2007. annual report

otpbanka

Report of the President of the Management Board

Dear customers and business partners,

It is a great pleasure to present to you the business results of OTP banka Hrvatska for the year 2007 on behalf of the Management Board. As a part of a strong financial group owned by the most powerful Hungarian bank, OTP banka Hrvatska recorded another successful business year, marked with good business results, strong expansion of the business network and further development of financial products and services. Continuing to implement the growth and development strategy, the bank continued strong expansion outside its traditional regions, mostly in Slavonia and in the Zagreb area. We offered competitive and flexible financial products and services to retail and corporate customers in those regions, sharing the experience we had been acquiring during the years of operating in our domicile regions. In addition to success in achieving the goals set and support of the shareholders and effort of employees, last year we achieved a stable and balanced operating growth.

In line with such upwards trend in business operations, OTP banka ended 2007 with good business results. The net profit of the bank amounted to HRK 104.8 million, which represents an increase of 3.4% compared to the year before. The net interest income grew by significant 11.6%, whilst net fee and commission income grew even more, ending the year increased by 24.4%. As at 31/12/2007 the bank's assets amounted to HRK 11.97 billion, which was an annual growth of 14.6 %. This assets growth was prompted by vigorous growth of the credit portfolio by as much as 26%, and the growth of total deposits by 11%. The return on assets amounted to 0.94%, whilst the return on equity equalled 10.63%.

Consequently, the bank achieved a growth in market shares measured by the size of assets, gross credit portfolio and retail deposits. The market share of OTP banka in respect of total assets grew from 3.43% to 3.47%, and the market share of the credit portfolio equalled 3.49% at the end of 2007, which was an increase of 0.27% compared to the year before, whilst the market share of the bank in respect of retail deposits grew from 5.45% to 5.49%.

Following the regional growth strategy, during 2007 we continued to expand the business network throughout Croatia. We established the Business Centre Slavonia, located in Osijek, which will serve as the basis for further strengthening of our activities in the Slavonia region. Soon afterwards, another branch was opened in Vinkovci, and the expansion of the network across this region has continued intensively this year as well. Furthermore, at the end of the concerned year the bank opened its new premises in Zagreb, and the plan for Zagreb predicts the network of nine branches and 20 ATMs by the end of 2008.

In 2007 we continuously developed our products and services in order to offer our customers affordable and good quality solutions for their needs. Being focused on providing financial services to citizens and businesses, we expanded the range of our financial solutions and products for small and medium enterprises by introducing loans for tourist and agricultural sector. In relation to our corporate banking segment, we maintained close cooperation with the Croatian Bank for Reconstruction and Development and local self-government, stimulating the development of small and medium enterprises, and especially financing of export activities and tourism.

I take this occasion to extend thanks, on my behalf and on behalf of the Management Board of OTP banka Hrvatska, to our customers and partners for the trust shown. OTP banka will continue to develop its business operations in accordance with the highest standards of quality in offering financial services, fully supported by its employees whose efforts create a strong foundation for future achievements of the bank. Likewise, special thanks is due to the members of the Supervisory Board for their cooperation, support and confidence extended.

Damir Odak
President of the Management Board
14th May 2008

Responsibilities of the Management and Supervisory Boards

FOR PREPARATION AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

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

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

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

The unconsolidated and consolidated financial statements set out on pages 3 to 62 were authorised by the Management Board on 18 March 2008 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of OTP banka Hrvatska d.d.

Damir Odak
President of the Management Board

Zorislav Vidović
Member of the Management Board

Independent auditors' report

TO THE SHAREHOLDERS OF OTP BANKA HRVATSKA D.D.

We have audited the accompanying unconsolidated financial statements of OTP banka Hrvatska d.d. ("the Parent Company"), which comprise the unconsolidated balance sheet as at 31 December 2007, and the unconsolidated income statement, unconsolidated statement of changes in equity and unconsolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have also audited the accompanying consolidated financial statements of OTP banka Hrvatska d.d. Group ("the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The financial statements as of and for the year ended 31 December 2006 were audited by another auditor whose report dated 21 March 2007 expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these unconsolidated and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles 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.

Opinion

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

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia
18th March 2008

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

Ismet Kamal
Director

Ljubica Oreščanin
Croatian Certified Auditor

All amounts are expressed in thousands of HRK

Income Statements

For the year ended 31 December 2007

		Group		Bank	
			Restated		
	Notes	2007	2006	2007	2006
Interest and similar income	3	630,955	515,306	623,616	513,994
Interest and similar expense	3	(286,169)	(206,505)	(278,869)	(205,016)
Net interest income		344,786	308,801	344,747	308,978
Fee and commission income	4	132,137	112,132	125,029	111,264
Fee and commission expense	4	(37,497)	(40,883)	(37,495)	(40,884)
Net fee and commission income		94,640	71,249	87,534	70,380
Net gains and losses from foreign exchange trading, investment securities and retranslation of monetary assets and liabilities	5	34,510	35,248	34,496	35,247
Other operating income	6	11,703	19,562	7,189	16,697
Net trading and other income		46,213	54,810	41,685	51,944
Operating income		485,639	434,860	473,966	431,302
Operating expenses	7	(315,207)	(280,437)	(306,167)	(275,752)
Profit before provisions and impairment losses		170,432	154,423	167,799	155,550
Provisions and impairment losses	8	(35,771)	(28,432)	(35,771)	(28,432)
Profit before tax		134,661	125,991	132,028	127,118
Income tax expense	9a	(27,359)	(25,746)	(27,243)	(25,724)
Profit for the period		107,302	100,245	104,785	101,394
Attributable to:					
Equity holders of the Bank		107,435	100,245	104,785	101,394
Minority interest		(133)	-	-	-
Profit for the period		107,302	100,245	104,785	101,394
EARNINGS PER SHARE					
- basic and diluted (in HRK)	10	36.25	44.04	35.35	44.54

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

All amounts are expressed in thousands of HRK

Balance Sheets

As at 31 December 2007

		Group		Bank	
			Restated		
	Notes	2007	2006	2007	2006
ASSETS					
Cash and balances with Croatian National Bank	11	1,777,302	1,618,165	1,777,302	1,618,165
Amounts due from other banks	12	1,934,394	1,862,253	1,718,545	1,717,645
Financial assets at fair value through profit or loss	13a	8,200	10,199	8,200	8,424
Loans and receivables from customers	14	7,094,434	5,655,909	7,118,173	5,657,983
Financial assets available for sale	15	841,791	958,331	841,788	958,331
Investments held to maturity	16	84,922	57,139	84,922	57,139
Investments in subsidiaries	17	-	-	77,262	77,262
Property and equipment	18	180,424	180,186	167,866	160,553
Intangible assets	18	71,542	47,523	52,582	47,505
Investment property	19	67,530	33,490	-	-
Deferred tax asset	9c	-	11,771	-	7,410
Other assets	20	61,569	74,020	56,032	72,886
Total assets		12,122,108	10,508,986	11,902,672	10,383,303
LIABILITIES					
Amounts due to other banks	21	201,241	244,465	201,241	244,465
Amounts due to customers	22	8,969,257	8,102,826	8,974,206	8,104,289
Other borrowed funds	23	1,666,688	1,214,365	1,446,934	1,067,480
Financial liabilities at fair value through profit or loss	13b	554	647	554	647
Provisions	24	41,565	40,892	41,565	40,892
Deferred tax liability	9c	1,072	-	1,603	-
Current income tax liability	9d	23,638	22	23,180	-
Other liabilities	25	96,681	78,445	90,711	77,437
Total liabilities		11,000,696	9,681,662	10,779,994	9,535,210
SHAREHOLDERS' EQUITY					
Share capital	26	605,280	455,280	605,280	455,280
Share premium		171,260	171,260	171,260	171,260
Statutory and legal reserves	26	60,528	60,528	60,528	60,528
Other reserves	26	194,284	110,042	168,152	100,495
Retained earnings		89,792	30,214	117,458	60,530
Total equity attributable to equity holders of the Bank		1,121,144	827,324	1,122,678	848,093
Minority interest		268	-	-	-
Total shareholders' equity		1,121,412	827,324	1,122,678	848,093
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		12,122,108	10,508,986	11,902,672	10,383,303
CONTINGENCIES AND COMMITMENTS	27	1,282,338	1,051,382	1,283,675	1,051,382

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

All amounts are expressed in thousands of HRK

Statement of Changes in Equity - Group

For the year ended 31 December 2007

	Share capital	Share premium	Legal and statutory reserves	Other reserves	Retained earnings	Minority interest	Total
Balance as at January 2006 - as previously reported	455,280	171,260	70,375	68,925	85,140	-	850,980
Recognition of legal and statutory appropriations	-	-	15,227	-	(15,227)	-	-
Transfers to retained earnings	-	-	(36,806)	-	36,806	-	-
Reclassifications	-	-	(3,268)	3,268	-	-	-
Elimination of revaluation reserve arising from reclassification of property previously classified as investment property	-	-	-	(26,903)	-	-	(26,903)
Balance at 1 January 2006 (restated)	455,280	171,260	45,528	45,290	106,719	-	824,077
Changes in equity for 2006							
Assets available for sale:							
Valuation gains taken to equity	-	-	-	8,493	-	-	8,493
Tax on items taken directly to or transferred from equity (Note 9)	-	-	-	(1,699)	-	-	(1,699)
Net income recognized directly in equity	-	-	-	6,794	-	-	6,794
Profit for the period	-	-	-	-	100,245	-	100,245
Total recognized income and expense for the period	-	-	-	6,794	100,245	-	107,039
Dividends paid for 2005	-	-	-	-	(103,788)	-	(103,788)
Proposed appropriation to general banking risks reserve	-	-	-	57,962	(57,962)	-	-
Proposed appropriation to legal and statutory reserves	-	-	15,000	-	(15,000)	-	-
Other movements (movements in reserve for flats)	-	-	-	(4)	-	-	(4)
Balance at 31 December 2006	455,280	171,260	60,528	110,042	30,214	-	827,324
Changes in equity for 2007							
Increase in revaluation reserve for land and buildings, net of deferred tax	-	-	-	16,585	-	-	16,585
Assets available for sale:							
Valuation gains taken to equity	-	-	-	24,755	-	-	24,755
Tax on items taken directly to or transferred from equity (Note 9)	-	-	-	(4,951)	-	-	(4,951)
Net income recognized directly in equity	-	-	-	36,389	-	-	36,389
Profit for the period	-	-	-	-	107,435	(133)	107,302
Total recognized income and expense for the period	-	-	-	36,389	107,435	(133)	143,691
Issue of share capital	150,000	-	-	-	-	-	150,000
Proposed appropriation to general banking risks reserve	-	-	-	47,857	(47,857)	-	-
Other movements (movements in reserve for flats and in minority interest)	-	-	-	(4)	-	401	397
Balance at 31 December 2007	605,280	171,260	60,528	194,284	89,792	268	1,121,412

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

All amounts are expressed in thousands of HRK

Statement of Changes in Equity - Bank

For the year ended 31 December 2007

	Share capital	Share premium	Legal and statutory reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2006 - as previously reported	455,280	171,260	70,375	32,475	114,307	843,697
Recognition of legal and statutory appropriations	-	-	15,227	-	(15,227)	-
Recognition of transfers to retained earnings	-	-	(36,806)	-	36,806	-
Reclassifications	-	-	(3,268)	3,268	-	-
Balance at 1 January 2006 (restated)	455,280	171,260	45,528	35,743	135,886	843,697
Changes in equity for 2006						
Assets available for sale:						
Valuation gains taken to equity	-	-	-	8,493	-	8,493
Tax on items taken directly to or transferred from equity (Note 9)	-	-	-	(1,699)	-	(1,699)
Net income recognized directly in equity	-	-	-	6,794	-	6,794
Profit for the year	-	-	-	-	101,394	101,394
Total recognized income and expense for the period	-	-	-	6,794	101,394	108,188
Dividends paid for 2005	-	-	-	-	(103,788)	(103,788)
Proposed appropriation to general banking risks reserve (restated)	-	-	-	57,962	(57,962)	-
Proposed appropriation to legal and statutory reserves (restated)	-	-	15,000	-	(15,000)	-
Other movements (movements in reserve for flats)	-	-	-	(4)	-	(4)
Balance at 31 December 2006	455,280	171,260	60,528	100,495	60,530	848,093
Changes in equity for 2007						
Assets available for sale:						
Valuation gains taken to equity	-	-	-	24,755	-	24,755
Tax on items taken directly to or transferred from equity (Note 9)	-	-	-	(4,951)	-	(4,951)
Net income recognized directly in equity	-	-	-	19,804	-	19,804
Profit for the year	-	-	-	-	104,785	104,785
Total recognized income and expense for the period	-	-	-	19,804	104,785	124,589
Issue of share capital	150,000	-	-	-	-	150,000
Proposed appropriation to general banking risks reserve	-	-	-	47,857	(47,857)	-
Other movements (movements in reserve for flats)	-	-	-	(4)	-	(4)
Balance at 31 December 2007	605,280	171,260	60,528	168,152	117,458	1,122,678

