ANNUAL REPORT

PODRAVSKA BANKA

'08

general data
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ANNUAL REPORT 2008

Report of the President of the Supervisory Board

On behalf of the Supervisory Board of Podravska banka and myself, I have the pleasure of presenting the annual financial reports for 2008. In 2008, the Bank's operations were carried out in an environment where the Croatian economy grew moderately, and due to the growing global economic crisis slowed down significantly during the last quarter. Despite the difficult and challenging circumstances, Podravska banka succeeded in achieving very good business results and profit to the amount of over twenty million kuna. Over the previous several years, the Bank has made intensive investments in opening new branches and furnishing existing ones, and last year was mostly marked by the consolidation of the commercial network, the activities of adapting to new legislation, internal reorganisation and employment of new qualified professionals with specialist competencies. By sensible risk management, market diversification and improvements in the quality of services, Podravska banka is strengthening its position as the leading medium-sized bank in Croatia. Further strengthening of its market position, internal efficiency improvements and maximizing customer satisfaction are among the Bank's most important strategic objectives for the coming years. In accordance with its statutory obligations, the Supervisory Board permanently controlled the Bank's overall operations in 2008, which was in compliance with statutory regulations, internal regulations and resolutions of the General Assembly. Pursuant to Article 263 paragraph 3 and Article 300(c) of the Company Act, the Supervisory Board, at the meeting on 6 May 2009, approved the report to the General Assembly of Podravska banka d.d. The Supervisory Board has seven members. The members were selected by the Bank's General Assembly's resolution of 16 May 2005 and the Bank's General Assembly's resolution of 3 June 2008. The term of a Supervisory Board member is four years. Mr. Miljan Todorovic was appointed President and Mr. Sigilfredo Montinari was appointed Vice President of the Supervisory Board of Podravska banka d.d. by the resolution of the Supervisory Board of 3 June 2008. In 2008, the Supervisory Board held eleven meetings, where issues related to the Bank's operations were discussed and resolutions under the Supervisory Board's responsibility were passed. Members of the Board of Directors regularly attend the Supervisory Board meetings and report to the Supervisory Board about specific issues within their business domains under their responsibility, and provide it with any necessary and requested information in order for the Supervisory Board to discuss all the items on the agenda in detail and pass the necessary resolutions. In accordance with its obligations, the Supervisory Board has checked and reviewed the Bank's accounts and documents, and established that Podravska banka d.d. is operating in compliance with the law, the Charter and other Bank's regulations and in accordance with the General Assembly's resolutions. The Supervisory Board has reviewed the auditor's reports by Deloitte d.o.o., Zagreb, Radnička cesta 80, who has audited the Bank's financial statements for the year ended 31 December 2008 and accepts the submitted auditor's report. Having reviewed the 2008 Annual Report, submitted by the Bank's Board of Directors, the Supervisory Board established that the annual financial statements of Podravska banka d.d. for the year ended 31 December 2008 were drawn up in accordance with the state in the Bank's accounts and that they exhibit a correct view of the state of Bank's property and operations, and approved them. In accordance with the provision of Article 300 (d) of the Company Law and the provision of Article 27 of the Charter of Podravska banka d.d., the Bank's Supervisory Board and the Board of Directors submit the annual financial statements to the General Assembly for approval. The following form an integral part of the annual financial statements of Podravska banka d.d. for the year ended 31 December 2008:

a) Annual Report of the Board of Directors on the Bank's position,
b) Income Statement,
c) Balance Sheet,
d) Cash Flow Statement,
e) Statement of Changes in Equity,
f) Notes accompanying the Financial Statements,
g) Report on the assignation of own shares,
h) Independent Auditors' Report by Deloitte d.o.o. Company, Zagreb, Radnička cesta 80.

The Supervisory Board has received a motion by the Bank's Board of Directors on the use of profit generated in the year ended 31 December 2008, by which motion it has been established that Podravska banka d.d. in the year that ended 31 December 2008 generated profit to the amount of HRK 20,077,468.66, and the motion is to allocate the profit generated by Podravska banka d.d. to the Bank's reserves. The Supervisory Board agrees with this motion by the Bank's Board of Directors on the use of profit and requests the General Assembly of the Bank to pass a resolution on the use of profit generated in the year ended 31 December 2008, in accordance with the motion after the approval of the financial statements. The management and employees have shown a high level of professionalism and dedicated work, enabling the Bank's plan to be realized in virtually all segments, and justifying our trust. On behalf of the Supervisory Board of Podravska banka, I would like to thank all our clients and shareholders for the trust they have shown in us, to all the employees and the management of the Bank for achieving good business results, and to the Croatian National Bank for their cooperation and advice. I would also like to thank all of my colleagues in the Supervisory Board for their active support and contribution to the Bank's development.

Miljan Todorovic

President of the Supervisory Board

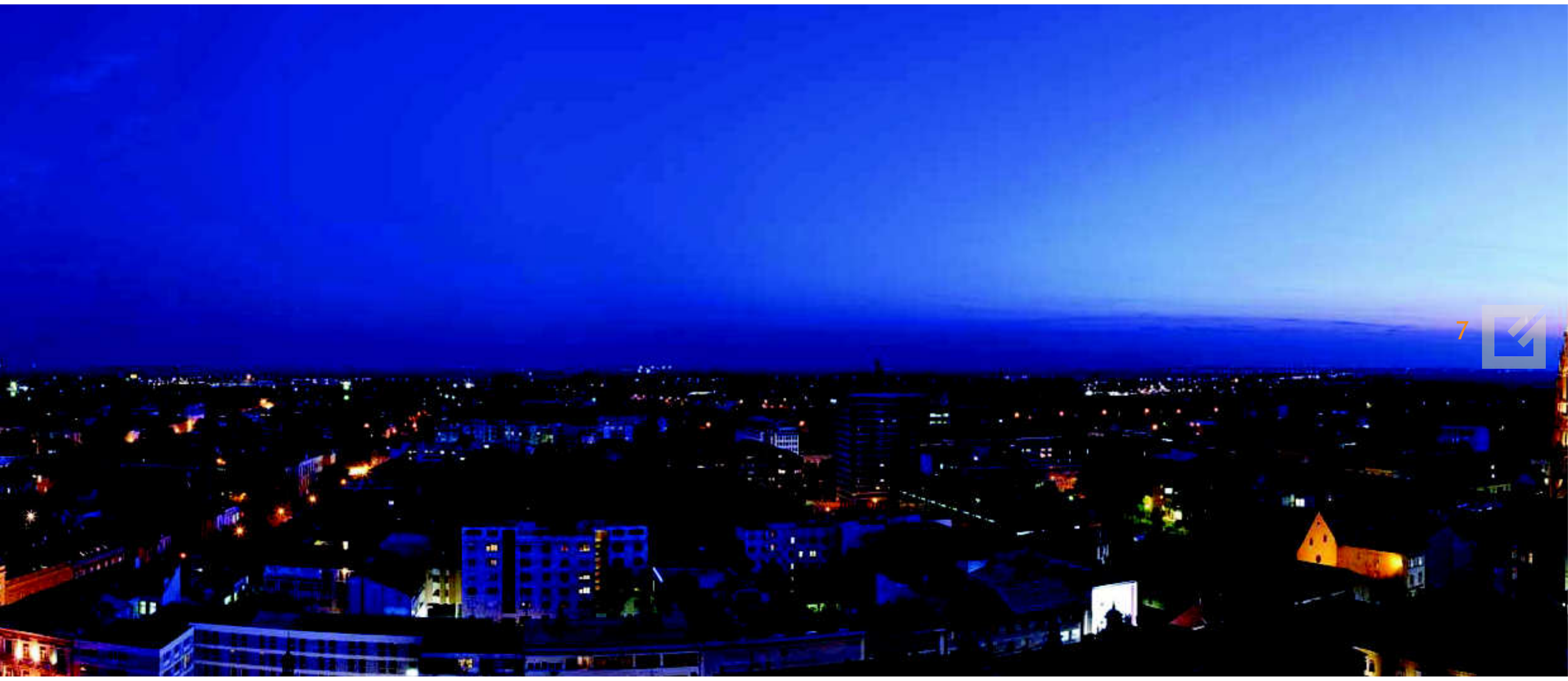
Report of the Board of Directors on the Bank's position

It is my honour and pleasure to present the business results of Podravska banka d.d. for 2008. The past year was very challenging both for the global and Croatian economy, and in particular for the financial sector. The first half of the year was positive, but it was marked by a considerably weaker economic activity compared to the previous year. During the second half of the year, the financial crisis turned into a crisis on a global scale and caused significant deceleration of the global economy. This has proved that, due to the high degree of integration of the globalized markets, no region or group of countries can remain isolated from the negative effects of a financial crisis. Macroeconomic aggregates of the Croatian economy in 2008 indicate at the economic activity slow down, which is considerably highlighted by two key problems that have accumulated over the years: balance-of-payments current account deficit, which is estimated at EUR 4.5 billion or 11% of the gross domestic product (GDP), and foreign debt, which at the end of 2008 reached EUR 39 billion or 94% of the GDP. With regard to the banking system's activities in the newly created conditions, all findings indicate that the stability of the financial system is imperative for the maintenance of a normal economic situation in Croatia and the functioning of the economy in general. This also necessarily implies that exchange rate stability is the key factor for the stability of prices.

Such an economic environment has also reflected on the operations of Podravska banka d.d. Although in 2008 the Bank generated less revenue from regular operations than budgeted, profit before taxation generated at the end of 2008 increased by 27.3% compared to the previous year and amounted to HRK 23.9 million. An extended business network and an increasing number of new clients that put their trust in Podravska banka, resulted in an increase in deposits by natural persons to HRK 1.7 billion or by 8.3% compared to the previous year. The share of client deposits in total Bank resources is as high as 78%. In the deposit structure, deposits by natural persons account for 77% and the funds of legal persons for 23% of total client deposits. A high share of deposits by natural persons avoids the concentration of deposits and ensures stable sources of funding for Bank's operations. A well-designed loan offer, flexibility in the approach to clients and sensible risk management, have ensured the Bank a share of net loans to natural and legal persons in the total Bank's assets to the amount of 54%, as in the previous two years. In applying the conservative policy principle throughout 2008, the Bank ensured a very high primary and secondary liquidity, which enabled unhindered operations of the Bank in all segments. In the circumstances of the intensification of the financial crisis in the last quarter of 2008, Podravska banka was recognized as one of the most liquid banks in the Croatian market. The very high liquidity of the Bank at the end of 2008 is reflected in the credit volume of kuna deposits with domestic banks amounting to over HRK 320.0 million, and foreign currency deposits amounting to over HRK 30.0 million. At the same time, foreign currency deposits with foreign banks amount to over HRK 260.0 million, and total deposits with banks account for 22% of the Bank's total assets. A successfully concluded Bank's capital increase to the amount of HRK 99.2 million and an increase in deposits by natural persons are the best indicators of trust both by shareholders as well as by depositors in Podravska banka. The Bank continues to prove its social responsibility by taking care of the needs of the community it operates in; through numerous sponsorships and donations to various programs and segments of general interest, such as health, culture, sports and various humanitarian projects. On behalf of the Bank's Board of Directors, I would like to thank our shareholders for their support, and all our clients and business partners for their trust and cooperation, which oblige us to continue improving the quality of our services. I would like to thank all the employees for their effort invested in the achievement of results. Also, I would like to thank the Croatian National Bank for their professional assistance and advice, as well as the members of the Supervisory Board for their exceptional cooperation and support.

mr. Julio Kuruc

Chairman of the Board of Directors



1. Overview of the Croatian economy in 2008

In 2008 growth in real annual GDP amounted to 2.4%. The first half of 2008 still recorded a relatively high growth rate of 3.8%, despite the already present signs of a global financial crisis developing. In the third quarter, economic growth decelerated so that the growth rate was 1.6%, while the last quarter of 2008 recorded the lowest real growth of only 0.2% compared to the same period in 2007. The drop in household spending had the most significant impact on the deceleration of GDP growth in 2008. Real growth of expenditure for household spending was merely 0.8% (in 2007, it was 6.2%). Real growth of expenditure for government spending was 1.9% (in 2007 it was 3.4%).

Total industrial production in 2008 was up by merely 1.6%, which is a decrease in growth by 3.9 percentage points compared to 2007. Despite the decrease in current production, finished goods inventories in industry continued growing, and increased by 10.6% compared to 2007.
The real growth rate of retail sales recorded a fall of 0.5%. Exports of goods and services increased by 1.7%, while imports of goods and services really increased by 3.6%. Total Croatian commodity exports in 2008 amounted to HRK 69.1 billion (USD 14.1 billion). At the same time, imports amounted to HRK 150.3 billion (USD 30.7 billion). Foreign trade deficit amounted to HRK 81.2 billion (USD 16.6 billion). Due to a faster growth of imports than exports, the indicator of the coverage of imports by exports deteriorated, declining from 47.8% in the previous year to 45.9%. Prices of commodities and services used for personal consumption, measured by the consumer price index at annual level were up by 6.1%, while producer prices for industrial products were up by 8.4%. Inflationary pressures caused by the growth of prices of oil and food started to ease during the second half of 2008 and the inflation rate at the end of 2008 dropped to 2.9 %, being the lowest level in that year. Registered unemployment rate at the end of 2008 was 13.7%. At the end of 2008, the total employed population was 1,518,973. In 2008, the number of unemployed was lower by 14,029 or down by 5.5% compared to 2007.

During 2008, total Croatian foreign debt increased by EUR 2.8 billion, and amounted to EUR 39.0 billion at year end. In comparison to the previous year its growth accelerated from 12.5% to 17.4%. Foreign debt growth, whose level at the end of 2008 reached about 93% of the GDP, and a moderate decrease in foreign exchange reserves of the total monetary system, resulted in an increase in total net foreign debt and the worsening of indicators of external solvency and liquidity.

The measure of the Croatian National Bank to restrict the permitted credit growth of 12% per year (1% per month) remained in force throughout 2008.
Throughout the year monetary policy acted restrictively, which led to an additional deceleration in the growth of monetary and credit aggregates by the end of 2008. The banks' total credit volume by the end of 2008 amounted to HRK 232.98 billion, recording a growth of HRK 22.15 billion compared to the previous year. Credit volume growth decelerated in 2008 and amounted to 10.5%. If the foreign exchange effect is excluded, this rate is approximately two percentage points lower, so the credit volume growth in 2008 was almost twice as slow compared to the previous year. A slower growth of credit volume for the private sector is the consequence of the deceleration of growth in loans granted to natural persons. The annual growth rate of loans granted to this sector at the end of 2008 was 12.1% and it was almost 6 percentage points lower compared to the previous year. In terms of structure, the growth of housing and general purpose loans decelerated the most.

Opposite trends were recorded in loans granted to companies. Total loans to companies at the end of 2008 amounted to HRK 96.8 billion. In 2008, their growth slightly accelerated, and at the end of the year it amounted to 12.3%. Intensified demand for loans from domestic banks by companies was the consequence of more difficult access to capital in foreign markets.
At the end of 2008, total bank deposits amounted to HRK 205.44 billion. In comparison to the end of 2007, total bank deposits increased by HRK 6.83 billion, or by 3.4%.

At the end of 2008, kuna deposits amounted to HRK 50.1 billion, or down by 6.7%, i.e. primarily due to a strong decline in kuna deposits by companies and deposits of other financial institutions. At the same time, a moderate growth of 8.4% was recorded in kuna deposits by natural persons. Foreign currency deposits at the end of 2008 amounted to HRK 117.2, which represented an increase in comparison to the previous year by HRK 14.1 billion, or 13.7%, which interrupted the trend of deceleration of growth rates of foreign currency deposits. The highest share of growth of foreign currency deposits in banks refers to foreign currency time deposits by the general public. In 2008 there were strong inflationary pressures caused by the increase in prices of imported commodities, eased by the Croatian National Bank by allowing the strengthening of the kuna against the euro as well as the depreciation of the value of the US dollar against the euro.

The average kuna/euro exchange rate was lower by 1.5% and amounted to HRK 7.22 for a euro, while the minimum level of the exchange rate in 2008 was HRK 7.10 for a euro. The problems in the American financial sector reflected on a decline in the value of the US dollar against the euro, which had as a consequence the appreciation of the kuna against the US dollar by 8% at annual levels, with a fall in the exchange rate to HRK 4.93 for a US dollar. The beginning of this year was marked by the weakening of the kuna which is the consequence of the decreased inflow from abroad (from commodities exports, direct foreign investments, new borrowings and tourism).

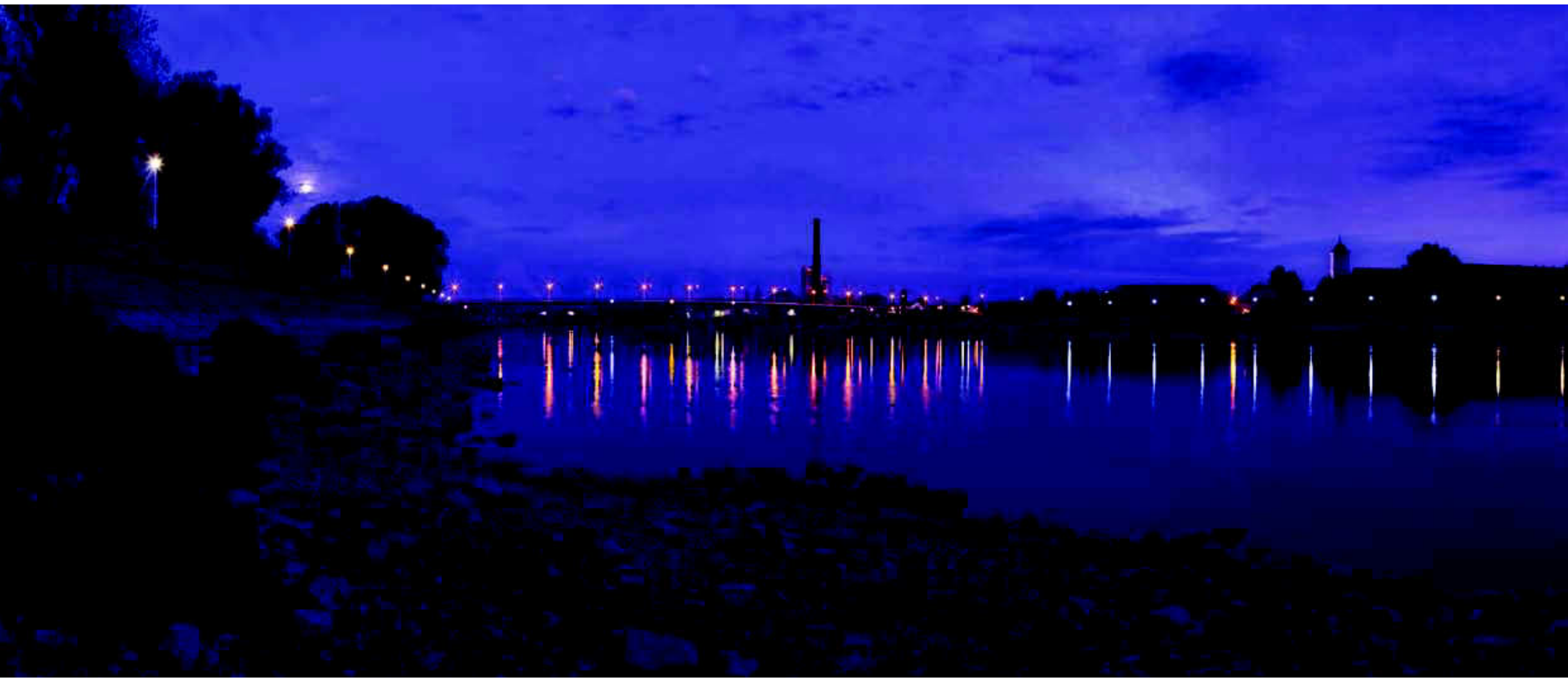
Negative trends on almost all financial markets worldwide, caused by the huge losses of some of the largest global financial institutions, also had a significant impact on unfavourable trends in the Croatian capital market which marked the whole of 2008. Stock trade in 2008 was down by 23.5% than the year before, and prices of almost all stocks fell between 40 and 90%. Regular annual trade exceeded HRK 17 billion, which was less than in the record 2007, but also much more than in 2006. Regardless of lower trading the market was significantly more active than in 2007 and 50% more individual transactions were concluded. The CROBEX Stock Exchange index was down by 67% at annual levels. MOL's acquisition of an additional 22.2% of INA's shares in October represents the most important event at the Zagreb Stock Exchange in 2008.
With the aim of boosting foreign exchange and kuna liquidity, in October 2008, the Croatian National Bank lifted the marginal reserve requirement for banks' foreign borrowing, and in December, the Croatian National Bank reduced the statutory reserves rate from 17% to 14%, which resulted in an increase in the liquidity of the banking sector by over EUR 1.5 billion.

