks	3,183	986
Current accounts with foreign banks	6,112	6,639
Current accounts with Croatian National Bank	82,167	40,683
	104,462	**57,284**

14. Obligatory reserve with Croatian National Bank

	31 December 2007	31 December 2006
- In HRK	75,536	64,954
- In foreign currencies	37,439	13,412
	112,975	**78,366**

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 (in 2006 17 percent) and 17 percent of foreign currency denominated balances (in 2006 17 percent). From that amount the banks should maintain at least 70 percent for the kuna obligatory reserve and 60 percent for the obligatory reserve in foreign currency with the Croatian National Bank.

15. Placements with other banks

	31 December 2007	31 December 2006
Placements with domestic banks	11,052	22,442
Placements with foreign banks	50,213	50,613
	61,265	**73,055**

Placements with other banks comprise mainly short-term deposits (up to one months) with domestic and foreign banks, which bear interest at an average rate of 3 percent (2006: 2.75 percent).

Placements with domestic banks at 31 December 2007:

	Nominal value	Due date	Currency	Interest rate	2007
Privredna banka d.d.	3,751	07/01/2008	CHF	2.60%	3,753
Zagrebačka banka d.d.	918	02/01/2008	NOK	5.00%	920
Erste & Steiermaerkische d.d.	366	10/01/2008	EUR	3.39%	379
Kreditna banka d.d.	6,000	01/01/2008	HRK	11.00%	6,000
	11,035				**11,052**

Placements with foreign banks at 31 December 2007:

	Nominal value	Due date	Currency	Interest rate	2007
Bank Austria Creditanstalt AG	5,389	25/01/2008	CHF	2.50	5,391
LHB Internationale Handelsb.	7,478	04/01/2008	USD	4.34	7,481
Erste Bank der oesterreicehishen Sparkassen	7,325	02/01/2008	EUR	3.70	7,329
Bayerische Landesbank Girozent.	14,650	02/01/2008	EUR	3.50	14,656
KBC Bank NV	14,650	03/01/2008	EUR	3.90	14,658
Commerzbank AG	698	30/11/2008	USD	0.00	698
	50,190				**50,213**

Geographic analysis

Country	2007	2006
Germany	22,848	1,134
Austria	12,715	24,809
Belgium	14,650	24,670
	50,213	**50,613**

All placements are kept with first-class international banks.

16. Financial assets at fair value through profit or loss

	2007	2006
Shares of domestic issuers	9,954	14,894
Units in open-ended investment funds	87,181	8,705
	97,135	**23,599**

The shares of the issuers domiciled in the Republic of Croatia are quoted on the Zagreb Stock Exchange. The fair value of those shares at 31 December 2007 was determined by reference to the last trading price at the Zagreb Stock Exchange.
The fair value of units in open-ended investment funds was determined on the basis of the funds net asset value as published by Bloomberg or by reference to web sites of the fund management companies.

16.1 Shares of domestic issuers

Issuer	Value	Equity share in %	Cost	Unrealised gains/ (losses), net	Fair value at 31/12/2007
Helios Faros	HRK	4.93%	5,232	3,139	8,371
Jadran Invest	HRK	1.52%	1,200	103	1,303
Atlantic Grupa d.o.o.	HRK	0.01%	299	(19)	280
			6,731	**3,223**	**9,954**

The fair value of shares was determined based on the last closing price quoted on the Zagreb Stock Exchange as of 31 December 2007.

Due to limited volume of trading mostly with related parties, the closing price of share of Helios Faros d.d. Stari Grad as of 31 December 2007 on the Zagreb Stock Exchange of does not represent fair value of these shares. In accordance with the IAS 39, fair value of financial instruments for which no active market exists is determined using valuation techniques, and therefore the Bank engaged two independent evaluators to preform valuations of these shares. The information provided in these valuations was not sufficient for us to be able to determine reliable fair value of these shares and we could not asses the effect on financial statements for the year ended 31 December 2007.

16.2 Open-ended investment funds

Name	Currency	Cost	Unrealised gains/(losses)	Fair value at 31/12/2007
KD Balanced	HRK	10,000	67	10,067
Prospectus JIE	HRK	10,000	81	10,081
ZB Plus	HRK	15,000	9	15,009
Erste Money	HRK	7,000	3	7,003
PBZ Novčani	HRK	15,000	8	15,008
HI Cash	HRK	15,000	7	15,007
HPB Novčani	HRK	15,000	6	15,006
		87,000	**181**	**87,181**

Changes during the year	2007
Balance at 1 January – SHARES	**16,094**
Changes in the fair value of shares	3,223
Sale of Đuro Đaković shares	(12,071)
Sale of Hoteli Helios shares	(1,217)
Purchase of T-HT shares	1,325
Sale of T-HT shares	(1,916)
Purchase of Veterina shares	210
Sale of T-HT shares	(260)
Purchase of Atlantic shares	299
Realised gains on sale of Đuro Đaković shares	3,244
Realised gains on sale of Helios shares	382
Realised gains on sale of T-HT shares	591
Realised gains on sale of Veterina shares	50
Balance at 31 December 2007 – SHARES	**9,954**
Balance at 1 January – UNITS	**11,523**
Purchases of units	171,475
Purchase of the bonds of the Croatian Ministry of Finance	1,890
Sale of units	(98,209)
Sale of the bonds of the Croatian Ministry of Finance	(1,911)
Realised gains on sale - bonds of the Croatian Ministry of Finance	21
Increase in the fair value of units	181
Realised gains on units	2,211
Balance at 31 December 2007 – UNITS	**87,181**

17. Available-for-sale financial assets

	2007	2006
Shares of domestic issuers	17,439	4,018
Croatian Govrenment bonds	9,636	-
Treasury bills of the Republic of Croatia	14,321	-
	41,396	**4,018**