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

All amounts are expressed in thousands of HRK

Cash Flow Statements

For the year ended 31 December 2007

	Notes	Group Year ended 31. December 2007	Group Year ended 31. December Restated 2006	Bank Year ended 31. December 2007	Bank Year ended 31. December 2006
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxes		134,661	125,991	132,028	127,118
Adjustments to reconcile profit before taxes to net cash from operating activities					
Provisions for loans and receivables		19,881	11,495	19,881	11,495
Provisions for litigation and off-balance sheet items		15,890	16,937	15,890	16,937
Depreciation and amortization		23,731	18,800	22,981	18,926
Gain on disposal of property and equipment		(2,438)	(7,395)	2,438	(7,399)
Interest income		(630,955)	(515,306)	(623,616)	(513,994)
Interest expense		286,169	206,505	278,869	205,016
Net cash from operating activities before changes in operating assets and liabilities		(153,061)	(142,973)	(151,529)	(141,901)
(Increase)/decrease in operating assets:					
Obligatory reserve with the CNB		(174,006)	(274,836)	(174,006)	(274,836)
Amounts due from other banks		2,814	(141,882)	1,046	2,726
Loans and receivables from customers		(1,439,314)	(1,303,387)	(1,464,256)	(1,305,280)
Assets at fair value through profit or loss		1,999	(1,557)	224	(277)
Other assets		12,451	1,464	16,854	2,579
Increase/(decrease) in operating liabilities:					
Amounts due to other banks		(43,224)	235,243	(43,224)	45,485
Amounts due to customers		866,431	1,089,614	869,917	1,278,377
Other liabilities		41,759	(3,924)	36,361	(4,374)
Provisions		673	(4,124)	673	(4,124)
Other borrowed funds		452,323	555,828	379,454	410,513
Net cash from operating activities before interest and income tax paid		(431,155)	9,466	(528,486)	8,888
Corporate income tax paid		-	-	-	-
Interest received		559,894	506,511	549,583	505,199
Interest paid		(259,933)	(188,357)	(254,140)	(186,868)
Net cash from operating activities		(131,194)	327,620	(233,043)	327,219
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property and equipment and intangible assets and investment property		(64,820)	(35,679)	(35,983)	(33,577)
Proceeds from sale of property and equipment and intangible assets		30	7,395	30	7,395
Proceeds from sales of foreclosed assets		17,313	-	17,313	-
Increase of investments in subsidiaries		-	-	-	(1,700)
Net sale of financial assets available for sale		116,540	230,626	116,543	230,626
Purchase of securities held to maturity		(27,783)	(8,675)	(27,783)	(8,676)
Net cash from investing activities		41,280	193,667	70,120	194,068
CASH FLOWS FROM FINANCING ACTIVITIES					
Issue of share capital		150,000	-	150,000	-
Dividend payment		-	(103,788)	-	(103,788)
Net cash from financing activities		150,000	(103,788)	150,000	(103,788)
Net increase/(decrease) in cash and cash equivalents		60,086	417,499	(12,923)	417,499
Cash and cash equivalents at beginning of year		2,139,579	1,722,080	2,139,579	1,722,080
Cash and cash equivalents at end of year	28	2,199,665	2,139,579	2,126,656	2,139,579

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

Notes to financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2007

1. GENERAL

The consolidated group of OTP banka Hrvatska d.d. ("the Group") consists of the parent, OTP banka Hrvatska d.d. ("the Bank") and its four subsidiaries: OTP Invest d.o.o., OTP Nekretnine d.o.o., Kratos nekretnine d.o.o. and Kvirinal nekretnine d.o.o. The Bank is headquartered in Zadar, Domovinskog rata 3, and is incorporated in the Republic of Croatia as a joint stock company. The Bank provides retail and corporate banking services. The Bank is registered at the Commercial Court in Zadar with registered share capital in the amount of HRK 605,279,600 at 31 December 2007 (2006: HRK 455,279,600).

The Bank's main areas of operation are as follows:

1. Foreign exchange operations in Croatia
2. Domestic payment transactions
3. Receipt of all types of deposits
4. Issuance of all types of loans, opening of letters of credit, issuance of warranties and bank guarantees, and assuming other financial obligations
5. Bill-of-exchange, cheque and deposit certificate operations for own account or on behalf of customers
6. Services related to securities (including brokerage)
7. Issuance and management of payment instruments (including cards)
8. Foreign credit operations and payment transactions

All amounts are expressed in thousands of HRK

Governance and Management

General Assembly	
Viktor Siništaj	President of the General Assembly
Supervisory Board	
Antal Gyögy Kovács	President
Gábor Czikora	Member
Balázs Fekete	Member
Lászlo Kecskes	Member
Gábor Kovács	Member

Management Board	
Damir Odak	President
Balazs Bekeffy	Member
Zorislav Vidović	Member

The shareholding structure of the Bank is as follows:

	31 December 2007		31 December 2006	
	Paid capital	Ownership %	Paid capital	Ownership %
OTP bank Rt, Mađarska	605,280	100.00	455,280	100.00
Total	605,280	100.00	455,280	100.00

OTP Bank Rt., Hungary recapitalised the Bank on 9 February 2007 in the amount of HRK 150,000 thousand.

All services are provided in the Republic of Croatia, and therefore are considered a single geographical segment. The Group considers that its business consists of a single business segment, banking and related services, hence no segment information is presented.

These financial statements comprise both the separate and the consolidated financial statements of the Bank as defined in International Accounting Standard 27 "Consolidated and Separate Financial Statements".

These financial statements were authorised for issue by the Management Board on 18 March 2008 for approval by the Supervisory Board.

2. ACCOUNTING POLICIES

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

2.1 Statement of compliance

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

The accounting regulations of the CNB are based on International Financial Reporting Standards. The main difference between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards ("IFRS") is as follows:

- The CNB requires banks to recognise impairment losses, in income, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets at fair value through profit or loss). The Group and the Bank have made portfolio based provisions of HRK 109,143 thousand (2006: HRK 93,975 thousand) carried in the balance sheet in compliance with these regulations, and have recognised a charge of HRK 15,168 thousand in relation to these provisions within the charge for impairment losses for the year (2006: charge of HRK 19,401 thousand). Although, in accordance with IFRS, such provisions should more properly be presented as an appropriation within equity, in accordance with CNB rules the Group continues to recognise such provisions as a substitute for existing but unidentified impairment losses calculated in accordance with the requirements of IFRS. The Group is in the process of compiling the observable historical data in respect of the unidentified losses existing in its various credit risk portfolios at the balance sheet date, determining the appropriate emergence period over which these losses come to light, and identifying, for each portfolio, the relevant current economic conditions with which the historical data should be adjusted, as a basis for estimating the extent of unidentified losses existing at the balance sheet date on the basis required by IFRS.

A further difference between IFRS and the accounting regulations of the CNB relates to the determination of impairment losses by discounting the estimated cash flows of the impaired asset at the instrument's original effective interest rate. Contrary to IFRS, the amortisation of such discount should be recognised as a reversal of the impairment loss in accordance with local regulations, and not as interest income.
Additionally the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognised in accordance with IFRS.

2.2 Basis of preparation

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

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

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

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

Judgements made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in the next year are discussed in Note 36.

The accounting policies have been consistently applied to all periods presented in these financial statements.

2.3 Standards, Interpretations and amendments to published regulations that are not yet effective

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

- In order to regulate the growth of banking assets, the CNB has issued a decision which requires banks to acquire mandatory CNB treasury bills should they report growth in customer credit risk exposures (both on- and off-balance-sheet) in 2008 of more than 1% monthly, measured from the position at 31 December 2007. The CNB treasury bills will be required to be purchased at an amount equivalent to 75% of the excess over the threshold. Such bills have a maturity of 360 days and currently earn interest of 0.25% per annum. The decision became effective from 1 January 2008. Although a similar restriction was imposed by the CNB for most of 2007, this restriction was lifted on 24 December 2007 and was therefore not in force at the balance sheet date.
- Effective from 30 June 2008, a new regulation on capital adequacy comes into force, in accordance with which excess growth is included in the calculation of the capital requirement.

The Group also expects that, in the ordinary course of updating its accounting regulations, the CNB may have regard to the following Standards and Interpretations issued by the International Accounting Standards Board and its International Financial Reporting Interpretations Committee, which were in issue as of the date on which these financial statements have been authorised for issue, but which are applicable to entities reporting under IFRS in periods commencing after 1 January 2007, and which may have an impact on the Group, if adopted:

- IFRS 8 “Operating Segments” introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the financial statements of all entities that report under IFRS for 2009, will require the disclosure of segment information based on the internal reports regularly reviewed by an entity’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them.
- Revised IAS 23 “Borrowing Costs” removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the 2009 financial statements of all entities that report under IFRS.
- IFRIC 11, “Group and Treasury Share Transactions” and amendments to IFRS 2 “Share-Based Payments” require a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the financial statements of all entities that report under IFRS for 2008, with retrospective application required.
- IFRIC 12 “Service Concession Arrangements” provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 becomes mandatory for financial statements of all entities that report under IFRS for 2009.
- IFRIC 13 “Customer Loyalty Programmes” addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the financial statements of all entities that report under IFRS for 2009.
- IFRIC 14, “The Limit on a Defined Benefit Asset”, “Minimum Funding Requirements and their Interaction” and amendments to IAS 19 “Employee Benefits” clarify when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when MFR might give rise to a liability. IFRIC 14 will become mandatory for the financial statements of all entities that report under IFRS for 2008, with retrospective application required.

2.4 Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated and separate financial statements are presented in Croatian kuna (“HRK”) which is the Bank’s functional and presentation currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

All amounts are expressed in thousands of HRK

The principal rates of exchange set by the Croatian National Bank and used in the preparation of the Group's balance sheet at the reporting dates were as follows:

31 December 2007	**1EUR = 7,325131 kn**	**1 USD = 4,985456 kn**
31 December 2006	**1 EUR = 7,345081 kn**	**1 USD = 5,578401 kn**

2.5 Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2.6 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at balance sheet date. The Group does not have qualifying cash flow hedges and qualifying net investment hedges as defined in International Accounting Standard 39 "Financial Instruments: Measurement and Recognition" ("IAS 39").

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

The Group has certain assets and liabilities originated in kuna, which are linked to foreign currency with one-way currency clause. In accordance with this clause the Group has an option to revalue relevant assets by the higher of the foreign exchange rate valid as of the date of maturity and foreign exchange rate valid as of the date of origination of the financial instrument. In the case of relevant liabilities the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia the fair value of this option cannot be calculated as forward rates for HRK for periods over 6 months are not available. The Group therefore values its assets and liabilities governed by such clauses at the middle rate of the Croatian National Bank valid at the balance sheet date or foreign exchange rate agreed by the option (rate valid at origination), whichever is the higher.

2.7 Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.8 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged to the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

2.8 Interest income and expense

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

Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments.

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

2.10 Fee and commission income and expense

Fees and commissions consist mainly of fees on domestic and foreign payments, granted loans and other credit instruments issued by the Group.

Fees and commissions are generally recognized as income when due.

2.11 Employee benefits

Short-term service benefits

Obligations for contributions to defined contribution pension plans and other short-term benefits are recognised as an expense in the income statement as incurred.

Long-term service benefits

The Group provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

2.12 Taxation

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

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities, based on tax rates enacted or substantially enacted at the balance sheet date.

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

2.13 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’), current accounts with other banks and term placements with other banks with residual maturity up to 3 months.

Cash and cash equivalents excludes the obligatory reserves with the CNB, as these funds are not available for the Group’s day to day operations.

2.14 Financial instruments

Classification

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, financial assets available for sale, held-to-maturity investments or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The management determines the classification of financial instruments upon initial recognition and, where appropriate, re-evaluates this designation at every reporting date. Items are only classified as at fair value through profit or loss upon initial recognition. Items classified as at fair value through profit or loss are not reclassified.

Financial assets and financial liabilities at fair value through profit or loss
This category has two sub-categories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, for the purpose of short-term profit-taking, or designated as such by management.

The Group designates financial assets and liabilities at fair value through profit or loss when

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

Financial instruments at fair value through profit or loss include investments in investment funds as well as derivatives.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Group provides money to a debtor with no intention of trading with the receivable and include amounts due from other banks, loans to and receivables from customers, and the obligatory reserve with the Croatian National Bank.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. These include certain debt securities.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt and equity securities and units in open ended investment funds.

Other financial liabilities
Other financial liabilities comprise all financial liabilities which are not held for trading or designated at fair value through profit or loss. Other financial liabilities include amounts due to other banks, amounts due to customers and other borrowed funds.

Recognition and derecognition

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

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

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

Initial and subsequent measurement

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

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

Loans and receivables and held-to-maturity investments and other financial liabilities are measured at amortised cost using the effective interest method.

Gains and losses

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

Gains and losses from a change in the fair value of available-for-sale monetary assets are recognised directly in a fair value reserve within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in the income statement. Dividend income is recognised in the income statement. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses are transferred to the income statement.

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the income statement, when a financial instrument is derecognised or when its value is impaired.

Fair value measurement principles

The fair values of quoted investments are based on current closing bid prices. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Group establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate. The fair value of non-exchange-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

2.15 Impairment of financial assets

Impairment of financial assets identified as impaired

Financial assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan and receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Those individually significant assets which are not impaired are included in the basis for collective impairment assessment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a reversal of impairment losses in the income statement.

Financial assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity securities are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

Financial assets carried at cost

These include equity securities classified as available for sale for which there is no reliable fair value. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

An impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of expected future cash receipts discounted by the current market interest rate for similar financial assets. Impairment losses on such instruments, recognised in the income statement, are not subsequently reversed through the income statement.

Impairment of financial assets not identified as impaired

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

Debt securities at fair value through profit or loss were excluded from the basis of such calculation at the balance sheet date.