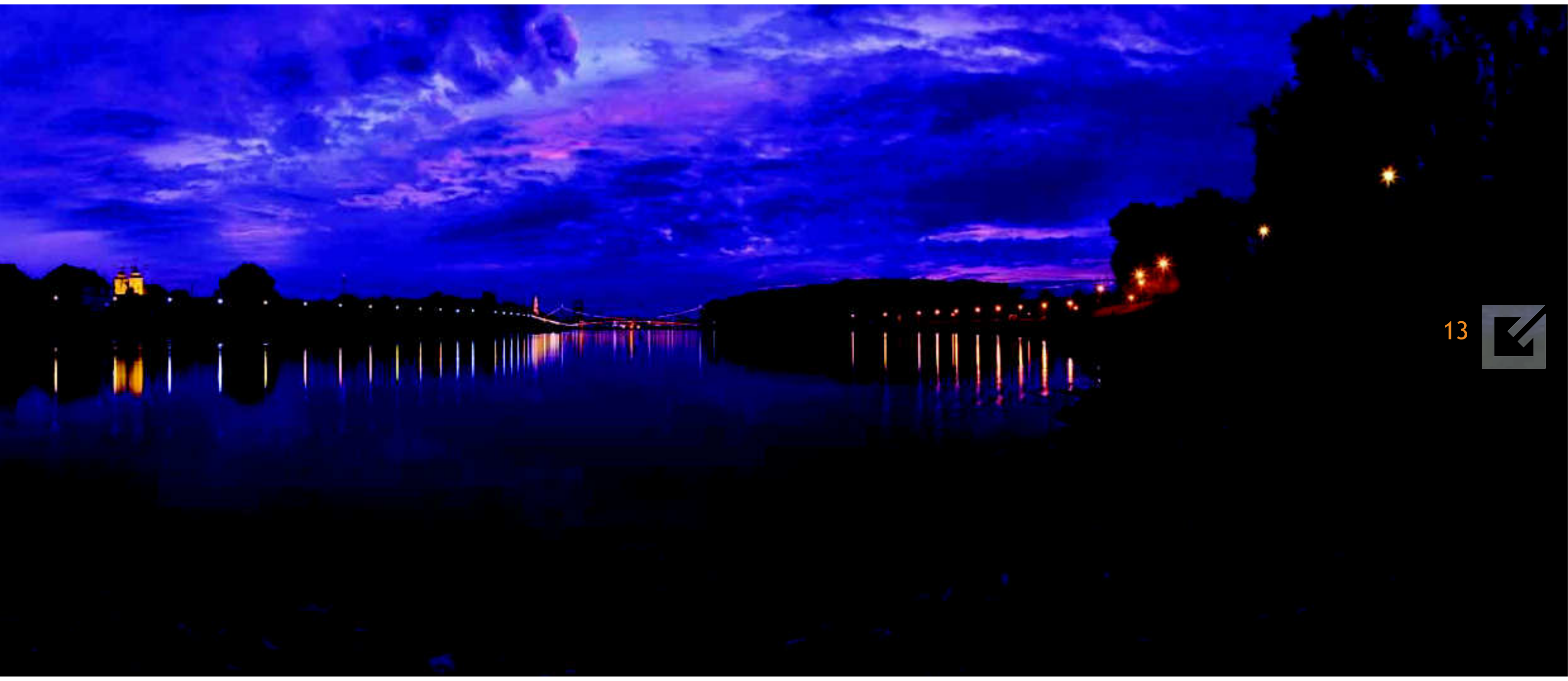
The banking sector substituted the reduced availability of foreign finance sources by obtaining domestic deposits at higher interest rates, which had higher interest rates on loans as a consequence.

The following macroeconomic indicators were achieved in 2008:

	Value
Gross domestic product, growth rate, % in change compared to previous year	2.4
Industrial production, growth rate, % in change compared to previous year	1.6
Consumer prices, % in change compared to previous year	6.1
Production prices, % in change compared to previous year	8.4
Foreign trade balance (USD billion)	-16.62
Commodity exports, USD billion	14.1
Commodity imports, USD billion	30.7
Croatian foreign debt, USD billion	39.04
Average net pay in kunas	5,178
Unemployment rate, %	13.7
Number of unemployed, Croatian Employment Office	240,455
HRK/USD exchange rate, average	4.93
HRK/EUR, exchange rate, average	7.22

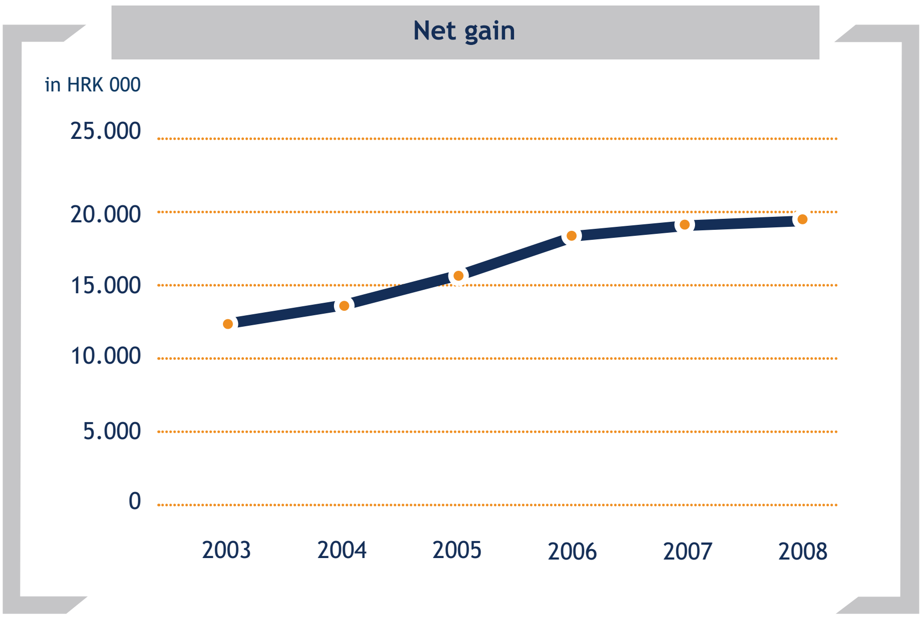
Source: Central Bureau of Statistics, Croatian National Bank, Ministry of Finance

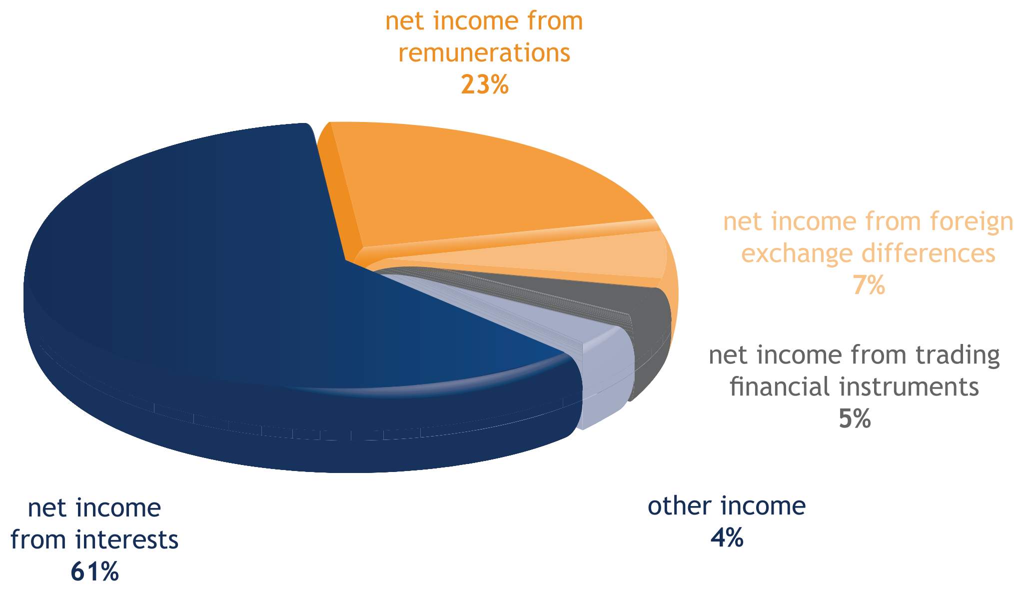




2. Description of Bank's operations

In 2008, Podravska banka confirmed its position as the leading medium-sized bank in Croatia offering a comprehensive and high quality financial service. The Bank holds a 10th – place ranking in terms of assets, among the 33 banks in Croatia (as to banking groups). Podravska banka is a modern and dynamic financial institution of a universal type, targeting mostly segments of natural persons, craftsmen, and small and medium-sized entrepreneurs. At the end of 2008, Podravska banka was operating with over 150,000 clients. At the end of 2008, the Bank's operations were conducted through a network of 36 branches (by the number of branches the Bank holds a 9th - place ranking in Croatia) and other distribution channels (46 ATM machines, thirteen 24-hour vaults and 800 EFT POS terminals). At the end of 2008, total Bank's assets amounted to HRK 2.78 billion, having decreased by HRK 20.2 million or 0.7% compared to the end of 2007. Total deposits amounted to HRK 2.17 billion and were down by HRK 161 million or 6.9% when compared to the previous year. At the same time, the Bank's credit portfolio amounted to HRK 1.51 billion at the end of 2008, and was down by HRK 69 million or 4.4% when compared to the end of 2007. The share of net loans in the Bank's assets is 54%, while in the previous year the share of net loans in assets amounted to 56%. After a successful capital increase in 2008, the Bank's stock capital increased from HRK 168.3 to HRK 267.5 million, or by 59%. Capital adequacy rate amounted to 14.5% at the end of 2008, while it was 11.1% by the end of 2007. Bank's regular operation income amounted to HRK 154 million, and in the structure of operational income net receipts from interest account had a share of 61.4% (in 2007 it was 60.8%), net income from fees and commissions 22.7% (in 2007 it was 24.5%), and net profit from net gain from trading foreign currency and other income 15.9% (in 2007 it was 14.1%). Profit before taxation rose by 27.3% compared to the previous year and amounted to HRK 23.9 million, while net gain amounted to HRK 20.1 million, or up by 3.4 % compared to the previous year.





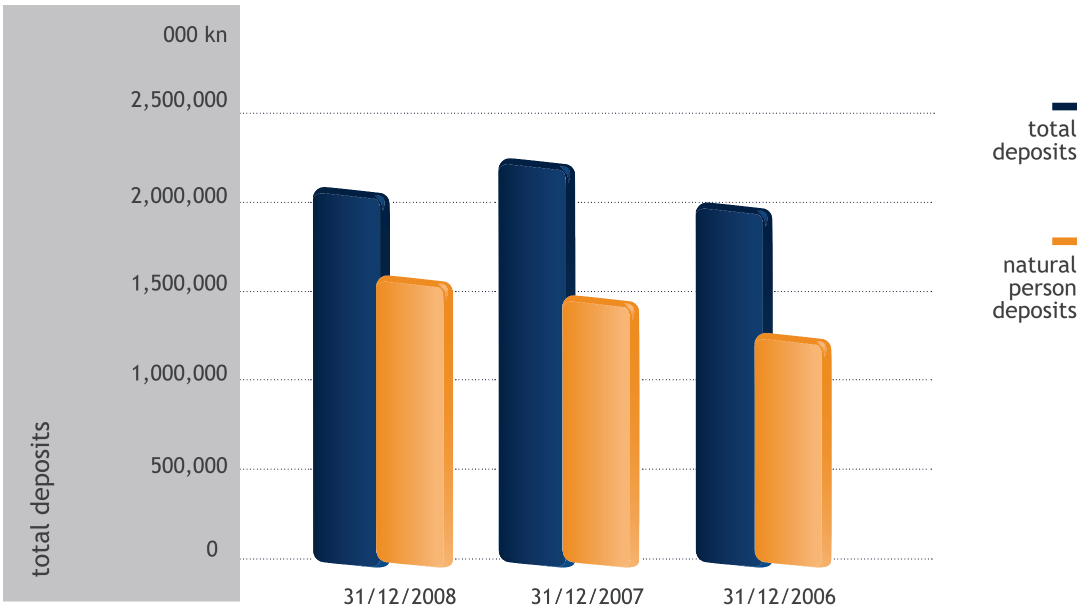
Structure of net operational income as at 31 December 2008

The continuation of the application of monetary measures by the Croatian National Bank targeted at restricting credit growth did not have any important impact on the growth of credit value of Podravska banka. By the end of 2008, the Croatian National Bank completely lifted the marginal obligatory reserve requirement (targeted at restricting foreign borrowing), and it also reduced the rate of obligatory reserve to 14% in November 2008. Despite the global economic crisis, the Bank had high liquidity in 2008, and it appeared as a creditor in the interbank market. Regarding investment banking, Podravska banka provides institutional and individual clients with a wide range of products and services in the capital market (security custody services and security trade services on the domestic capital market as well as on the capital market of Montenegro). The Bank was also active in bank insurance and, together with its partner insurance companies, developed a range of synergy products sold through its business network. The sale of the accident insurance packages (created especially for Bank's current account clients) rose by 21%. The MaestroSHOP service, which enables clients to pay by Maestro debit card by instalments or deferred payment, was extremely welcomed by clients. Consequently, there has been a steady growth in the number of transactions, turnover volume on EFT POS terminals as well as commission revenue.

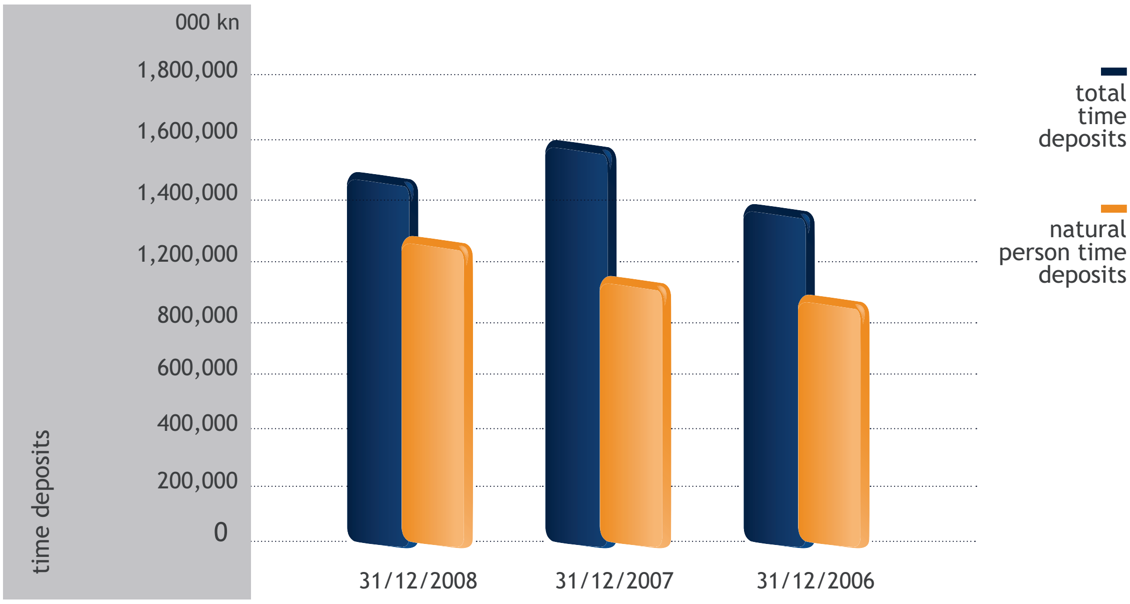
DEPOSITS

Total deposits amounted to HRK 2.17 billion, which represents a decrease of HRK 161 million or 6.9% compared to the previous year. The decrease in the deposits by business entities by HRK 288 million had the biggest impact on the decrease in total deposits. Growth was recorded in deposits by natural persons, primarily time deposits by natural persons, which increased by HRK 128 million or 10.6% compared to the end of 2007. The growth of deposits by natural persons is the result of the expanded business network, and an increase in the number of new clients that have put their trust in Podravska banka. The structure of deposits changed compared to 2007, so that natural person deposits accounted for 77% (in 2007 this share was 66%), whereas legal entities' funds accounted for 23% of total client deposits. By having a major share of natural person deposits in total client deposits, the Bank avoids deposit concentration and ensures stable resources for Bank's operations. In the time structure of total deposits, time client deposits account for 72%. In currency structure, kuna deposits account for 51%, while foreign currency (mostly euro) clause deposits account for 49%. Time deposits by natural persons recorded a significant growth of 14.8%. Client deposits account for 78% of total resources. Due to the current economic situation, in October 2008 the amount of insured deposits with the State Agency for Deposit Insurance and Bank Rehabilitation was raised from HRK 100,000.00 to HRK 400,000.00.

Total deposits - amounts in 000 kuna				CHANGES	
	31/12/2008	**31/12/2007**	**31/12/2006**	**2008/07**	**2007/06**
Natural persons	1,666,649	1,538,665	1,312,911	8.3%	17.2%
Total deposits	**2,169,842**	**2,330,645**	**2,045,612**	**-6.9%**	**13.9%**



Time deposits - amounts in 000 kuna				CHANGES	
	31/12/2008	**31/12/2007**	**31/12/2006**	**2008/07**	**2007/06**
Natural persons	1,323,781	1,168,171	991,739	10.6%	17.8%
Total time deposits	**1,556,245**	**1,643,213**	**1,412,759**	**-5.3%**	**16.3%**



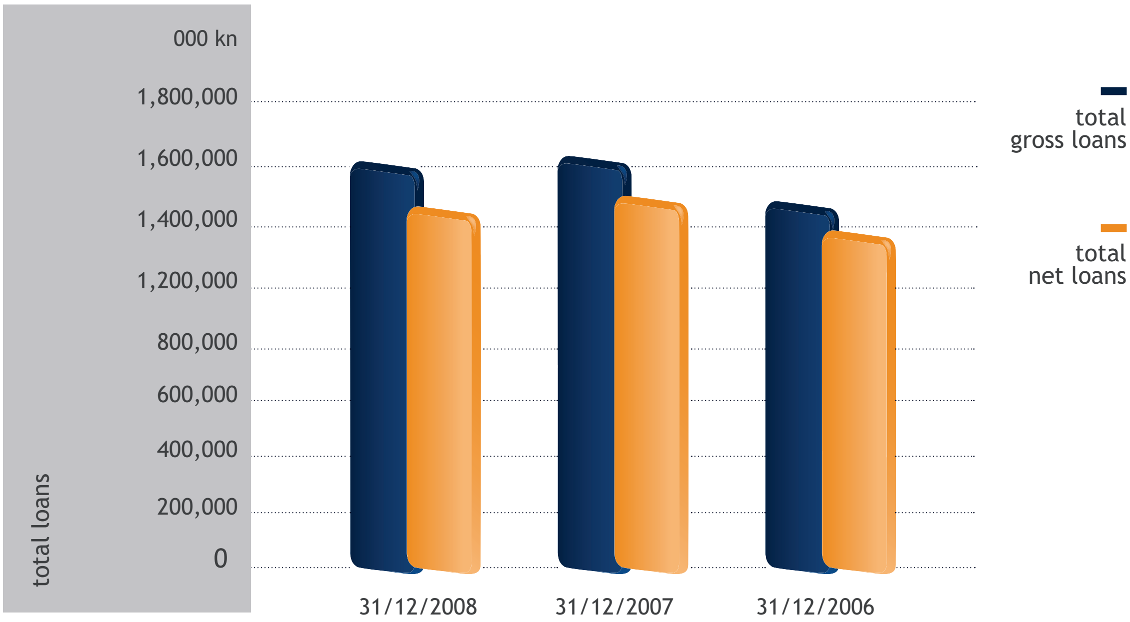
CREDIT VOLUME

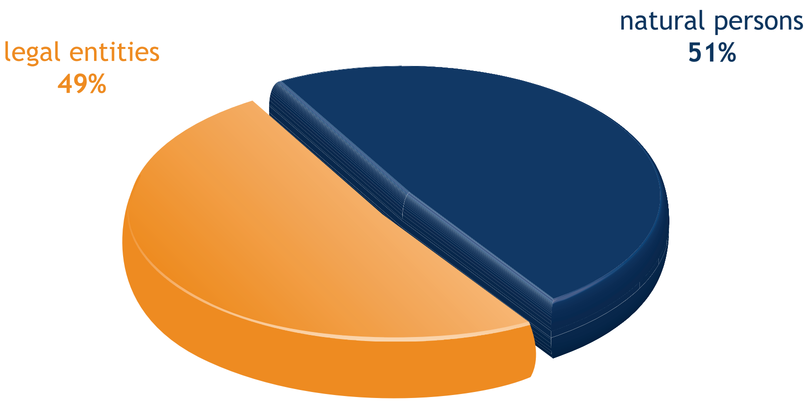
The Bank's strategic orientation is to provide loans to the general public, craftsmen, and small and medium-sized enterprises, which ensures a satisfactory level of credit risk dispersion.
As in previous years, the credit activity of Podravska banka continued to be mostly oriented to the general public, in particular to general purpose loans (cash loans, loans for partial financing, and other loans).

Gross loans to clients in 2008 amounted to HRK 1.63 billion, where loans to legal entities grew by 23.0%, while loans to natural persons recorded a decline of 20%. Loans to financial institutions increased by HRK 145 million, and at the end of 2008 amounted to HRK 327.7 million. Loans to natural persons accounted for 51% in the structure of total loans to clients. The share of net loans to natural persons and legal entities in the Bank's total assets was 54%, as in the previous two years. The Bank pays a lot of attention to cooperation with business entities, providing them with a complete banking and financial service, as well as short and long-term loans. Special attention is paid to credit safety in order to neutralize the risk from depreciation of the credit portfolio value.

Loans - in 000 kuna				CHANGES	
	2008	2007	2006	2008/07	2007/06
Total gross loans	**1,634,792**	**1,694,458**	**1,530,157**	**-3.5%**	**10.7%**
Total loan reserves	**127,411**	**117,947**	**124,626**	**8.0%**	**-5.6%**
Total net loans	**1,507,381**	**1,576,511**	**1,405,531**	**-4.4%**	**12.2%**

The structure of the credit portfolio by activity segments changed slightly compared to the previous period. The share of trade is larger and amounts to about 16.8%, as well as the share of processing industries, which amounts to 6.8%, whereas the share of other separate activities is below 5%. In 2008, the Bank continued its cooperation with the Ministry of Economy, Labour and Entrepreneurship, as well as the units of local government and self-government. Credits were provided to development programs of small and medium-sized enterprises and agricultural holdings. The Bank thus contributes to the development of economic activities of small and medium-sized enterprises operating in production and services, which resulted in a significant increase in the number of clients using the complete financial services offered by the Bank. The Bank has a long-standing and successful cooperation with the Croatian Bank for Reconstruction and Development (HBOR) in ten specialized crediting programs. In offering very favourable loan conditions, the Bank provides its clients with finance sources for entrepreneurial projects, exports of commodities and services, self-employment and financial restructuring.





Structure of total gross loans as at 31/12/2008

BUSINESS NETWORK AND DISTRIBUTION CHANNELS

At the end of 2008, the Bank had a total of 36 branches. According to the size of its business network Podravska banka ranked 9th in the Croatian banking market. Besides the expanded business network, the Bank is also accessible to its clients through other distribution channels – ATM machines, 24-hour vaults and EFT POS terminals. All ATM machines were upgraded with chip technology protecting the users from misuse and skimming.

