Hrvatska poštanska banka Annual Report 2008

ZAGREB, APRIL 2009

HRVATSKA POŠTANSKA BANKA d.d.
ANNUAL REPORT 2008

GRAB A CHANCE FOR A GOOD DEAL.

The Annual Report comprises the summary of financial information, description of operation and the audited financial statements, including Independent auditors' report for the year ended 31 December 2008, in Croatian and English.

Legal form

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

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

Abbreviations

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

Exchange rates

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

31 December 2008

1 EUR = 7.324425 HRK

1 USD = 5.155504 HRK

31 December 2007

1 EUR = 7.325131 HRK

1 USD = 4.985456 HRK

SUMMARY OF OPERATION AND KEY FINANCIAL INDICATORS
IN HRK MILLION

SUMMARY OF OPERATION AND KEY FINANCIAL INDICATORS
IN HRK MILLION

GROUP	2008	2007	2006	2005	2004 restated
Key indicators					
Net profit for the year	4,5	129	90	90	60
Total assets	14,715	14,561	11,270	7,283	5,556
Loans and advances to customers	8,129	7,288	5,980	2,943	2,575
Deposits	11,116	10,714	8,654	5,056	4,365
Equity	911	956	825	749	656
Other indicators					
Return on share capital	0.77%	22.05%	15.33%	15.42%	10.30%
Return on assets	0.03%	0.89%	0.80%	1.24%	1.08%
Operating expenses[1]/ operating income ratio	75.99%	64.17%	73.39%	60.93%	48.62%
Guarantee capital	1,197	1,181	888	682	619
Capital adequacy	11,53%	12.19%	11.75%	16.45%	24.32%

BANK	2008	2007	2006	2005	2004 restated
Key indicators					
Net profit for the year	9	121	101	90	60
Total assets	14,637	14,536	11,278	7,283	5,556
Loans and advances to customers	8,097	7,286	5,998	2,943	2,575
Deposits	11,044	10,691	8,651	5,056	4,365
Equity	924	964	840	749	656
Other indicators					
Return on share capital	1.49%	20.68%	17.29%	15.42%	10.30%
Return on assets	0.06%	0.83%	0.90%	1.24%	1.08%
Operating expenses[1]/ operating income ratio	75.66%	63.65%	70.27%	60.93%	48.62%
Guarantee capital	1,156	1,135	866	682	619
Capital adequacy	11.19%	11.73%	11.45%	16.45%	24.32%

[1] *general and administrative expenses and depreciation*

Dear shareholders,

I am particularly pleased to present the Annual Report of the HPB Group for the year ended December 31 2008.

Last year's results of Hrvatska poštanska banka reflect stable conduct of business activity within the ever more demanding Croatian banking market. The Bank has taken a market share of 3.9 percent in total assets of the banks at 2008 year-end, and managed to preserve solid business foundations in spite of the instability in financial markets.

Economic movement in the Republic of Croatia in 2008 were characterized by economic growth of 2.4 percent, continuation of the trend of decrease in the rate of unemployment, stable nominal exchange rate and, compared to previous years and under influence of mid-year fluctuations of food and energy price levels, somewhat higher average inflation rate. Fiscal policy has managed to preserve its course towards fiscal consolidation and reduction of the deficit, and has, in spite of numerous strains and challenges for both revenue and expense side of the budget towards the year-end, managed to fulfil its designated goal. During 2008, the Croatian National Bank continued with active monetary policy with the aims to provide sufficient liquidity to the banking system and maintain stable exchange rates.

Of the realized financial results in conditions of limited liquidity of the whole Croatian banking system, and of the foreign financial markets crisis, I would especially like to emphasize the enhancement of the Bank's core business. In lieu of that, net interest income has risen by 12.8 percent and net income from fees and commission increased by 34.5 percent during 2008. Operating expenses reduced for the impairment losses and provisioning, increased by 11.1 percent during 2008, which indicates a slowdown in dynamics of their growth compared to previous year. The result for the year was influenced by the negative movements on the capital market in the Republic of Croatia which were followed by the trends of other world markets affected by the financial crisis. Also, final results were influenced by narrow liquidity of the banking system in the final quarter of 2008, which has significantly made the Bank's asset sources more expensive.