2.16 Derivative financial instruments

The Group uses derivative financial instruments to hedge economically its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative trading purposes. No derivatives are accounted for as hedging instruments. All derivatives are classified as financial instruments held for trading, within financial instruments at fair value through profit or loss.

Derivative financial instruments including foreign exchange contracts, forward rate agreements and cross currency swaps are initially recognised in the balance sheet and subsequently remeassured at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when negative.

Changes in the fair value of derivatives are included in the income statement under

All amounts are expressed in thousands of HRK

"Net gains and losses from foreign exchange trading, investment securities and retranslation of monetary assets and liabilities."

2.17 Sale and repurchase agreements

If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognized, as the Group retains substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the balance sheet as originally classified or the Group reclassifies the asset on its balance sheet as a repurchase receivable if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in amounts due to banks or amounts due to customers as appropriate.

Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets due from banks or as loans and receivables as appropriate, with the corresponding decrease in cash being included in cash and balances with the Croatian National Bank.

The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

2.18 Tangible and intangible assets

Tangible and intangible assets are stated at cost less accumulated depreciation/ amortisation and impairment loss, if any. Land and assets under construction are not depreciated.

Depreciation and amortization are calculated for all assets, except for land and assets under construction, under the straight line method at rates estimated to write off the cost of each asset to their residual values over their estimated useful life as follows:

	2007	2006
Buildings	10-40 years	10-40 years
Computers	4 years	4 years
Furniture and equipment	2.5-10 years	2.5-10 years
Motor vehicles	4 years	4 years
Intangible assets	3.3-5 years	3.3-5 years

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred. Improvements are capitalised.

2.19 Investment property

Investment property is property held by the Group to earn rentals or for capital appreciation, and is carried at estimated fair value.

2.20 Impairment of tangible and intangible assets and investment property

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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

An impairment loss in respect of goodwill is not reversed.

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

2.21 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

2.22 Off-balance-sheet commitments

In the ordinary course of business, the Group 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 Group's balance sheet if and when they become payable.

2.23 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors at the balance sheet date. Provisions are discounted to present value where the effect is material.

All amounts are expressed in thousands of HRK

2.24 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 Group acts in a fiduciary capacity such as nominee, trustee or agent. Fees earned by the Group for such services are recognised as income when earned.

2.25 Issued share capital

Issued share capital represents the nominal value of paid-in ordinary and preferred shares classified as equity and is denominated in HRK.

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

2.26 Treasury shares

When any Group company purchases the Bank's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Bank's equity holders until the shares are cancelled, reissued or disposed of and classified as treasury shares. When such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in equity attributable to the Bank's equity holders.

2.27 Retained earnings

Any profit for the year retained after appropriations is transferred to reserves.

2.28 Reclassifications

Where necessary, comparative information has been reclassified to achieve consistency with current financial year amounts and other disclosures. The most significant reclassifications are described in Note 38 "Restatement of previously reported amounts."

3. NET INTEREST INCOME

	Group	Group Restated	Bank	Bank
	2007	2006	2007	2006
Interest and similar income				
Cash reserves and amounts due from other banks	84,589	58,862	77,250	57,550
Balances with Croatian National Bank	11,961	9,727	11,961	9,727
Corporate loans	145,991	114,072	145,991	114,072
Retail loans	335,451	271,111	335,451	271,111
Debt securities	52,813	61,373	52,813	61,373
Other	150	161	150	161
	630,955	515,306	623,616	513,994
Interest and similar expense				
Amounts due to retail customers	182,816	136,895	182,816	136,895
Amounts due to corporate customers	46,544	33,205	46,544	33,205
Other borrowed funds and amounts due to other banks	56,729	36,107	49,429	34,619
Other	80	298	80	297
	286,169	206,505	278,869	205,016

All amounts are expressed in thousands of HRK

4. NET FEE AND COMMISSION INCOME

a) Net fee and commission income by source

	Group 2007	Group Restated 2006	Bank 2007	Bank 2006
Fee and commission income				
Corporate customers	40,711	31,753	33,603	30,885
Banks	21,925	15,879	21,925	15,879
Retail customers	69,501	64,500	69,501	64,500
	132,137	112,132	125,029	111,264
Fee and commission expense				
Corporate customers	30,520	34,650	30,520	34,650
Banks	6,977	6,233	6,975	6,234
	37,497	40,883	37,495	40,884

b) Net fee and commission income per type of fee

	Group 2007	Group Restated 2006	Bank 2007	Bank 2006
Fee and commission income				
Credit related fees and commissions	10,324	4,892	10,324	4,892
Credit card related fees and commissions	26,369	26,884	26,369	26,884
Domestic payment transaction related fees and commissions	40,860	40,459	40,860	40,459
Foreign payment transaction related fees and commissions	7,344	5,850	7,344	5,850
Guarantee related fees and commissions	7,223	4,800	7,223	4,800
Investment management, brokerage and consultancy fees	3,634	1,526	3,634	1,526
Other fees and commissions	36,383	27,721	29,275	26,853
	132,137	112,132	125,029	111,264
Fee and commission expense				
Credit card related charges	7,281	6,990	7,281	6,990
Domestic payment transaction related charges	18,646	20,350	18,646	20,350
Foreign payment transaction related charges	1,449	1,333	1,449	1,333
Other fees and commissions	10,121	12,210	10,119	12,211
	37,497	40,883	37,495	40,884

5. NET GAINS AND LOSSES FROM FOREIGN EXCHANGE TRADING, INVESTMENT SECURITIES AND RETRANSLATION OF MONETARY ASSETS AND LIABILITIES

	Group 2007	Group Restated 2006	Bank 2007	Bank 2006
Net gains on foreign currency spot transactions	32,953	30,781	32,953	30,781
Realized gains on securities available-for-sale	40	3,675	40	3,675
Net (loss)/gain on derivatives	(3,481)	32	(3,481)	32
Net result on translation of foreign currency assets and liabilities	4,998	760	4,984	759
	34,510	35,248	34,496	35,247

All amounts are expressed in thousands of HRK

6. OTHER OPERATING INCOME

	Group 2007	Group Restated 2006	Bank 2007	Bank 2006
Gains on sale and disposal of property and equipment	2,438	7,395	2,438	7,399
Income on closing of dormant accounts	236	3,189	236	3,184
Write-off on inventory listing	75	3,166	75	3,166
Dividend income	692	-	692	-
Management fees	4,217	869	-	-
Other income	4,045	4,943	3,748	2,948
	11,703	19,562	7,189	16,697

Other income of the Group include investment fund management fees in the amount of HRK 4,217 thousand (2006: HRK 869 thousand), earned by the Bank's subsidiary OTP Invest.

7. OPERATING EXPENSES

	Group 2007	Group Restated 2006	Bank 2007	Bank 2006
Staff costs	135,510	122,211	132,950	120,244
Provisions for retirement benefits and bonuses to employees	2,809	7,514	2,809	7,514
	138,319	129,725	135,759	127,758
Professional services and cost of material	89,779	82,093	84,875	79,277
Savings deposit insurance premiums	18,543	17,655	18,543	17,655
Marketing	15,818	11,519	15,818	11,145
Amortisation and depreciation	23,731	18,800	22,981	18,926
Administrative expenses	18,037	12,805	18,037	12,683
Other taxes and contributions	1,611	1,313	1,611	1,313
Write-off of receivables	1,923	3,257	1,923	3,257
Other costs	7,446	3,270	6,620	3,738
	315,207	280,437	306,167	275,752

Staff costs are summarized as follows:

	Group 2007	Group Restated 2006	Bank 2007	Bank 2006
Gross salary	100,457	95,091	98,276	93,413
- Net salaries	68,999	66,130	67,604	64,787
- Taxes, surtaxes and contributions	31,458	28,961	30,672	28,626
Contributions on salaries	17,327	16,384	16,948	16,095
Other payments to employees	20,535	18,250	20,535	18,250
	138,319	129,725	135,759	127,758

At year end, the Group had 1,066 (2006: 1,014) and the Bank 1,056 (2006: 1,007) employees.

During the year the Group and the Bank paid HRK 21,952 thousand and HRK 19,504 thousand, respectively of contributions into defined contribution pension plans (2006: HRK 22,294 thousand and HRK 19,948 thousand).

All amounts are expressed in thousands of HRK

8. PROVISIONS AND IMPAIRMENT LOSSES

	Group	Group Restated	Bank	
	2007	2006	2007	2006
Loans and receivables from customers, interest receivable and other assets	19,881	11,495	19,881	11,495
Litigation provisions	13,873	15,229	13,873	15,229
Provisions for off-balance sheet items	2,017	1,708	2,017	1,708
	35,771	28,432	35,771	28,432

9. TAXATION

a) Income tax expense recognised in the income statement

	Group	Group Restated	Bank	
	2007	2006	2007	2006
Current income tax charge	23,614	44	23,181	-
Net deferred tax charge	3,745	25,702	4,062	25,724
	27,359	25,746	27,243	25,724

b) Reconciliation of the accounting profit and income tax expense at 20%

	Group	Group Restated	Bank	
	2007	2006	2007	2006
Profit before income tax	134,661	125,991	132,028	127,118
Tax calculated at statutory tax rate of 20% (2006: 20%)	26,932	25,198	26,406	25,424
Income not subject to tax net of non-tax deductible expenses	507	1,148	958	1,378
Utilisation of double-dip benefits	(121)	(1,078)	(121)	(1,078)
Tax loss in a subsidiary not recognised as deferred tax asset	41	478	-	-
Income tax expense	27,359	25,746	27,243	25,724
Effective income tax rate	20.3%	20.4%	20.6%	20.2%

All amounts are expressed in thousands of HRK

c) Movement in deferred tax asset and (liability)

Group

	Deferred loan origination fees	Unrealized losses on available-for-sale securities	Tax losses available for carry forward	Other	Total
Balance at 1 January 2006 as previously reported	7,310	(2,199)	29,795	(2,460)	32,446
Adjustment in respect of revaluation reserve	-	-	-	6,726	6,726
Balance at 1 January 2006 (restated)	7,310	(2,199)	29,795	4,266	39,172
Credited/(charged) to income statement	(128)	-	(25,451)	(123)	(25,702)
Charged to equity	-	(1,699)	-	-	(1,699)
Balance at 31 December 2006	7,182	(3,898)	4,344	4,143	11,771
Credited/(charged) to income statement	64	-	(4,126)	317	(3,745)
Charged to equity	-	(4,951)	-	(4,147)	(9,098)
Balance at 31 December 2007	7,246	(8,849)	218	313	(1,072)

Bank

	Deferred loan origination fees	Unrealized losses on available-for-sale securities	Tax losses available for carry forward	Other	Total
Balance at 1 January 2006	7,310	(2,199)	29,795	(73)	34,833
Credited/(charged) to income statement	(128)	-	(25,669)	73	(25,724)
Charged to equity	-	(1,699)	-	-	(1,699)
Balance at 31 December 2006	7,182	(3,898)	4,126	-	7,410
Credited/(charged) to income statement	64	-	(4,126)	-	(4,062)
Charged to equity	-	(4,951)	-	-	(4,951)
Balance at 31 December 2007	7,246	(8,849)	-	-	(1,603)

d) Current income tax liability

	Group	Group Restated	Bank	
	2007.	2006.	2007.	2006.
Current income tax liability	23,638	22	23,180	-

All amounts are expressed in thousands of HRK

e) Tax losses

The Group is subject to corporate income tax in accordance with Croatian law. Tax gains and losses of individual Group companies cannot be utilised on the Group level or transferred from one Group member to another. Tax losses can be carried forward up to five years and are subject to adjustment resulting from inspections by the Croatian Ministry of Finance.

Tax losses:

	Group	Group Restated	Bank	Bank
	2007	2006	2007	2006
Tax losses brought forward	24,919	150,874	20,631	148,974
Tax loss for the year	206	2,388	-	-
Amounts utilised in the year	(20,631)	(128,343)	(20,631)	(128,343)
Total tax losses available for carry forward	4,494	24,919	-	20,631
Tax effect from tax losses carried forward (at a rate of 20%)	899	4,984	-	4,126
Amount not recognised as deferred tax assets	(681)	(640)	-	-
Recognised deferred tax assets	218	4,344	-	4,126

At 31 December 2007 unutilised gross tax losses that are available for setting off against the future profits amount to HRK nil (2006: HRK 20,631 thousand) for the Bank and HRK 4,494 thousand (2006: HRK 24,919 thousand) for the Group. Based on these losses, no deferred tax asset has been recognised by the Group and the Bank (2006: HRK 4,344 thousand and HRK 4,126 thousand respectively).

At 31 December 2007 and 2006, gross tax losses available for carry forward expire as follows:

	Group	Group Restated	Bank	Bank
	2007	2006	2007	2006
Up to 5 years	206	2,388	-	-
Up to 4 years	2,388	908	-	-
Up to 3 years	908	345	-	-
Up to 2 years	345	2,785	-	2,138
Up to 1 year	647	18,493	-	18,493
Total tax loss available for carry forward	4,494	24,919	-	20,631

Croatian tax legislation and practice has changed significantly in recent years. Many parts of the legislation remain untested and there is uncertainty about the interpretation that the tax authorities may apply in a number of areas. Tax positions taken by the Group are subject to examination and could be challenged by the tax authorities. As a result there is uncertainty about the potential impacts should the interpretation of the tax authorities differ from that applied by the Group. However, the Group's management considers that any tax liability which might arise in connection with this would not be material.

All amounts are expressed in thousands of HRK

10. 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. A reconciliation of the profit after tax attributable to ordinary shareholders is provided below.