17.1 Shares of domestic issuers

Issuer	Value	Equity share in %	Cost	Unrealised gains/(losses)	Fair value at 31/12/2007
Slatinska banka d.d.	HRK	3.81	**17,439**	-	17,439
Kaptol banka d.d.	HRK	-	4,531	-	-
Impairment allowance	HRK	-	(4,531)	-	-
			17,439		**17,439**

17.2 Croatian Government bonds

Series	Currency	Interest rate %	Due date	Accrued interest	Cost	Unrealised gains/(losses)	Fair value at 31/12/2007
RHMF-0-172A	HRK	3.75	08/02/2017	188	9,683	(47)	**9,636**

17.3 Treasury bills of the Republic of Croatia

Series	Currency	Interest rate %	Due date	Accrued interest at 31/12/2007	Unrealised gains/(losses)	Fair value at 31/12/2007
HRRHMFT850A1	HRK	4,344	11/12/2008	652	(27)	**14,321**

Treasury bills were issued by the Croatian Ministry of Finance. They are denominated in Croatian kuna and mature within a period of 12 months. The interest rate on the treasury bills is 5 percent.

	2007
Balance at 1 January – TREASURY BILLS	-
Purchases	14,348
Sale	-
Redemption	-
Changes in the fair value included in the revaluation reserve	(27)
Realised fair value through profit or loss	-
Exchange differences	-
Movements on interest	-
Balance at 31 December	**14,321**
Balance at 1 January – BONDS	
Purchases	9,495
Sale	-
Redemption	-
Changes in the fair value included in the revaluation reserve	(47)
Realised fair value through profit or loss	-
Exchange differences	-
Movements on interest	-
Balance at 31 December	**9,448**

18. Held-to-maturity financial assets

	31 December 2007	31 December 2006
Bills of exchange	9,779	14,486
Factoring, purchased receivables	-	11,003
Public debt bonds purchased from Primus	17	17
	9,796	**25,506**

Bills of exchange were issued by various legal entities, at an interest rate 7.9 – 9.5 % .

Bills of exchange are due within 3 to 12 months from the balance sheet date. At 31 December 2007, HRK 13 thousand of the total investments in bills of exchange were due (2006: HRK 37 thousand).

19. Loans and advances to customers

	31 December 2007	31 December 2006
Loans and advances to corporate customers	466,390	423,119
Loans and advances to individuals	268,938	119,079
	735,328	**542,198**

Impairment allowance – individuals	(16,232)	(14,150)
Impairment allowance	(3,741)	(9,157)
General provision	(8,832)	(6,277)
	706,523	**512,614**

Lending portfolio analysis

	31 December 2007	31 December 2006
HRK denominated		
Loans to corporate customers	426,646	367,602
Loans to individuals	153,397	**25,563**
	580,043	393,165
Foreign currency denominated		
Loans to corporate customers	39,744	55,518
Loans to individuals	115,541	93,515
	155,285	149,033

Total gross loans and advances to customers	735,328	542,198
Impairment allowance	**(28,805)**	**(29,584)**
Total net loans and advances to customers	**706,523**	**512,614**

Movements in provisions for impairment

	2007	2006
At 1 January	29,584	33,687
Charged during the year	20,618	13,593
Amounts collected or reversed	(18,484)	(18,109)
Amounts written-off or adjusted otherwise	(2,913)	413
At 31 December	**28,805**	**29,584**

Concentration of credit risk by industry

All commercial lending is to companies domiciled in Croatia. At 31 December 2007 the Bank had the following gross credit risk concentration by industry:

	31 December 2007	%	31 December 2007	%
Agriculture and forestry	10,487	1.43	3,518	0.65
Manufacturing	95,469	12.98	43,696	8.14
Construction	100,322	13.64	17,569	3.27
Transport	17,769	2.42	8,765	1.63
Trade and commerce	60,900	8.28	34,351	6.4
Individuals	132,635	18.04	120,954	21.53
Business services	186,508	25.36	297,325	55.4
Other services	120,000	16.32	16,020	2.98
Other	11,238	1.53	-	-
	735,328	**100**	**542,198**	**100**
Allowance	(28,805)	(4.08)	(29,584)	(4.34)
	706,523	**95.92**	**512,614**	**95.66**

Loan and receivables impairment allowance movement

	Banks	Banks	Banks	Banks	Banks	Banks
	2007	**2007**	**2007**	**2006**	**2006**	**2006**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
	Identified	**Unidentified**	**Total**	**Identified**	**Unidentified**	**Total**
Impairment allowance – opening balance	23,307	6,277	29,584	31,623	2,064	33,687
Increase in impairment losses	18,063	2,555	20,618	9,263	4,330	13,593
Reversal of impairment losses	(18,484)	-	(18,484)	(17,992)	(117)	(18,109)
Exchange differences	-	-	-	-	-	-
Amounts written-off	(2,913)	-	(2,913)	413	-	413
Impairment allowance – closing balance	**19,973**	**8,832**	**28,805**	**23,307**	**6,277**	**29,584**

Impairment losses were recognised in accordance with regulatory accounting requirements imposed by the Croatian National Bank.