Bank's Supervisory Board is aware of the challenges that lie ahead of the Bank in this and following years, in order to fulfil its role in Croatian banking system. This primarily relates to capital strengthening of the Bank, which will comply with regulatory requirements and secure Bank's stable development, and at the same time enhance its position as the most significant Bank in Croatian ownership. Considering that the Credit Institutions Act entered into force on January 1 2009, by which all credit institutions in the Republic of Croatia are obliged at any time to provide the amount of capital that is adequate with modes, volume and complexity of services which they render, and with risks which they are exposed to, Bank's owners are seeking an optimal model by which the Bank would reconcile itself with this Act before the end of the first half of 2009.

By harmonization of the Bank's business with the Act on Credit Institutions before the end of June 2009, the Bank will be additionally enabled to manage all categories of risk, especially bearing in mind numerous economic and financial hardships which are derived from current global financial crisis.

HPB Group has in extraordinary demanding circumstances on Croatian financial market during 2008 continued to develop all segments of its operation. By offering a wide scope of innovative products and focusing on their clients' needs, all Group's

members have contributed to the development of business and preservation of excellent relationship with clients. Expansion of the network of branches and channels of distribution over various parts of Croatia has continued in 2008, which improved Bank's geographical coverage. The Group shall continue to develop its offer in the following period having in mind the economic policy of Croatia.

In order to encourage and develop quality business initiative, the cooperation with the Croatian Agency for Small Business, Ministry of Economy, Labour and Entrepreneurship, as well as units of regional self-administration, in a way that Bank offered them the knowledge and experience of its experts, beside the financial services and products.

Members of the HPB Group also contributed to 2008 business results, whereby I would like to emphasize activities of HPB Invest which has, besides successful managing of Umirovljenički fund, founded one new fund, and thereby demonstrated it position as an anchor of Croatian investment fund market, in spite of the crisis in capital markets. HPB Nekretnine and HPB Stambena Štedionica complete the palette of Group's products, and by synergic effects contribute to the quality of the business operation.

The success of HPB Group is a result of professional and quality team work, as well as good and opened cooperation between the Supervisory Board and the Management Board which continued with regular meetings held throughout the last year. However, it is necessary to say that fluctuations and negative trends of the last year's end are visible in the beginning of 2009, thereby putting new and until now untried challenges before all of us. Negative trends in the environment are felt in Croatia also, wherewith it becomes evident that we will conduct business activities in significantly different conditions. These different conditions require additional exertions and commitment to work, but also offer possibilities and potential to those who respond to them in an appropriate way. Let this be an extra motive in work and operation for all of us.

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

dr. sc. Zdravko Marić

President of the Supervisory Board

GRAB HAPPY FUTURE.

Dear shareholders, business partners, customers,

On behalf of the Management Board, I am honoured to present the results of Hrvatska poštanska banka and HPB Group for the year ended 31 December 2008.

During 2008, the Bank and the Group, have conducted their business activities in much harder market conditions than in previous years, which were marked by stable growth and development, placement of numerous modern products and services, accelerating development of the network of branches and distribution channels, and parallel to that, by building reputation and trust with our clients and business partners.

Business activities of the Bank and the Group were significantly influenced by the fact that a recapitalization of the Bank did not occur, what, beside the crisis on global financial market, which had severely negative consequences on the domestic capital market, has slowed down planned advancement and affected final business results for 2008.

The Bank's assets totalled HRK 14.6 billion at December 31 2008, and accordingly has a 3.9 percent share in the Croatian banking market. Total net loans to customers amounted to HRK 8.1 billion, what is an increase of 11.1 percent compared to the end of the previous year. In the structure of loans, 63.2 percent relates to companies and state units and 36.8 percent to retail clients. Total deposits at year end amounted to HRK 11.0 billion, which represents a 3.3 percent increase. Within the total deposits structure, term deposits had a share of 56.3 percent. Profit after tax amounted to HRK 8.7 million. Significantly lower net profit in relation to 2007 was influenced by negative movements in the Croatian capital market and narrow liquidity of the banking system in the final quarter of 2008. In spite of such conditions, I would like to emphasize the growth of both net interest income by 12.8 percent and net fee and commission income by 34.5 percent during 2008. Operating costs reduced for impairment losses and provisioning have, in 2008, increased by 11.1 percent.