	Group	
		Restated
	2007	2006
Profit for the period attributable to equity holders of the Bank	107.435	100.245
Profit attributable to ordinary shareholders	107.435	100.245
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	2.963.897	2.276.390
Earnings per ordinary share - basic and diluted (HRK)	36,25	44,04

	Bank	
	2007	2006
Profit for the period	104,785	101,394
Profit attributable to ordinary shareholders	104,785	101,394
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	2,963,897	2,276,390
Earnings per ordinary share - basic and diluted (HRK)	35.35	44.54

11. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	Group		Bank	
		Restated		
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Cash in hand	124,968	98,066	124,968	98,066
Giro account balance	239,022	275,655	239,022	275,655
Current accounts with foreign banks	39,074	27,168	39,074	27,168
Current accounts with domestic banks	3,537	3,867	3,537	3,867
Items in course of collection	5,514	22,228	5,514	22,228
Assets included in cash and cash equivalents (Note 28)	412,115	426,984	412,115	426,984
Obligatory reserve at Croatian National Bank				
- in HRK	*735,756*	*736,134*	*735,756*	*736,134*
- marginal	*271,774*	*188,729*	*271,774*	*188,729*
- in foreign currency	*357,657*	*266,318*	*357,657*	*266,318*
Total obligatory reserve at Croatian National Bank	1,365,187	1,191,181	1,365,187	1,191,181
	1,777,302	1,618,165	1,777,302	1,618,165

All amounts are expressed in thousands of HRK

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

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

At 31 December 2007, the required rate of maintenance of the kuna obligatory reserve with the CNB amounted to 70% (2006: 70%), while the remaining 30% (2006: 30%) must be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK (see below).

60% of foreign currency obligatory reserve (2006: 60%) is maintained with the CNB, while the remaining 40% (2006: 40%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). 50% (2006: 50%) of the foreign currency obligatory reserve is required to be held in HRK and is added to the kuna obligatory reserve (see above).

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

12. AMOUNTS DUE FROM OTHER BANKS

	Group		Bank	
		Restated		
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Short-term placements with other banks	1,636,188	1,704,178	1,420,339	1,559,570
Loans and advances to other banks in Croatia	301,914	162,105	301,914	162,105
	1,938,102	1,866,283	1,722,253	1,721,675
Less: impairment allowance	(3,708)	(4,030)	(3,708)	(4,030)
	1,934,394	1,862,253	1,718,545	1,717,645

All amounts are expressed in thousands of HRK

13. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

a) Assets

	Group	Group Restated	Bank	Bank
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Units in open ended investment funds	8,064	9,552	8,064	7,777
Fair value of derivatives	136	647	136	647
	8,200	10,199	8,200	8,424

The Bank has entered into derivative contracts as noted below.

Group and Bank

	31.12.2007 Notional amount	31.12.2007 Fair value	31.12.2006 Notional amount	31.12.2006 Fair value
Derivatives classified as trading - OTC products				
Currency derivatives:				
Cross currency swap	59,825	136	66,941	647
	59,825	136	66,941	647

b) Liabilities

	Group	Group Restated	Bank	Bank
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Fair value of derivatives	554	647	554	647
	554	647	554	647

The Bank has entered into derivative contracts as noted below.

Group and Bank

	31.12.2007 Notional amount	31.12.2007 Fair value	31.12.2006 Notional amount	31.12.2006 Fair value
Derivatives classified as trading - OTC products				
Currency derivatives:				
Cross currency swap	60,054	554	66,626	647
	60,054	554	66,626	647

The Bank uses cross currency swaps to hedge and reduce the currency exposures that are inherent in any banking business.

Counterparties of the Bank's derivative transactions are financial institutions (including related parties).

All amounts are expressed in thousands of HRK

14. LOANS AND RECEIVABLES FROM CUSTOMERS

Analysis by type of product

	Group	Group Restated	Bank	
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
HRK denominated				
Retail customers	4,746,479	3,810,727	4,746,479	3,810,727
Corporate customers	2,662,789	2,162,634	2,686,528	2,164,708
Foreign currency denominated				
Retail customers	203	1,370	203	1,370
Corporate customers	121,738	142,324	121,738	142,324
Total loans	7,531,209	6,117,055	7,554,948	6,119,129
Less: allowance for impairment	(436,775)	(461,146)	(436,775)	(461,146)
	7,094,434	5,655,909	7,118,173	5,657,983

Included within Group kuna loans are amounts linked to foreign currency, including HRK 4,903,333 million (2006: HRK 4,174,459 thousand) which have a EUR, CHF or USD countervalue. Included within Bank kuna loans are amounts linked to foreign currency, including HRK 4,903,333 thousand (2006: HRK 4,174,459 thousand) which have a EUR, CHF or USD countervalue. Repayments of principal and interest payments are determined in foreign currency and paid in the kuna equivalent translated at the foreign exchange rate applicable on the date of payment.

Movements in allowance for impairment were as follows:

GROUP AND THE BANK

	31.12.2007	31.12.2006
Balance at 1 January	461,146	461,820
Amounts collected	(36,938)	(33,273)
New provisions made	60,522	60,778
Exchange differences	(726)	(2,456)
Amounts written off	(47,229)	(25,723)
Balance at 31 December	436,775	461,146

At 31 December 2007, the total gross amount of non-performing loans was HRK 374,889 thousand for the Bank and Group (2006: HRK 422,908 thousand).

All amounts are expressed in thousands of HRK

Concentration of credit risk by industry

Set out below is an overview of the Group's and Bank's concentration by various types of industries (gross amounts before allowance for impairment):

	Group		Bank	
		Restated		
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Agriculture, forestry and fisheries	320,336	233,376	320,336	233,376
Mining	14,886	15,189	14,886	15,189
Food and beverages	118,817	104,373	118,817	104,373
Leather and textiles	2,474	2,827	2,474	2,827
Publishing and printing	31,582	17,982	31,582	17,982
Production of oil and oil derivatives	25,464	-	25,464	-
Non-metal mineral and chemical products	8,471	5,511	8,471	5,511
Metal-working industry	27,319	20,747	27,319	20,747
Other manufacturing industries	206,150	181,990	206,150	181,990
Energy, gas and water supply	11,029	10,494	11,029	10,494
Construction	430,456	329,017	430,456	329,017
Trade and commerce	540,938	579,325	540,938	579,325
Hotels and restaurants	355,453	228,796	355,453	228,796
Transport and communications	224,454	179,952	224,454	179,952
Financial intermediation	30	58	1,030	2,132
Real estate	240,142	149,217	262,881	149,217
Public administration and defence	14,914	17,190	14,914	17,190
Education, health and social welfare	148,169	167,637	148,169	167,637
Other services and social activities	40,126	37,827	40,126	37,827
Foreign entities	23,317	23,450	23,317	23,450
Total corporate loans	2,784,527	2,304,958	2,808,266	2,307,032
Retail customers	4,746,682	3,812,097	4,746,682	3,812,097
	7,531,209	6,117,055	7,554,948	6,119,129
Less: impairment allowance	(436,775)	(461,146)	(436,775)	(461,146)
Total loans	7,094,434	5,655,909	7,118,173	5,657,983

All amounts are expressed in thousands of HRK

15. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
		Restated		
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Equity securities	5,785	2,896	5,785	2,896
Debt securities	809,866	941,576	809,866	941,576
Units in open ended investment funds	26,140	13,859	26,137	13,859
	841,791	958,331	841,788	958,331

a) Equity securities

	Group		Bank	
		Restated		
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Equity securities at cost				
- unquoted	24,158	21,339	24,158	21,339
Less: impairment allowance				
	(18,373)	(18,443)	(18,373)	(18,443)
	5,785	2,896	5,785	2,896

Available-for-sale equity securities have been acquired mostly in exchange for impaired receivables.

b) Debt securities

	Group		Bank	
		Restated		
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Quoted				
Bonds of the Ministry of Finance	17,076	2,722	17,076	2,722
CBRD bonds	22,123	22,912	22,123	22,912
Bonds of foreign governments	7,473	7,520	7,473	7,520
Subtotal: Quoted debt securities	46,672	33,154	46,672	33,154
Treasury bills of the Ministry of Finance	160,784	166,151	160,784	166,151
DAB bonds for the restructuring of Dubrovačka banka	170,194	334,117	170,194	334,117
Replacement bonds of the Croatian Ministry of Finance	432,216	408,154	432,216	408,154
Subtotal: Unquoted debt securities	763,194	908,422	763,194	908,422
	809,866	941,576	809,866	941,576

The bonds of the Croatian Bank for Reconstruction and Development ("CBRD") are issued with the guarantee of the Ministry of Finance on behalf of the Croatian Government. The bonds are denominated in Euro and the interest rate on these bonds is 5.75% and interest is paid annually. The bonds mature on 4 December 2012. These bonds are quoted on the Luxembourg Stock Exchange.

Foreign government bonds were issued by the Federal Republic of Germany in the amount of EUR 1,000,000 at an interest rate of 4.125%, with interest paid annually. The entire principal is due on 4 July 2008. These bonds are quoted on German stock exchanges.

The rehabilitation bonds represent bonds issued by the State Agency for Deposit Insurance and Bank Rehabilitation (DAB) as part of the rehabilitation of Dubrovačka banka. The rehabilitation bonds were issued in two series, denominated in Croatian Kuna and linked to Euro under currency clauses. The total amount of A-series bonds was HRK 1,002 million, and the maturity date was 15 November 2007 (when they were redeemed); the total amount of B-series bonds is HRK 1,600 million, with maturity date 15

All amounts are expressed in thousands of HRK

November 2008. The rehabilitation bonds were issued at fixed annual rates of 6% and 7%. respectively. The rehabilitation bonds can be sold only with the prior approval of DAB and they may be pledged in favour of the Croatian National Bank for Lombard loans as well to other banks with prior approval from DAB. As at 31 December 2007 rehabilitation bonds of the HRK 109,877 thousand (2006: HRK 110,176 thousand) were pledged as security for a long-term loan from a Croatian bank.
Replacement bonds were issued by the Croatian Government to replace economic restructuring bonds based on the Government decision of 6 April 2000. The replacement bonds are denominated in Croatian Kuna and are indexed to the industrial price index. Every six months the principal amount of the bond is revalued based on changes in the index and the revaluation gains/(losses) are recognized directly in equity. The interest rate on these bonds is 5% annually, and the interest is paid on a semi-annual basis. The principal is due in 2011.
DAB bonds for the reconstruction of Dubrovačka banka and replacement bonds of the Croatian Ministry of Finance are not traded publicly.

16. INVESTMENTS HELD TO MATURITY

	Group		Bank	
		Restated		
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Housing bonds of the Croatian Ministry of Finance	16,055	16,098	16,055	16,098
Corporate bills of exchange	68,867	41,041	68,867	41,041
	84,922	57,139	84,922	57,139

The housing bonds of the Ministry of Finance were received as compensation for flats purchased by the Government of Croatia. Pending clarification of the terms, the Bank has not recognised accrued interest on these bonds.

The investments held-to-maturity are not traded publicly.

17. INVESTMENTS IN SUBSIDIARIES

Set out below are the operating subsidiaries of the Bank, included in the consolidated statements of the Group:

Name	Business activity	Effective share	
		31.12.2007	31.12. 2006
OTP Invest d.o.o.	Investment fund management	74.33%	100%
OTP Nekretnine d.o.o.	Real estate	100%	100%
Kratos nekretnine d.o.o	Real estate	100%	-
Kvirinal nekretnine d.o.o	Real estate	100%	-

In July 2007 OTP Invest d.o.o., then a fully owned subsidiary of the Bank, underwent a process of legal division into three separate companies, each fully owned by the Bank. As a result of this process, the Bank became the owner of two new subsidiaries, Kratos nekretnine d.o.o. and Kvirinal nekretnine d.o.o., each with an issued share capital of HRK 20 thousand.
Subsequent to the above transaction, on 28 December 2007, OTP Bank Rt. Hungary recapitalised OTP Invest, thereby decreasing the Bank's ownership interest.

All amounts are expressed in thousands of HRK

18. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Group	Group Restated	Bank	Bank
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Intangible assets (excluding goodwill)	28,576	4,557	9,616	4,539
Goodwill	42,966	42,966	42,966	42,966
Intangible assets	71,542	47,523	52,582	47,505
Property and equipment	180,424	180,186	167,866	160,553
	251,966	227,709	220,448	208,058
Less: goodwill	(42,966)	(42,966)	(42,966)	(42,966)
	209,000	184,743	177,482	165,092

GOODWILL

Goodwill stated on the Bank's balance sheet represents goodwill originally arising on the acquisition of Istarska banka d.d., Pula and Sisačka banka d.d.. Sisak (which is included in the Bank's accounts following the merger with these banks on 30 June 2002) and Dubrovačka banka d.d., Dubrovnik (which is included in the Bank's accounts following the merger with this bank on 30 September 2004). The value of goodwill as of 31 December 2007 amounts to HRK 42,966 thousand.

Amortisation and depreciation are presented within other operating expenses in the income statement.