At the end of 2008, the Bank had 80 EFT POS terminals installed. Total EFT POS terminal turnover increased by 11%. In 2008 the number of transactions on the Bank's EFT POS terminals grew by 18% compared to 2007. Income from EFT POS terminal turnover increased by 10%. Income from the MaestroSHOP service (which enables clients to pay by instalments or deferred payment using the Bank's Maestro card on the Bank's EFT POS terminals), increased by 90%.

The number of internet banking users (POBAklik services) and POBAsms services increased by 12%. The number of orders executed through POBAklik-internet banking in 2008 increased by 16% compared to the previous year. The users of Podravska banka services can receive business information through the Info Center, which is constantly recording a growing number of calls. Special attention is paid to managing the business network, as well as to upgrading and equipping the branches in order to provide the best possible quality service to clients.

Podravska banka will continue its commitment of being easily accessible to its clients – whether through its branches, the Internet, ATM machines or the telephone. In 2008, preparations were begun for the opening of new business premises in Zagreb – Nova galerija. In addition to a new branch for clients, other organisational units providing services to clients will also be located at the same location – Treasury front with investment banking services, as well as part of the Bank's central services – support, risk management and internal audit.

NEW PRODUCTS AND SERVICES

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

In 2008, the Bank expanded its standard deposit products offer with a number of campaigns aiming at stimulating time deposits by natural persons.

The offer of cash loans to the general public was expanded by new loan products designed for target user groups. The offered conditions aimed at meeting the expectations of the existing clients and attracting new clients at the same time ensuring the minimisation of the risk and increasing the credit volume safety.

With the objective to strengthen card operations, Podravska banka offered a bonus to cash loan beneficiaries in the form of a MasterCard credit card with no sign-up fee and free membership for the first 12 months.

The MaestroSHOP service, which enables clients to pay by Maestro debit card by instalments or deferred payment, was extremely welcomed by clients. Consequently, there has been a steady growth in the number of transactions, turnover volume on EFT POS terminals as well as commission revenue.

The Bank follows business entities primarily by short-term loans for the financing of production and ensuring liquidity to the collection of their outstanding debts, and for long-term investments predominantly through participation in programs supported by the regional administration and in cooperation with HBOR.

In 2008, a special offer of products and services was created, which was designed for entities in the area of agriculture.

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

ORGANISATION AND STAFF

As at 31 December 2008, Podravska banka had 326 employees. 65% of the total number of employees works directly with clients ("front office"). The average age of the Bank's employees is 39.Business development also had to be followed by the appropriate organisational structure. The Bank thus introduced some organisational changes aimed at increasing efficiency and optimal utilisation of technical and human resources.

Continuing education and professional development of employees are the Bank's primary objectives. In 2008, employees spent 860 working days on in-house and external training courses in different areas of importance for the Bank's operations. At the same time, the Bank employs young professionals, whose engagement will contribute new quality to the Bank's development. Given that human resources represent the main competitive advantage, Podravska banka pays special attention to employee motivation and rewarding, and to developing their competencies. At the end of 2008, a Collective Agreement was concluded in the Bank for the first time.

INVESTMENT BANKING OPERATIONS

After 2007, the year in which the Croatian capital market experienced significant growth in turnover, in the number of participants and other indicators, 2008 was a difficult year of uncertainty for all participants in the capital market.
Regular stock trading at the Zagreb Stock Exchange totalled HRK 16.8 billion, which represents a decline of almost one quarter compared to the record 2007. Prices of almost all shares fell significantly (40-90%). Nevertheless, the market was quite active so that almost 50% more individual transactions were concluded than in the previous year but, of course, of smaller individual amounts.

Although prices and the share index rose in December, at year end the CROBEX index had only 1722 points, which was a decrease of 67% compared to the previous year. In spite of the difficult year for all capital market participants, only a slight decrease in transactions was recorded in the investment banking operations, and clients issued a total of 26642 purchase/sales orders. However, the Zagreb Stock Exchange trading system turnover totalled HRK 638,820,710.04, which represents a share in the total Stock Exchange turnover of 1.65%.

As a member of the Stock Exchange, Podravska banka ranked 17th among the 46 members of authorized companies in terms of total turnover, which is a better result compared to 2007, when the share of Podravska banka in the Stock Exchange trading was 1.17%, or 25th place ranking by actual turnover. The Bank reduced regular brokerage fees on average by 20%, and in spite of this, the Bank generated net income from fees almost at the level of the record 2007. The Bank also offered its clients mediation services in trading in the market of Montenegro, where actual turnover was EUR 4.0 million.

A significant decline in the value of assets on custody accounts was recorded in security custody operations, primarily as a consequence of a significant decrease in the credit volume of margin and collateral loans based on pledge of securities on custody accounts, but also of the fall of prices of securities on the domestic and Montenegrin market. The value of assets on custody constantly declined during 2008, so that as at 31 December 2008 the Bank was in custody of a portfolio of securities worth HRK 141 million.

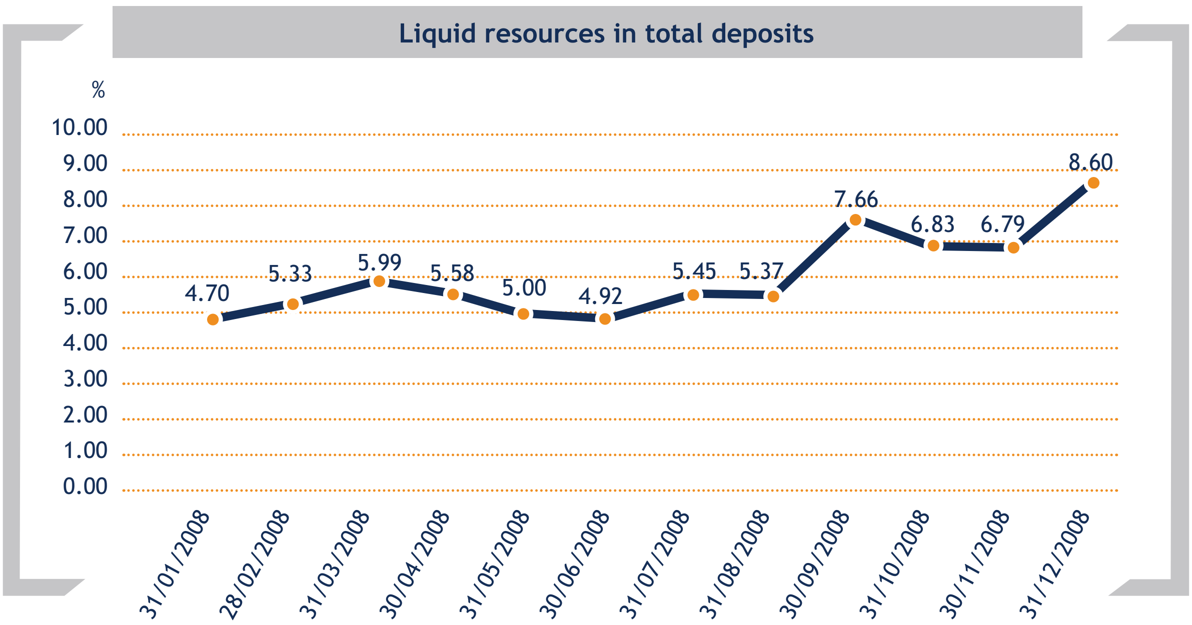
TREASURY OPERATIONS

The year 2008 was marked by a restrictive monetary policy of the Croatian National Bank with the restriction of credit activity to 12% annually, the global financial crisis which had a significant impact on the Croatian banking market in the last quarter, a high volatility of the exchange rate and of the short-term interbank interest rates and the beginning of the liquidity crisis of the whole system. By applying the conservative policy principle, the Treasury Sector ensured a very high primary and secondary liquidity of the Bank throughout 2008, which enabled the Bank's operations to go unhindered in all segments. Also, with the breakout of the financial crisis in the last quarter of 2008, the Bank was recognized as one of the most liquid banks in the Croatian market.

Furthermore, the Treasury Sector successfully met all statutory regulations of the Croatian National Bank and the Bank's internal regulations. The Bank optimized its exposure to currency risk and interest rate change risk, and adequately managed time and foreign currency balance structure of its assets and liabilities. Throughout 2008, the Bank mostly appeared as the lender of cash on the domestic and international cash market, as noted as at 31 December 2008 through the growth of interest income from financial institutions by 17.37% compared to the same date of the previous year. The Bank's exceptional liquidity was noted as at 31 December 2008 where the level of kuna deposits placed with domestic banks amounted to HRK 324 million and the level of foreign currency deposits placed with foreign banks amounted to HRK 264.4 million.

Total placed deposits with banks accounted for 22% of the total Bank's assets. The average euro/kuna exchange rate during 2008 recorded significant and great oscillations. It was particularly conspicuous in the second half of the year when a considerable appreciation pressure on the kuna started at the beginning of August, which lasted until the beginning of October when the lowest exchange rate in 2008 was recorded at the level of 7.1054. The beginning of October saw the start of significant volatility in the euro/kuna exchange rate, i.e. in the first half of the month the kuna depreciation trend, while in the second half of the month the pressure on the appreciation of the kuna. In December, a sharp growth of the exchange rate was recorded, where the highest level in 2008 was recorded precisely on 31 December 2008 at the level of 7.3749, which is the leader of the trend for 2009 taking into account the general macroeconomic situation.

The USD/HRK exchange rate also recorded significant volatility during 2008, i.e. in particular in the second half of the year when the exchange rate started growing at the beginning of August, which lasted through the end of October, when the highest exchange rate value in 2008 was recorded at the level of 5.7645. In December, the growth from August and September was almost neutralized so that the decline of the EUR/USD exchange rate on 17 December 2008 stopped at the level of 4.9965, which was also the consequence of the growth of the EUR/USD exchange rate in December, which had a direct impact on the USD/HRK exchange rate. The Treasury completely met the clients' needs for foreign cash and currency and maintained an optimal foreign exchange position for the Bank. Net exchange rate differentials receipts amounted to HRK 10.7 million.



PAYMENT TRANSACTIONS

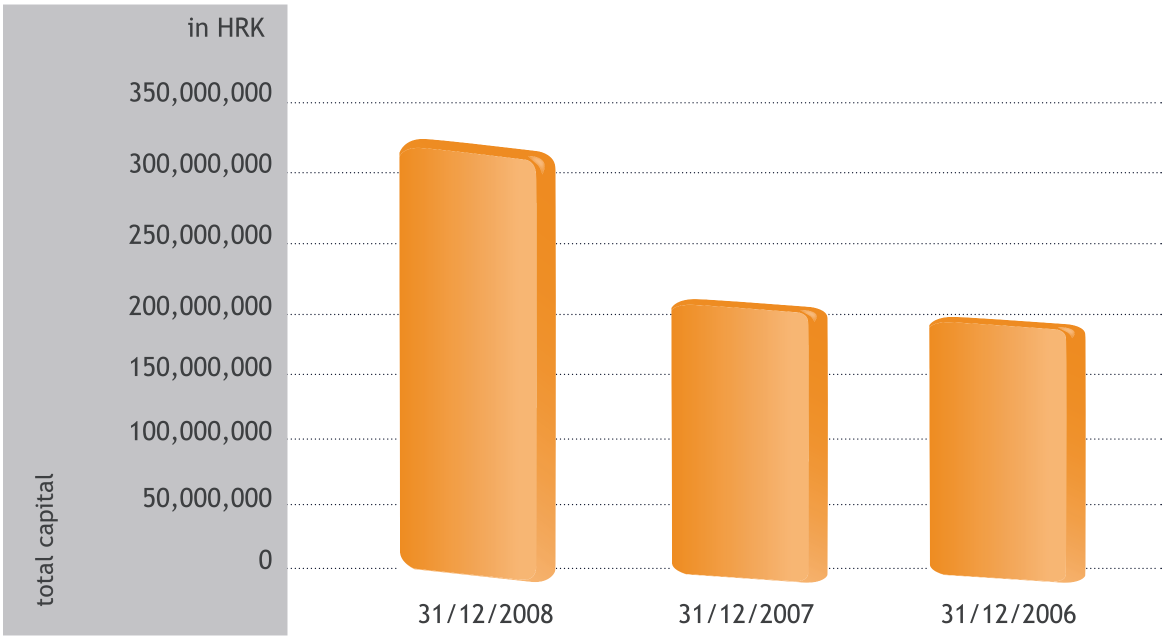
The main characteristic of the Bank's clients' payment transactions carried out in 2008 is the maintenance of the level of the payment transactions value from the previous year and an increase in the number of transactions carried out. The largest increase in the value and volume is recorded by the Bank's internet banking. Thus the users of the Bank's POBAklik services increased a total value of the kuna and cross-border payment transactions on business accounts by 15% compared to the previous year. The number of opened transaction accounts by legal entities rose by 4% compared to 2007.

The Bank is continually working on raising the quality of the payment transaction service, and considering the current economic environment, the Bank pays a lot of attention to reducing the cost of this service.In 2008, the Bank was recognized as a reliable partner, and it further improved its existing cooperation with business and established new correspondent relations with international financial institutions.

CAPITAL

The Bank's capital without profit generated in 2008 amounted to HRK 330.3 million. Compared to the previous year, the capital increased by 44.7% based on the capital increase carried out and profit from 2007 deployed in the Bank's reserves. This increased the Bank's regulatory capital from HRK 237.0 million at the end of 2007 to HRK 332.0 million at the end of the previous year, which resulted in an increase of adequacy of the Bank's capital from 11.1% to 14.5%.

As at 31 December 2008, the nominal value of shareholders' equity amounted to HRK 267.5 million. Shareholders' equity comprises 668,749 ordinary registered shares with a nominal value of HRK 400.00 each. According to the ownership structure, foreign nationals account for 85.68% of owner's equity, whereas the remaining capital is owned by domestic legal and natural persons.

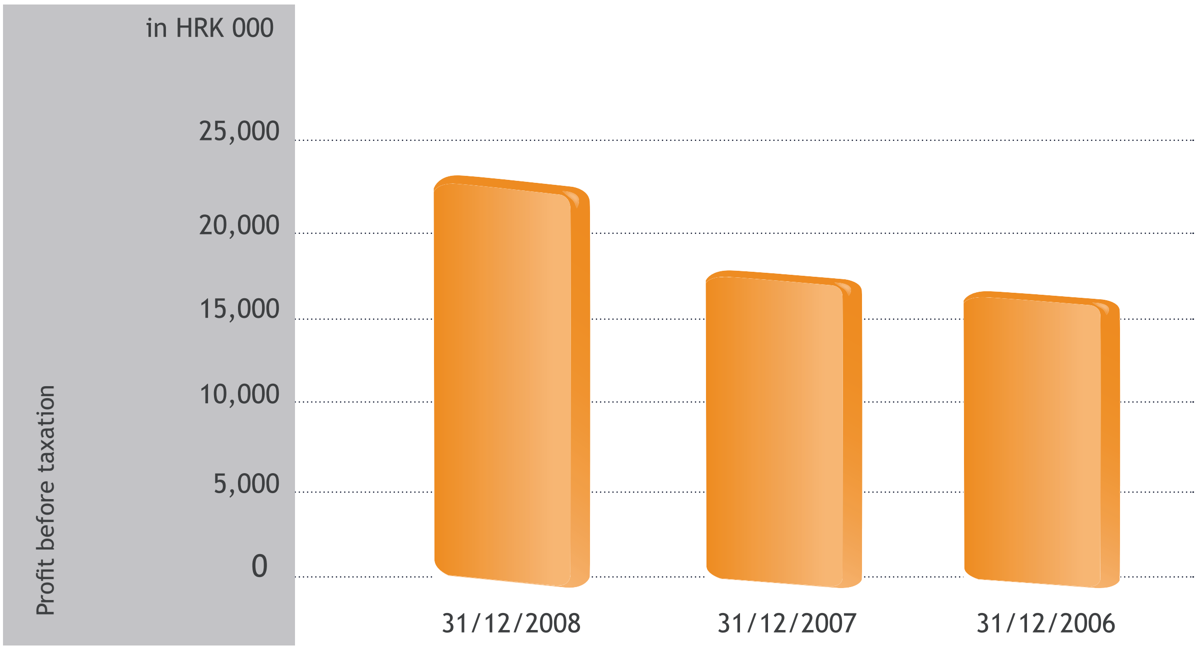


PROFIT AND LOSS ACCOUNT

In 2008, the Bank's net profit amounted to HRK 20.1 million, which is an increase of 3.4% compared to the previous year. Profit before taxation increased by 27.3% to HRK 23.9 million. Income from regular operations amounted to HRK 154 million. Interest income increased by 3.6% to HRK 180 million due to stable growth and adequate management of the credit portfolio.
Net remuneration receipts amounted to HRK 34.8 million, and were slightly higher compared to the same period last year. Net interest income accounted for 62% of regular operations income, while the share of remuneration receipts accounted for 22.7% of actual income.

Regular operation expenditure, including depreciation, amounted to HRK 129.6 million, having decreased by 5.4%. Decreased expenditure resulted from lower costs for impairment allowances and provisions.

The evaluation of credit risks and the formation of reserves for risky loans and potential liabilities are based on the application of the conservative policy principle and the implementation of applicable regulations, so that on this basis the Bank allocated HRK 7.6 million for impairment allowances and provisions in 2008.



PROFIT USE

The Board of Directors and the Supervisory Board of the Bank request the General Assembly that the total profit realized in 2007 be used for Bank reserves.

FUTURE OPERATIONS

The 2009 business plan is based on strengthening market recognition and the position of the Bank, optimizing the business network, active monitoring of the financial market and modern technologies, increasing profitability and internal efficiency. The macroeconomic situation, restrictive monetary policy, aligning with the new regulations in the framework of harmonisation with EU regulations, and growingly fierce competition in the banking market will have an impact on the Bank's future operations.

Intensive development of quality and competitive products and services, and maximizing client satisfaction are among the most important objectives of the Bank for 2009. It will be achieved by following market trends, investing in IT, training and motivating staff.

In 2009, further strengthening of the Bank in the Croatian financial market is envisaged through targeted promotional campaigns, optimisation and consolidation of the existing capacities of the business network, i.e. by opening a new affiliate in Zagreb (Špansko – Nova galerija) which will also house part of the Bank's central services, staff education, and in particular professional training of employees who are in contact with clients.

Efforts will also be made on the reorganisation and development of the Treasury as the Bank's profit unit, in order to offer a broader and high quality service to institutional and corporate clients, Money Market, Foreign Exchange, Fixed Income, Equity and Sales desks with a direct contact of the clients with the Treasury. For this purpose, modern IT support will be purchased, which will ensure adequate management of the Bank's liquidity and data for the management of market risks and liquidity risk.

Furthermore, the Bank will pay maximum attention to the monitoring and introducing all state-of-the-art technologies, and upgrading and improving IT applications, to fully meet the needs of the clients and to ensure a higher degree of security of the IT system.

3.] Financial statements for the year ended 31 December 2008 together with Independent Auditor's Report

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law (Official Gazette No. 109/07) and the Croatian Banking Law (Official Gazette Nos. 84/02 and 141/06), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with applicable laws and regulatory requirements that provide a true and fair view of the financial position, performance, changes in equity and cash flows of Podravska Banka d.d. for that period.

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

Board include ensuring that:

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

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

Signed on behalf of the Management Board:

Mr. Julio Kuruc	Marijan Marušić	Davorka Jakir
President of the Board	Member of the Board	Member of the Board

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravska Banka d.d.:

We have audited the financial statements of Podravska banka d.d ("the Bank") which comprise the balance sheet as at 31 December 2008, and the related income statement, statements of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank as at 31 December 2007 were audited by another auditor, whose report dated 23 April 2008 expressed a qualified opinion with respect to the overstated net profit for the year and the understated assets and retained earnings as a result of not recognised deferred tax assets arising from unused tax losses.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements on pages 4 to 68, present fairly, in all material respects, the financial position of the Company as at 31 December 2008, and the results of its operations and its cash flows for the year then ended in accordance with the legal requirements applicable to the accounting for banks in the Republic of Croatia.

Emphasis of the Matter

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix I to these financial statements on pages 69 to 77, which comprise the balance sheet as at 31 December 2008, and the statements of income, changes in equity and cash flows for the year then ended, as well as the reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 4 to 68, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Bank.

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

Zagreb, Republic of Croatia
29 April 2009

Income statement
For the year ended 31 December 2008

(All amounts are expressed in thousands of HRK)

	Notes	2008	2007
Interest and similar income	3	180,457	174,130
Interest and similar expense	3	(86,174)	(76,386)
Net interest income		**94,283**	**97,744**
Fee and commission income	4	50,752	50,321
Fee and commission expense	4	(15,936)	(15,570)
Net fee and commission income		**34,816**	**34,751**
Other operating income, net	5	24,446	23,384
Operating income		**153,545**	**155,879**
Impairment losses and provisions	6	(7,605)	(17,790)
Administrative expenses	7	(108,701)	(105,772)
Depreciation and amortisation	8	(13,331)	(13,534)
Profit before taxation		**23,908**	**18,783**
Income tax expense	9	(3,831)	634
Net profit for the year		**20,077**	**19,417**
Earnings per share	**10**	**HRK 45.03**	**HRK 46.15**

The accompanying accounting policies and notes on pages 36 to 99 form an integral part of this income statement.

Balance Sheet
As at 31 December 2008

(All amounts are expressed in thousands of HRK)

	Notes	2008	2007
ASSETS			
Cash and amounts due from banks	11	244,443	209,202
Balances with Croatian National Bank	12	207,575	258,447
Placements with other banks	13	626,119	530,205
Loans and advances to customers	14	1,507,381	1,576,511
Financial assets at fair value through profit or loss	15	-	40,029
Financial assets available for sale	16	36,323	21,226
Financial assets held to maturity	17	55,156	54,223
Investments in subsidiaries	20	1,530	1,530
Intangible assets	18	19,211	19,299
Property and equipment	19	74,350	81,633
Deferred tax assets	9	2,929	2,155
Other assets	21	8,780	9,541
TOTAL ASSETS		**2,783,797**	**2,804,001**

	Notes	2008	2007
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Amounts due to other banks	22	39,866	44,400
Amounts due to customers	23	2,169,842	2,330,645
Other borrowed funds	24	189,143	152,421
Other liabilities	25	31,991	25,013
Provisions for contingent liabilities and charges	26	2,579	4,320
Total liabilities		**2,433,421**	**2,556,799**
Shareholders' equity			
Share capital	27	267,500	168,305
Share premium		3,015	3,015
Treasury shares	27	(11,068)	(4,930)
Other reserves	28	70,852	61,395
Profit for the year		20,077	19,417
Total shareholders' equity		**350,376**	**247,202**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,783,797**	**2,804,001**

The accompanying accounting policies and notes on pages 36 to 99 form an integral part of this balance sheet.