The CNB requires from the banks to recognise impairment losses through profit or loss for assets not identified as individually impaired, as well as for off-balance sheet items, whereas the sum of impairment loss provision, i.e. the impairment allowance should account for 0.85 to 1.20 percent of the total loans and off-balance sheet items for which the losses are determined. The Bank's general provision for assets not individually determined as impaired amounted to HRK 8,832 thousand and was reported in the balance sheet at 31 December 2007 (2006: HRK 6,277 thousand), and expense in the amount of HRK 2,555 thousand in respect of the provision was included in impairment losses for the year 2007 (2006: expense of HRK 4,213 thousand). Although, according to IFRS, such provisions cannot be limited versus the basis on which they are determined, the Bank continues to recognise those provisions in line with the CNB rules in lieu for the existing unidentified impairment losses that are determined in accordance with the IFRS requirements. The Bank is in the process of collecting available historical data about unidentified losses that exist in various portfolios exposed to credit risk as of the balance sheet, by determining the appropriate period in which such losses are identified and by identifying, for each portfolio, the appropriate economic conditions for which the historical data should be adjusted to determine the basis for estimating the amount of unidentified losses as of the balance sheet in accordance with IFRS requirements. The Bank was not able to quantify any effect of any potential recognition of impairment losses on assets not individually identified as impaired or on off-balance sheet items, as required by IFRS, on the presented financial statements.

20. Property, plant and equipment

	Land and buildings	IT equipment	Office furniture and fittings	Motor vehicles	Other	Assets under construction	Total
Cost							
Balance at 1 January 2006	4,397	2,641	6,253	140	509	126	14,066
Additions	-	-	-	-	-	21,792	21,792
Disposals and retirements	-	(447)	(262)	-	(23)	-	(732)
Transfer from assets under construction	15,346	2,475	3,196	446	455	(21,918)	
Balance at 31 December 2007	**19,743**	**4,669**	**9,187**	**586**	**941**	**-**	**35,126**
Accumulated depreciation							
At 31 December 2006	896	1.333	2,811	140	231	-	5,411
Charge for the year	245	378	888	54	141	-	1,706
Disposals and retirements	-	(303)	(368)	-	(23)	-	(694)
Balance at 31 December 2007	**1,141**	**1,408**	**3,331**	**194**	**349**	**-**	**6,423**
Net book value							
At 31 December 2007	**18,602**	**3,261**	**5,856**	**392**	**592**	**-**	**28,703**
At 31 December 2006	**3,501**	**1,308**	**3,442**	**-**	**278**	**126**	**8,655**

	Land and buildings	IT equipment	Office furniture and fittings	Motor vehicles	Other	Assets under construction	Total
Cost							
Balance at 1 January 2005	17,597	1,926	4,658	399	389	1,521	26,490
Additions	599	25	36	-	-	2,609	3,269
Disposals and retirements	(13,799)	(136)	(125)	(259)	(5)	(1,369)	(15,693)
Transfer from assets under construction	-	826	1,684	-	125	(2,635)	-
Balance at 31 December 2006	**4,397**	**2,641**	**6,253**	**140**	**509**	**126**	**14,066**
Accumulated depreciation							
At 31 December 2005	4,314	1,158	2,451	399	168	-	8,490
Charge for the year	535	296	453	-	67	-	1,351
Disposals and retirements	(3,953)	(121)	(93)	(259)	(4)	-	(4,430)
Balance at 31 December 2006	**896**	**1,333**	**2,811**	**140**	**231**	-	**5,411**
Net book value							
At 31 December 2006	**3,501**	**1,308**	**3,442**	**-**	**278**	**126**	**8,655**
At 31 December 2005	**13,283**	**768**	**2,207**	**-**	**221**	**1,521**	**18,000**

21. Intangible assets

	Software	Leasehold improvements	Other	Assets under development	Total
Cost					
Balance at 1 January 2006	641	4,319	821	3,861	9,642
Transfer from assets under development	480	3,281	1,358	(5,119)	-
Additions	-	-	-	5,159	5,159
Disposals and retirements	-	-	-	-	-
Balance at 31 December 2007	1,121	7,600	2,179	3,901	14,801
Accumulated amortisation					-
At 31 December 2006	537	1,223	429	-	2,189
Charge for the year	95	1,129	185	-	1,409
Disposals and retirements	-	-	-	-	-
Balance at 31 December 2007	632	2,352	614	-	3,598
Net book value					
At 31 December 2007	**489**	**5,248**	**1,565**	**3,901**	**11,203**
At 31 December 2006	**104**	**3,096**	**392**	**3,861**	**7,453**

	Software	Leasehold improvements	Other	Assets under development	Total
Cost					
Balance at 1 January 2005	617	1,868	474	265	3,224
Transfer from assets under development	24	2,448	364	(2,836)	-
Additions	-	3	-	6,432	6,435
Disposals and retirements	-	-	(17)	-	(17)
Balance at 31 December 2006	641	4,319	821	3,861	9,642
Accumulated amortisation					
At 31 December 2005	511	823	367	-	1,701
Charge for the year	26	400	79	-	505
Disposals and retirements	-	-	(17)	-	(17)
Balance at 31 December 2006	537	1,223	429	-	2,189
Net book value					
At 31 December 2006	**104**	**3,096**	**392**	**3,861**	**7,453**
At 31 December 2005	**106**	**1,045**	**107**	**265**	**1,523**

22. Other assets

	31 December 2007	31 December 2006
Accrued fees and commissions	799	533
Foreclosed assets	725	1,024
Office supplies and small inventory	844	145
Advances	633	780
Receivables from the state and state institutions	26	71
Receivables in respect of the Primus transaction	21,426	8,080
Other assets	4,809	2,284
	29,262	**12,917**
Impairment allowance	(8,814)	(7,883)
	20,448	**5,034**

Movements in impairment provision

	2007	2006
At 1 January	7,883	4,922
Charged during the year	931	852
Amounts collected or reversed	-	(1,230)
Amounts written-off or adjusted otherwise	-	3,339
At 31 December	**8,814**	**7,883**