Group	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Intangible assets*	Assets under construction	Total
Cost:								
At 1 January 2006 as previously reported	199,052	73,014	92,249	5,506	961	47,527	7,401	425,710
Correction related to investment property	5,443	-	-	-	-	-	-	5,443
Reclassification	-	-	-	-	-	(200)	200	-
At 1 January 2006 (restated)	204,495	73,014	92,249	5,506	961	47,327	7,601	431,153
Transfers from assets under construction	591	6,204	18,667	-	-	1,766	(27,223)	5
Additions	798	61	218	-	2	5	34,595	35,679
Disposals	(403)	(27,591)	(4,666)	(1,943)	(3)	(11,244)	-	(45,850)
At 31 December 2006	205,481	51,688	106,468	3,563	960	37,854	14,973	420,987
At 1 January 2007	205,481	51,688	106,468	3,563	960	37,854	14,973	420,987
Transfer from assets under construction	2,398	10,156	10,480	-	-	-	(23,034)	-
Revaluation of buildings prior to change in use and transfer to investment property	20,732	-	-	-	-	-	-	20,732
Transfer to investment property due to change in use	(24,154)	-	-	-	-	-	-	(24,154)
Transfer to investment property upon completion	-	-	-	-	-	-	(2,075)	(2,075)
Additions	-	159	1,459	-	-	27,419	25,897	54,934
Disposals	(837)	(935)	(4,510)	(330)	-	-	-	(6,612)
At 31 December 2007	203,620	61,068	113,897	3,233	960	65,273	15,761	463,812
Accumulated depreciation/ amortisation:								
At 1 January 2006	79,714	63,126	75,106	5,314	-	39,317	-	262,577
Charge for the year	3,704	6,079	5,977	104	6	2,929	-	18,799
Disposals	(45)	(29,869)	(4,323)	(1,943)	(3)	(8,949)	-	(45,132)
At 31 December 2006	83,373	39,336	76,760	3,475	3	33,297	-	236,244
At 1 January 2007	83,373	39,336	76,760	3,475	3	33,297		236,244
Charge for the year	4,619	7,985	7,727	-	-	3,400	-	23,731
Disposals	4	(935)	(3,902)	(330)	-	-	-	(5,163)
At 31 December 2007	87,996	46,386	80,585	3,145	3	36,697	-	254.812
Net book value:								
At 1 January 2007	122,108	12,352	29,708	88	957	4,557	14,973	184,743
At 31 December 2007	115,624	14,682	33,312	88	957	28,576	15,761	209,000

*** Intangible assets (excluding goodwill): software and other intangible assets**

All amounts are expressed in thousands of HRK

	Land and buildings	Computers	Furniture and equipment	Bank Motor vehicles	Other	Intangible assets*	Assets under construction	Total
Cost:								
At 1 January 2006	175,668	72,774	92,127	5,113	961	47,261	7,401	401,305
Transfers from assets under construction	591	6,204	18,667	-	-	1,766	(27,223)	5
Additions	798	36	218	-	-	5	32,520	33,577
Disposals	(403)	(27,591)	(4,667)	(1,943)	-	(11,244)	-	(45,848)
At 31 December 2006	176,654	51,423	106,345	3,170	961	37,788	12,698	389,039
At 1 January 2007	176,654	51,423	106,345	3,170	961	37,788	12,698	389,039
Transfer from assets under construction	2,398	10,156	10,480	-	-	-	(23,034)	-
Additions	-	79	1,429	-	-	8,378	26,097	35,983
Disposals	-	(935)	(4,510)	(330)	-	-	-	(5,775)
At 31 December 2007	179,052	60,723	113,744	2,840	961	46,166	15,761	419,247
Accumulated depreciation/ amortisation:								
At 1 January 2006	67,778	62,935	74,992	5,081	-	39,364	-	250,150
Charge for the year	4,029	6,056	5,975	32	-	2,834	-	18,926
Disposals	(45)	(29,869)	(4,323)	(1,943)	-	(8,949)	-	(45,129)
At 31 December 2006	71,762	39,122	76,644	3,170	-	33,249	-	223,947
At 1 January 2007	71,762	39,122	76,644	3,170	-	33,249	-	223,947
Charge for the year	4,046	7,945	7,689	-	-	3,301	-	22,981
Disposals	4	(935)	(3,902)	(330)	-	-	-	(5,163)
At 31 December 2007	75,812	46,132	80,431	2,840	-	36,550	-	241,765
Net book value:								
At 1 January 2007	104,892	12,301	29,701	-	961	4,539	12,698	165,092
At 31 December 2007	103,240	14,591	33,313	-	961	9,616	15,761	177,482

*** Intangible assets (excluding goodwill): software and other intangible assets**

19. INVESTMENT PROPERTY

	Grupa	Banka
Fair value at 1 January 2006 as previously reported	72,562	-
Transfer to property and equipment (owner-occupied)	(5,443)	-
Reversal of revaluation reserve for assets transferred to property and equipment	(33,629)	-
At 1 January 2006 (restated)	33,490	-
Additions	-	
Disposals	-	
As at 31 December 2006 (restated)	33,490	
Transfer from property and equipment (previously owner-occupied)	24,154	-
Transfer from property and equipment under construction	2,075	
Additions	7,811	-
At 31 December 2007	67,530	-

Investment property includes property previously held by the Group as property and equipment, measured at amortised cost. Upon the change of use of such property into investment property, the Group recognised the difference between the fair value and amortised cost at the date of change of use as a revaluation gain directly in a revaluation reserve in equity. In 2007, the Group changed its accounting treatment to exclude from investment property those properties which continued to be owner-occupied by the Group. Such properties are now accounted for as property and equipment and measured at amortised cost, with all revaluation gains arising as described above, reversed. The Group has accounted for this correction retrospectively by adjusting the balance of opening reserves on 1 January 2006.

All amounts are expressed in thousands of HRK

20. OTHER ASSETS

	Group 31.12.2007	Group Restated 31.12. 2006	Bank 31.12. 2007	Bank 31.12. 2006
Accrued fees and commissions	19,534	18,979	18,546	18,979
Accounts receivable	20,386	19,913	16,918	19,150
Foreclosed assets	208	17,849	208	17,849
Receivables in respect of credit card operations	17,548	15,466	17,548	15,466
Due from insurance company	15,028	12,972	15,028	12,972
Receivables for prepaid taxes and contributions	195	231	195	231
Prepaid expenses	6,879	4,085	6,879	4,085
Other	3,552	3,520	2,471	3,149
	83,330	93,015	77,793	91,881
Less: impairment allowance	(21,761)	(18,995)	(21,761)	(18,995)
	61,569	74,020	56,032	72,886

Movements in provisions for impairment for other assets for the Group and the Bank were as follows:

	2007	2006
Balance at 1 January	18,995	26,534
New provisions made/(provisions released)	2,766	(7,539)
Balance at 31 December	21,761	18,995

21. AMOUNTS DUE TO OTHER BANKS

	Group 31.12.2007	Group Restated 31.12. 2006	Bank 31.12. 2007	Bank 31.12. 2006
Demand deposits				
HRK denominated	118	29	118	29
Foreign currency denominated	10,191	1,908	10,191	1,908
Time deposits				
HRK denominated	-	-	-	-
Foreign currency denominated	190,932	242,528	190,932	242,528
	201,241	244,465	201,241	244,465

22. AMOUNTS DUE TO CUSTOMERS

	Group 31.12.2007	Group Restated 31.12. 2006	Bank 31.12. 2007	Bank 31.12. 2006
Retail customers				
Demand deposits				
HRK denominated	1,057,654	868,628	1,057,654	868,628
Foreign currency denominated	1,018,073	1,080,831	1,018,073	1,080,831
Time deposits				
HRK denominated	1,061,029	1,672,592	1,061,029	1,672,592
Foreign currency denominated	4,018,578	2,825,377	4,018,578	2,825,377
Corporate customers				
Demand deposits				
HRK denominated	733,828	571,378	733,828	571,378
Foreign currency denominated	108,936	102,841	108,936	102,841
Time deposits				
HRK denominated	541,851	720,693	541,851	720,693
Foreign currency denominated	429,308	260,486	429,308	260,486
Current accounts and deposits of subsidiaries	-	-	4,949	1,463
	8,969,257	8,102,826	8,974,206	8,104,289

All amounts are expressed in thousands of HRK

23. OTHER BORROWED FUNDS

	Group	Group Restated	Bank	Bank
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Domestic creditors:				
CBRD	687,173	354,123	687,173	354,123
Ministry of Finance	3,836	3,839	3,836	3,839
Other borrowings from domestic banks	15,551	50,388	15,551	50,388
Foreign creditors:				
Refinanced foreign currency borrowings	8,093	11,753	8,093	11,753
Commercial banks	910,777	751,925	691,023	605,040
Government agencies	41,258	42,337	41,258	42,337
	1,666,688	1,214,365	1,446,934	1,067,480

a) Amounts due to the Croatian Bank for Reconstruction and Development

Other funds borrowed from CBRD are designated for approving loans to end users - corporate and retail customers - under the SMEs, tourist trade and agriculture incentive programme supported by the CBRD, at an average interest rate of 2.04 % (2006: 1.45%). Out of the total CBRD borrowings. HRK 91,198 thousand relates to a short-term repo borrowing.

b) Other borrowings from domestic banks

Of the total borrowings from domestic banks, the major portion of HRK 14,650 thousand (2006: HRK 29,380 thousand) both for the Group and for the Bank, represents a loan from a Croatian bank with a currency clause. These borrowed funds bear an interest rate of 6-month EURIBOR + 1.9%.

c) Refinanced foreign currency loans

London Club

At 31 December 2007, the liabilities to the London Club amount to HRK 2,200 thousand (2006: HRK 3,267 thousand) for the Group and for the Bank. Based on the Information Memorandum of 9 May 1999 and the Notification of Offer of 14 June 1996, the Croatian Government assumed at 31 July 1996 the obligation in respect of 29.5% of reprogrammed debt of the former Yugoslavia to commercial banks under the New Financial Agreement by issuing own A- and B-series bonds on 31 July 1996 to replace the debt under the New Financial Agreement. The financial debt is USD denominated and has been reprogrammed over 14 years, at an interest rate of six-month LIBOR for USD + 13/16% margin annually.

Paris Club

At 31 December 2007, the liabilities to the Paris Club amount to HRK 5,666 thousand (2006: HRK 8,211 thousand) for the Group and for the Bank. The loans repayable between 1984 and 1988 were refinanced and reprogrammed by means of several agreements, concluding with the Paris Club Agreement of 21 March 1995. Under the Agreement, principal is repayable in 24 semi-annual instalments, commencing on 31 January 1998. During 1997 and 1998, further individual negotiations with Paris Club members took place and bilateral consolidation agreements were concluded. In addition on 16 December 2005 the Government of Croatia and the Government of Italy reached an agreement on consolidation of the debt of Croatia.

d) Amounts due to commercial banks

Of the total debt to commercial banks. the major portions comprise the following:

All amounts are expressed in thousands of HRK

a) Loans from OTP Bank Rt. Hungary extended to the Group in the total amount of HRK 881,624 thousand (2006: HRK 718,308 thousand) and to the Bank in the total amount of HRK 661,870 thousand (2006: 571,406 thousand), with a variable interest of 3M CHFLIBOR and 3M EURIBOR + margin.

b) HRK 26,335 thousand (2006: HRK 31,686 thousand) loan both for the Group and for the Bank due to the World Bank (IBRD). The interest on the borrowings is calculated at variable rate in the amount of 6-month EURIBOR + 0.50% margin annually. The loan is repayable in semi-annual instalments and has maturity in 2012.

Other liabilities comprise loans granted by other commercial banks.

e) Amounts due to government agencies

The major portion of this debt relates to the debt to the DEG, which amounts to HRK 37,453 thousand (2006: HRK 37,555 thousand). The loan was approved for a period of 6 years, at variable interest rate (6-month EURIBOR + 1.05%); these funds are included in the Bank's supplementary capital in accordance with CNB regulations. The entire loan is due on 15 November 2009.

HRK 3,527 thousand (2006: HRK 4,547 thousand) of the total debt to government agencies represents a loan from MEDIOCREDITO, which is repayable in equal semi-annual instalments until 2011, at a fixed interest rate of 1.75%.

24. PROVISIONS

a) Analysis of provisions

	Group	Group Restated	Bank	Bank
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Provisions for off-balance sheet items	10,911	8,894	10,911	8,894
Litigation provision	30,654	31,998	30,654	31,998
	41,565	40,892	41,565	40,892

b) Movements in provisions for liabilities and charges

	Group	Group Restated	Bank	Bank
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Provisions for off-balance sheet items				
Balance at 1 January	8,894	7,520	8,894	7,520
Additional provisions established	2,017	1,708	2,017	1,708
Utilisation	-	(334)	-	(334)
Balance at 31 December	10,911	8,894	10,911	8,894
Litigation provision				
Balance at 1 January	31,998	20,559	31,998	20,559
Additional provisions established	13,873	15,229	13,873	15,229
Utilisation	(15,217)	(3,790)	(15,217)	(3,790)
Balance at 31 December	30,654	31,998	30,654	31,998

All amounts are expressed in thousands of HRK

25. OTHER LIABILITIES

	Group		Bank	
		Restated		
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Provisions for retirement benefits and bonuses to employees	10,671	7,049	10,671	7,049
Liability under guarantee issued for client	4,713	6,859	4,713	6,859
Amounts due to suppliers	16,604	10,336	13,486	9,954
Salaries and contributions payable	22,080	21,345	22,080	21,170
Due to DAB for saving deposits insurance	4,761	4,520	4,761	4,520
Deferred income	1,372	2,331	1,372	2,331
Liabilities under credit card operations	9,199	8,002	9,199	8,002
Liabilities under currency dealings	22	234	22	234
Other liabilities	27,259	17,769	24,407	17,318
	96,681	78,445	90,711	77,437

26. SHAREHOLDER'S EQUITY

ISSUED SHARE CAPITAL

As at 31 December 2007 the share capital of the Bank comprised 3,026,398 ordinary shares (2006: 2,276,398 ordinary shares) with a par value of 200 HRK each. All the ordinary shares are ranked equally and carry one vote per share.