Statement of Cash Flows
For the year ended 31 December 2008

(All amounts are expressed in thousands of HRK)

	Notes	2008	2007
Profit from operations		**23,908**	**18,783**
Adjustments to reconcile profit before taxation to net cash from operations			
Depreciation and amortisation		13,331	13,534
Net (gains)/losses on sale of non-current tangible assets		(376)	32
Increase in provisions for loans and advances		7,605	17,790
Expense/(income) from sale of securities at fair value through profit or loss		5,684	(7,381)
Dividend income		(1,619)	(765)
Increase/(decrease) of assets held to maturity		(1,128)	(2,973)
Profit from operations before changes in operating assets		**47,405**	**39,020**
Changes in operating assets			
Net decrease/(increase) in balances with Croatian National Bank		50,872	(37,147)
Net (increase)/decrease in loans and advances to customers		61,525	(190,143)
Net increase/(decrease) in financial assets at fair value through profit or loss		10,443	(1,991)
Net decrease in other assets		1,344	6,018
Increase/(decrease) in other liabilities		6,978	(18,036)
Decrease in amounts due to other banks		(4,534)	(16,790)
Increase/(decrease) in deposits		(160,803)	285,035
Net cash inflow from operating activities		**13,230**	**65,966**
Purchases of property and equipment		(6,062)	(30,185)
Increase in financial assets available for sale		(5,986)	(5,625)
Decrease in investments held to maturity		195	175
Investments in subsidiaries		0	(1,530)
Net cash inflow/(outflow) from investing activities		**(11,853)**	**(37,165)**
Borrowed funds		36,722	453
Purchases of treasury shares		(6,139)	(79)
Increase in share capital		99,195	-
Net cash inflow from financing activities		**129,778**	**374**
Net increase in cash		**131,155**	**29,175**
Cash at beginning of period	11	**739,407**	**710,232**
Cash at end of period	11	**870,562**	**739.407**

The accompanying accounting policies and notes on pages 36 to 99 form an integral part of this statement of cash flows.

Statement of changes in shareholders' equity
For the year ended 31 December 2008

(All amounts are expressed in thousands of HRK)

	Share capital	Share premium	Treasury shares	Capital gains	Reserves	Profit for the year	Total
Balance at 1 January 2007	**168,305**	**3,015**	**(4,850)**	**4,970**	**37,556**	**18,565**	**227,561**
Allocation of 2006 profit	-	-	513	322	17,715	(18,565)	(15)
Purchase of tre-asury shares	-	-	(3,694)	-	-	-	(3,694)
Sale of treasury shares	-	-	3,101	(197)	-	-	2,904
Reserve on revaluation of available-for-sale assets	-	-	-	-	1,029	-	1,029
Profit for the year	-	-	-	-	-	19,417	19,417
Balance at 31 December 2007	**168,305**	**3,015**	**(4,930)**	**5,095**	**56,300**	**19,417**	**247,202**
Allocation of 2007 profit	-	-	849	(293)	18,861	(19,417)	-
Issue of shares	99,195	-	-	-	-	-	99,195
Purchase of tre-asury shares	-	-	(6,987)	-	-	-	(6,987)
Reserve on revaluation of available-for-sale assets	-	-	-	-	(9,111)	-	(9,111)
Profit for the year	-	-	-	-	-	20,077	20,077
Balance at 31 December 2008	**267,500**	**3,015**	**(11,068)**	**4,802**	**66,050**	**20,077**	**350,376**

The accompanying accounting policies and notes on pages 36 to 99 form an integral part of this statement of changes in shareholders' equity.

Notes to the financial statements
For the year ended 31 December 2008

1. GENERAL

1. 1. History and incorporation

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

1. 2. Principal activity

As at 31 December 2008, the Bank was operating a total of 36 branches throughout the Republic of Croatia. The Bank's main areas of operation include:

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

The operations of the Bank are overseen by the Supervisory Board. The members of the Supervisory Board of Podravska banka d.d., Koprivnica during 2008 were as follows:
Miljan Todorovic, President
Sigilfredo Montinari, Vice President
Dario Montinari, Member
Djuro Predovic, Member
Dolly Predovic, Member
Maurizio Dallocchio, Member
Filippo Disertori, Member

The operations of the Bank are managed by the Management Board. The members of the Management Board during 2008 were as follows:
Mr. Julio Kuruc, President
Marijan Marušić, Member
Davorka Jakir, Member

The structure of the Bank's shareholders as at 31 December 2008 and 2007 is provided in Note 27.
The Bank's shares are included on the Public Joint Stock Company Listing on the Zagreb Stock Exchange.

1. 3. Current economic environment and its impact on the Bank

The global financial crisis, which commenced mid 2007, has resulted in a lower level of funds available in capital markets, lowered liquidity in the financial sector, and an increase in interbank loans and a general instability of the capital market. The overall effect of the ongoing financial crisis cannot be predicted, nor is it possible to ensure full protection from its effects. The Management Board believes that it takes all the required measures to sustain the Bank's operations and its growth in the given circumstances.

Liquidity is managed on a daily basis, by reference to the regulatory requirements. The Bank files weekly liquidity reports with the Croatian National Bank based on the analysis of remaining maturities of individual assets and liabilities of the Bank. Despite the crisis, the Bank has managed to keep its liquidity at a high level, and appears on the interbank market as a creditor.

The Bank closely monitors its credit position by implementing a prudent lending policy to neutralise the risk of impairment of its lending portfolio. Loss provisions are monitored permanently on an individual customer basis, including groups of related customers, by type of loan and industry. The adequacy of individual collaterals is estimated on the basis of available market values, whereas movable and immovable properties are assessed by reference to the appraisals performed by certified court valuation experts with whom the Bank cooperates on the basis of cooperation agreements. In the opinion of the Management Board, the level of loss provision is sufficient considering the current loan portfolio and continues to monitor credit risk closely to identify any potential impact of the crisis on the loan portfolio and stability of the Bank.

The Bank actively manages its foreign currency position on a daily basis to minimise the impact of any significant change in foreign exchange rates on its operating results. The strong competition in the market in collecting deposits from individuals is a result of the need of certain banks to neutralise the lack of capital inflow from abroad, which, on the other hand, will result in an increase of interest rates, that is, interest expense. In order to manage its interest rate risk, the Bank will continue to monitor its competitive environment to optimise the interest margin and increase the net interest income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of accounting

The Bank maintains its accounting records in Croatian kuna (HRK) in accordance with Croatian law, the accounting principles and practices observed by financial enterprises in Croatia.

Statement of compliance

The financial statements have been prepared in accordance with the legal requirements applicable to the accounting for banks in Croatia. In the Republic of Croatia, banking operations are carried out in accordance with the Banking Law, under which the financial reporting requirements for banks are specified by the Croatian National Bank ("the CNB"). These financial statements have been prepared in accordance with the CNB accounting requirements.

The CNB accounting requirements are based on International Financial Reporting Standards ("IFRS"). The key differences between the CNB accounting requirements and those provided in International Financial Reporting Standards include estimations of impairment losses on a portfolio basis for both balance sheet and off-balance sheet items not identified as individually impaired. The CNB requires banks to recognise impairment losses on a portfolio basis in the range from 0.85% to 1.20% of qualifying items. At 31 December 2008, the aforementioned allowances amounted to HRK 24,250 thousand (2007: HRK 24,600 thousand) and provision for portfolio impairment losses in the income statement for the year ended 31 December 2008 amounted to HRK 350 thousand (2007: expense to the amount of HRK 2,900 thousand).

According to IAS 39, future cash flows for groups of financial assets subject to a collective evaluation of impairment should be estimated on the basis of historical loss data about assets with similar credit risk characteristics and should not be limited from any aspect. The Bank is in the process of collecting data about past experience in unidentified losses in various portfolios, considering the appropriate economic conditions to adjust those data, to establish the basis for estimating the level of unidentified losses existing at the balance sheet date in accordance with IFRS requirements.

The Management Board considers that unidentified impairment losses as determined on this basis would not exceed the losses determined in accordance with the CNB accounting requirements.

Basis of preparation

The Bank's financial statements are prepared in thousands of Croatian kuna (HRK) and all values have been rounded to the nearest thousand, unless stated otherwise. The financial statements for the year ended 31 December 2008 have been prepared under historical cost convention, except for financial assets and liabilities carried at fair value through profit or loss in accordance with IAS 39 "Financial instruments: Recognition and Measurement". The accounting policies have been consistently applied, unless stated otherwise.

The financial statements of the Bank have been prepared under the going-concern assumption. In preparing the financial statements, the directors are required to make judgements, estimates and assumptions that affect the application of policies and report amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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 the current and future periods.
The accounting policies applied are consistent with those from prior years.

Adoption of new and revised standards

a) Standards and interpretations effective in the current period

The following Standards, as amended, and Interpretations in issue are effective in the current year: IAS 39 (as amended to permit the reclassification of financial assets); IFRIC 11 "IFRS 2: Group and Treasury Share Transactions", IFRIC 12 "Service Concession Arrangements"; IFRIC 13 "Customer Loyalty Programs"; IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction"; IFRIC 16 "Hedges of a Net Investment in a Foreign Operation".

The impact of the adoption of the amended IAS 39 is presented in Note 15 to the financial statements.

b) Standards and Interpretations not yet adopted

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

- IFRS 1 (revised) First-Time Adoption Of International Financial Reporting Standards - Amendment relating to the cost of investment on first-time adoption of IFRSs (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 2 (revised) Share-based Payments - Amendment relating to vesting conditions and cancellations effective for accounting periods beginning on or after 1 January 2009)
- IFRS 3 (revised) Business Combinations - Comprehensive revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009)
- IFRS 5 (revised) Non-current Assets Held for Sale and Discontinued Operations – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 July 2009)
- IAS 1 (revised) Presentation of Financial Statements - Amendments relating to disclosure of potable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009)
- IAS 1 (revised) Presentation of Financial Statements - Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 16 (revised) Property, Plant and Equipment - Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 19 (revised) Employee Benefits - Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 20 (revised) Government Grants and Disclosure of Government Assistance - Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 23 (revised) Borrowing Costs - Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 27 (revised) Consolidated and Separate Financial Statements - Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 27 (revised) Consolidated and Separate Financial Statements - Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009)
- IAS 27 (revised) Consolidated and Separate Financial Statements - Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009)

- IAS 28 (revised) Investments in Associates - Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 28 (revised) Investments in Associates (effective for accounting periods beginning on or after 1 January 2009)
- IAS 29 (revised) Financial Reporting in Hyperinflationary Economies - Amendments resulting from May 2008 Annual Improvements (effective for accounting periods beginning on or after 1 January 2009)
- IAS 31 (revised) Interests in Joint Ventures - Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 31 (revised) Interests in Joint Ventures Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 32 (revised) Financial Instruments: Presentation - Amendments relating to potable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009)
- IAS 36 Impairment of Assets - Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 38 (revised) Intangible Assets - Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39 (revised) Financial Instruments: Recognition and Measurement - Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39 (revised) Financial Instruments: Recognition and Measurement - Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009)

The directors anticipate that all above Standards and Interpretations will be adopted in the Company's financial statements for the period commencing 1 January 2009 and that the adoption of those Interpretations will have no material impact on the financial statements of the Company in the period of initial application.

Reporting currency

At 31 December 2008, the effective exchange rate of the Croatian kuna for 1 euro was HRK 7.324 and for 1 American dollar (USD) HRK 5.156 (31 December 2007: EUR 1 = HRK 7.325; USD 1 = HRK 4.985).

Interest and similar income and expense

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

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

When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Other fees receivable are recognised when earned. Dividend income is recognised when declared by the General Assembly.

Fee and commission income

Fees and commission income mainly comprises fees receivable from enterprises for loans and guarantees granted and other services provided by the Bank, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions.

Fees and commissions are recognised when the related service is rendered. Loan origination fees for loans which are likely of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan.

Operating income

Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, realised gains on securities classified as assets available for sale, foreign exchange revaluation, gains from disposal of fixed assets, dividends earned and other income.

Foreign currencies

Income and expenditure arising from transactions in foreign currencies are translated to HRK at the official rates of exchange on the transaction date. Assets and liabilities denominated in foreign currencies are translated to HRK at the mid market exchange rate of the CNB on the last day of the accounting period. Gains and losses resulting from the foreign currency translation are included in the income statement. The Bank has receivables and liabilities originated in HRK, which are linked to foreign currencies with one-way currency clause.

Due to this clause the Bank has an option to revalue the asset by the higher of: foreign exchange rate valid as of the date of repayments of the receivables by the debtors, or foreign exchange rate valid as of the date of origination of the financial instrument. In case of the liability linked to this clause the counter-party has this option. Due to the specific conditions of the market in Republic of Croatia the fair value of this option cannot be calculated as the forward rates for HRK for periods over 9 months are generally not available.

As such the Bank revalued its receivables and liabilities linked to this clause by the agreed reference rate valid at the date of the balance sheet or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher.

Staff costs

Provisions for bonuses are recognised when the Bank has a constructive obligation arising from a contract or past practice. A provision is made for accrued vacation days by reference to the unused vacation days at the balance sheet date.

Personnel social contributions

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

	2008	2007
Contributions for Pension Fund	20%	20%
Contributions for State Health Fund	15%	15%
Contributions for the State Employment Bureau	1.7%	1.7%
Injuries at work	0.5%	0.5%

The Bank is also obliged to withhold contributions from the gross pay on behalf of the employee for the same funds. The contributions on behalf of employees and on behalf of employer are charged to expenses in the period to which they relate (see Note 7). In the course of normal operations, the Bank makes regular payments of contributions on behalf of its employees who are members of mandatory pension funds as provided by law.

The mandatory pension contributions are included in the payroll costs when they are accrued. The Bank has no additional retirement benefit plan and, therefore, has no further obligation in respect of employee retirement benefits. In addition, the Bank has no obligation to provide any post-employment benefits to its employees.

Taxation

The corporate income tax payable is provided on taxable profits for the year at the current rate. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. On each balance sheet date, the Bank re-assesses unrecognised deferred tax assets and the appropriateness of carrying the amount of the tax assets. The Bank is subject to a tax rate of 20 percent in accordance with the Profit Tax Law.

Cash and cash equivalents

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

Financial instruments

The Bank's financial assets and financial liabilities recorded on the balance sheet include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term loans, deposits and investments. The accounting principles for these items are disclosed in the respective accounting policies. The Bank recognises financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition and pursuant to the Bank's investment strategy. Financial assets and liabilities are classified as "Financial assets at fair value through profit or loss", "Held to maturity", "Assets available for sale" or as "Loans and receivables". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements as described below.

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

Regular way transactions with financial instruments are accounted for at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value on the underlying asset or liability are recognised starting from trade date.

When a financial asset or financial liability is recognised initially, the Bank measures it at its fair value plus, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial assets at fair value through profit or loss

Financial instruments included in this portfolio are instruments held for trading, acquired to generate profits from short-term fluctuations in prices or brokerage fees, or are securities included in a portfolio with a pattern of short-term profit taking. Such instruments are initially recognised at cost and subsequently measured at fair value, which is based on the quoted bid prices in an active market.

All related realised and unrealised gains and losses are included in the income statement under "Net trading gains". Interest earned whilst holding the instruments are reported under "Interest and similar income".

Held to maturity assets

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

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

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

Loans and receivables

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

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

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Loan loss allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.
The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include: delinquency in contractual payments of principal or interest, cash flow difficulties experienced by the borrower, breach of loan covenants or conditions, initiation of bankruptcy proceedings and deterioration of the borrower's competitive position.

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

When a loan is uncollectible, it is written-off against the related provision for loan impairment. Such loans are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

Assets available for sale

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

This portfolio comprises equity and debt securities. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

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

Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Interest earned whilst holding available-for-sale securities is accrued on a monthly basis using the effective interest rate method and reported as "Interest income" in the income statement.

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

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

Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. The real estate is stated at the lower of cost of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the income statement. Real estate used as collateral for loans given to customers can be sold only by distrait.

Sale and repurchase agreements

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

Property and equipment

Property and equipment is stated at cost less accumulated depreciation less any provision for impairment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the income statement in the period in which the costs are incurred. Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction, property and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use and reclassified to the appropriate category of property and equipment. Property and equipment is depreciated on a straight-line basis over the useful life of the assets as follows:

	2008	2007
Buildings	40	40
Furniture	5	5
Computers	4	4
Motor vehicles	5	5
Equipment and other assets	2 - 10	2 - 10

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

Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed at each reporting period.

Intangible assets are amortised over the periods of 4 years (software). Amortisation period and amortisation method are reviewed at least at each year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet in accordance with the policy for initial recognition of financial instruments and subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses on foreign exchange derivatives are included in Foreign exchange revaluation.
The Bank did not apply hedge accounting.

Impairment of assets

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

Provisions for contingent liabilities

Provisions are recognised when the Bank has a present legal or contractive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Managed funds

The Bank manages a significant amount of assets on behalf of third parties. A fee is charged for this service. These assets are not recorded in the Bank's balance sheet. The details are set out in note 29.

Dividend policy

The Bank has a policy to pay dividends to its shareholders based on the audited annual results.

Significant accounting judgements and estimates

Judgements

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

Held to maturity investments

The Bank 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 Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep this investments to maturity other than for the specific circumstances (such as selling an insignificant amount close to maturity) it will be required to reclassify the entire class as available for sale and measure it at fair value instead of amortised cost.

Estimation uncertainty

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

Allowances for impairment of loans and receivables

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

3. INTEREST INCOME AND EXPENSE

	2008	2007
Interest income		
Citizens	97,602	98,828
Companies	52,373	50,229
Securities	4,051	4,348
Banks	25,029	19,310
Public and other sectors	1,402	1,415
	180,457	**174,130**
Interest expense		
Citizens	58,201	44,256
Companies	18,328	19,829
Banks	3,003	4,049
Public and other sectors	6,642	8,252
	86,174	**76,386**

Interest income also includes deferred fees on loans in total amount of HRK 7,972 thousand (2007: HRK 6,451 thousand), which are recognized applying effective interest rate methodology.

	2008	2007
Interest income recognized on:		
Substandard loans	2,956	5,568
Irrecoverable loans	960	343
	3,916	**5,911**

4. FEE AND COMMISSION INCOME AND EXPENSE

	2008	2007
Fee and commission income		
Payment transaction fees and commissions	15,449	15,945
Fees and commissions on credit card services	15,757	14,936
Fees and commissions from lending operations	7,407	6,512
Fees and commissions on securities trading	7,612	8,046
Other fees and commissions	4,527	4,882
	50,752	**50,321**
Fee and commission expense		
Payment transaction charges	4,179	4,323
Cash operation fees and commissions	6,170	6,952
Interbank service fees	2,216	1,469
Other	3,371	2,826
	15,936	**15,570**

Other fee and commission income consist mainly of fees collected on the Bank's counters from customers for the payments made and amounted to HRK 2,268 thousand (2007: HRK 2,450 thousand).

5. OTHER OPERATING INCOME, NET

	2008	2007
Foreign exchange trading gain	10,854	10,018
Foreign exchange revaluation	385	1,809
Dividend income	1,619	765
Net gains/(losses) on disposal of property and equipment	376	(32)
Net (losses)/gains on FVTPL securities dealings	(5,684)	7,381
Net gains/(losses) on dealings in available-for-sale securities	13,110	(13)
Income on subsequent collection of loans previously written off	58	111
Other income	3,728	3,345
	24,446	**23,384**

Other income relates mainly to legal expenses recovered, bills of exchange and income from sale of prepaid vouchers.

6. IMPAIRMENT ALLOWANCE AND PROVISIONS

	2008	2007
Provisions for loans and advances to customers (Note 14)	(9,508)	(18,128)
Other assets (Note 21)	162	(136)
Provisions for guarantees and commitments (Note 26)	1,741	474
	(7,605)	**(17,790)**

7. ADMINISTRATIVE EXPENSES

	2008	2007
Staff costs	54,340	46,678
Materials and services	37,263	41,962
Rentals	10,018	8,725
Deposit insurance premium	4,403	3,812
Taxes and contributions	1,389	1,214
Other levies	-	1,973
Other expenses	1,288	1,408
	108,701	**105,772**

Other operating expenses include: cost of advertising, sponsorships, donations and other costs.

Overview of staff costs

	2008	2007
Net salaries	26,064	25,271
Pension insurance costs	7,100	6,900
Health insurance costs	5,988	5,803
Other compulsory contributions	878	851
Taxes and surtaxes	6,747	6,518
Provisions for employee benefits	1,127	61
Other staff costs	6,436	1,274
	54,340	**46,678**

At 31 December 2008, the number of staff employed by the Bank was 326 (2007: 347).

8. DEPRECIATION AND AMORTISATION

	2008	2007
Depreciation of property and equipment	11,160	11,093
Depreciation of leasehold improvements	1,419	1,558
Amortisation	752	883
	13,331	**13,534**

9. INCOME TAX EXPENSE

Income tax is determined by applying the rate of 20 percent to taxable profits (2007: 20 percent). Tax returns remain not final and are subject to supervisory inspection for at least a three-year period. The management holds that the Bank has made adequate provisions for tax obligations in the presented financial statements. However, the risk remains that the relevant authorities could take different position with regard to Bank's tax obligations and that this effect could be significant.