23. Deposits from banks

	31 December 2007	31 December 2006
Deposits from banks	-	28,000
	-	**28,000**

24. Other borrowed funds

	31 December 2007	31 December 2006
Hrvatska poštanska banka d.d. Zagreb	10,000	5,003
Jadranska banka	20,000	-
Podravska banaka	7,000	-
Croatia banka	9,000	-
Slatinska banka d.d.	10,000	-
Nava banka d.d.	8,300	-
Hypo Alpe-Adria Bank d.d.	19,598	-
Banka Sonic d.d.	10,000	-
Imex banka d.d.	10,000	-
Banka Kovanica d.d.	10,000	-
Jadranska banka d.d. Šibenik	10,000	-
Samoborska banka d.d. Samobor	31,000	-
Kreditna banka Zagreb d.d.	10,000	-
Zagrebačka banka d.d. Zagreb	9,500	-
HBOR Zagreb	12,012	-
FIMA Global Invest d.o.o. Varaždin	22,000	-
Učka-Marjan ZIF-Mediteraninvest Križevci	2,000	-
Interest expense on VK	292	-
	210,702	**5,003**

25. Amounts due to customers

	31 December 2007	31 December 2006
Corporate customers		
Demand deposits		
- in HRK	33,497	61,336
- in foreign currency or tied to foreign currency	1,999	660
Subtotal	***35,496***	***61,996***
Term deposits		
- in HRK	379,027	299,407
- in foreign currency or tied to foreign currency	34,198	35
Subtotal	***413,225***	***299,442***
Total corporate customers	**448,721**	**361,438**
Individuals		
Demand deposits		
- in HRK	12,448	5,761
- in foreign currency or tied to foreign currency	9,529	9,660
Subtotal	***21,977***	***15,421***
Term deposits		
- in HRK	82,497	22,422
- in foreign currency or tied to foreign currency	220,362	164,464
Subtotal	***302,859***	***186,886***
Total individuals	**324,836**	**202,307**
Public sector and non-profit organisations		
Demand deposits		
- in HRK	3,258	12,887
- in foreign currency or tied to foreign currency	2	2
Subtotal	***3,260***	***12,889***
Term deposits		
- in HRK	27,691	88,496
- in foreign currency or tied to foreign currency	-	31,444
Subtotal	***27,691***	***119,940***
Total public sector and non-profit organisations	**30,951**	**132,829**
Restricted deposits		
Demand deposits		
- in HRK	1,244	313
- in foreign currency or tied to foreign currency	-	14
Subtotal	***1,244***	***327***
Total restricted deposits	**1,244**	**327**
Total	**805,752**	**696,901**

At the year-end, interest rates on amounts due to customers in respect of current accounts and demand deposits ranged between 0.5% and 1.0%, and on term deposits from 3.5%-7.0%.
The largest individual balance due to a single depositor amounted to HRK 103,349 thousand at 31 December 2007 (2006: HRK 105,000 thousand), which relates to a HRK denominated term deposit in the total amount of 103,349 thousand (2006: HRK 105,000 thousand), with interest at a rate of 2.5% (2006: 2.5 %), which matures on 31 January 2008.

26. Provisions for liabilities and charges

Movements in provisions for liabilties and charges were as follows:

	31 December 2007	31 December 2006
Provisions for taxes and contributions	-	50
Provisions for contingent liabilities and commitments	983	390
Litigation provision	310	664
	1,293	**1,104**

2007				
	Taxes and contributions	**Contingent liabilities**	**Litigation provision**	**Total**
At 1 January	50	390	664	1,104
New provisions made	-	645	310	955
Amounts reversed	(50)	(52)	(664)	(766)
Utilised	-	-	-	-
At 31 December	-	**983**	**310**	**1,293**

2006				
	Taxes and contributions	**Contingent liabilities**	**Litigation provision**	**Total**
At 1 January	50	79	1,158	1,287
New provisions made	-	331	-	331
Amounts reversed	-	(20)	-	(20)
Utilised	-	-	(494)	(494)
At 31 December	**50**	**390**	**664**	**1,104**

The Bank's management maintains a provision for contingent liabilities and commitments at a level it deems appropriate to absorb probable future losses.

The management has reviewed all legal actions outstanding against the Bank and expects that no additional losses will be incurred.

27. Other liabilities

	31 December 2007	31 December 2006
Fees and interest payable	10	-
Amounts due to suppliers	1,588	1,914
Amounts due to employees	1,007	555
Taxes and contributions	955	520
Liabilities for received payments and unallocated funds	-	1,153
Savings deposit insurance premiums	206	150
Liabilities assumed from ŠKZ Folis	-	793
Other liabilities assumed from Primus banka	223	566
Amounts due to the Supervisory Board	116	117
Accruals on retail business	172	434
Other liabilities	771	1,100
	5,048	**7,302**

Other liabilities comprise liabilities in respect of credit card operations, temporary receipts on other bases and interdivisional liabilities.

28. Share capital and reserves

a) Share capital

	31 December 2007	31 December 2006
Nominal value of share capital	153,355	62,226
Number of ordinary shares (in pcs)	1,533,550	622,264
Nominal value per share (in kunas)	100	100
Shareholders with a holding in excess of 5%		
- Validus d.d., Varaždin	33.82%	73.38%
- Balkan financial sector equity fund C.V.	19.04%	-
- Retis d.d., Varaždin	-	5.19%
- Nikomat d.o.o. Varaždin (former Retis d.o.o.)	5.35%	-
- FIMA grupa d.d., Varaždin	10.99%	10.99%

In 2007, the share capital of the Bank was increased from HRK 62,226,400 to HRK 153,355,000. The share capital increase was registered based on the decision of the Commercial Court in Varaždin dated 17 August 2007.