The Hrvatska poštanska banka Group realised profits in the amount of HRK 4.5 million. The HPB Group's total assets amounted to HRK 14.7 billion.

The Bank has during 2008 continued to improve the quality and adjust its services and financial products, with particular emphasis on providing comprehensive financial offering to clients - retail and corporate sector, especially small and medium enterprises.

In the retail segment, we adjusted our current portfolio of credit, savings and card products, and by doing so we offered to our customers' higher interest rates on term deposits, seasonal loan offers, and the new business VISA Bonus plus card which represents complete innovation on Croatian market. Reputation and trust acquired by the Bank in the last few years, are reflected through data which show an increase in retail deposits of 21.3 percent compared to last year, whereby the increase of term deposits amount to 47.8 percent.

Also, I would like to emphasize with great pleasure, the positive results of our electronic distribution channels - ATMs, EFTPOS terminals and Internet banking, where significant increases in value and number of transaction compared to last year are evident. In this way, value of transactions on HPB ATMs increased by 7.0 percent, while with EFTPOS terminals there is an increase of 29.9 percent and 31.8 percent respectively, compared to last year.

In the corporate sector, we concentrated our activities on providing quality services to our customers, particularly emphasizing a complete financial and advisory support to quality clients from the small and medium entrepreneurship segment. Through issuing loans to this segment we actively cooperated with HBOR, HAMAG, and relevant ministries, whereby the most represented programmes were "Incentives for success" and "Development of village tourism". Beside this, our specialized offer for farmers

was adjusted to our clients' requirements, we have intensified the placement of fast microloans within the EBRD loan programme, and with the services of HPB EU Desk we continue to provide advisory services and easier access to facilities from EU funds. Also, we continue to cooperate with clients at county and city level, with which the contracts on business cooperation are signed.

The Bank has become even more available to its clients throughout the country during 2008, by opening four new outlets, in Zagreb, Sesvete, Sinj and Gruda; four detached tellers, and two branches, in Rijeka and Zadar. Such expansion strategy has proven to be a successful method of attracting new customers. At 31 December 2008, the Bank's operational network consisted of 9 branches, 28 outlets, 5 detached tellers, with distribution channels consisting of 204 ATMs and 1.573 EFTPOS terminals. Products and services are available to clients through 1.100 post offices, which makes the Bank's services available in practically every part of Croatia.

I would like to put special accent on projects which we initiated/completed with the aim to improve and modernize business process, e.g. completion of implementation of Finacle Treasury module for Treasury operations, and the project of implementation of comprehensive risk management.

HPB Invest, the company which at 2008 year-end managed ten investment funds with various purposes and investment strategies, has during 2008 shared the fate of all other investment funds which operate in Croatia. It was the single most difficult year for relatively the small fund industry in Croatia. On the other hand, in May 2008 HPB Invest has received the "Golden stake" prize, and has also founded a real estate investment fund - HPB Real, and now manages 11 investment funds. Moreover, this last business year was marked by the successful realisation of payment of the instalments of the compensation to Umirovljenički fund members.

The Bank dedicated pronounced attention to the segment of socially responsible business operation during 2008, which was marked not only by donations and sponsorships to various culture, sports and humanitarian projects, but above all by own initiatives on various fields. For the second year in a row, HPB Grand Prix for the best artistic work was awarded, and HPB Gallery was launched, as well as Best young musician of the year and Croatian book of the year awards.

In addition, the Bank became sponsor of the Zagreb Philharmonic Orchestra and the Croatian Baroque Ensamble as well as of other cultural and artistic events.

HPB has at the end of 2008 once more sent a clear message, principally to its owners, but to the whole Croatian public as well, that a solid and healthy basis for growth and improvement of the Bank was built during previous years, yet that can not be achieved without additional capital, about what we await the decision of the owners.

In the next period Hrvatska poštanska banka will continue to follow its strategy of strengthening its position as the largest bank in domestic ownership.