Tax expense comprises of the following:

	2008	2007
Current tax	4,605	-
Deferred tax	(774)	(634)
Income tax expense	**3,831**	**(634)**

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

	31 December 2008	31 December 2007
Profit before taxation	23,909	18,783
Statutory tax rate	20%	20%
Income tax calculated at 20%	**4,782**	**3,757**
TEMPORARY DIFFERENCES		
Unrealised losses on financial assets	4,199	461
Realised gains on other investments	(23)	-
Deferred loan origination fees	(549)	2,710
Deferred other fees	2	(4)
Net temporary differences	**3,629**	**3,167**
PERMANENT DIFFERENCES		
Tax effect of non-taxable income:	**(1,778)**	**(2,015)**
Dividends received	(1,619)	(765)
Other prior-period expenses	-	(1,250)
Decrease in profit by other income	(159)	-
Tax effect of expenses not recognised for tax purposes	**949**	**4,936**
Entertainment and personal transportation	480	786
Depreciation above prescribed amounts	240	170
Write-offs	229	3,431
Other	**-**	**549**
Net permanent differences	**(829)**	**2,921**

	31 December 2008	31 December 2007
Taxable profit	26,709	24,871
Utilisation of tax losses brought forward	(3,684)	(24,871)
Tax base	23,025	-
Tax rate	20%	20%
Tax liability	4,605	-
Current tax expense	**4,605**	**-**
Effective tax rate	**19.26%**	**-**

Movements in deferred tax assets are as follows:

	2008		
	Opening balance	Charged to income	Closing balance
Losses on financial assets	96	840	936
Losses on other investments	-	43	43
Deferred loan origination fees	2,058	(109)	1,949
Deferred other fees	1	-	1
	2,155	**774**	**2,929**

	2007		
	Opening balance	Charged to income	Closing balance
Losses on financial assets	3	93	96
Losses on other investments	-	-	-
Deferred loan origination fees	1,516	542	2,058
Deferred other fees	2	(1)	1
	1,521	**634**	**2,155**

Tax losses

	2008	2007
Tax losses brought forward	3,684	28,555
Utilised in the current year	(3,684)	(24,871)
Tax losses available for carry forward	**-**	**3,684**

Tax losses available for carry forward represent the tax losses of Požeška Banka d.d. from 2005, which were utilised during 2008.

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 after deducting preference dividends.

	2008	2007
Profit for the year (in HRK'000)	20,077	19,417
Weighted average number of shares	445,900	420,762
Earnings per share (in HRK) - Basic and diluted	**45.03**	**46.15**

11. CASH AND AMOUNTS DUE FROM BANKS

	2008	2007
Cash in hand	40,919	51,791
Current account with Croatian National Bank	130,917	64,131
Current accounts and demand deposits with foreign banks	58,172	63,712
Current accounts and demand deposits with domestic banks	2,554	17,887
Other items	11,881	11,681
	244,443	**209,202**

Cash and cash equivalents included in the cash flow statement:

	2008	2007
Cash in hand	40,919	51,791
Current account with Croatian National Bank	130,917	64,131
Current accounts and demand deposits with foreign banks	58,172	63,712
Current accounts and demand deposits with domestic banks	2,554	17,887
Other items	11,881	11,681
Cash equivalents - deposits with other banks (Note 13)	626,119	530,205
	870,562	**739,407**

12. BALANCES WITH CROATIAN NATIONAL BANK

	2008	2007
Obligatory and marginal reserve	207,575	258,447

Obligatory reserve represents the amount of liquid assets required to be deposited with the Croatian National Bank. At the end of each month the obligatory reserve is calculated on certain balances of attracted funds for the previous month. The obligatory reserve is calculated as 14 percent of HRK denominated (in 2007 17 percent) and 14 percent of foreign currency denominated balances (in 2007 17 percent). From that amount the banks should maintain at least 70 percent for the kuna obligatory reserve and 60 percent for the obligatory reserve in foreign currency with the Croatian National Bank. The percentage of the obligatory reserve funds denominated in Croatian kuna includes a portion of the foreign currency denominated funds maintained in kuna. The balances maintained with the Croatian National Bank earned annual interest of 0.75 percent for HRK amounts (in 2007 0.75 percent). The balances in foreign currencies maintained with the Croatian National Bank bore annual interest from 0.50 to 1.25 percent (in 2007 between 1.25 and 1.75 percent) for EUR deposits. The banks are required to maintain 75 percent of the foreign currency obligatory reserve should be maintained in HRK. EUR and US dollars rates are not fixed.

Marginal reserve represents the amount of foreign and related parties' borrowings required to be deposited with the Croatian National Bank. On 10 October the Croatian National Bank promulgated a decision annulling the obligation to maintain the marginal reserve.

13. PLACEMENTS WITH OTHER BANKS

	2008	2007
Term deposits	301,779	350,936
Loans to other banks	327,685	182,614
	629,464	**533,550**
Impairment allowance	(3,345)	(3,345)
	626,119	**530,205**

Term deposits are short-term deposits with local and foreign banks bearing an interest rate of 1.00 to 5.20 percent (in 2007: 1.00 to 6.80 percent). Of the total term deposits with other banks, deposits with foreign banks amount to HRK 266,451 thousand (2007: HRK 304,798 thousand). Loans to other banks comprise short-term loans (up to one month) to domestic banks provided at interest rates from 1.50 to 7.00 percent (2007: from 6.50 to 12.40 percent).

Movements in impairment allowance

	2008	2007
At 1 January	3,345	3,345
Increase/(decrease)	-	-
At 31 December	**3,345**	**3,345**

The impairment allowance presented above relates to domestic banks in bankruptcy.

Geographical analysis

The analysis includes term deposits and current accounts with foreign banks:

	2008	2007
Australia	1,153	1,928
Austria	970	6,579
Belgium	63,205	38,069
Montenegro	19,444	22,830
Denmark	516	48,072
Italy	19,243	61,527
Canada	226	395
Netherlands	488	1,943
Germany	148,055	58,961
United States of America	4,038	9,998
Slovenia	384	4,986
Turkey	154	143
Spain	818	48,163
Sweden	712	51,770
Switzerland	65,217	13,146
	324,623	**368,510**

14. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis by type of customer

	2008	2007
Citizens		
- HRK denominated	831,238	1,039,920
- foreign currency denominated	4,096	4,392
	835,334	**1,044,312**
Companies		
- HRK denominated	662,939	629,212
- foreign currency denominated	136,519	20,934
	799,458	**650,146**
	1,634,792	**1,694,458**
Impairment allowance	(127,411)	(117,947)
	1,507,381	**1,576,511**

b) Analysis by sector

	2008	2007
Citizens	835,334	1,044,311
Wholesale and retail trade	275,192	191,389
Processing industry	111,495	92,149
Real estate activities	37,498	29,487
Transport, storage and communication	79,600	66,357
Agriculture and forestry	43,281	25,521
Construction	62,839	49,060
Food and beverage industry	68,891	60,099
Energy (electricity, gas, water)	1,324	1,320
Hotels and restaurants	23,115	18,210
Other	96,223	116,555
	1,634,792	**1,694,458**
Impairment allowance	(127,411)	(117,947)
	1,507,381	**1,576,511**

c) Changes in principal of substandard and bad loans

	2008		2007	
	Substandard loans	Bad loans	Substandard loans	Bad loans
As of 1 January	**96,627**	**62,298**	**125,763**	**73,851**
Transfer from performing loans	21,705	1,503	16,152	1,705
Transfer from bad loans	1,488	(1,488)	13	(13)
Transfer from substandard loans	(8,825)	8,825	(12,549)	12,549
Transfer to performing loans	(2,314)	(176)	(13,871)	(190)
Amounts collected	(5,961)	(1,773)	(16,138)	(1,394)
Amounts written off	-	(263)		(24,953)
Other changes	(3,641)	1,472	(2,743)	743
As of 31 December	**99,079**	**70,398**	**96,627**	**62,298**

On 31 December 2008, the gross principal amount of non-performing loans was HRK 70,398 thousand (2007: HRK 62,298 thousand). During 2008, HRK 1,773 thousand of non-performing loans was collected (2007: HRK 1.394 thousand). Also, during 2008 the amount of HRK 2,314 thousand of loans to companies and sole traders were renegotiated (in 2007 HRK 13,871 thousand).

d) Provisions for losses

	2008	2007
Balance at 1 January	**117,947**	**124,626**
New provisions made	22,174	29,232
Amounts collected	(13,239)	(10,893)
Amounts written off	(44)	(24,807)
Amortisation of the discount	(27)	(1,796)
Foreign exchange (gain)/loss	600	(211)
Balance at 31 December	**127,411**	**117,947**

The Bank manages its exposure to credit risk by applying a variety of control measures: regular assessment using agreed credit criteria, diversification of sector risk to avoid undue concentration in a single industry. Where required, the Bank obtains acceptable collateral to reduce the level of credit risk.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008	2007
Debt securities at fair value through profit or loss	-	23,281
Equity securities at fair value through profit or loss	-	16,748
	-	**40,029**

Set out below are details of the equity investment portfolio:

			Share in %		Investments	
Name of the company	**State of incorporation**	**Nature of business**	**2008**	**2007**	**2008**	**2007**
Crnogorski telekom AD, Podgorica	Montenegro	Non-financial institution	-	0.26		5,638
HT-Hrvatske telekomunikacije d.d. Zagreb	Croatia	Non-financial institution	-	0.01	-	2,822
HUP-Zagreb d.d. Zagreb	Croatia	Non-financial institution	-	0.25	-	3,266
Franck d.d. Zagreb	Croatia	Non-financial institution	-	0.12	-	1,050
Jamnica d.d. Zagreb	Croatia	Non-financial institution	-	0.07	-	1,650
Atlantic grupa d.d. Zagreb	Croatia	Non-financial institution	-	0.03	-	703
Proficio d.d. Zagreb	Croatia	Non-financial institution	-	0.18	-	429
Veterina d.d. Rakov Potok	Croatia	Non-financial institution	-	0.60	-	1,153
Centralna depozitarna agencija AD Podgorica	Montenegro	Financial institution	-	2.00	-	37
					-	**16,748**

Changes in debt securities:

	2008	2007
Balance at 1 January	**23,281**	**12,369**
Purchases	-	23,669
Disposals	(18,065)	(13,047)
Reclassification	(3,984)	-
Unrealized gains/(losses) recognised in profit or loss	(1,303)	247
Realised gains/(losses) recognised in profit or loss	245	(57)
Exchange differences recognised in profit or loss	(174)	100
Balance at 31 December	**-**	**23,281**

Changes in equities:

	2008	2007
Balance at 1 January	**16,748**	**18,288**
Purchase	9,764	14,934
Disposals	(1,984)	(23,617)
Reclassification	(19,918)	-
Unrealized gains/(losses) recognised in profit or loss	(4,610)	1,628
Realised gains recognised in profit or loss	-	5,562
Exchange differences recognised in profit or loss	-	(47)
Balance at 31 December	**-**	**16,748**

In accordance with the amendments to IAS 39 Financial Instruments: Recognition and Measurement; and IFRS 7 Financial Instruments: Disclosure, the Bank reclassified in 2008 its financial instruments from the financial assets at fair value through profit or loss into available-for-sale securities. The reclassification was performed at the fair value in effect on the reclassification date. All financial instruments from the portfolio at fair value through profit or loss were reclassified into the available-for-sale portfolio as of 24 July 2008. Total reclassified assets amount to HRK 23,902 thousand, of which HRK 3,984 thousand are in respect of an investment in an investment fund and HRK 19,918 thousand are in respect of equity securities.

The values of the reclassified financial assets may be presented as follows:

Security	Value at 31 December 2008	Fair value at the reclassification date
Equity securities		
HT-Hrvatske telekomunikacije d.d. Zagreb	4,981	7,125
Crnogorski telekom AD, Podgorica	3,113	5,301
HUP-Zagreb d.d. Zagreb	1,695	2,826
Franck d.d. Zagreb	1,225	1,842
Jamnica d.d. Zagreb	606	1,380
Atlantic grupa d.d. Zagreb	369	1,113
Proficio d.d. Zagreb	133	294
Centralna depozitarna agencija AD Podgorica	37	37
	12,159	**19,918**
Investments in investment funds		
Poba Ico Equity - an open-end private equity fund	2,569	3,984
	2,569	**3,984**
	14,728	**23,902**

The Bank has recognised gains, losses, income and expenses arising from the reclassification as follows:

Security	Post reclassification	Prior to reclassification
Reserve on remeasurement at fair value – within equity	(8,245)	-
Fair value in profit or loss	-	(5,912)

Had the Bank not reclassified its financial assets during the period, losses on fair value recognised in the income statement would have been higher by HRK 8,245 thousand.

16. FINANCIAL ASSETS AVAILABLE FOR SALE

a) Debt securities

	2008	2007
Debt securities available for sale	4,356	6,099
Investments in Investment funds	2,569	-
Equity securities available for sale	30,624	16,353
	37,549	**22,452**
	-	
Permanent impairment allowance	(1,226)	(1,226)
	36,323	**21,226**

Debt securities include bonds of the Town of Koprivnica

	2008	2007
Balance at 1 January	**6,099**	**7,882**
Sale	(1,666)	(1,663)
Decrease in the fair value	(77)	(120)
Balance at 31 December	**4,356**	**6,099**

b) Investments in Investment funds

Investments in Investment funds include investments in Poba Ico Equity – open investment fund with public offer

	2008	2007
Balance at 1 January	**-**	**-**
Reclassification	3,984	-
Decrease in the fair value	(1,415)	-
Balance at 31 December	**2,569**	**-**

c) Equity securities

	2008	2007
Quoted securities	21,695	10,331
Unquoted securities	8,929	6,022
	30,624	**16,353**
Impairment allowance	(1,226)	(1,226)
Total	**29,398**	**15,127**

Changes in equities during the year:

	2008	2007
Balance at 1 January	**15,127**	**6,690**
Purchases	6,722	7,776
Sale	(17,867)	(475)
Reclassification (Note 15)	19,918	-
Realised gains recognised in profit or loss	13,117	-
Movement in the fair value	(7,670)	1,149
Impairment allowance	-	(13)
Exchange differences on fair value remeasurement	51	-
Balance at 31 December	**29,398**	**15,127**

Set out below are details of the equity investment portfolio:

Name of the company	State of incorporation	Nature of business	Share in % 2008	Share in % 2007	Investments 2008	Investments 2007
Bilokalnik-IPA d.d. Koprivnica	Croatia	Non-fin.	**3.21**	3.21	**4,817**	4,817
Western Balkan Investment F. AD Podgorica	Montenegro	Fin. instit.	5.00	5.00	3,662	3,663
Spin Valis d.d. Požega	Croatia	Non-fin.	2.55	2.55	931	1,145
Croatia osiguranje d.d. Zagreb	Croatia	Fin. instit.	0.01	0.01	126	708
Oroplet d.d. - u stečaju	Croatia	Non-fin.	11.68	11.68	1,226	1,226
MBU d.o.o. Zagreb	Croatia	Non-fin.	10.12	10.12	579	579
Tržište novca d.d. Zagreb	Croatia	Fin. instit.	4.55	4.55	319	319
HROK d.o.o. Zagreb	Croatia	Non-fin.	1.00	1.00	141	75
Zagrebačka burza d.d. Zagreb	Croatia	Fin. instit.	0.09	4.26	37	2,209
Velebit osiguranje d.d. Zagreb	Croatia	Fin. instit.	5.00	-	3,300	-
Velebit životno osiguranje d.d. Zagreb	Croatia	Fin. instit.	5.00	-	3,300	-
Središnja depozitarna agencija d.d. Zagreb	Croatia	Fin. instit.	0.10	0.10	23	15
S.W.I.F.T. SCRL Belgija	Belgium	Non-fin.	-	-	5	5
Štednokred d.d. Zagreb	Croatia	Fin. instit.	-	9.99	-	1,559
Other	Croatia	Fin. instit.	-	-	-	33
Crnogorski telekom AD, Podgorica	Montenegro	Non-fin.	0.36	-	3,112	-
HT-Hrvatske telekomunikacije d.d. Zagreb	Croatia	Non-fin.	0.03	-	4,981	-
HUP-Zagreb d.d. Zagreb	Croatia	Non-fin.	0.23	-	1,695	-
Franck d.d. Zagreb	Croatia	Non-fin.	0.29	-	1,225	-
Jamnica d.d. Zagreb	Croatia	Non-fin.	0.07	-	606	-
Atlantic grupa d.d. Zagreb	Croatia	Non-fin.	0.03	-	369	-
Proficio d.d. Zagreb	Croatia	Non-fin.	0.18	-	133	-
Veterina d.d. Rakov Potok	Croatia	Non-fin.	-	-	-	-
Centralna depozitarna agencija AD Podgorica	Montenegro	Fin. instit.	2.00	-	37	-
Total					**30,624**	**16,353**

The following equity has been fully impaired:

	2008	2007
Oroplet d.d. – in bankruptcy	(1,226)	(1,226)
Total impairment	**(1,226)**	**(1,226)**

d) Revaluation reserve for financial assets available for sale

Type of security	2008	2007
Debt security	(1,277)	215
Equity security	(6,470)	1,149
Total revaluation reserve	**(7,747)**	**1,364**

The net book value of bonds at the year end approximates their year-end fair values.

Movements in the revaluation reserve

	2008	2007
Balance at 1 January	**1,364**	**335**
Change in the fair value of debt securities	(1,492)	(120)
Change in the fair value of equity securities	(7,619)	1,149
Balance at 31 December	**(7,747)**	**1,364**

17. FINANCIAL ASSETS HELD TO MATURITY

	2008	2007
Bonds of the Republic of Croatia	55,156	54,223
Total value	**55,156**	**54,223**

Movements in held-to-maturity assets

	2008	2007
Balance at 1 January	**54,223**	**51,426**
Change in value	1,128	2,972
Collection	(195)	(175)
Balance at 31 December	**55,156**	**54,223**

18. INTANGIBLE ASSETS

	Software	Goodwill	Assets under development	Total intangible assets
COST OR VALUATION				
Balance at 1 January 2007	**9,177**	**16,867**	**-**	**26,044**
Additions	-	-	437	437
Disposals and retirements	(55)	-	-	(55)
Transfer from assets under development	386	-	(386)	-
Balance at 31 December 2007	**9,508**	**16,867**	**51**	**26,426**
Additions	-	-	665	665
Disposals and retirements	(592)	-	-	(592)
Transfer from assets under development	280	-	(280)	-
Balance at 31 December 2008	**9,196**	**16,867**	**436**	**26,499**

ACCUMULATED AMORTISATION				
Balance at 1 January 2007	**6,295**	**-**	**-**	**6,295**
Charge for the year	883	-	-	883
Disposals and retirements	(51)	-	-	(51)
Balance at 31 December 2007	**7,127**	**-**	**-**	**7,127**
Charge for the year	752	-	-	752
Disposals and retirements	(592)	-	-	(592)
Balance at 31 December 2008	**7,288**	**-**	**-**	**7,288**
Net book value				
At 31 December 2008	**1,908**	**16,867**	**436**	**19,211**
At 31 December 2007	**2,381**	**16,867**	**51**	**19,299**

Goodwill has been allocated to the cash generating units acquired on the merger of Požeška Banka d.d. The recoverable amount of the cash generating units is determined on the basis of profitability calculation. For the purposes of calculation, cash flow forecasts have been developed on the basis of financial projection over a time horizon of five years. The budgeted gross margin has been determined on the basis of past experience and the expected market development. The discount rate applied reflects the specific risks of the relevant business segment.

19. PROPERTY AND EQUIPMENT

Cost or valuation	Land and buildings	Furniture and equipment	Motor vehicles	IT equipment	Leasehold improvements	Assets under construction	Total
Balance at 1 January 2007	**71,122**	**40,485**	**4,202**	**33,026**	**11,295**	**106**	**160,236**
Additions	-	-	-	-	-	30,432	30,432
Transfer from assets under construction	17,007	5,539	2,769	5,040	85	(30,440)	-
Disposals and retirements	-	(1,879)	(1,334)	(2,208)	(859)	-	(6,280)
Balance at 31 December 2007	**88,129**	**44,145**	**5,637**	**35,858**	**10,521**	**98**	**184,388**
Additions	-	-	-	-	-	5,397	5,397
Transfer from assets under construction	337	2,410	439	1,171	915	(5,272)	-
Disposals and retirements	-	(1,170)	(222)	(1,687)	-	-	(3,079)
Balance at 31 December 2008	**88,466**	**45,385**	**5,854**	**35,342**	**11,436**	**223**	**186,706**
ACCUMULATED DEPRECIATION							
Balance at 1 January 2007	**32,844**	**29,362**	**1,868**	**25,868**	**5,863**	**-**	**95,805**
Charge for the year	1,742	4,674	1,011	3,666	1,558	-	12,651
Disposals and retirements	-	(1,811)	(959)	(2,189)	(742)	-	(5,701)
Balance at 31 December 2007	**34,586**	**32,225**	**1,920**	**27,345**	**6,679**	**-**	**102,755**
Charge for the year	2,056	4,625	1,106	3,373	1,419	-	12,579
Disposals and retirements	-	(1,162)	(139)	(1,677)	-	-	(2,978)
Balance at 31 December 2008	**36,642**	**35,688**	**2,887**	**29,041**	**8,098**	**-**	**112,356**
Net book value							
At 31 December 2008	**51,824**	**9,697**	**2,967**	**6,301**	**3,338**	**223**	**74,350**
At 31 December 2007	**53,543**	**11,920**	**3,717**	**8,513**	**3,842**	**98**	**81,633**

Tangible assets with a book value of HRK 28,252 thousand (2007: HRK 29,391 thousand) were pledged as collateral for deposits made by companies to the amount of HRK 35,000 thousand (2007: HRK 28,000 thousand).

20. INVESTMENTS IN SUBSIDIARIES

In 2007, the Bank acquired an equity share in the company POBA ICO d.o.o. to the amount of HRK 1,530 thousand, representing 51%. The subsidiary has not been consolidated in these financial statements as its net assets are not material for the Bank.