29. Analysis of cash and cash equivalents

Cash and cash equivalents included in the cash flow statement for the year ended 31 December 2007 include:

	31 December 2007	31 December 2006
Cash in hand	13,001	8,976
Current accounts with domestic banks	3,183	986
Current accounts with foreign banks	6,112	6,639
Current accounts with the Croatian National Bank	82,167	40,683
Placements with domestic banks	11,749	22,403
Placements with foreign banks	49,515	50,580
	165,727	**130,267**

30. Contingent liabilities and commitments

The aggregate amounts of outstanding guarantees, letters of credit and undrawn loan commitments at the year-end were as follows:

	31 December 2007	31 December 2006
Guarantees	29,199	17,236
Undrawn lending facilities	66,520	20,811
Other	19,991	1,639
	115,710	**39,686**

31. Funds managed on behalf of third parties

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

Funds managed on behalf of third parties can be analysed as follows:

	31 December 2007	31 December 2006
Liabilities		
Corporate entities	45,881	57,233
HBOR	31,142	30,054
Others	6	189
Total liabilities:	**77,029**	**87,476**
Assets		
Corporate loans	45,763	57,154
Loans to individuals	31,142	30,064
Cash	124	258
Total assets:	**77,029**	**87,476**

32. Operating lease commitments

The Bank has commitments under 16 operating lease agreements concluded for the lease of an outlet premises, ATMs and cars.
Future minimum lease payments under these operating lease arrangements are as follows:

	31 December 2007	31 December 2006
Up to 1 year	6,805	3,456
From 1 to 5 years	16,901	13,201
Over 5 years	14,341	12,141
	38,047	**28,798**

33. Financial risk management policies

This section provides details of the Bank's exposures to financial risks and describes the methods used by the management to control those risks. The most important types of financial risks to which the Bank is exposed are the credit risk, liquidity risk, market risk and operational risk. The market risk includes the currency risk, interest rate risk and equity and debt security price risk.

An integrated system of risk management is being established and permanently improved at the Bank level by introducing a set of policies and procedures for assessing, measuring, controlling and managing the risks and determining the limits of risk levels that comply with the regulatory framework and the risk profile of the Bank.

Credit risk
The Bank 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 financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of the credit risk, the Bank deals with clients of good credit standing and when appropriate the Bank obtains collaterals.

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of the credit exposure in this regard is represented by the carrying amounts of the assets in the balance sheet. In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued (refer to note 30).

The exposure to credit risk has been managed in accordance with the Bank's policies. The credit exposures to portfolios and individual Bank 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 them. Any substantial increases in credit exposure are authorised by the Credit Committee. The Bank's management approves any significant changes in credit exposures and reviews proposed value adjustments. The credit risk assessment is continuously monitored and reported, thus enabling an early identification of impairment in the lending portfolio. The Bank applies prudent methods and models in the process of the approving, monitoring and collecting loans, and monitors closely the financial position of the borrowers using an early warning system.

Loans are classified into the following three main groupings, in accordance with the regulations of the Croatian National Bank:
- Performing loans – A Risk Group – measured on a collective basis;
- Substandard loans – B Risk Group – measured on an individual basis;
- Non-performing loans (bad debt) – C Risk Group – measured on an individual basis.

All three levels contain sub-categories, which are mandatory for the substandard loans.
The Bank's policy is to require suitable collateral to be provided by certain customers prior to the

disbursement of approved loans. Collateral for loans, guarantees and letters of credit is usually in the form of deposits, pledge, listed investments, bills of exchange, mortgages over residential properties, mortgages over business properties, promissory notes or other assets.

Liquidity risk

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

The Bank 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 Bank is systematically working towards developing procedures and business processes to monitor effectively the liquidity risk by identifying and controlling changes in the financing, with the aim to attain the business objectives set in accordance with the Bank's overall business strategy. The Bank adjusts its business activities related to 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. The needs for short-term liquidity are planned every month for the following period of one month and controlled and maintained daily. The Treasury manages liquidity reserves daily, ensuring also the accomplishment of all customers' needs.

Market risk

The majority of available for sale 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 revaluation reserves, or income statement depending in which portfolio financial instruments are classified. The Bank manages its use of trading instruments in response to changing market conditions.

The Bank is strongly engaged in formalizing and passing internal procedures and setting exposure limits to manage efficiently its market instruments in response to market changes, and the existing exposure is limited using short horizon investments.

Limits will be set in line with the Bank's requirements and strategy, in accordance with the top management risk policy.

Currency risk

The Bank takes on exposure to 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 on a daily basis.

Interest rate risk

The interest rate risk is the sensitivity of the Bank's financial position to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or re-price in a given period generate interest rate risk.

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

Derivative financial instruments

The Bank enters into derivative financial instruments primarily for satisfying the needs and requirements of the customers. Derivative financial instruments used by the Bank include one-way foreign currency clause.

Operational risk

The 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 reputation risk. In order to efficiently measure and manage the operational risk exposure at the Bank level, the Bank will be developing the operational risk exposure management in line with the Basel II prescribed framework.

34. Maturity analysis

The remaining contractual maturity of the Bank's assets, liabilities and equity as at 31 December 2007 is presented in the table below.