Upon the decision made at the Annual General Meeting held on 18 January 2007, the issued share capital of the Bank was increased by HRK 150,000 thousand. The Bank issued 750,000 of ordinary shares with par value of HRK 200 each. The new issue was fully subscribed and paid in cash by the Bank's parent company at par.

RESERVES

	Group		Bank	
		Restated		
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006.
Legal reserve	30,264	30,264	30,264	30,264
Statutory reserve	30,264	30,264	30,264	30,264
Total legal and statutory reserve	60,528	60,528	60,528	60,528
Fair value reserve	35,394	15,590	35,394	15,590
General banking risks reserve	105,819	57,962	105,819	57,962
Reserve for flats	110	114	110	114
Other	52,961	36,376	26,829	26,829
Total other reserves	194,284	110,042	168,152	100,495

Legal and statutory reserves

A legal reserve has been created in accordance with Croatian law, which requires 5% of the profit for the year to be transferred to this reserve until it reaches 5% of issued share capital. The legal reserve, in the amount of up to 5% of issued share capital, can be used for covering current and prior year losses. In addition, in accordance with the Bank's internal regulations, an additional reserve equivalent to the legal reserve has been created in an amount of up to 5% of the share capital to cover impairment losses, payment of dividend on preference shares and for the same purposes as legal reserve.

All amounts are expressed in thousands of HRK

Other reserves

Reserve for general banking risks

According to CNB regulations the Bank is obliged to create a reserve for general banking risks if the increase of relevant on- and off-balance-sheet exposure at the balance sheet date exceeds 15% of the exposure at the prior year end.

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

Fair value reserve

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

Reserves for flats

Reserve for flats is formed in accordance with the laws and is related to sale of flats which were previously in social ownership.

Other reserves

Other reserves at Group mainly represent revaluation reserve related to investment property.

Retained earnings

Retained earnings include accumulated profits from prior years.

27. CONTINGENCIES AND COMMITMENTS

Presented below are contractual amounts of the Group's and the Bank's off-balance-sheet financial instruments:

	Group		Bank	
		Restated		
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Payment guarantees	124,806	84,411	124,806	84,411
Performance guarantees	147,796	86,528	147,796	86,528
Letters of credit	33,063	36,020	33,063	36,020
Approved unused loans	967,713	844,372	969,050	844,372
Other	8,960	51	8,960	51
	1,282,338	1,051,382	1,283,675	1,051,382

28. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statements., cash and cash equivalent comprise the following balances with maturities of up to 90 days:

	Group		Bank	
		Restated		
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Cash and cash equivalents (excluding mandatory reserve with Croatian National Bank)	412,115	426,984	412,115	426,984
Amounts due from other banks	1,787,550	1,712,595	1,714,541	1,712,595
	2,199,665	2,139,579	2,126,656	2,139,579

All amounts are expressed in thousands of HRK

29. CREDIT RISK

The Group and the Bank take on exposure to credit risk, which is the risk upon credit approval that the counterparty will be unable to pay amounts in full when due. Both the Group and the Bank structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to credit risk for all assets exposed to credit risk is limited by the carrying amount of that asset in the balance sheet. The exposure to credit risk of derivatives with positive fair value is their notional amount. Additionally, the Group and Bank are exposed to credit risk on off-balance-sheet items, including undrawn commitments to extend credit guarantees and letters of credit.

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

Concentration of assets and liabilities

		Group		Bank	
			Restated		
	Notes	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Current account with the Croatian National Bank		239,022	275,655	239,022	275,655
Obligatory reserve with the Croatian National Bank	11	1,365,187	1,191,181	1,365,187	1,191,181
Ministry of Finance - Treasury bills	15b)	160,784	166,151	160,784	166,151
Republic of Croatia bonds	15b)	17,076	2,722	17,076	2,722
Loans		-	-	-	-
Replacement bonds	15b)	432,216	408,154	432,216	408,154
Other assets		258	1,851	258	1,851
Liabilities to the Ministry of Finance in respect of rescheduled foreign borrowings		(3,836)	(3,839)	(3,836)	(3,839)
Current income tax payable	9c	(23,638)	(22)	(23,180)	-
Other liabilities		(4,455)	(3,824)	(4,338)	(3,737)
		2,182,614	2,038,029	2,183,189	2,038,138

In addition, the Group had indirect exposure to the Croatian state in respect of loans and other financing granted to state funds as follows:

	Group		Bank	
		Restated		
	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
DAB bonds for the restructuring of Dubrovačka banka and other assets	170,876	334,840	170,876	334,840
	170,876	334,840	170,876	334,840

All amounts are expressed in thousands of HRK

30. CURRENCY RISK

The Bank and the Group take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial positions and cash flows.

The table below provides an analysis of the Group's and of the Bank's main currency exposures. The remaining currencies are shown within 'Other currencies.' Both the Group and the Bank monitor their foreign exchange (FX) position for compliance with the regulatory requirements of the Croatian National Bank established in respect of limits on open positions. Measuring the open positions of the Group and of the Bank includes monitoring the value at risk limit both for the Group and for the Bank. Other currencies also include CHF linked.

	Group						
	EUR	**EUR currency clause**	**Total EUR**	**USD**	**HRK**	**Other currencies**	**Total**
At 31 December 2007							
Assets							
Cash and balances with Croatian National Bank	680,054	-	680,054	13,736	1,055,570	27,942	1,777,302
Amounts due from other banks	868,912	-	868,912	633,298	344,041	88,143	1,934,394
Assets at fair value through profit or loss	-	-	-	-	8,064	136	8,200
Loans and receivables from customers	82,749	3,926,045	4,008,794	79,367	2,127,029	879,244	7,094,434
Financial assets available for sale	29,720	176,203	205,923	-	635,868	-	841,791
Investments held to maturity	16,055	247	16,302	-	68,620	-	84,922
Property and equipment and intangible assets	-	-	-	-	251,966	-	251,966
Investment property	-	-	-	-	67,530	-	67,530
Other assets	71	-	71	3	61,409	86	61,569
Total assets	1,677,561	4,102,495	5,780,056	726,404	4,620,097	995,551	12,122,108
Liabilities							
Amounts due to other banks	198,386	-	198,386	150	118	2,587	201,241
Amounts due to customers	4,553,321	127,959	4,681,280	778,192	3,246,184	263,601	8,969,257
Other borrowed funds	380,347	497,241	877,588	4,095	118,064	666,941	1,666,688
Financial liabilities at fair value through profit or loss	-	-	-	-	-	554	554
Provisions	-	-	-	-	41,565	-	41,565
Deferred tax liability	-	-	-	-	1,072	-	1,072
Other liabilities and current income tax liability	12,257	-	12,257	2,381	105,676	5	120,319
Total liabilities	5,144,311	625,200	5,769,511	784,818	3,512,679	933,688	11,000,696
Net FX position	(3,466,750)	3,477,295	10,545	(58,414)	1,107,418	61,863	1,121,412
At 31 December 2006							
Total assets	1,462,322	3,650,631	5,112,953	898,855	3,617,974	879,204	10,508,986
Total liabilities	3,712,102	1,247,779	4,959,881	963,059	2,952,231	806,491	9,681,662
Net FX position	(2,249,780)	2,402,852	153,072	(64,204)	665,743	72,713	827,324

All amounts are expressed in thousands of HRK

	Bank						
	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
At 31 December 2007							
Assets							
Cash and balances with Croatian National Bank	680,054	-	680,054	13,736	1,055,570	27,942	1,777,302
Amounts due from other banks	653,063	-	653,063	633,298	344,041	88,143	1,718,545
Assets at fair value through profit or loss	-	-	-	-	8,064	136	8,200
Loans and receivables from customers	82,749	3,926,045	4,008,794	79,367	2,150,768	879,244	7,118,173
Financial assets available for sale	29,720	176,203	205,923		635,865	-	841,788
Investments held to maturity	16,055	247	16,302	-	68,620	-	84,922
Investments in subsidiaries	-	-	-	-	77,262	-	77,262
Property and equipment and intangible assets	-	-	-	-	220,448	-	220,448
Other assets	71	-	71	3	55,872	86	56,032
Total assets	1,461,712	4,102,495	5,564,207	726,404	4,616,510	995,551	11,902,672
Liabilities							
Amounts due to other banks	198,386	-	198,386	150	118	2587	201,241
Amounts due to customers	4,554,071	127,959	4,682,030	778,192	3,250,383	263,601	8,974,206
Other borrowed funds	160,593	497,241	657,834	4,095	118,064	666,941	1,446,934
Financial liabilities at fair value through profit or loss	-	-	-	-	-	554	554
Provisions	-	-	-	-	41,565	-	41,565
Deferred tax liability	-	-	-	-	1,603	-	1,603
Other liabilities and current income tax liability	12,257	-	12,257	2,381	99,248	5	113,891
Total liabilities	4,925,307	625,200	5,550,507	784,818	3,510,981	933,688	10,779,994
Net FX position	(3,463,595)	3,477,295	13,700	(58,414)	1,105,529	61,863	1,122,678
At 31 December 2006							
Total assets	1,317,698	3,650,631	4,968,329	898,855	3,636,915	879,204	10,383,303
Total liabilities	3,566,664	1,247,779	4,814,443	963,059	2,951,217	806,491	9,535,210
Net FX position	(2,248,966)	2,402,852	153,886	(64,204)	685,698	72,713	848,093

All amounts are expressed in thousands of HRK

31. INTEREST RATE RISK

Interest rate sensitivity of assets and liabilities

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument Therefore Indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group's and of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, In the case of instruments that reprice to a market rate of interest before maturity, The next repricing date. It is the policy both of the Group and of the Bank to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in the 'Non-interest-bearing' category. Earnings will also be affected by the currency of the assets and liabilities. The Group and the Bank have a significant proportion of interest earning assets and interest-bearing liabilities denominated in or linked to foreign currency. A significant portion of loans and receivables from customers presented as at fixed rate relates to corporate loans where the Bank has the right to change the interest rates, but in practice has not done so to date.

	Group						
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total	Fixed rate
At 31 December 2007							
Assets							
Cash and balances with Croatian National Bank	606,065	190,595	305,062	11,335	664,245	1,777,302	1,092,941
Amounts due from other banks	1,712,071	72,006	145,982	862	3,473	1,934,394	1,715,072
Assets at fair value through profit or loss	-	-	-	-	8,200	8,200	-
Loans and receivables from customers	4,774,239	200,032	722,107	1,340,590	57,466	7,094,434	2,799,993
Financial assets available for sale	-	49,656	287,136	464,100	40,899	841,791	800,892
Investments held to maturity	16,698	12,632	39,287	-	16,305	84,922	68,617
Property and equipment and intangible assets	-	-	-	-	251,966	251,966	-
Investment property	-	-	-	-	67,530	67,530	-
Other assets	-	-	-	-	61,569	61,569	-
Total assets	7,109,073	524,921	1,499,574	1,816,887	1,171,653	12,122,108	6,477,515
Liabilities							
Amounts due to other banks	200,755	-	-	-	486	201,241	200,755
Amounts due to customers	6,245,278	824,936	1,805,511	25,597	67,935	8,969,257	3,349,002
Other borrowed funds	118,622	760,210	297,197	480,869	9,790	1,666,688	688,971
Financial liabilities at fair value through profit or loss	-	-	-	-	554	554	-
Provisions	-	-	-	-	41,565	41,565	-
Deferred tax liability	-	-	-	-	1,072	1,072	-
Other liabilities and current income tax liability	-	-	-	-	120,319	120,319	-
Total liabilities	6,564,655	1,585,146	2,102,708	506,466	241,721	11,000,696	4,238,728
On-balance-sheet interest rate gap	544,418	(1,060,225)	(603,134)	1,310,421	929,932	1,121,412	2,238,787

All amounts are expressed in thousands of HRK

	Bank						
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total	Fixed rate
At 31 December 2007							
Assets							
Cash and balances with Croatian National Bank	606,065	190,595	305,062	11,335	664,245	1,777,302	1,092,941
Amounts due from other banks	1,711,068	-	3,142	862	3,473	1,718,545	1,715,072
Assets at fair value through profit or loss	-	-	-	-	8,200	8,200	-
Loans and receivables from customers	4,797,978	200,032	722,107	1,340,590	57,466	7,118,173	2,799,993
Financial assets available for sale	-	49,656	287,136	464,100	40,896	841,788	800,892
Investments held to maturity	16,698	12,632	39,287	-	16,305	84,922	68,617
Investments in subsidiaries	-	-	-	-	77,262	77,262	-
Property and equipment and intangible assets	-	-	-	-	220,448	220,448	-
Other assets	-	-	-	-	56,032	56,032	-
Total assets	7,131,809	452,915	1,356,734	1,816,887	1,144,327	11,902,672	6,477,515
Liabilities							
Amounts due to other banks	200,755	-	-	-	486	201,241	200,755
Amounts due to customers	6,250,227	824,936	1,805,511	25,597	67,935	8,974,206	3,349,002
Other borrowed funds	113,714	688,204	154,357	480,869	9,790	1,446,934	688,971
Financial liabilities at fair value through profit or loss	-	-	-	-	554	554	-
Provisions	-	-	-	-	41,565	41,565	-
Deferred tax liability	-	-	-	-	1,603	1,603	-
Other liabilities and current income tax liability	-	-	-	-	113,891	113,891	-
Total liabilities	6,564,696	1,513,140	1,959,868	506,466	235,824	10,779,994	4,238,728
On-balance-sheet interest rate gap	567,113	(1,060,225)	(603,134)	1,310,421	908,503	1,122,678	2,238,787