The following key data were reported by POBA ICO d.o.o. at 31 December 2008:

	2008
Total assets	1,095
Total net assets	(795)
Net loss for 2008	1,813

21. OTHER ASSETS

	2008	2007
Accrued fees and commissions	3,532	3,572
Foreclosed assets	2,123	2,414
Income tax refund	1,391	1,231
Prepaid expenses	1,641	1,309
Other advances made	189	1,816
Other assets	1,872	1,546
	10,748	**11,888**
	-	
Impairment allowance	(1,968)	(2,347)
	8,780	**9,541**

Foreclosed property and equipment are assets not used by the Bank and amounted to HRK 2,123 thousand at 31 December 2008 (2007: HRK 2,414 thousand). They are carried by the Bank at cost.

Movements in impairment allowance for potential losses on other assets were as follows:

	2008	2007
Balance at 1 January	**2,347**	**2,923**
Additions	1,816	393
Amounts collected	(1,979)	(256)
Amounts written off	(217)	(712)
Exchange differences	1	(1)
Balance at 31 December	**1,968**	**2,347**

22. AMOUNTS DUE TO OTHER BANKS

	2008	2007
Foreign currency demand deposits	39,866	37,070
Foreign currency term deposits	-	7,330
	39,866	**44,400**

Demand deposit funds represent funds received from Banche Popolari Milano for the payment of pension benefits to all the beneficiary of Italian pensions in the Republic of Croatia, with an interest rate agreed at 30 percent of one-month EURIBOR.

23. AMOUNTS DUE TO CUSTOMERS

	2008	2007
CITIZENS		
Demand deposits		
- HRK denominated	209,319	235,785
- foreign currency denominated	133,549	134,710
Term deposits		
- HRK denominated	446,695	404,000
- foreign currency denominated	877,086	764,171
TOTAL CITIZENS	**1,666,649**	**1,538,666**
LEGAL ENTITIES		
Demand deposits		
- HRK denominated	240,056	281,064
- foreign currency denominated	30,673	35,874
Term deposits		
- HRK denominated	203,754	446,356
- foreign currency denominated	28,710	28,685
TOTAL LEGAL ENTITIES	**503,193**	**791,979**
TOTAL DEPOSITS FROM CUSTOMERS	**2,169,842**	**2,330,645**

24. OTHER BORROWED FUNDS

	2008	2007
Repo loans from domestic banks, HRK denominated	21,600	-
Short-term money market borrowings from domestic banks	98,565	89,204
CBRD loans	68,978	63,211
	189,143	**152,415**

Repo loans from domestic banks and other legal entities represent a loan facility for which the Bank has pledged its securities with the obligation to repurchase those securities at a certain future date. The repo loan received in 2008 bears interest at the agreed rate of 5.5 percent. The pledged securities are RHMF-O-15CA bonds of the Republic of Croatia, with a market value of HRK 23,010 thousand. Short-term money market borrowings were raised from domestic banks for current liquidity purposes. The interest rates on those borrowings range from 6.5% to 7.5 percent (2007: 7.0% - 8.50%).

Loans received from the Croatian Bank for Reconstruction and Development (CBRD) relate to loans approved by the CBRD through the Bank in accordance with the CBRD's programs for subsidising small and medium-sized entrepreneurs, tourism and agriculture, which bear interest at rates from 0 to 4 percent (2007: 0% - 4%).

25. OTHER LIABILITIES

	2008	2007
Deferred fees and commissions	1,102	963
Accrued interest payable	1,212	978
Dividends payable	147	149
Amounts due to employees	3,572	3,714
Provisions for severance pays	2,118	991
Amounts due to suppliers	3,943	4,284
Pending disbursements under loan commitments	4,975	5,842
Accruals in respect of received funds	5,534	1,711
Current income tax liability	4,605	-
Items in course of payment	3,143	4,345
Other HRK denominated liabilities	1,537	1,781
Other foreign currency denominated liabilities	103	255
	31,991	**25,013**

26. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

a) Analysis

	2008	2007
Provisions for other contingent liabilities	2,579	4,320

b) Movements in provisions

Movements in provisions for contingent liabilities and charges	2008	2007
Balance at 1 January	**4,320**	**4,794**
Decreases during the year	(1,741)	(474)
Balance at 31 December	**2,579**	**4,320**

27. SHARE CAPITAL

Share capital consists of ordinary shares. The total number of ordinary shares in issue at the end of 2008 was 668,749 (2007: 420,762 pcs), with a nominal value of HRK 400.00 per share.

Pursuant to the decision of the General Assembly of Shareholders, the share capital of the Bank was increased in late 2008 through the issue of 247,987 ordinary shares. The shares of the 6th issue were issued through a private offering at a nominal value of HRK 400.00 per share, upon which the share capital increase was paid in cash to the amount of HRK 99,1995 thousand.

At 31 December 2008, the Bank held 9,173 treasury shares, which it carries at cost (2007: 2,289 treasury shares).

Movements in shares

	Number of shares issued	Treasury shares	Total number of shares
31 December 2006	**420,762**	**(2,437)**	**418,325**
Purchase of treasury shares	-	(7,510)	(7,510)
Sale of treasury shares	-	7,261	7,261
Allocation of 2006 profit	-	397	397
31 December 2007	**420,762**	**(2,289)**	**418,473**
Issue of shares	247,987	-	247,987
Purchase of treasury shares	-	(7,302)	(7,302)
Sale of treasury shares	-	-	-
Allocation of 2007 profit	-	418	418
31 December 2008	**668,749**	**(9,173)**	**659,576**

The key shareholders of the Bank at 31 December were as follows:

	2008		2007	
	Number of shares	Ordinary shares in %	Number of shares	Ordinary shares in %
Lorenzo Gorgoni	66,002	9.87	40,645	9.66
Assicurazioni Generali S.p.A.	63,791	9.54	39,284	9.34
Cerere S.R.L., Trieste	63,735	9.53	39,249	9.33
Antonia Gorgoni	65,336	9.77	37,156	8.83
Miljan Todorovic	55,731	8.33	34,320	8.16
Andrea Montinari	38,515	5.76	23,719	5.64
Piero Montinari	38,515	5.76	23,719	5.64
Sigilfredo Montinari	38,529	5.76	23,727	5.64
Dario Montinari	38,526	5.76	23,725	5.64
Custody account	26,346	3.94	19,304	4.59
Giovanni Semeraro	27,494	4.11	17,247	4.10
Other shareholders (individually below 3%)	146,229	21.87	98,667	23.43
	668,749	**100.00**	**420,762**	**100.00**

28. OTHER RESERVES

	2008	2007
Legal reserves	51,863	33,002
Reserves for treasury shares	16,830	16,830
General banking risk reserve	5,104	5,104
Undistributable reserves	**73,797**	**54,936**
Capital gains on trading in treasury shares	4,802	5,095
Distributable reserves	**4,802**	**5,095**
Reserve on remeasurement at fair value	**(7,747)**	**1,364**
	70,852	**61,395**

In accordance with Croatian legislation, banks are required to allocate 5 percent of the net profit to a non-distributable legal reserve until the reserve funds reach 5 percent of the share capital or more if specified so by the bank's statute. The general banking risk reserve was allocated in accordance with the CNB regulations out of the net profits for the year 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Bank's exposure has been increasing at a rate below 15 percent annually. Other reserves are distributable only with the approval by the General Shareholders' Assembly.

Both the distributable and non-distributable reserves of the Bank have been determined and presented in these financial statements in accordance with the Croatian regulations and decisions of the Croatian National Bank.

29. FUNDS MANAGED FOR AND ON BEHALF OF THIRD PARTIES AND, CUSTODY SERVICES

The Bank manages significant funds for and on behalf of third parties, entities and individuals. Those assets are accounted for separately from those of the Bank. Income and expenses arising from these funds are credited and charged to corresponding sources and no liability falls on the Bank in connection with these transactions. The Bank is compensated for its services by fees chargeable to the funds. Assets and liabilities on loans managed for and on behalf of third parties can be presented as follows:

	2008	2007
ASSETS		
Loans to individuals	28,019	29,181
Loans to corporate entities	91,561	119,704
Cash	16,656	1,892
Total assets:	**136,236**	**150,777**

LIABILITIES		
Public sector	24,001	26,215
Corporate entities	96,763	108,954
Financial institutions	15,472	15,608
Total liabilities:	**136,236**	**150,777**

The Bank provides custody services for securities. The market value of equities taken under custody was HRK 140,849 thousand at 31 December 2008 (2007: HRK 460,184 thousand). During 2008, the total Bank's fee income in respect of funds managed for and on behalf of third parties amounted to HRK 4,690 thousand (2007: HRK 3,983 thousand).

30. CONTINGENT LIABILITIES AND COMMITMENTS

Lawsuits

At 31 December 2008 and 2007 there were several lawsuits outstanding against the Bank. Based on the management's estimate, no significant losses will eventuate from these suits.

Capital commitments

At 31 December 2008 and 2007, the Bank had no capital commitments in respect of capital investment projects.

Commitments to extend credit, guarantees and other financial instruments

Total outstanding amounts under guarantees, letters of credit and undrawn loans at the year end were as follows:

	2008	2007
Commitments – undrawn overdraft facilities on transaction accounts	117,224	188,396
Commitments – undrawn loans	42,517	68,855
Letters of intent	766	-
Guarantees	52,465	44,787
Foreign currency letters of credit	24,848	20,606
	237,820	**322,644**

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

Operating lease commitments

Future minimum receipts under operating leases are as follows:

	2008	2007
Up to 1 year	774	728
From 2 to 5 years	2,683	2,558
Over 5 years	-	1,229
Total	**3,457**	**4,515**

In 2008 and 2007, there were no contingent rental payments included in the income statement. All lease agreements are renewable, and the current leases have preference in terms of extending the existing agreements. There is no purchase option under these agreements.

Future minimum lease payments under operating leases are as follows:

	2008	2007
Up to 1 year	9,815	6,977
From 2 to 5 years	26,323	21,415
Over 5 years	7,176	10,821
Total	**43,314**	**39,213**

Upon the expiry of the lease term, the lease agreements are renewable at the market price.

31. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Such transactions are made in the ordinary course of business at market terms and conditions, and market interest rates. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Parties related to the Bank include the Bank's Management Board, its officers with the general power of attorney, members of the Supervisory Board and their related persons. Related party transactions at the year end were as follows:

	Key management and their related persons		Supervisory Board	
	2008	2007	2008	2007
Loans				
Opening balance	1,440	705	-	-
Increases/(decreases) during the year	1,202	735	-	-
Closing balance	**2,642**	**1,440**	**-**	**-**
Interest income	124	68	2	-

	Key management and their related persons		Supervisory Board	
	2008	2007	2008	2007
Deposits received				
Opening balance	4,583	4,144	1,354	1,100
Increases/(decreases) during the year	4,105	439	(435)	254
Closing balance	**8,688**	**4,583**	**919**	**1,354**
Interest expense	236	179	4	2

Key management remuneration

	2008	2007
Gross salaries and other short-term benefits	7,027	6,626
Bonuses (shares)	556	850

The Management Board consists of three members. General Assembly approved distribution of treasury shares to employees as 2007 profit distribution.

The exposure and liabilities to the company Poba Ico Invest d.o.o., an investment fund management company, in addition to the direct investments in the investment fund managed by the company are as follows:

	Assets		Liabilities	
	2008	2007	2008	2007
Poba Ico Invest d.o.o.	5,052	6,855	772	1,435

32. FINANCIAL RISK MANAGEMENT POLICIES

This section provides details of the Bank's exposure to risk and describes the methods used by management to control the risk. The Bank's operations expose it to various types of financial risks. These operations include analyzing, assessing, accepting and managing a certain level of risk, or a combination of risks. Assuming risk is a fundamental feature of financial operations, with risks being inherent to the business. The Bank's aim is to achieve an appropriate balance between the risk and return, whilst minimizing potential negative effects on its financial performance. The Bank's risk policies have been designed to identify and analyse those risks in order to define appropriate limits and controls, and to monitor those risks and limit compliance by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect any changes in its markets, products and best practice. The most important types of financial risks to which the Bank is exposed are the credit risk, liquidity risk, market risk and operational risk. The market risk includes the currency risk, interest rate risk and equities and securities price risk.

An integrated system of risk management is being established at Bank level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Bank. The limits are set according to the amount of the regulatory capital and apply to all types of risk. The methodology and models for managing the operational risk have been developed.

Credit risk

The Bank takes on exposure to credit risk, which may be defined as the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. Major changes in the economy or the status of an industry in which the Bank's portfolio is concentrated, may lead to losses not provided for at the balance sheet date. Therefore, the Board manages it exposure to credit risk with a high level of prudence. The exposure to credit risk arises primarily in respect of loans and advances, debt and other securities. Credit risk is also present in off-balance sheet financial arrangements, such as commitments to extend credit and guarantees issued. Credit risk management and control have been centralised within the Risk Management Division.

The Bank manages credit risk in accordance with its policies, procedures and other internal guidelines. The Bank has defined its credit policy as a set of measures for allocating loan funds to loan applicants with the aim of sound and prudent credit risk management, by ensuring unbiased lending principles and goals and setting them as a general rule and reliable guidance in making every decision to lend.

The credit policy defines the focus of considerations to be made in performing credit operations. If a proposal to extend a loan departs from the credit policy, the final decision is made by the Bank's management.

The structure of loans over a certain period is defined by the credit policy. Loans are structured by type of customer, or groups of customers, type or group of products, by sector and industry. The policy sets limits for individual placements in accordance with the guidelines of the Croatian National Bank. Given that loans are approved using the two pairs of eyes principle, it is very unlikely that a loan authorised by overriding the procedures might remain undetected (unless a group of persons acts jointly in agreement).

The credit policy defines and sets out policies and procedures for extending loans to individuals and legal entities. Credit risk is reviewed on an ongoing basis and reported on regularly to identify timely any indication of impairment in the loan portfolio. The Bank has been continually applying prudent methods and models used in the process of the credit risk assessment.

Loans are classified into the following three main groupings, in accordance with the regulations of the Croatian National Bank:

- Performing loans – A Risk Group – subject to a collective assessment;
- Substandard loans – B Risk Group – subject to individual assessment;
- Non-performing loans (bad debt) – C Risk Group – subject to individual assessment.

All three levels contain sub-categories, which are mandatory for the substandard loans. Loans are classified into the groupings by criteria specified in the applicable Decision of the Croatian National Bank and the Bank's internal decision. In assessing each individual customer, the Bank considers the credit rating of the borrower, the past debt service history and the collaterals obtained for loans, guarantees and other placements.

The Bank reviews the risk assessment on its loans and advances on a quarterly basis. Based on the risk assessment and the risk groupings as defined by the Decision on the Internal Loan Classification System, the required level of provision is determined for every individual debtor impaired or type of placement. The final decision on the required level of provisions for identified potential losses is made by the Bank's management.

Liquidity risk

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

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings, subordinated liabilities including deposits, borrowings and share capital. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the Bank's overall strategy. In addition, the Bank holds a portfolio of liquid assets as a part of its liquidity risk management.
The Bank adjusts its business activities related to liquidity risk according to regulatory and internal policies for maintenance of liquidity reserves, by matching of liabilities and assets, monitoring compliance with the externally and internally set limits, preferred liquidity ratios and contingency planning procedure. The Treasury manages liquidity reserves daily, ensuring also the accomplishment of all customers' needs.

There is a concentration in the deposit portfolio of top 20 individual and corporate depositors in the total deposits, which is regularly reported to the Bank's Management Board on a monthly level. In addition to the regulatory requirements set out above, the Bank has the obligation to monitor the structural indicators of the liquidity and concentration levels, which have been set in the internal regulations of the Bank.

The structural liquidity level indicators present the correlations between certain items of assets and liabilities such as: the ratio of total loans to total deposits received; the ratio of total loans to total assets; the ratio of liquid assets to total deposits received; the ratio of total loans to total liabilities.

Market risk

The majority of available for sale instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous. Market risks represent potential effects of external factors on the value of assets, liabilities and off-balance sheet items of the Bank, resulting from fluctuations in prices and trends in the financial markets. The instruments are recognised at fair value, and all changes in market conditions directly affect revaluation reserves. The Bank manages its use of trading instruments in response to changing market conditions. The limits are defined in accordance with the Bank's requirements and strategy, and the senior management risk policy indications.

The exposure to market risk is formally managed within the risk limits approved by the Management Board and revised at least annually. Key liquidity data about the liquidity positions in the local and foreign currency are provided to the Banks' Board and senior management on a daily basis, with a focus on the most significant fluctuations in interest and foreign exchange rates. The Treasury Division provides the Management Board with weekly reports on currency risk exposure. Also, the Risk Management Division provides the Management Board with monthly reports on the total currency risk exposure. In managing its market risks, the Bank resorts to various strategies. Value-at-risk (VaR) methodology is applied to the Bank's open foreign currency position to estimate the maximum potential losses on the basis of certain assumptions regarding various changes in market conditions. The methodology defines the maximum loss that the Bank may suffer with a limited level of reliability (95 and 99 percent). However, this approach does not preclude any losses outside the defined limits in case of major changes in market terms and conditions. The exposure figures and limit utilisation are delivered to the Treasury Division on a daily basis.

Currency Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The foreign exchange risk exposure is monitored at the overall balance sheet level in terms of foreign exchange open position as prescribed by the regulatory provisions and additionally through the internal limits on a daily basis. The currency position of the Bank is monitored daily through the report on the open foreign currency positions in accordance with the CNB requirements. For the purposes of analysing the currency risk exposure, the Supervision and Risk Reporting Division prepares regular management reports. The Bank has the obligation to adjust its foreign currency position in line with the currency risk to ensure that the foreign exchange open position does not exceed 20 percent of the Bank's regulatory capital, as determined by the CNB.

Interest rate risk

The interest rate risk is the sensitivity of the Bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or re-price in a given period generate interest rate risk. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that the interest-earning assets and interest-bearing liabilities mature or change rates at different times or in differing amounts. In case of the floating rate, the assets and liabilities of the Bank are also exposed to the basis risk which is the difference in re-pricing characteristics of the various floating rate indices.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The exposure to interest rate risk is monitored and measured using re-pricing gap analysis in the sensitivity to changes in interest rates, the net interest income and economic value of equity. Risk management activities are aimed at optimising the net interest income and economic value of equity, when the market interest rate levels are consistent with the Bank's business strategies. Interest rate risk is reported through an interest rate gap report, by which the Management Board approves internally set limits for individual time horizons. The Bank's Management Board and Asset and Liability Committee control and manage the interest rate risk by involving all organisational units that operatively apply the prescribed interest rates.

Equity and debt security price risk

Equity and debt security price risk is the risk that equity and debt security prices will fluctuate, affecting the fair value of the underlying investments and other instruments that derive their value from these investments. The primary exposure to equity price risk arises from the available-for-sale equity shares accounted for at fair value.

Derivative financial instruments

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

Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk.

In order to efficiently measure and manage the operational risk exposure at the Bank level, the Bank is developing internal models for the operational risk exposure management in line with the Basel II prescribed framework. The main goals of this internal model are to introduce and apply methods enabling a detailed analysis of operational risks at the Bank and support the decision-making processes through development of efficient policies for the management and mitigation of the operational risk at the Bank level. Operational risk events are aggregated in a single data base using a web application.

According to the Basel II guidelines and EU Directives, there are three operational risk assessment methods, which are as follows:

- Basic Indicator Approach (BIA);
- Standardised Approach (SA); and
- Advanced Measurement Approach (AMA).

The Bank has opted to adopt the BIA approach. Within the operational risk management framework, the Bank has adopted the Operational Risk Policy that provides the methodology for managing operational risks, together with a Data Collection and Operational Risk Reporting Procedure that specifies the methods for collecting operational risk event data and reporting. The Bank plans to identify its risk using the mapping method and implement the key risk indicators (KRI) which, together with the measures specified above, would constitute the entire operational risk management framework. The Bank will continue its efforts towards establishing a reliable and adequate operational risk management system.

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Loans and advances to customers and assets held to maturity are measured at amortised cost less impairment.

The following methods and assumptions have been made in estimating the fair value of financial instruments:

- Loans and advances to customers are presented net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected future cash flows are estimated considering credit risk and any indication of impairment. As the Bank has limited portfolio of loans and advances with fixed rate and longer term maturity, the fair values of loans and advances are not significantly different from their carrying amounts.
- The fair value of securities is based on market prices, with the exception of unquoted equity investments whose fair value is based on the latest available financial statements of the issuer.
- The fair value of certain investments carried at amortised cost less impairment for which no quoted market price is available is, where possible, estimated using mark to model techniques and, as a result, their estimated fair values appeared not to be materially different from their carrying value. However, the afore-mentioned techniques did not include the market liquidity factor on similar instruments.
- For demand deposits and deposits with no defined maturities, fair value is determined to be the amount payable on demand at the balance sheet date.
- Most of the Bank's long-term borrowings are at variable rates which are linked to market and are repriced regularly. As such, management believes that the book value of the long-term borrowings approximates their fair value.

34. INTEREST RATE RISK

The tables below provide the Bank's interest rate sensitivity position at 31 December 2008 and 2007 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of other items.