31 December 2007	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	104,462	-	-	-	-	104,462
Obligatory reserve with Croatian National Bank	35,693	12,068	44,243	19,364	1,607	112,975
Placements with other banks	56,230	4,669	-	366	-	61,265
Financial assets held for trading	97,135	-	-	-	-	97,135
Available-for-sale financial assets	17,627	-	-	-	23,769	41,396
Held-to-maturity financial assets	-	9,796	-	-	-	9,796
Loans and advances to customers	89,850	157,155	280,409	99,029	80,080	706,523
CNB Treasury Bills	12,684	-	-	-	-	12,684
Tangible assets	-	-	-	725	27,978	28,703
Intangible assets	-	-	-	-	11,203	11,203
Other assets	13,113	33	-	-	7,302	20,448
Total assets	**426,794**	**183,721**	**324,652**	**119,484**	**151,939**	**1,206,590**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits from banks	-	-	-	-	-	-
Amounts due to customers	306,640	77,956	285,768	124,997	10,391	805,752
Other borrowed funds	193,702	17,000	-	-	-	210,702
Provisions for liabilities and charges	-	1,293	-	-	-	1,293
Other liabilities	5,048	-	-	-	-	5,048
Total shareholders' equity	-	(1,632)	490	-	184,937	183,795
Total liabilities and shareholders' equity	**505,390**	**94,617**	**286,258**	**124,997**	**195,328**	**1,206,590**
Net liquidity gap	(78,596)	89,104	38,394	(5,513)	(43,389)	-

31 December 2006	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Over 3 years	Total
Total assets	**185,843**	**140,707**	**355,358**	**44,507**	**70,586**	**797,001**
Total liabilities and shareholders' equity	**147,202**	**94,056**	**435,097**	**45,531**	**75,115**	**797,001**
Net liquidity gap	38,641	46,651	(79,739)	(1,024)	(4,529)	-

35. Price risk

Equity and debt instrument price risk represents the sensitivity of the available-for-sale assets to fluctuations in market prices, with effects on the income statement and the revaluation reserve within the Bank's equity. Changes in the revaluation reserve resulting from the changes in security prices assume the income tax rate computed at the rate of 20 percent, and the effect of an decrease in the same assumed percentage would be the same and opposite.

At 31 December 2007	Assumed price change	Influence of price increase on profit and loss	Influence of price decrease on profit and loss	Influence of price increase on revaluation reserves
Equity instruments	5.88%-21.18%	5,141	1.233	1.563
Debt instruments	3.75%-5.00%	996	(1,144)	856
Units in open-ended investment funds	8.00%-25.00%	9,574	(9,212)	7.514

36. Credit risk

a) Overall exposure to credit risk – balance sheet and off-balance sheet

As at 31 December 2007	Gross placements	Provisions on individual basis	Provisions on general basis	Net placements
A. On-balance sheet exposure	1,060,066	-	-	-
Balances with Croatian National Bank	207,750	-	-	207,750
Derivative financial assets	-	-	-	-
Placements with other banks	61,265	-	-	61,265
Available-for-sale assets	45,927	(4,531)	-	41,396
Held-to-maturity assets	9,796	-	-	9,796
Loans to customers	735,328	(19,973)	(8,832)	706,523
- performing	709,518	-	-	709,518
- substandard	9,597	(3,865)	-	5,732
- non-performing	**16,213**	**(16,108)**	**-**	**105**
Total on-balance sheet exposure	**1,060,066**	**24,504**	**-**	**1,026,730**
B. Off-balance sheet exposure	115,710	-	-	115,710
Other banks	-	-	-	-
Customers	115,710	-	-	115,710
- performing	115,710	-	-	115,710
- substandard	-	-	-	-
- non-performing	-	-	-	-
Total off-balance sheet exposure	**115,710**	**-**	**-**	**115,710**
OVERALL EXPOSURE (A+B)	**1,175,776**	**(24,504)**	**(8,832)**	**1,142,440**

b) Past due claims

Past due claims consist from placements for which impairment has not been made for both not due and due principle. They are arranged according to the age based on the individual placement including non-collected and not due interest and other income related to the principle. Item other due claims consist from non-collected interest, not due interest and claims that are written-off for which collection is still in progress. The amount of overall individual placement is arranged in the range between the oldest and the youngest past due claim, regardless whether the principle or the interest is due.

As at 31 December 2007	Due up to 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 365 days	Due between 1 and 2 years	Due between 2 and 3 years	Due over 3 years
Placements with other banks	-	-	-	-	-	-	-
Loans to customers	179,023	53,788	22,440	4,422	4,896	20,376	402
- individuals	83,767	22,742	2,828	2,320	3,064	14,443	200
- corporate entities	95,156	31,046	19,612	2,102	1,832	5,933	202
- public and other sectors	100	-	-	-	-	-	-
Other past due debtors	1,380	817	668	289	1,080	10,643	672
Overall past due claims	**180,403**	**54,605**	**23,108**	**4,711**	**5,976**	**31,019**	**1,074**

c) Placements covered by collaterals

As at 31 December 2007	Deposit	Housing mortgages	Business mortgages	Other instruments	No collateral
A. On-balance sheet exposure					
Balances with Croatian National Bank	-	-	-	-	125,657
Derivative financial assets	-	-	-	-	-
Placements with other banks	-	-	-	-	61,265
Loans to customers	157,482	12,156	137,585	420,366	7,739
Available-for-sale assets	-	-	-	-	41,396
Held-to-maturity assets	-	-	-	-	9,796
Total on-balance sheet exposure	**157,482**	**12,156**	**137,585**	**420,366**	**245,853**
B. Off-balance sheet exposure					
Other banks	-	-	-	-	-
Customers	121	878	27,142	-	-
Total off-balance sheet exposure	**121**	**878**	**27,142**	**66,437**	**21,432**
OVERALL EXPOSURE (A+B)	**157,603**	**13,034**	**164,727**	**486,803**	**267,285**
Fair value of collaterals					