	Group						
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total	Fixed rate
At 31 December 2006							
Assets							
Cash and balances with Croatian National Bank	1,033,007	-	-	-	585,158	1,618,165	1,023,869
Amounts due from other banks	1,862,253	-	-	-	-	1,862,253	800,474
Assets at fair value through profit and loss	-	-	-	-	10,199	10,199	-
Loans and receivables from customers	3,883,074	294,404	452,073	1,026,358	-	5,655,909	1,925,566
Financial assets available for sale	-	55,527	277,112	611,833	13,859	958,331	931,776
Investments held to maturity	6,399	9,154	24,929	559	16,098	57,139	40,749
Property and equipment and intangible assets	-	-	-	-	227,709	227,709	-
Investment property	-	-	-	-	33,490	33,490	-
Deferred tax asset	-	-	-	-	11,771	11,771	-
Other assets	-	-	-	-	74,020	74,020	-
Total assets	6,784,733	359,085	754,114	1,638,750	972,304	10,508,986	4,722,434
Liabilities							
Amounts due to other banks	242,722	-	-	-	1,743	244,465	242,722
Amounts due to customers	5,380,405	891,969	1,795,558	34,894	-	8,102,826	2,722,421
Other borrowed funds	41,795	15,008	51,567	964,432	141,563	1,214,365	5,712
Financial liabilities at fair value through profit or loss	-	-	-	-	647	647	-
Provisions	-	-	-	-	40,892	40,892	-
Other liabilities and current income tax liability	-	-	-	-	78,467	78,467	-
Total liabilities	5,664,922	906,977	1,847,125	999,326	263,312	9,681,662	2,970,855
On-balance-sheet interest rate gap	1,119,811	(547,892)	(1,093,011)	639,424	708,992	827,324	1,751,579

All amounts are expressed in thousands of HRK

	Bank						
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total	Fixed rate
At 31 December 2006							
Assets							
Cash and balances with Croatian National Bank	1,033,007	-	-	-	585,158	1,618,165	1,023,869
Amounts due from other banks	1,717,645	-	-	-	-	1,717,645	800,474
Assets at fair value through profit and loss	-	-	-	-	8,424	8,424	-
Loans and receivables from customers	3,883,074	296,478	452,073	1,026,358	-	5,657,983	1,925,566
Financial assets available for sale	-	55,527	277,112	611,833	13,859	958,331	931,776
Investments held to maturity	6,399	9,154	24,929	559	16,098	57,139	40,749
Investments in subsidiaries	-	-	-	-	77,262	77,262	-
Property and equipment and intangible assets	-	-	-	-	208,058	208,058	-
Deferred tax asset	-	-	-	-	7,410	7,410	-
Other assets	-	-	-	-	72,886	72,886	-
Total assets	6,640,125	361,159	754,114	1,638,750	989,155	10,383,303	4,722,434
Liabilities							
Amounts due to other banks	242,722	-	-	-	1,743	244,465	242,722
Amounts due to customers	5,381,868	891,969	1,795,558	34,894	-	8,104,289	2,722,421
Other borrowed funds	40,348	15,008	51,567	818,994	141,563	1,067,480	5,712
Financial liabilities at fair value through profit or loss	-	-	-		647	647	-
Provisions	-	-	-	-	40,892	40,892	-
Other liabilities and current income tax liability	-	-	-	-	77,437	77,437	-
Total liabilities	5,664,938	906,977	1,847,125	853,888	262,282	9,535,210	2,970,855
On-balance-sheet interest rate gap	975,187	(545,818)	(1,093,011)	784,862	726,873	848,093	1,751,579

The table below summarises the average effective interest rate at year-end for monetary financial instruments.

	Group			
			Restated	
	31.12.2007	Interest rate %	31.12.2006	Interest rate %
Cash and balances with Croatian National Bank	1,777,302	0.7	1,618,165	1.1
Amounts due from other banks	1,934,394	4.0	1,862,253	4.1
Loans and receivables from customers	7,094,434	7.2	5,655,909	7.4
Investments held to maturity	84,922	5.7	57,139	5.0
Financial assets available for sale	841,791	4.9	958,331	5.4
	11,732,843		10,151,797	
Amounts due to other banks	201,241	5.9	244,465	2.6
Amounts due to customers	8,969,257	2.9	8,102,826	2.5
Other borrowed funds	1,666,688	2.9	1,214,365	2.1
	10,837,186		9,561,656	

	Bank			
	31.12.2007	Interest rate %	31.12.2006	Interest rate %
Cash and balances with Croatian National Bank	1,777,302	0.7	1,618,165	1.1
Amounts due from other banks	1,718,545	4.0	1,717,645	4.1
Loans and other financial assets created by the Bank	7,118,173	7.2	5,657,983	7.4
Investments held to maturity	84,922	5.7	57,139	5.0
Financial assets available for sale	841,788	4.9	958,331	5.4
	11,540,730		10,009,263	
Amounts due to other banks	201,241	5.9	244,465	2.6
Amounts due to customers	8,974,206	2.9	8,104,289	2.5
Other borrowed funds	1,446,934	2.9	1,067,480	2.1
	10,622,381		9,416,234	

All amounts are expressed in thousands of HRK

32. LIQUIDITY RISK

The Group and the Bank are exposed to daily calls on their available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. The Group and the Bank do not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below analyses assets and liabilities of the Group and of the Bank into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

			Group			
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
At 31 December 2007						
Assets						
Cash and balances with Croatian National Bank	1,270,310	190,595	305,062	8,431	2,904	1,777,302
Amounts due from other banks	1,715,544	72,006	145,982	-	862	1,934,394
Assets at fair value through profit or loss	136	-	8,064	-	-	8,200
Loans and receivables from customers	1,099,547	282,923	1,028,804	1,357,608	3,325,552	7,094,434
Financial assets available for sale	8,978	49,656	317,678	11,376	454,103	841,791
Investments held to maturity	16,949	12,632	39,287	-	16,054	84,922
Property and equipment and intangible assets	-	-	-	-	251,966	251,966
Investment property	-	-	-	-	67,530	67,530
Other assets	61,361	-	208	-	-	61,569
Total assets	4,172,825	607,812	1,845,085	1,377,415	4,118,971	12,122,108
Liabilities						
Amounts due to other banks	201,241	-	-	-	-	201,241
Amounts due to customers	4,851,553	1,562,183	2,500,390	31,651	23,480	8,969,257
Other borrowed funds	122,146	91,152	452,378	141,066	859,946	1,666,688
Financial liabilities at fair value through profit or loss	554	-	-	-	-	554
Provisions	-	-	-	-	41,565	41,565
Deferred tax liability	-	-	-	1,072	-	1,072
Other liabilities and current income tax liability	86,468	-	-	-	33,851	120,319
Total liabilities	5,261, 962	1,653,335	2,952,768	173,789	958,842	11,000,696
Net liquidity gap	(1,089,137)	(1,045,523)	(1,107,683)	1,203,626	3,160,129	1,121,412
At 31 December 2006						
Total assets	4,392,009	429,244	1,237,299	1,333,660	3,116,774	10,508,986
Total liabilities	4,640,050	1,557,859	2,295,025	481,056	707,672	9,681,662
Net liquidity gap	(248,041)	(1,128,615)	(1,057,726)	852,604	2,409,102	827,324

All amounts are expressed in thousands of HRK

	Up to 1 month	1 to 3 months	Bank 3 months to 1 year	1 to 3 years	Over 3 years	Total
At 31 December 2007						
Assets						
Cash and balances with Croatian National Bank	1,270,310	190,595	305,062	8,431	2,904	1,777,302
Amounts due from other banks	1,714,541	-	3,142	-	862	1,718,545
Assets at fair value through profit or loss	136	-	8,064	-	-	8,200
Loans and receivables from customers	1,123,286	282,923	1,028,804	1,357,608	3,325,552	7,118,173
Financial assets available for sale	8,975	49,656	317,678	11,376	454,103	841,788
Investments held to maturity	16,949	12,632	39,287	-	16,054	84,922
Investments in subsidiaries	-	-	-	-	77,262	77,262
Property and equipment and intangible assets	-	-	-	-	220,448	220,448
Other assets	55,824	-	208	-	-	56,032
Total assets	4,190,021	535,806	1,702,245	1,377,415	4,097,185	11,902,672
Liabilities						
Amounts due to other banks	201,241	-	-	-	-	201,241
Amounts due to customers	4,856,502	1,562,183	2,500,390	31,651	23,480	8,974,206
Other borrowed funds	117,238	19,146	309,538	141,066	859,946	1,446,934
Financial liabilities at fair value through profit or loss	554	-	-	-	-	554
Provisions	-	-	-	-	41,565	41,565
Deferred tax liability	-	-	-	1,603	-	1,603
Other liabilities and current income tax liability	80,040	-	-	-	33,851	113,891
Total liabilities	5,255,575	1,581,329	2,809,928	174,320	958,842	10,779,994
Net liquidity gap	(1,065,554)	(1,045,523)	(1,107,683)	1,203,095	3,138,343	1,122,678
At 31 December 2006						
Total assets	4,390,869	431,318	1,090,900	1,336,025	3,134,191	10,383,303
Total liabilities	4,639,036	1,557,859	2,295,025	335,618	707,672	9,535,210
Net liquidity gap	(248,167)	(1,126,541)	(1,204,125)	1,000,407	2,426,519	848,093

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, At an acceptable cost, interest-bearing liabilities as they mature, Are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, Since many of these commitments will expire or terminate without being funded.

All amounts are expressed in thousands of HRK

33. RELATED PARTY TRANSACTIONS

The Bank is the parent of the OTP banka Group. The sole shareholder of the Bank and of the Group. The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; its subsidiaries and associates; the investment funds managed by one of its subsidiaries, OTP Invest; Supervisory Board members, Management Board members; close family members of Management Board; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

Outstanding balances at the year-end and relating expense and income for the year are as follows:

	31.12.2007		31.12.2006	
	Receivables	Payables	Receivables	Payables
OTP Bank Rt. Hungary	47,939	664,068	8,870	719,855
OTP Nekretnine d.o.o.	22,747	2,220	7	1,039
OTP Invest d.o.o.	1,107	2,361	2,074	424
Kratos nekretnine d.o.o.	-	134	-	-
Kvirinal nekretnine d.o.o.	-	234	-	-
	71,793	669,017	10,951	721,318

	2007		2006	
	Income	Expenses	Income	Expenses
OTP Bank Rt. Hungary	796	29,028	2,027	12,087
OTP Nekretnine d.o.o.	346	963	-	1,108
OTP Invest d.o.o.	593	2	85	2
Kratos nekretnine d.o.o.	-	148	-	-
Kvirinal nekretnine d.o.o.	-	286	-	-
	1,735	30,427	2,112	13,197

Remuneration paid to key management personnel amounted to HRK 5,515 thousand and relates to short-term employee benefits (2006: HRK 4,914 thousand). Included in key management personnel are Management Board members.

Remuneration paid to Supervisory Board members amounted to HRK 364 thousand (2006: HRK 603 thousand).

34. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Group manages funds on behalf of third parties placed mainly as loans between enterprises through the Group as agent. These assets are accounted for separately from those of the Group and no liability falls on the Group in connection with these transactions. The Group charges a fee for these services.

At 31 December 2007, Funds managed by the Group and the Bank as an agent on behalf of third parties amounted to HRK 100,528 thousand (2006: HRK 64,424 thousand). Additionally, assets under the management of OTP invest, a subsidiary of the Bank, amounted to HRK 353,245 thousand (2006: HRK 101,495 thousand).

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's-length transaction, where available. Fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where quoted market prices are not readily available, fair value is estimated using alternative techniques, or financial assets are measured at cost, amortised cost or indexed cost.

36. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment losses on loans and receivables

The Group monitors the creditworthiness of its customers on an ongoing basis. In accordance with regulations, the need for impairment of the Group's on- and off-balance-sheet credit risk exposure is assessed at least quarterly.

All amounts are expressed in thousands of HRK

Impairment losses are made mainly against the carrying value of loans to and receivables from corporate and retail customers (summarised in note 14), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees, letters of credit and unused credit card limits (summarised in note 27). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

		Group		Bank	
			Restated		
	Notes	31.12.2007	31.12. 2006	31.12. 2007	31.12. 2006
Summary of impairment losses for customers					
Impairment allowance on loans to and receivables from customers	14	436,775	461,146	436,775	461,146
Provisions for off-balance-sheet items	24	10,911	8,894	10,911	8,894
		447,686	470,040	447,686	470,040

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

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

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

All amounts are expressed in thousands of HRK

At the year end. the gross value of specifically impaired loans to and receivables from customers, and the rate of impairment loss recognised, was as follows:

Group and Bank

	Corporate	Retail	2007 Total	Corporate	Retail	2006 Total
Gross value of exposure	237,017	137,872	374,889	284,324	138,584	422,908
Impairment rate	86.13%	97.48%	90.30%	85.90%	95.12%	88.92%

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2007 would lead to the recognition of an additional impairment loss of HRK 37,489 thousand for the Group and the Bank.