At 31 December 2008	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non - interest bearing	Total
ASSETS						
Cash and amounts due from banks	-	-	-	-	244,443	244,443
Balances with Croatian National Bank	-	97,010	75,397	35,035	133	207,575
Placements with other banks	626,119	-	-	-	-	626,119
Loans and advances to customers	1,301,568	36,047	41,351	113,334	15,081	1,507,381
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets available for sale	-	-	1,742	3,484	31,097	36,323
Financial assets held to maturity	-	-	-	54,659	497	55,156
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	19,211	19,211
Property and equipment	-	-	-	-	74,350	74,350
Deferred tax assets	-	-	-	-	2,929	2,929
Other assets	-	-	-	-	8,780	8,780
TOTAL ASSETS	**1,927,687**	**133,057**	**118,490**	**206,512**	**398,051**	**2,783,797**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	39,866	-	-	-	-	39,866
Amounts due to customers	1,327,949	197,290	529,254	87,354	27,995	2,169,842
Other borrowed funds	120,325	8,071	19,172	41,340	235	189,143
Other liabilities	-	-	-	-	31,991	31,991
Provisions for continent liabilities and charges	-	-	-	-	2,579	2,579
Total liabilities	**1,488,140**	**205,361**	**548,426**	**128,694**	**62,800**	**2,433,421**
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,068)	(11,068)
Other reserves	-	-	-	-	70,852	70,852
Profit for the year	-	-	-	-	20,077	20,077
Total shareholders' equity	**-**	**-**	**-**	**-**	**350,376**	**350,376**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,488,140**	**205,361**	**548,426**	**128,694**	**413,176**	**2,783,797**
NET INTEREST GAP	**439,547**	**(72,304)**	**(429,936)**	**77,818**	**(15,125)**	**-**

At 31 December 2007	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non - interest bearing	Total
ASSETS						
Cash and amounts due from banks	63,349	-	-	-	145,853	209,202
Balances with Croatian National Bank	-	130,928	87,739	39,598	182	258,447
Placements with other banks	527,533	-	1,440	1,232	-	530,205
Loans and advances to customers	1,375,031	11,510	63,701	115,260	11,009	1,576,511
Financial assets at fair value through profit or loss	-	-	-	-	40,029	40,029
Financial assets available for sale	-	-	-	-	21,226	21,226
Financial assets held to maturity	-	-	-	53,755	468	54,223
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	19,299	19,299
Property and equipment	-	-	-	-	81,633	81,633
Deferred tax assets	-	-	-	-	2,155	2,155
Other assets	-	-	-	-	9,541	9,541
TOTAL ASSETS	**1,965,913**	**142,438**	**152,880**	**209,845**	**332,925**	**2,804,001**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	44,400	-	-	-	-	44,400
Amounts due to customers	956,848	377,397	706,552	259,620	30,228	2,330,645
Other borrowed funds	89,164	3,811	21,520	37,578	348	152,421
Other liabilities	-	-	-	-	25,013	25,013
Provisions for continent liabilities and charges	-	-	-	-	4,320	4,320
Total liabilities	**1,090,412**	**381,208**	**728,072**	**297,198**	**59,909**	**2,556,799**
Shareholders' equity						
Share capital	-	-	-	-	168,305	168,305
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(4,930)	(4,930)
Other reserves	-	-	-	-	61,395	61,395
Profit for the year	-	-	-	-	19,417	19,417
Total shareholders' equity	**-**	**-**	**-**	**-**	**247,202**	**247,202**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,090,412**	**381,208**	**728,072**	**297,198**	**307,111**	**2,804,001**
NET INTEREST GAP	**875,501**	**(238,770)**	**(575,192)**	**(87,353)**	**25,814**	**-**

During 2008, the weighted average effective interest rate on loans and advances to customers was 9.45 percent (2007: 9.25 percent).

During 2008, the weighted average effective interest rate on deposits from customers was 4.02 percent (2007: 3.86 percent).

The Table below presents the sensitivity of Bank's variable rate assets and liabilities to the fluctuations in interest rates assuming the maximum recorded increase or decrease in the interest rates during 2008 and in early 2009. Changes in interest rates have a direct impact on net interest income. In case of a decrease interest rate in the same percentage, there would be interest expense to the same amount.

	Assumed increase of the interest rate	Impact on 2008 profit and loss	Impact on 2007 profit and loss
Assets	5%	8,986	9,073
Liabilities	5%	(4,198)	(4,423)
Impact on net interest income		**4,788**	**4,650**

35. CURRENCY RISK

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

At 31 December 2008	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
ASSETS						
Cash and amounts due from banks	60,042	5,392	10,662	76,096	168,347	244,443
Balances with Croatian National Bank	37,846	8,039	-	45,885	161,690	207,575
Placements with other banks	277,957	14,000	9,822	301,779	324,340	626,119
Loans and advances to customers	891,457	13,955	1,355	906,767	600,614	1,507,381
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets available for sale	6,818	-	-	6,818	29,505	36,323
Financial assets held to maturity	-	-	-	-	55,156	55,156
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	19,211	19,211
Property and equipment	-	-	-	-	74,350	74,350
Deferred tax assets	-	-	-	-	2,929	2,929
Other assets	242	3	3	248	8,532	8,780
TOTAL ASSETS	**1,274,362**	**41,389**	**21,842**	**1,337,593**	**1,446,204**	**2,783,797**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	39,866	-	-	39,866	-	39,866
Amounts due to customers	1,142,330	40,294	16,496	1,199,120	970,722	2,169,842
Other borrowed funds	51,532	-	-	51,532	137,611	189,143
Other liabilities	5,154	107	17	5,278	26,713	31,991
Provisions for continent liabilities and charges	258	-	-	258	2,321	2,579
Total liabilities	**1,239,140**	**40,401**	**16,513**	**1,296,054**	**1,137,367**	**2,433,421**
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,068)	(11,068)
Other reserves	-	-	-	-	70,852	70,852
Profit for the year	-	-	-	-	20,077	20,077
Total shareholders' equity	**-**	**-**	**-**	**-**	**350,376**	**350,376**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,239,140**	**40,401**	**16,513**	**1,296,054**	**1,487,743**	**2,783,797**
NET FX GAP	**35,222**	**988**	**5,329**	**41,539**	**(41,539)**	**-**

At 31 December 2007	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
ASSETS						
Cash and amounts due from banks	76,676	11,938	13,836	102,450	106,752	209,202
Balances with Croatian National Bank	40,183	9,426	-	49,609	208,838	258,447
Placements with other banks	333,825	6,069	11,042	350,936	179,269	530,205
Loans and advances to customers	751,454	14,794	3,924	770,172	806,339	1,576,511
Financial assets at fair value through profit or loss	23,670	-	-	23,670	16,359	40,029
Financial assets available for sale	3,668	-	-	3,668	17,558	21,226
Fin. assets held to maturity	-	-	-	-	54,223	54,223
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	19,299	19,299
Property and equipment	-	-	-	-	81,633	81,633
Deferred tax assets	-	-	-	-	2,155	2,155
Other assets	371	5	6	382	9,159	9,541
TOTAL ASSETS	**1,229,847**	**42,232**	**28,808**	**1,300,887**	**1,503,114**	**2,804,001**

LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	44,400	-	-	44,400	-	44,400
Amounts due to customers	1,129,943	37,316	24,287	1,191,546	1,139,099	2,330,645
Other borrowed funds	45,773	-	-	45,773	106,648	152,421
Other liabilities	2,080	302	8	2,390	22,623	25,013
Provisions for continent liabilities and charges	1,402	-	-	1,402	2,918	4,320
Total liabilities	**1,223,598**	**37,618**	**24,295**	**1,285,511**	**1,271,288**	**2,556,799**
Shareholders' equity						
Share capital	-	-	-	-	168,305	168,305
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(4,930)	(4,930)
Other reserves	-	-	-	-	61,395	61,395
Profit for the year	-	-	-	-	19,417	19,417
Total shareholders' equity	**-**	**-**	**-**	**-**	**247,202**	**247,202**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,223,598**	**37,618**	**24,295**	**1,285,511**	**1,518,490**	**2,804,001**
NET FX GAP	**6,249**	**4,614**	**4,513**	**15,376**	**(15,376)**	**-**

The Table below presents the sensitivity of Bank's net assets and profit and loss to an increase in CNB's middle exchange rate. By applying the same assumed percentage to a decrease of the CNB middle exchange rate, the impact on the profit or loss, on the net principle, by individual currency would be the same and opposite, that is, the aggregate impact on all currencies would result in expense for the year 2008 and in income for the year 2007. The results of fluctuations in exchange rates are reported in the income statement as foreign exchange gains or losses.

Currency on 31 December 2008	Assumed increase of CNB's middle exchange rate	Influence on profit and loss	Influence on profit and loss	Influence on profit and loss
		Bank Assets	Bank Liabilities	Net
Assets	3%	40,128	-	
Liabilities	3%	-	38,882	
Net assets/(liabilities)				**1,246**

Currency on 31 December 2007	Assumed increase of CNB's middle exchange rate	Influence on profit and loss	Influence on profit and loss	Influence on profit and loss
		Bank Assets	Bank Liabilities	Net
Assets	3%	39,026	-	
Liabilities	3%	-	38,565	
Net assets/(liabilities)				**461**

36. LIQUIDITY RISK

At 31 December 2008	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	244,443	-	-	-	-	244,443
Balances with Croatian National Bank	133	97,010	75,397	27,676	7,359	207,575
Placements with other banks	626,119	-	-	-	-	626,119
Loans and advances to customers	276,157	185,218	391,777	328,967	325,262	1,507,381
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets available for sale	24,224	6,873	1,742	3,484	-	36,323
Financial assets held to maturity	551	106	477	27,522	26,500	55,156
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	19,211	19,211
Property and equipment	-	-	-	-	74,350	74,350
Deferred tax assets	-	-	-	2,929	-	2,929
Other assets	3,383	-	3,274	-	2,123	8,780
TOTAL ASSETS	**1,175,010**	**289,207**	**472,667**	**390,578**	**456,335**	**2,783,797**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	39,866	-	-	-	-	39,866
Amounts due to customers	809,427	307,659	787,221	215,333	50,202	2,169,842
Other borrowed funds	120,560	8,071	19,172	16,124	25,216	189,143
Other liabilities	20,285	544	8,267		2,895	31,991
Provisions for contingent liabilities and charges	647	633	1,257	42	-	2,579
Total liabilities	**990,785**	**316,907**	**815,917**	**231,499**	**78,313**	**2,433,421**
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,068)	(11,068)
Other reserves	-	-	-	-	70,852	70,852
Profit for the year	-	-	-	-	20,077	20,077
Total shareholders' equity	**-**	**-**	**-**	**-**	**350,376**	**350,376**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**990,785**	**316,907**	**815,917**	**231,499**	**428,689**	**2,783,797**
NET LIQUIDITY GAP	**184,225**	**(27,700)**	**(343,250)**	**159,079**	**27,646**	**-**

At 31 December 2007	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	209,202	-	-	-	-	209,202
Balances with Croatian National Bank	182	130,928	87,739	30,280	9,318	258,447
Placements with other banks	528,765	-	1,440	-	-	530,205
Loans and advances to customers	233,261	164,739	479,102	350,349	349,060	1,576,511
Financial assets at fair value through profit or loss	40,029	-	-	-	-	40,029
Financial assets available for sale	10,334	4,795	1,742	3,484	871	21,226
Financial assets held to maturity	468	-	-	-	53,755	54,223
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	19,299	19,299
Property and equipment	-	-	-	-	81,633	81,633
Deferred tax assets	-	-	2,155	-	-	2,155
Other assets	5,671	218	1,238	-	2,414	9,541
TOTAL ASSETS	**1,027,912**	**300,680**	**573,416**	**384,113**	**517,880**	**2,804,001**

LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	44,400	-	-	-	-	44,400
Amounts due to customers	957,220	377,397	736,408	198,930	60,690	2,330,645
Other borrowed funds	89,512	3,811	21,520	12,986	24,592	152,421
Other liabilities	13,347	1,497	2,287	6,891	991	25,013
Provisions for contingent liabilities and charges	448	999	2,548	325	-	4,320
Total liabilities	**1,104,927**	**383,704**	**762,763**	**219,132**	**86,273**	**2,556,799**
Shareholders' equity						
Share capital	-	-	-	-	168,305	168,305
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(4,930)	(4,930)
Other reserves	-	-	-	-	61,395	61,395
Profit for the year	-	-	-	-	19,417	19,417
Total shareholders' equity	-	-	-	-	**247,202**	**247,202**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,104,927**	**383,704**	**762,763**	**219,132**	**333,475**	**2,804,001**
NET LIQUIDITY GAP	**(77,015)**	**(83,024)**	**(189,347)**	**164,981**	**184,405**	**-**

37. CREDIT RISK

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

As at 31 December 2008	Gross placements	Provisions on individual basis	Provisions on general basis	Net placements
A. BALANCE SHEET EXPOSURE				
Balances with Croatian National Bank	207,575	-	-	207,575
Placements with other banks	629,464	(3,345)	-	626,119
Assets available for sale	6,925	-	-	6,925
Assets held to maturity	55,156	-	-	55,156
Loans and advances to customers				
Performing	1,468,256	-	(22,150)	1,446,106
Substandard	99,483	(38,208)	-	61,275
Non-performing (bad)	67,053	(67,053)	-	-
Overall Balance sheet exposure	**2,533,912**	**(108,606)**	**(22,150)**	**2,403,156**
B. OFF-BALANCE SHEET EXPOSURE				
Customers				
Performing	237,188	-	(2,100)	235,088
Substandard	229	(75)	-	154
Non-performing (bad)	404	(404)	-	-
Overall Off-balance sheet exposure	**237,821**	**(479)**	**(2,100)**	**235,242**
OVERALL EXPOSURE (A+B)	**2,771,733**	**(109,085)**	**(24,250)**	**2,638,398**

b) Past due claims

Past due claims consist of balances due but not impaired for both the principle due and not yet due. They are arranged according to age, based on the individual placement including uncollected and not yet due interest and other income related to the principle. Other past due claims consists of interest not yet due and uncollected, and amounts written off or still in the process of collection. The total individual placement is classified by reference to the oldest past due claim, regardless of whether the principle or the interest is due.

As at 31 December 2008	Past due up to 30 days	Past due between 31 and 90 days	Past due between 91 and 180 days	Past due between 181 and 365 days	Past due between 1 and 2 years	Past due between 2 and 3 years	Past due over 3 years
Placements with other banks							3,345
Loans and advances to customers							
Citizens	24,395	60,729	16,100	10,936	8,508	8,103	27,476
Companies	8,127	51,148	10,795	6,691	10,961	19,320	46,153
Public and other sectors	3	101	-	-	-	-	1,912
Other past due claims	7,418	1,254	1,007	1,568	3,452	5,774	49,554
Total past due claims	39,943	**113,232**	**27,902**	**19,195**	**22,921**	**33,197**	**128,440**

As at 31 December 2007	Gross placements	Provisions on individual basis	Provisions on general basis	Net placements
A. BALANCE SHEET EXPOSURE				
Balances with Croatian National Bank	258,447	-	-	258,447
Placements with other banks	530,205	(3,345)	-	526,860
Assets available for sale	6,099	-	-	6,099
Assets held to maturity	54,223	-	-	54,223
Loans and advances to customers				
Performing	1,538,553	-	(21,850)	1,516,703
Substandard	96,963	(37,155)	-	59,808
Non-performing (bad)	58,942	(58,942)	-	-
Overall Balance sheet exposure	**2,543,432**	**(99,442)**	**(21,850)**	**2,422,140**
B. OFF-BALANCE SHEET EXPOSURE				
Customers				
Performing	321,016	-	(2,750)	318,266
Substandard	79	(21)	-	58
Non-performing (bad)	1,549	(1,549)	-	-
Overall Off-balance sheet exposure	**322,644**	**(1,570)**	**(2,750)**	**318,324**
OVERALL EXPOSURE (A+B)	**2,866,076**	**(101,012)**	**(24,600)**	**2,740,464**

As at 31 December 2007	Past due up to 30 days	Past due between 31 and 90 days	Past due between 91 and 180 days	Past due between 181 and 365 days	Past due between 1 and 2 years	Past due between 2 and 3 years	Past due over 3 years
Placements with other banks							3,345
Loans and advances to customers							
Citizens	12,985	74,797	12,821	15,364	7,459	6,740	25,116
Companies	11,509	27,123	4,706	11,935	19,063	9,149	34,671
Public and other sectors	4	12				1,855	57
Other past due claims	564	1,826	1,081	2,813	8,496	12,510	26,904
Total past due claims	**25,062**	**103,758**	**18,608**	**30,112**	**35,018**	**30,254**	**90,093**

c) Placements covered by collaterals

As at 31 December 2008	Deposit	Housing mortgages	Business mortgages	Other instruments	No collateral
A. BALANCE SHEET EXPOSURE					
Balances with Croatian National Bank	-	-	-	-	207,575
Placements with other banks	-	-	-	-	626,119
Loans and advances to customers	85,811	154,163	142,623	276,367	848,417
Assets available for sale	-	-	-	-	6,925
Assets held to maturity	-	-	-	-	55,156
Overall Balance sheet exposure	**85,811**	**154,163**	**142,623**	**276,367**	**1,744,192**
B. OFF-BALANCE SHEET EXPOSURE					
Customers	304	810	-	244	233,884
Overall Off-balance sheet exposure	**304**	**810**	**-**	**244**	**233,884**
OVERALL EXPOSURE (A+B)	**86,115**	**154,973**	**142,623**	**276,611**	**1,978,076**
Fair value of collaterals		**699,415**	**350,332**		

As at 31 December 2007	Deposit	Housing mortgages	Business mortgages	Other instruments	No collateral
A. BALANCE SHEET EXPOSURE					
Balances with Croatian National Bank	-	-	-	-	258,447
Placements with other banks	-	-	-	-	530,205
Loans and advances to customers	103,430	143,939	117,877	446,964	764,301
Assets available for sale	-	-	-	-	6,099
Assets held to maturity	-	-	-	-	54,223
Overall Balance sheet exposure	**103,430**	**143,939**	**117,877**	**446,964**	**1,613,275**
B. OFF-BALANCE SHEET EXPOSURE					
Customers	7,858	588	-	-	309,878
Overall Off-balance sheet exposure	**7,858**	**588**	**-**	**-**	**309,878**
OVERALL EXPOSURE (A+B)	**111,288**	**144,527**	**117,877**	**446,964**	**1,923,153**
Fair value of collaterals		**300,426**	**117,916**		

d) Provision ratio in performing and non-performing loans

	2008		2007	
	Loans and advances to customers (%)	Provision ratio (%)	Loans and advances to customers (%)	Provision ratio (%)
Performing loans	89.8	1.5	90.8	1.4
Substandard loans	6.1	38.4	5.7	38.3
Non-performing loans	4.1	100.0	3.5	100.0
Total	**100.0**		**100.0**	

38. PRICE RISK

Equity and debt instrument price risk represents the sensitivity of the available-for-sale assets to fluctuations in market prices, with effects on the income statement and the revaluation reserve within the Bank's equity.

	Assumed price change	Influence of price increase on revaluation reserves
At 31 December 2008	**20%**	**7,265**
At 31 December 2007	**20%**	**7,429**

39. CONCENTRATIONS OF ASSETS AND LIABILITIES

There is a significant concentration of the Bank's assets towards the Republic of Croatia, which is analysed as follows:

	2008	2007
Current account with the Croatian National Bank	130,917	64,131
Other cash reserve funds	10,000	10,000
Mandatory reserve with the Croatian National Bank	207,575	258,447
Bonds of the Republic of Croatia	55,156	54,223
Other assets	1,391	1,231
Deposits received	(1,905)	(24,994)
Current tax liability	(4,605)	-
	398,529	**363,038**

At 31 December 2008, the Bank's indirect exposure to the Republic of Croatia in respect of debt securities issued by local and municipal authorities, loans and other exposures were as follows:

	2008	2007
State Agency for Deposit Insurance and Rehabilitation of Banks	(1,212)	(978)
Municipal bonds of the Town of Koprivnica	4,356	6,099
Loans and advances to customers guaranteed by the State	4,074	3,342
Deposits received	(71,444)	(119,170)
Loans from the Croatian Bank for Reconstruction and Development	(68,977)	(63,211)
	(133,203)	**(173,918)**

4. About the Bank

Bank Management and Organisational Structure

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

Members of the Supervisory Board

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

Members of the Board of Directors

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

Business Processes Coordinator

Moreno Marson

Organisational unit for operations and organisation

Marko Žigmund

Departments

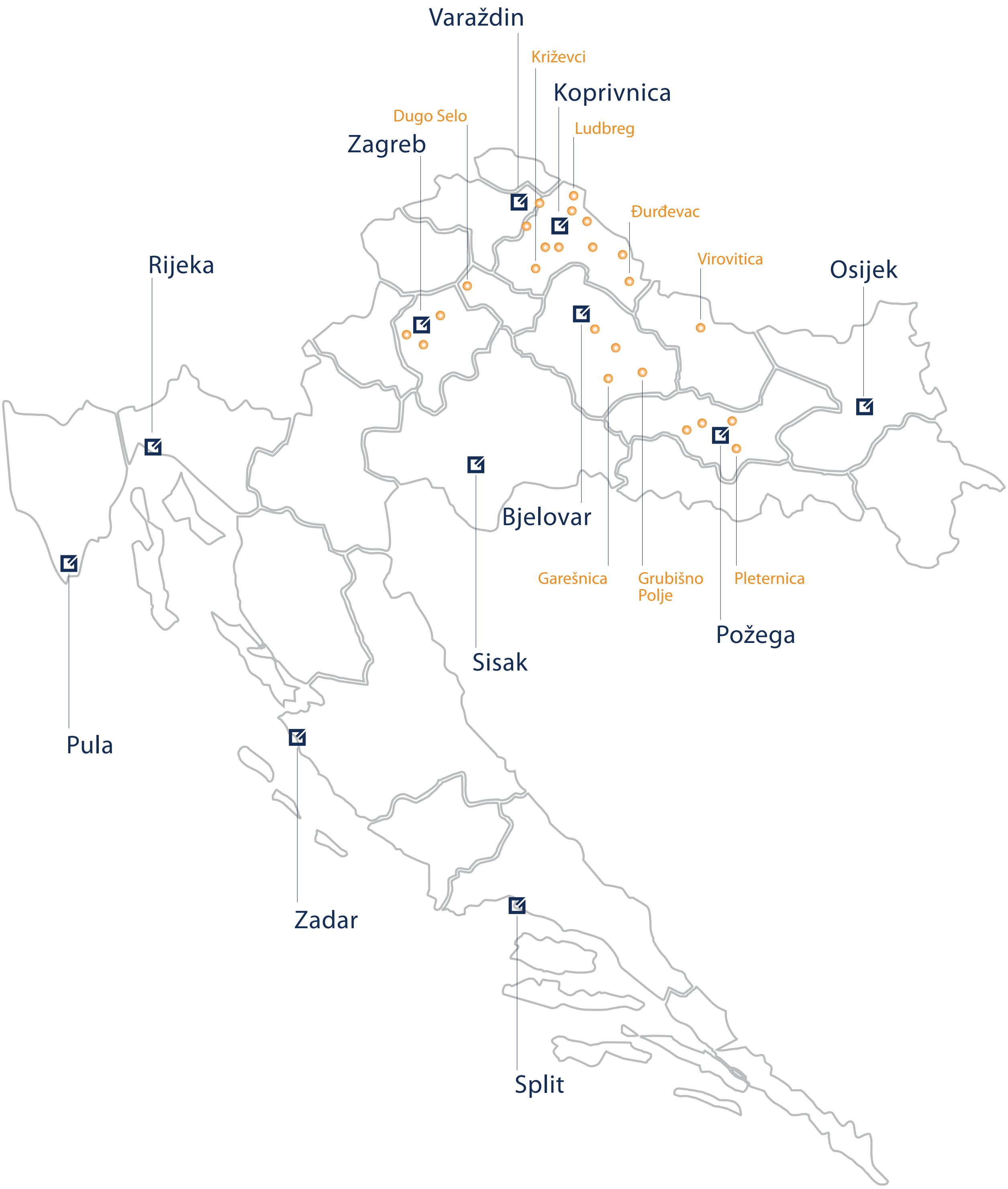
Strategic Development and Planning Department - Sanda Fuček Šanjić
Risk Management Department - Renata Vinković
Administration and Human Resource Management Department - Božana Kovačević
Accounting and Reporting Department - Vesna Lalоš
Support Department - Dragica Hrkalović
Internal Audit Department - Krunoslav Vnučec
Adjustment Department - Božica Širić