As at 31 December 2006	Deposit	Housing mortgages	Business mortgages	Other instruments	No collateral
A. On-balance sheet exposure					
Balances with Croatian National Bank	-	-	-	-	78,325
Derivative financial assets	-	-	-	-	-
Placements with other banks	-	-	-	-	72,983
Loans to customers	260,271	2,400	49,147	222,000	3,013
Available-for-sale assets	-	-	-	-	4,018
Held-to-maturity assets	-	-	-	-	25,477
Total on-balance sheet exposure	**260,271**	**2,400**	**49,147**	**222,000**	**183,816**
B. Off-balance sheet exposure					
Other banks	-	-	-	-	-
Customers	248	-	2,257	15,777	21,403
Total off-balance sheet exposure	**248**	-	**2,257**	**15,777**	**21,403**
OVERALL EXPOSURE (A+B)	**260,519**	**2,400**	**51,404**	**237,777**	**205,219**
Fair value of collaterals					

d) Provision ratio in performing and non-performing loans

	2007		**2006**	
	Customer loans (%)	**Provision ratio (%)**	**Customer loans (%)**	**Provision ratio (%)**
Performing loans	96	0.85	94	0.85
Substandard loans	1	40.40	2	29.94
Non-performing loans	3	100	4	100
Total	**100**		**100**	

37. Interest rate risk

The bank is exposed to various risks pertaining to the effect of changes in market interest rates on its financial position and cash flows. The table below shows the assessment by the Management Board concerning the exposure of the Bank on 31 December 2007, which is not necessarily indicative for a position in another period. The table shows the sensitivity of the Bank's profit to the fluctuations in interest rates. The profit also depends on currency structure of the Bank's assets and liabilities. The Bank has a significant portion of interest-bearing assets and liabilities which bear and pay interest in foreign currencies.

	Up to 1 month	1-3 months	3 – 12 months	1 – 3 years	Over 3 years	Non-interest bearing	Total
ASSETS							
Cash and amounts due from banks	91,461	-	-	-	-	13,001	104,462
Obligatory reserve with CNB	35,693	12,068	44,243	19,364	1,607	-	112,975
Placements with other banks	56,230	4,669		366	-	-	61,265
Held-for-trading financial assets	97,135	-	-	-	-	-	97,135
Available-for-sale financial assets	17,627	-	-	-	23,769	-	41,396
Held-to-maturity financial assets	-	9,796	-	-	-	-	9,796
Loans and advances to customers	672,172	166	28,919	1,297	3,969	-	706,523
Treasury bills –Government and CNB	12,684	-	-	-	-	-	12,684
Tangible assets	-	-	-	-	-	28,703	28,703
Intangible assets	-	-	-	-	-	11,203	11,203
Other assets	-	-	-	-	-	20,448	20,448
Total assets	**983,002**	**26,699**	**73,162**	**21,027**	**29,345**	**73,355**	**1,206,590**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Deposits from banks	-	-	-	-	-	-	-
Amounts due to customers	745,551	718	21,157	27,605	10,721	-	805,752
Other borrowed funds	193,702	17,000	-	-	-	-	210,702
Provisions for liabilities and charges	-	1,292	-		-	-	1,293
Other liabilities	-	-	-	-	-	5,048	5,048
Total liabilities	939,254	19,010	21,157	27,605	10,721	5,048	1,022,795
Total shareholders' equity	-	-	-	-	-	183,795	183,795
Total liabilities and shareholders' equity	**939,254**	**19,010**	**21,157**	**27,605**	**10,721**	**188,841**	**1,206,590**
Interest rate sensitivity gap	**43,748**	**7,688**	**52,005**	**(6,578)**	**18,624**	**(115,488)**	**-**
Fixed rate loans	4,852	166	28,919	1,297	3,969	-	39,203
Fixed rate deposits	2,984	718	21,157	27,605	10,721	-	63,185

31 December 2006	**Up to 1 month**	**1-3 months**	**3 – 12 months**	**1 – 3 years**	**Over 3 years**	**Non-interest bearing**	**Total**
Total assets	630,555	65,752	50,107	12,787	7,034	30,766	797,001
Total liabilities and shareholders' equity	664,167	24,958	6,848	19,397	6,912	74,719	797,001
Interest rate sensitivity gap	**(33,612)**	**40,794**	**43,259**	**(6,610)**	122	-	-

Average interest rates

The disclosed average interest rates represent average yield on financial instruments at the end of the reporting period:

31 December 2007	EUR	USD	Other currencies	HRK
ASSETS				
Cash and amounts due from banks	-	-	-	-
Obligatory reserve with Croatian National Bank	1.79%	-	-	0.71%
Placements with other banks	-	-	-	0-12%
Loans and advances to customers	-	-	-	-
LIABILITIES				
Amounts due to customers	1.5%-5%	1.5%-5%	-	1.5%-6%
Other borrowed funds	-	-	-	-

31 December 2006	EUR	USD	Other currencies	HRK
ASSETS				
Cash and amounts due from banks	2%	-	-	1%
Obligatory reserve with Croatian National Bank	1.75%	-	-	0.75%
Placements with other banks	2.26%-3.50%	5.22%-5.30%	-	-
Loans and advances to customers	-	-	-	0%-12%
LIABILITIES				
Amounts due to customers	2.00%-6.20%	1.40%-6.00%	1.50%-5.75%	3.50%-7.00%
Other borrowed funds	-	-	-	4.35%

The table below presents sensitivity of Bank's variable rate assets and liabilities to the fluctuations in interest rates assuming the maximum recorded increase or decrease in the interest rates during 2007 and in early 2008. Changes in interest rates have a direct impact on net interest income. In case of a decrease interest rate in the same percentage, there would be interest expense in the same amount.