On my behalf, as well as on the behalf of the Management Board and my closest team of colleagues, I would like to thank our valued clients and business partners for their loyalty and professional conduct. I would also like to thank all Group's employees and management for their dedicated work and diligence with which they contributed to the realized business success. I would especially like to thank the shareholders and the Supervisory Board members for their cooperation, support and the confidence they have demonstrated.

Josip Protega
President of the Management Board

Economic activity has decelerated during 2008. In the first quarter of 2008 real GDP has increased by 4.3 percent in respect to first quarter of 2007, in the second quarter growth rate decelerated and amounted to 3.4 percent, and in third - normally strongest - quarter there was further deceleration resulting in 1.6 percent growth, while according to preliminary data, the growth rate in the fourth quarter amounted to 0.2 percent, which is the slowest quarterly growth in the period from 2000 to 2008. With respect to quarterly growth rates, the year on year growth rate of economic activity during 2008 was 2.4 percent, which represents a slowdown with respect to 2007 (real growth rate of 5.6 percent), whereby the growth rate decreased to almost half of multi-year average real growth rate of GDP (4 percent). Physical volume of industrial production (which represents a quarter of GDP) has grown by 1.6 percent during 2008. Slowdown of economic activity in manufacturing industry has begun by mid-year which was manifested through an increase in inventory stock of final products by 10 percent in the second half of 2008. Biggest slowdown was experienced in personal consumption, export of goods and services, and in investments, while there was only a moderate decrease in imports of goods and services. Viewing by sector, manufacturing industry has slowed greatly, followed by trade, hotels and restaurants and a mild deceleration in financial services sector.

At 2008 year-end, there were 1,519 thousand employed, which is an increase of 38 thousand or 2.6 percent than at 2007 year-end. There were 241 thousand unemployed citizens, which is a decrease of 13 thousand or 5 percent than at 2007 year-end, whereby, according to official calculation, unemployment rate amounted to 13.7 percent, i.e. was 1 percentage point lower than at 2007 year-end. Continuation of seasonal reduction in number of employed citizens since summer's end, when the number of unemployed citizens amounted to 1,560 thousand, was influenced by the economic slowdown. Average nominal net salary for the year 2008 (12 months, salary payed) amounted to HRK 5,178, representing a real increase of 0.8 percent compared to the same period last year, while average nominal gross salary amounted to HRK 7,544, representing a real increase of 0.9 percent compared to the same period last year.

Prices of goods and services for personal consumption, measured by consumption prices index, in last year were by 6.1 percent (average on average) higher compared to 2007. Upsurge of inflation rate was a result of the spill-over of foreign prices of energy and raw materials on domestic prices has begun in second half of 2007 and continued until July 2008, when annual inflation rate (July 2008 on July 2007) amounted to 8.4 percent, additionally strengthened by seasonal effects. Influence of passing of seasonal effects and deceleration of foreign prices of energy and raw materials, resulted in decrease of inflation rate, which decreased to 2.9 percent in December. Within the consumer basket, the biggest growth in 2008 (measured by average 2008 on average 2007) was in price levels of food and non-alcohol drinks (10 percent), fuel and energy (6.8 percent, whereby prices of liquid fuels rose by 24.6 percent), alcohol drinks (5 percent), furnishings and house maintenance (4.8 percent), while the price of clothing and footwear increased by smallest margin (2.7 percent).

Total exports of goods of the Republic of Croatia in 2008 amounted to HRK 69,142 million (EUR 9,577 million), while imports of goods amounted to HRK 150,362 million (EUR 20,818 million). Foreign trade deficit amounted to HRK 81,220 million (EUR 11,242 million), whereby export/coverage amounted to 45.9 percent. Most important Croatian foreign trade partners include EU members (60.7 percent), with Italy (30.5 percent), Germany (18.0 percent), Austria (9.4 percent) and Slovenia (13.1 percent). Positive trends are evident in trade with CEFTA members after various agreements were singed, whereby the growth rate of exports (24.0 percent) was significantly higher than import growth rate (+4,9 percent). Foreign direct investments in the Republic of Croatia have also experienced slowdown and amounted to EUR 2.2 billion during the first three quarters of 2008.