The Group has recognised an impairment allowance calculated on a portfolio basis in accordance with the range of impairment loss rates of 0.85% to 1.20% prescribed by the CNB, to be calculated on all credit risk exposures except those carried at fair value through profit or loss, including off-balance-sheet amounts (including undrawn lending and credit card commitments) and sovereign risk. Amounts assessed as impaired are excluded from this calculation.

The amount of impairment allowance at 31 December 2007 calculated on a portfolio basis in accordance with local regulations amounted to HRK 109,143 thousand (2006: HRK 93,975 thousand) of the relevant on- and off-balance-sheet exposure for the Group and Bank. The total of these portfolio based impairment losses amounted to 0.85% (2006: 0.85%) of eligible loans to and receivables from customers and commitments and contingencies of the Group and the Bank respectively, in both cases net of amounts individually assessed as impaired.

At the maximum rate prescribed by the CNB, portfolio based impairment losses would be HRK 44,941 thousand (2006: HRK 38,694 thousand) higher than the amount recognised by the Group and Bank.

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the nominal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

Taxation

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

Regulatory requirements

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

Litigations and claims

In the ordinary course of business, the Group is subject to various legal actions and complaints, the outcome of which is uncertain. As of 31 December 2007, based on the advice of legal counsel, management created provisions for the related risks amounting to HRK 30,654 thousand (2006: HRK 31,998 thousand).

As at 31 December 2006 the Bank is involved in litigation initiated by the former shareholders of Istarska banka d.d. and Dalmatinska banka d.d. (both legal predecessors of the Bank). Out of a number of such cases judgement was reached in favour of the plaintiffs in only one case. The opinion of the Management Board, based on the advice of legal counsel, is that the judgment cannot be factually and legally implemented, as the court decision is in conflict with the fundamental principles of legal order. The Bank has lodged an appeal, which it expects to be accepted, and also expects the final decision of the Court to be in favour of the Bank. In the opinion of management, based on the advice of legal counsel, no provisions are necessary to be created in respect of this legal case, as no losses are expected to be incurred.

After the year end a case against the Bank was settled in the amount of HRK 57,674 thousand. The Bank was fully indemnified against any loss by its parent, which funded the settlement, and accordingly, no provision was recognised at the year end.

37. CHANGE IN ACCOUNTING POLICY FOR THE RECOGNITION OF APPROPRIATIONS WITHIN EQUITY

The Bank transfers retained earnings to legal and statutory reserves and a general banking risk reserve, as required by law and its internal acts, upon the decision of the General Assembly of Shareholders. Previously, the Bank had recognised these appropriations as transfers from retained earnings in the statement of changes in equity in the period when the decision of the General Assembly of Shareholders was made. The Bank has changed its accounting policy to recognise such appropriations in the statement of changes in equity in the year to which they relate regardless of the time at which General Assembly approves the transfer. In accordance with IAS 8 the change in accounting policy was applied retrospectively by restating the comparative information.

The effects of the change in accounting policy on the balance sheet at 31 December 2006 are summarised in Note 38 Restatement of previously reported amounts, under the column Change in accounting policies.
The effect on the balance sheet and on movements in equity in 2006, is shown in the statements of changes in equity of the Bank and the Group for the year ended 31 December 2006, which have been restated accordingly.

All amounts are expressed in thousands of HRK

38. RESTATEMENT OF PREVIOUSLY REPORTED AMOUNTS

The correction related to investment property is described in Note 19 Investment property. The change in accounting policy for recognition of appropriations within equity is presented in Note 37.

	Group		
	As previously reported 2006	Correction related to investment property 2006	As restated 2006
Interest and similar income	515,306	-	515,306
Interest and similar expense	(206,505)	-	(206,505)
Net interest income	308,801	-	308,801
Fee and commission income	112,132	-	112,132
Fee and commission expense	(40,883)	-	(40,883)
Net fee and commission income	71,249	-	71,249
Net gains and losses from foreign exchange trading, investment securities and retranslation of monetary assets and liabilities	35,248	-	35,248
Other operating income	19,562	-	19,562
Net trading and other income	54,810	-	54,810
Operating income	434,860	-	434,860
Operating expenses	(281,335)	898	(280,437)
Profit before provisions and impairment	153,525	898	154,423
Provisions and impairment losses	(28,432)	-	(28,432)
Profit before tax	125,093	898	125,991
Income tax expense	(25,746)	-	(25,746)
Profit for the period	99,347	898	100,245
EARNINGS PER SHARE			
- basic and diluted (in HRK)	43,64	-	44,04

All amounts are expressed in thousands of HRK

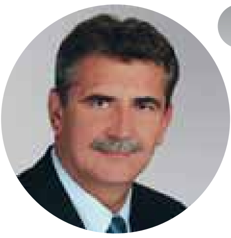
	Group				
	As previously reported 2006	Change in accounting policies 2006	Correction of investment propery 2006	Other reklassifications 2006	As resteted 2006
ASSETS					
Cash and balances with Croatian National Bank	1,618,165	-	-	-	1,618,165
Amounts due from other banks	1,862,253	-	-	-	1,862,253
Financial assets at fair value through profit or loss	9,552	-	-	647	10,199
Loans and receivables from customers	5,655,909	-	-	-	5,655,909
Financial assets available for sale	958,331	-	-	-	958,331
Investments held to maturity	57,139	-	-	-	57,139
Investments in subsidiaries	-	-	-	-	-
Property and equipment	173,645	-	6,341	200	180,186
Intangible assets	47,723	-	-	(200)	47,523
Investment property	72,562	-	(39,072)	-	33,490
Deferred tax asset	5,045	-	6,726	-	11,771
Other assets	74,667	-	-	(647)	74,020
Total assets	10,534,991	-	(26,005)	-	10,508,986
LIABILITIES					
Amounts due to other banks	244,465	-	-	-	244,465
Amounts due to customers	8,102,826	-	-	-	8,102,826
Other borrowed funds	1,214,365	-	-	-	1,214,365
Financial liabilities at fair value through profit or loss	-	-	-	647	647
Provisions	40,892	-	-	-	40,892
Deferred tax liability	-	-	-	-	-
Current income tax liability	-	-	-	22	22
Other liabilities	79,114	-	-	(669)	78,445
Total liabilities	9,681,662	-	-	-	9,681,662
SHAREHOLDERS' EQUITY					
Share capital	455,280	-	-	-	455,280
Share premium	171,260	-	-	-	171,260
Statutory and legal reserves	48,792	15,000	-	(3,264)	60,528
Other reserves	75,719	57,962	(26,903)	3,264	110,042
Retained earnings	102,278	(72,962)	898	-	30,214
Total shareholders' equity	853,329	-	(26,005)	-	827,324
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	10,534,991	-	(26,005)	-	10,508,986

All amounts are expressed in thousands of HRK

	As previously reported 2006	Bank Change in acounting policies 2006	Other reclassifications 2006	As resteted 2006
ASSETS				
Cash and balances with Croatian National Bank	1,618,165	-	-	1,618,165
Amounts due from other banks	1,717,645	-	-	1,717,645
Financial assets at fair value through profit or loss	7,777	-	647	8,424
Loans and receivables from customers	5,657,983	-	-	5,657,983
Financial assets available for sale	958,331	-	-	958,331
Investments held to maturity	57,139	-	-	57,139
Investments in subsidiaries	77,262	-	-	77,262
Property and equipment	160,553	-	-	160,553
Intangible assets	47,505	-	-	47,505
Investment property	-	-	-	-
Deferred tax asset	7,410	-	-	7,410
Other assets	73,533	-	(647)	72,886
Total assets	10,383,303	-	-	10,383,303
LIABILITIES				
Amounts due to other banks	244,465	-	-	244,465
Amounts due to customers	8,104,289	-	-	8,104,289
Other borrowed funds	1,067,480	-	-	1,067,480
Financial liabilities at fair value through profit or loss	-	-	647	647
Provisions	40,892	-	-	40,892
Deferred tax liability	-	-	-	-
Current income tax liability	-	-	-	-
Other liabilities	78,084	-	(647)	77,437
Total liabilities	9,535,210	-	-	9,535,210
SHAREHOLDERS' EQUITY				
Share capital	455,280	-	-	455,280
Share premium	171,260	-	-	171,260
Statutory and legal reserves	48,792	15,000	(3,264)	60,528
Other reserves	39,269	57,962	3,264	100,495
Retained earnings	133,492	(72,962)	-	60,530
Total shareholders' equity	848,093	-	-	848,093
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	10,383,303	-	-	10,383,303

Supervisory Board and Management Board

Supervisory Board



Antal György Kovács

Executive Director for South Transdanubian region in OTP Bank Rt

Antal György Kovács, President of the Supervisory Board, OTP Bank Executive Director for South Transdanubian region, was born in 1953. He graduated from the Budapest Faculty of Economics in 1985, and in 1990 he started his career in finances by taking a position with K&H Bank in Nagyatád, where he was promoted to the position of a director three years later. During his employment with that bank he attended numerous seminars in the USA, specialising in the finance field. He joined OTP Bank in 1995 as the director for Somogy county and in 1997 he was in charge of the branch offices for Somogy and Tolnu counties. He took his current position in the bank in 1998, where he is in charge of management of the regional branch offices' operations, business planning, cost management, loan granting and other tasks.

Gábor Czikora

Managing Director of the IT Development Department in OTP Bank Rt

Gábor Czikora, SB Deputy President, was born in 1958. After obtaining programmer degree on Számalk university, specialized in IT technology and economics, he finds employment in Volán Elektronik as an operator. In 1980 he transfered to OTP Bank, where he started as an operator and advanced to the position of project manager. Since 1996 he was assistant to the Head of Loan Systems IT Development Unit and became the Head of Unit in 2000. After four years on this position he became Head of IT Development Department, C/A and Loan Systems IT Development Department. In October 2006 he was appointed IT Development Department Managing Director.

Balázs Fekete

Deputy Director of the Syndicated Loan Department in OTP Bank Rt

Balázs Fekete was born in Budapest in 1971. He graduated at Faculty of Mining at Miskolc University, but continued his education in the field of economy and received a degree in finance from College for Modern Business Studies in 1998. After his studies he found employment in Dunaholding Tatabánya, where he worked as financial assistent untill 1997, when he transfered to Daewoo bank, where he advanced to the position of Treasury Department Manager in 2000. Next year he transfered to OTP Bank, where he started at the position of Senior Advisor and Syndicated Loan Manager and advanced to the position of Deputy Director of this department in 2006.

László Kecskés

Managing Director of the Internal Audit Department in OTP Bank Rt

László Kecskés graduated on Financial Accounting College and began his career as the Manager of Kecskés and Co accountant and tax-consultant company. After two years he transfered to the position of Chief Manager at Intertia Accountant Trustee, where he remained until 1994 when he became an auditor in OTP Bank. In 1996 he became Deputy Head of the Banking Operation Audit Department and obtained the position of the General Director in 2001. Since April 2007 he is the Managing Director of the OTP Bank Internal Audit Department.

Gábor Kovács

Head of the Marketing and Sales Department in OTP Bank Rt

Gábor Kovács was born in 1973 in Pécs. He received the degree in geography and library history in 1996, but continues education and obtains Professional Master of Business Administration Training on Faculty of Economics Pécs. In 1996 he begins his career in Nationale Netherlanden, where he was in charge of life insurance segment. He transfered to OTP Bank Pécs in 1997 and advanced within Sales and Branch Management Department.
In June 2004 he moved to Budapest, where he became a part of OTP Bank START project in Marketing and Sales Department. Since October 2004 he is the Head of the Marketing and Sales Deparment.

Management Board

Damir Odak

President of the Management Board of OTP banka Hrvatska d.d.

Damir Odak, president of the Management Board of OTP banka d.d., was born in 1964 in Split. He graduated from the Faculty of Economics and started his career as a junior researcher at the Institute of Economics in Zagreb. He was the Chairman of the Management Board of Trgovačka banka (now a part of the Erste Group) from 1990 to 1997. In the period from 1997 until 2003 he was the director of the Corporate Banking Sector and a member of the Management Board of Zagrebačka banka.

Zorislav Vidović

Member of the Management Board of OTP banka Hrvatska d.d.

Zorislav Vidović, member of the Management Board of OTP banka d.d., graduated from the Faculty of Economics at the University of Zagreb, earning a B.S. in Finance, Banking and Insurance. In 1992 he obtained a broker license, after which he also passed the test for a member of a management board of a commercial bank. In the period from 1988 to 1990 he held a job in the Finance Section of the company Kepol Zadar. He joined Dalmatinska banka in 1990. From 1997 to 2002 he held the position of the head of the Treasury Department. He has been a member of the Management Board since 1 April 2002, currently in charge of the Treasury and Finance. He was a member of the Supervisory Boards of the Dalmatinska banka subsidiaries for a number of years.

Balázs Békeffy

Member of the Management Board of OTP banka Hrvatska d.d.

Balázs Békeffy, member of the Management Board of OTP banka d.d., graduated from the Budapest University of Economics, and gained specialised education at professional schools in Moscow and Sweden. He started his career in a subsidiary of the Swiss-based pharmaceutical and research company Novartis Seeds, and afterwards he worked with the audit company PricewaterhouseCoopers, as a consultant at Corporate Finance Services. He joined OTP Bank in March 2003, as a senior project manager in charge of bank acquisitions. In March 2006, he was appointed as director of the Operations Division within OTP banka Hrvatska, and since 2006, he has been the Management Board member responsible for the Bank's operations.

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Izdavač / Editor: OTP banka d.d.
Produkcija / Production: Modacom Plus Hand Studio
Tisak / Press: Kersch Offset d.o.o.

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