	Assumed increase of the interest rate	Impact on 2007 profit and loss	Impact on 2006 profit and loss
ASSETS			
Balances with Croatian National Bank	5.00%	39	20
Financial assets	5.00%	120	88
Placements with other banks	25.00%	570	352
Loans to customers	10.00%	5,056	2,284
Other assets	3.00%	7	-
LIABILITIES			
Due to other banks	20.00%	371	383
Amounts due to customers	10.00%	2,205	1,414
Other borrowed funds	8.00%	752	14
Impact on net interest income		2,465	934

38. Foreign exchange position

The Bank had the following foreign exchange position as at 31 December 2007:

31 December 2007	EUR and EUR tied currencies	USD	Other currencies	Total foreign currencies	HRK	Total
ASSETS						
Cash and balances with other banks	11,522	521	2,896	14,939	89,523	104,462
Obligatory reserve with Croatian National Bank	37,439	-	-	37,439	75,536	112,975
Placements with other banks	37,019	8,176	10,070	55,265	6,000	61,265
Held-for-trading financial assets	-	-	-	-	97,135	97,135
Available-for-sale financial assets	-	-	-	-	41,396	41,396
Held-to-maturity financial assets	-	-	-	-	9,796	9,796
Loans and advances to customers	138,203	-	-	138,203	568,320	706,523
Treasury bills – Government and CNB	-	-	-	-	12,684	12,684
Tangible assets	-	-	-	-	28,703	28,703
Intangible assets	-	-	-	-	11,203	11,203
Other assets	2,704	-	59	2,763	17,685	20,448
Total assets	226,887	8,697	13,025	248,609	957,981	1,206,590
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits from banks	-	-	-	-	-	-
Amounts due to customers	242,454	8,994	8,065	259,513	546,239	805,752
Other borrowed funds	-	-	-	-	210,702	210,702
Provisions for liabilities and charges	-	-	-	-	1,293	1,293
Other liabilities	2,710	-	-	2,710	2,338	5,048
Total liabilities	245,164	8,994	8,065	262,223	760,572	1,022,795
Total shareholders' equity	-	-	-	-	183,795	183,795
Total liabilities and shareholders' equity	245,164	8,994	8,065	262,223	944,367	1,206,590
Net foreign exchange position	(18,277)	(297)	4,960	(13,614)	-	-

31 December 2006	EUR and EUR tied currencies	USD	Other currencies	Total foreign currencies	HRK	Total
Total assets	**192,299**	**9,318**	**6,289**	**207,906**	**589,095**	**797,001**
Total liabilities and shareholders' equity	**187,412**	**8,464**	**7,813**	**203,689**	**593,312**	**797,001**
Net foreign exchange position	4,887	854	(1,524)	4,217	(4,217)	-

The Table below presents sensitivity of Bank's net assets and profit and loss to an increase in CNB's middle exchange rate. By applying the same assumed percentage to a decrease of the CNB middle exchange rate, the impact on the profit or loss, on the net principle, by individual currency would be the same and opposite, that is, the aggregate impact on all currencies would result in expense for the year 2007 and in income for the year 2006. The result of exchange rate variation is recognized as exchange rate differences – an item of profit and loss.

Currency on 31 December 2007	Assumed increase of CNB's middle exchange rate	Influence on profit and loss	Influence on profit and loss	Influence on profit and loss
		Assets	Liabilities	Net
EUR	1.50%	1,290	2,641	(1,351)
USD	2.50%	217	225	(8)
Other currencies	3.00%	391	242	149
Total		**1,898**	**3,108**	**(1,210)**

Currency on 31 December 2006	Assumed increase of CNB's middle exchange rate	Influence on profit and loss	Influence on profit and loss	Influence on profit and loss
		Assets	Liabilities	Net
EUR	1.50%	911	1,671	(760)
USD	2.50%	233	212	21
Other currencies	3.00%	189	234	(45)
Total		**1,333**	**2,117**	**(784)**

39. Fair value of financial assets and liabilities

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

It is the opinion of the management of the Bank that the fair value of the Bank financial assets and liabilities are not materially different from the amounts stated in the balance sheet as at 31 December 2007.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

(a) Cash and balances with central bank

The carrying amounts of cash and balances with the central bank are generally deemed to approximate their fair values.

(b) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are determined by reference to quoted market prices, if available.

(c) Amounts due from other banks

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral. Allowances are not taken into consideration when calculating fair values.

(d) Loans and advances to customers

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

(e) Amounts due to other banks and customers

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

40. Related party transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As at 31 December 2007, balances outstanding with related parties comprise of following:

	2007		2006	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Assets and liabilities with related companies	112,599	22,772	266,416	264,946
	112,599	**22,772**	**266,416**	**264,946**

	2007		2006	
	Income	**Expenses**	**Income**	**Expenses**
Interest and commissions	9,248	1,582	6,235	822
Other	7,112	4,644	10,817	3,590
	16,360	**6,226**	**17,052**	**4,412**

The most significant amount in total assets relate to loan to FIMA d.d. in amount of HRK 103,481 thousand that is insured with term deposit in amount of HRK 103,493 thousand. The loan was closed in January 2008. Rest of the assets relate to shares from Helios Faros in amount of HRK 8,372 thousand and loan to Oleg Usković in amount of HRK 746 thousand.
In liabilities are deposit from FIMA Global Invest in amount of HRK 22,000 thousand (term deposits) and from FIMA Perfektus in amount of 772 thousand (a vista funds).

The remuneration of directors and other members of key management was as follows:

	2007	**2006**
Salaries	1,842	2,090
Bonuses	-	225
	1,842	**2,315**

41. Approval of the financial statements

The financial statements were approved and signed by the Management Board of Vaba d.d. banka Varaždin on 5 June 2008:

President of the Management Board
Igor Čičak

Senior Executive Manager
Domagoj Matasić

Vaba d.d. banka Varaždin 1