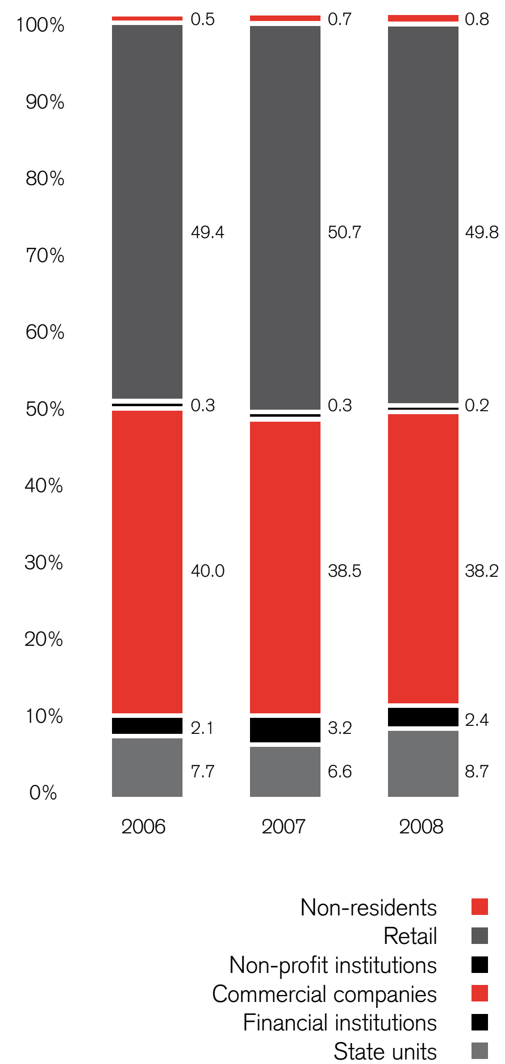
The foreign debt increased by EUR 5.8 billion during 2008, and at the end of December amounted to EUR 39.0 billion, with growth rate of 17.4 percent. Changes in sectoral structure of the debt continued to occure; State has diminished its share in total debt, while other domestic sectors (mostly commercial companies) have raised their share by than 3 percentage points, and accordingly have a share of 43.8 percent in gross foreign debt of Croatia.

Croatian Kuna has nominally and really strengthened towards main foreign currencies during 2008. Thereby exchange rate towards Euro at 2008 year-end was nominally higher by 1.4 percent in respect to exchange rate at 2007 year-end. Kuna was really (measured by consumer price levels differences) was stronger by 0.4 percent with respect to 2007 year-end.

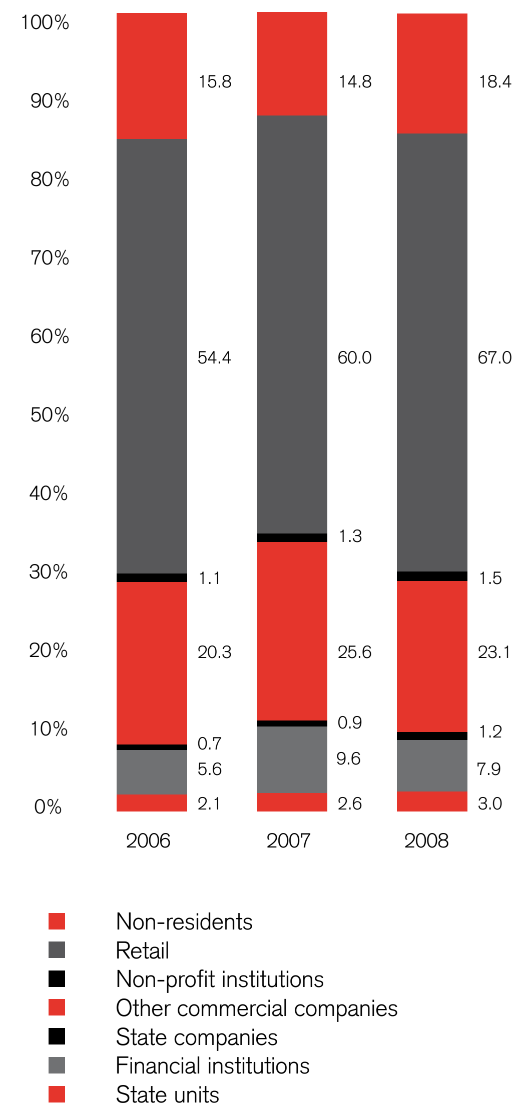
In 2008 Croatian National Bank continued its precautionary monetary policy in scope of limiting the growth of placements and destimulating further foreign indebtedness of banks, up until the end of the year when first signs of slowdown of economic activity were noted. Bank placements to clients have reached HRK 233.0 billion at 2008 year-end, and were on average 11.6 percent higher than at 2007 year-end. At the same time, total liquid assets (M4) have reached HRK 225.0 billion with annual growth rate of 4.3 percent, which due to the economic slowdown is same as the level reached in August.