Sectors

Commercial Sector - Daniel Unger
Treasury Sector - Goran Varat
Payment Transaction and Back Office Sector - Snježana Pobi

Commercial Network

Commercial Center Bjelovar
Commercial Center Koprivnica
Commercial Center Požega
Commercial Center Pula
Commercial Center Rijeka
Commercial Center Sisak
Commercial Center Split
Commercial Center Varaždin
Commercial Center Zadar
Commercial Center Zagreb



LEGEND

Commercial center

Branches

Business network

Bjelovar Commercial Center

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Split Commercial Center

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Varaždin Commercial Center

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Zadar Commercial Center

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Zagreb Commercial Center

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A. Appendix 1

Appendix 1
Supplementary Reports for the Croatian National Bank

Pursuant to the Croatian Accounting Act (Official Gazette No. 109/07), the Croatian National Bank has promulgated the Decision on the Structure and Content of the Financial Statements of Banks (Official Gazette 62/08). Set out below are the statutory financial statements of the Bank presented in accordance with the Decision:

Income Statement

	2008 Unaudited HRK '000	2007 Unaudited HRK '000
1. Interest income	181,312	170,934
2. (Interest expenses)	(90,599)	(79,863)
3. Net interest income	**90,713**	**91,071**
4. Commission and fee income	50,754	53,233
5. (Commission and fee expenses)	(15,890)	(14,283)
6. Net commission and fee income	**34,864**	**38,950**
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. Gain/(loss) from trading activities	10,271	10,165
9. Gain/(loss) from embedded derivatives	(1)	(11)
10. Gain/(loss) from financial assets not traded in active markets at fair value through profit and loss	(5,684)	7,454
11. Gain/(loss) from financial assets available for sale	13,111	(13)
12. Gain/(loss) from financial assets held to maturity	-	-
13. Gain/(loss) from hedging transactions	-	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-
15. Income from other equity investments	1,619	765
16. Gain/(loss) from foreign exchange differences	1,057	1,584
17. Other income	4,250	3,925
18. Other expenses	(12,335)	(12,442)
19. General and administrative expenses, depreciation and amortization	(105,480)	(105,197)
20. Net income before value adjustments and provisions for losses	**32,385**	**36,251**
21. Expenses from value adjustments and provisions for losses	(8,477)	(17,468)
22. Profit/(loss) before tax	**23,908**	**18,783**
23. Income tax	(3,831)	634
24. Current year profit/(loss)	**20,077**	**19,417**
25. Earnings per share	36.86	46.15

Appendix to the Income Statement

	2008 HRK '000	2007 HRK '000
Current year profit/(loss)		
Attributable to the equity holders of the parent		
Minority interest	-	-

Balance Sheet

	2008 Unaudited HRK '000	2007 Unaudited HRK '000
Assets		
1. Cash and deposits with CNB	389,525	384,397
1.1. Cash	41,166	52,001
1.2. Deposits with CNB	348,359	332,396
2. Deposits with banking institutions	362,297	431,572
3. Treasury bills of Ministry of Finance and treasury bills of CNB	-	-
4. Securities and other financial instruments held for trading	-	-
5. Securities and other financial instruments available for sale	66,436	106,117
6. Securities and other financial instruments held to maturity	67,400	59,898
7. Securities and other financial instruments that are not traded in active markets at fair value through profit and loss	-	40,029
8. Derivative financial assets	1	8
9. Loans to financial institutions	324,070	179,000
10. Loans to other clients	1,471,904	1,493,217
11. Investments in subsidiaries, affiliated companies and joint ventures	1,530	1,530
12. Repossessed assets	2,123	2,414
13. Tangible and intangible assets (minus depreciation and amortization)	93,704	101,088
14. Interests, fees and other assets	14,550	15,023
A. Total assets	**2,793,540**	**2,814,293**

	2008 Unaudited HRK '000	2007 Unaudited HRK '000
Liabilities and equity		
1. Borrowings from financial institutions	188,908	152,067
1.1. Short-term borrowings	123,600	89,000
1.2. Long-term borrowings	65,308	63,067
2. Deposits	2,141,848	2,313,981
2.1. Deposits on giro-accounts and current accounts	387,160	436,689
2.2. Savings deposits	233,966	256,984
2.3. Term deposits	1,520,722	1,620,308
3. Other borrowings	-	-
3.1. Short-term borrowings	-	-
3.2. Long-term borrowings	-	-
4. Derivative financial liabilities and other trading financial liabilities	-	6
5. Issued debt securities	-	-
5.1. Issued short-term debt securities	-	-
5.2. Issued long-term debt securities	-	-
6. Issued subordinated instruments	-	-
7. Issued subordinated debt	-	-
8. Interests, fees and other liabilities	111,631	100,248
B. Total liabilities	**2,442,387**	**2,566,302**
Equity		
1. Share capital	259,447	166,391
2. Current year gain/loss	20,077	19,417
3. Retained earnings/(loss)	-	-
4. Legal reserves	51,863	33,002
5. Statutory and other capital reserves	27,513	27,817
6. Unrealised gain /(loss) from available for sale fair value adjustment	(7,747)	1,364
C. Total equity	**351,153**	**247,991**
D. Total liabilities and equity	**2,793,540**	**2,814,293**

Appendix to the Balance Sheet

	2008 HRK '000	2007 HRK '000
Total equity		
Attributable to the equity holders of the parent		
Minority interest		

Cash Flow Statement

	2008 Unaudited HRK '000	2007 Unaudited HRK '000
OPERATING ACTIVITIES		
1.1. Gain/(loss) before tax	23,909	18,784
1.2. Value adjustments and provisions for losses	8,477	17,468
1.3. Depreciation and amortization	13,331	13,534
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	5,684	(7,454)
1.5. Gain/(loss) from sale of tangible assets	(376)	32
1.6. Other (gains)/losses	351	(3,333)
1. Operating cash flow before changes in operating assets	**51,376**	**39,031**
2.1. Deposits with CNB	50,822	(37,110)
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	-	-
2.3. Deposits with banking institutions and loans to financial institutions	(70)	21
2.4. Loans to other clients	12,836	(223,208)
2.5. Securities and other financial instruments held for trading	-	-
2.6. Securities and other financial instruments available for sale	48,793	13,756
2.7. Securities and other financial instruments that are not traded in active markets at fair value through profit and loss	10,443	(1,918)
2.8. Other operating assets	472	12,109
2. Net (increase)/decrease in operating assets	**123,296**	**(236,350)**
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
3.1. Demand deposits	(49,530)	22,815
3.2. Savings and term deposits	(122,604)	234,368
3.3. Derivative financial liabilities and other trading liabilities	(6)	(10)
3.4. Other liabilities	13,128	(4,009)
3. Net increase/(decrease) in operating liabilities	**(159,012)**	**253,164**
4. Net cash flow from operating activities before profit tax	**15,660**	**55,845**
5. Profit tax paid	-	(1,642)
6. Net cash inflow/(outflow) from operating activities	**15,660**	**54,203**
INVESTING ACTIVITIES		
7.1. Proceeds from sale/(payments on purchases) of tangible and intangible assets	(5,571)	(30,318)
7.2. Proceeds from sale/(payments on purchases) of investments in subsidiaries, associates and joint ventures	-	(1,530)
7.3. Proceeds from sale/(payments on purchases) of securities and other financial instruments held to maturity	(7,502)	5,315
7.4. Dividends received	(1,619)	(765)
7.5. Other receipts/(payments) from financial activities	292	1,656
7. Net cash flow from investing activities	**(14,401)**	**(25,642)**
FINANCING ACTIVITIES		
8.1. Net increase/(decrease) in borrowings	36,841	693
8.2. Net increase/(decrease) in issued debt securities	-	-
8.3. Net increase/(decrease) in subordinated debt and hybrid instruments	-	-
8.4. Receipts from issued share capital	99,195	-
8.5. (Dividends paid)	-	-
8.6. Other receipts/(payments) from financial activities	(6,140)	(79)
8. Net cash flow from financial activities	**129,896**	**614**
9. Net increase/(decrease) in cash and cash equivalents	**131,155**	**29,175**
10. Net increase/(decrease) in cash and cash equivalents	**131,155**	**29,175**
11. Cash and cash equivalents at the beginning of the year	**739,407**	**710,232**
12. Cash and cash equivalents at the end of the year	**870,562**	**739,407**

Statement of Changes in Equity

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/losses from available for sale financial assets fair value adjustment	Minority interest	Total capital and reserves
	Unaudited HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000
1. Balance at 1 January 2008	**168,305**	**(4,929)**	**60,819**	**19,417**	**-**	**1,364**	**3,015**	**247,991**
2. Changes in accounting policies and corrections of errors	-	-	-	-	-	-	-	-
3. Restated current year balance	**168,305**	**(4,929)**	**60,819**	**19,417**	**-**	**1,364**	**3,015**	**247,991**
4. Sale of financial assets available for sale	-	-	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	-	(9,111)	-	(9,111)
6. Tax on items recognised directly in, or transferred from capital and reserves	-	-	-	-	-	-	-	-
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8. Net gains/losses recognised directly in capital and reserves	**-**	**-**	**-**	**-**	**-**	**(9,111)**	**-**	**(9,111)**
9. Current year gain/(loss)	-	-	-	-	20,077	-	-	20,077
10. Total income and expenses recognised for the current year	**-**	**-**	**-**	**-**	**20,077**	**(9,111)**	**-**	**10,966**
11. Increase/ (decrease) in share capital	99,195	-	-	-	-	-	-	99,195
12. Purchase/(sale) of treasury shares	-	(6,139)	(292)	-	-	-	-	(6,431)
13. Other changes	-	-	(12)	-	-	-	-	(12)
14. Transfer to reserves	-	-	-	-	-	-	-	-
15. Dividends paid	-	-	-	-	-	-	-	-
16. Allocation of profit	**-**	**-**	**18,861**	**(19,417)**	**-**	**-**	**-**	**(556)**
17. Balance at 31 December 2008	**267,500**	**(11,068)**	**79,376**	**-**	**20,077**	**(7,747)**	**3,015**	**351,153**

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/losses from available for sale financial assets fair value	Minority interest	Total capital and reserves
	Unaudited HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000
1. Balance at 1 January 2007	**168,305**	**(4,850)**	**42,993**	**18,565**	**-**	**335**	**3,015**	**228,363**
2. Changes in accounting policies and corrections of errors	-	-	-	-	-	-	-	-
3. Restated current year balance	**168,305**	**(4,850)**	**42,993**	**18,565**	**-**	**335**	**3,015**	**228,363**
4. Sale of financial assets available for sale	-	-	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	-	1,029	-	1,029
6. Tax on items recognised directly in, or transferred from capital and reserves	-	-	-	-	-		-	-
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-		-	-
8. Net gains/losses recognised directly in capital and reserves	**-**	**-**	**-**	**-**	**-**	**1,029**	**-**	**1,029**
9. Current year gain/(loss)	-	-	-	-	19,417	-	-	19,417
10. Total income and expenses recognised for the current year	**-**	**-**	**-**	**-**	**19,417**	**1,029**	**-**	**20,446**
11. Increase/ (decrease) in share capital	-	-	-	-	-	-	-	-
12. Purchase/(sale) of treasury shares	-	(79)	124	-	-	-	-	45
13. Other changes	-	-	(13)	-	-	-	-	(13)
14. Transfer to reserves	-	-	-	-	-	-	-	-
15. Dividends paid	-	-	-	-	-	-	-	-
16. Allocation of profit	**-**	**-**	**17,715**	**(18,565)**	**-**	**-**	**-**	**(850)**
17. Balance at 31 December 2007	**168,305**	**(4,929)**	**60,819**	**-**	**19,417**	**1,364**	**3,015**	**247,991**

Since the data in the financial statements prepared in accordance with the Croatian National Bank ("CNB") Decision are classified differently from those in the financial statements prepared according to the statutory accounting requirements for banks in Croatia, set out below are the comparative figures.

Comparatives for the income statement ended 31 December 2008 and 2007:

	2008 Croatian National Bank Decision 2008	2008 Accounting Requirements for banks in Croatia 2008	2008 Difference 2008	2007 Croatian National Bank Decision 2007	2007 Accounting Requirements for banks in Croatia 2007	2007 Difference 2007
	Unaudited HRK '000	HRK '000	HRK '000	*Unaudited* HRK '000	HRK '000	HRK '000
Interest and similar income	181,312	180,484	855	170,934	174,130	(3,196)
Interest and similar expense	(90,599)	(86,174)	(4,425)	(79,863)	(76,386)	(3,477)
Net interest income	**90,713**	**94,310**	**(3,570)**	**94,283**	**97,744**	**(6,673)**
Fee and commission income	50,754	50,752	2	53,233	50,321	2,912
Expense for fees and commissions	(15,890)	(15,936)	46	(14,283)	(15,570)	1,287
Net fee and commission income	**34,864**	**34,816**	**48**	**34,816**	**34,751**	**4,199**
Net trading gain	10,271	10,854	(583)	10,165	10,018	147
Gain/(loss) from assets at fair value through profit or loss	(5,684)	(5,684)	-	7,454	7,381	73
Gain/(loss) from financial assets available for sale	13,111	13,110	1	(13)	(13)	-
Income from other investments in equity securities	1,619	1,619	-	765	765	-
Net foreign exchange differences	1,057	385	672	1,584	1,809	(225)
Other operating income	4,249	4,162	87	3,914	3,424	490
Total other income	**24,623**	**24,446**	**177**	**24,446**	**23,384**	**485**
General and administrative expenses, depreciation and amortization	**(105,480)**	**(122,032)**	**16,552**	**(105,197)**	**(119,306)**	**14,109**
Impairment allowance and provisions	(8,477)	(7,605)	(872)	(17,468)	(17,790)	322
Other operating expenses	(12,335)		(12,335)	(12,442)		(12,442)
Total other expenses	**(126,292)**	**(129,637)**	**3,345**	**(129,637)**	**(137,096)**	**1,989**
Profit before tax	**23,908**	**23,908**	**-**	**23,908**	**18,783**	**-**
Income tax expense	(3,831)	(3,831)	-	634	634	-
Net profit for the year	**20,077**	**20,077**	**-**	**20,077**	**19,417**	**-**
EARNINGS PER SHARE (in HRK)	**36.86**			**46.15**		

The difference for the year ended 31 December 2008 in "Interest and interest similar income" of HRK 8278 thousand (2007: HRK 4,992 thousand) arises mainly from interest income being reduced by the provision for impairment losses of HRK 929 thousand (2007: HRK 210 thousand).

The difference for the year ended 31 December 2008 in "Interest and similar expense" of HRK 4,425 thousand (2007: HRK 3,477 thousand) relates mainly to the savings deposit insurance premium expenses, which were presented within "General and administrative expenses" in the audited income statement for HRK 4,403 thousands (2007: HRK 3,812 thousands). Other differences concern the reclassification of other expense items from the audited accounts to interest expense and of exchange differences on interest expense into net foreign exchange gains on translation of monetary assets and liabilities.

In the audited 2007 accounts, commission income was reclassified to the negative balance on current accounts to the amount of HRK 2,912 thousand from the non-interest income to interest income. In the audited 2007 accounts, agent commissions to the amount of HRK 1,230 thousand were reclassified from administrative expenses to "Fee and commission expense". The differences in the positions included in "Total other income" result from a more detailed breakdown of net trading gains in the income statement according to the CNB decision.

Comparatives for the balance sheet at 31 December 2008 and 31 December 2007:

	2008 Croatian National Bank	2008 Accounting Requirements for banks	2008 Difference	2007 Croatian National Bank	2007 Accounting Requirements for banks	2007 Difference
	Unaudited HRK '000	HRK '000	HRK '000	*Unaudited* HRK '000	HRK '000	HRK '000
Assets						
Cash and deposits with Croatian National Bank	389,525	452,018	(62,493)	384,397	467,649	(83,252)
Treasury bills of Ministry of Finance and treasury bills of CNB	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	40,029	40,029	-
Financial assets available for sale	66,436	36,323	30,113	106,117	21,226	84,891
Financial assets held to maturity	67,400	55,156	12,244	59,898	54,223	5,675
Placements with and loans to other banks	686,367	626,119	60,248	610,572	530,205	80,367
Loans and receivables	1,471,904	1,507,381	(35,477)	1,493,217	1,576,503	(83,286)
Investments in subsidiaries	1,530	1,530	-	1,530	1,530	-
Repossessed assets	2,123	-	2,123	2,414	-	2,414
Property, plant and equipment and intangible assets	93,704	93,561	143	101,088	100,932	156
Derivative financial assets	1	1	1	8		8
Deferred tax assets	-	2,929	(2,929)	-	2,155	(2,155)
Other assets	14,550	8,780	5,770	15,023	9,541	5,482
Total assets	**2,793,540**	**2,783,797**	**9,743**	**2,814,293**	**2,804,001**	**10,292**
Liabilities						
Due to other banks and deposits from customers	2,330,756	2,398,851	(68,095)	2,466,048	2,527,466	(61,418)
Long-term debt securities issued	-	-	-	-	-	-
Provisions for liabilities and charges	-	2,579	(2,579)	-	4,320	(4,320)
Derivative financial liabilities and other trading financial liabilities	-	-	-	6	-	6
Other liabilities	111,631	31,991	79,640	100,248	25,013	75,235
Total liabilities	**2,442,387**	**2,433,421**	**8,966**	**2,566,302**	**2,556,799**	**9,503**
Hybrid instruments						
SHAREHOLDERS' EQUITY						
Share capital	259,447	267,500	(8,053)	166,391	168,305	(1,914)
Share premium	-	3,015	(3,015)	-	3,015	(3,015)
Treasury shares	-	(11,068)	11,068	-	(4,930)	4,930
Net profit for the year	20,077	20,077	-	19,417	19,417	-
Retained profit/ (accumulated losses)	-	-	-	-	-	-
Hedging reserve	-	-	-	-	-	-
Unrealised gain / (loss) from fair value adjustment of available for sale assets	(7,747)	(7,747)	-	1,364	1,364	-
Reserves	79,376	78,599	777	60,819	60,031	788
Total equity	**351,153**	**350,376**	**777**	**247,991**	**247,202**	**788**
Total liabilities and capital	**2,793,540**	**2,783,797**	**9,743**	**2,814,293**	**2,804,001**	**10,292**

The difference of HRK 9,743 thousand (2007: HRK 10,292 thousand) in the balance sheet totals between the balance sheet as per the CNB Decision and the balance sheet according to the statutory accounting requirements for banks in Croatia arises from the different classification of deferred loan origination fees. In the balance sheet according to the CNB Decision, deferred origination fees are included within “Other assets“, whereas in the balance sheet according to the statutory accounting requirements for banks in Croatia they are recognized as an adjustment to the position “Loans and receivables” within “Total assets”. The differences in other positions arise from different classification of interest receivables and interest payables. In the balance sheet according to the CNB Decision interest receivables and interest payables are recognised in “Other assets”, whereas in the balance sheet according to the statutory accounting requirements for banks in Croatia they are recognized on the balance sheet within the corresponding principal component.

Assets

Cash balances on current accounts with domestic and foreign banks as well as other deposits in the total amount of HRK 62,493 thousand (2007: HRK 83,252 thousand) are presented in the audited accounts within “Cash and amounts due from banks“, while according to the CNB Decision, they are reported within “Deposits with banking institutions”. In the audited accounts, placements with customers in respect of discounted bills and factored receivables in the total amount of HRK 42,855 thousand (2007: HRK 91,037 thousand) are presented within “Loans and advances to customers“, while under the CNB Decision they are reported by the financial asset portfolio to which they are allocated as follows: HRK 30,114 thousand to financial assets available for sale (2007: HRK 84,894 thousand) and HRK 12,741 thousand to financial assets held to maturity (2007: HRK 6,143 thousand). Repossessed i.e. foreclosed assets are reported under the CNB Decision separately, while in the audited accounts they have been included within “Other assets“. Small inventories of HRK 143 thousand (2007: HRK 156 thousand) are presented in the audited accounts within “Other assets”, whereas under the CNB Decision they are included in “Property, plant and equipment, and intangible assets“. Deferred tax assets to the amount of HRK 2,929 thousand (2007: HRK 2,155 thousand) are reported separately in the audited accounts, whereas according to the reporting requirements of the CNB they are included within “Other assets”.

Liabilities and capital

According to the CNB Decision, “Other liabilities” include provisions for contingent liabilities and charges, which have been presented separately in the audited accounts to the amount of HRK 2,579 thousand (2007: HRK 4,320 thousand). According to the CNB requirements, the position “Statutory and other capital reserves” include reserves to the amount of HRK 777 thousand, formed in respect of flats with tenancy rights not sold (2007: HRK 788 thousand), which are included in the audited accounts within “Other liabilities”.

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