In spite of the economic slowdown, the banking system of the Republic of Croatia in 2008 was stable, liquid and profitable. Total assets of banks, according to non-audited information published by the CNB, at the 2008 year-end amounted to HRK 370.6 billion, representing 7.4 percent increase compared to previous year, which compared to 14 percent in 2007 represents a slowdown of growth. The increase of the banks' assets mostly resulted from the increase in loans, which constituted 67 percent of total assets. Share of retail loans in the banks credit portfolio structure amounted to 49.7 percent, loans to commercial sector amounted to 38.2 percent and state loans 8.7 percent. Assets increase was enabled with growth in deposits, which have reached HRK 247.8 billion (among them prevailing term retail deposits with foreign currency clause), which is a consequence of return of savers to banking instruments after 50 percent decline in value of equity instruments. According to non-audited information profit before taxation of all banks in 2008 amounted to HRK 5.8 billion which is an increase of almost HRK 700 million or 14 percent in relation to last year. Interest income had a largest share in these results (77 percent), followed by fee and commission income with a modest 15 percent share. Return on average asset amounted to 1.6 percent, while the rate of return on equity remained amounted to 11.6 percent in 2008.

Total gross loan portfolio structure, %



Total deposit structure per sectors, %



MAKE A WISH.

Hrvatska poštanska banka d.d.

Hrvatska poštanska banka d.d., Zagreb, was founded and registered as a joint stock company in accordance with applicable regulations of the Republic of Croatia, and is authorised to perform banking activities in the Republic of Croatia. The Bank's Management Board is in Jurišićeva 4, in Zagreb. At 31 December 2008, the Bank operated through nine branches, twenty eight outlets and five detached tellers.

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

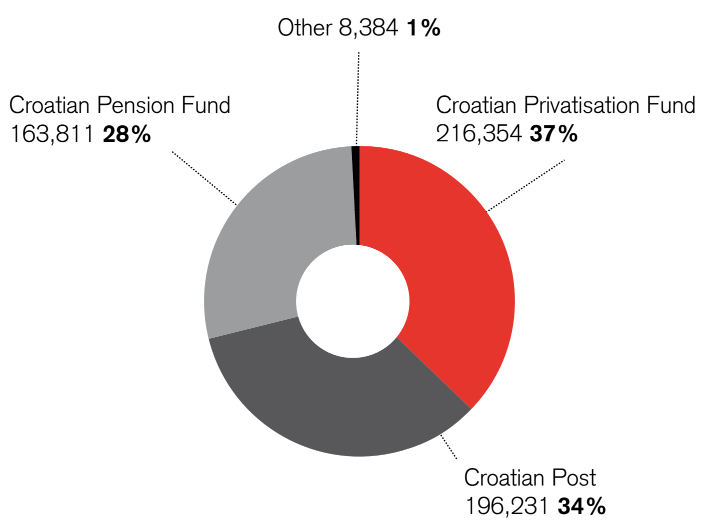
Hrvatska poštanska banka is recognised as a dominant financial mechanism offered to citizens throughout RH, available through its own network of outlets and post offices, and as a support to Croatian economy, especially in the segment of small and medium entrepreneurship.

As a domestic bank, HPB is in the group of leading banks in the Republic of Croatia, which, with its assets in the amount of HRK 14.6 billion and its share capital, is ranked seventh among 33 banks altogether.

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

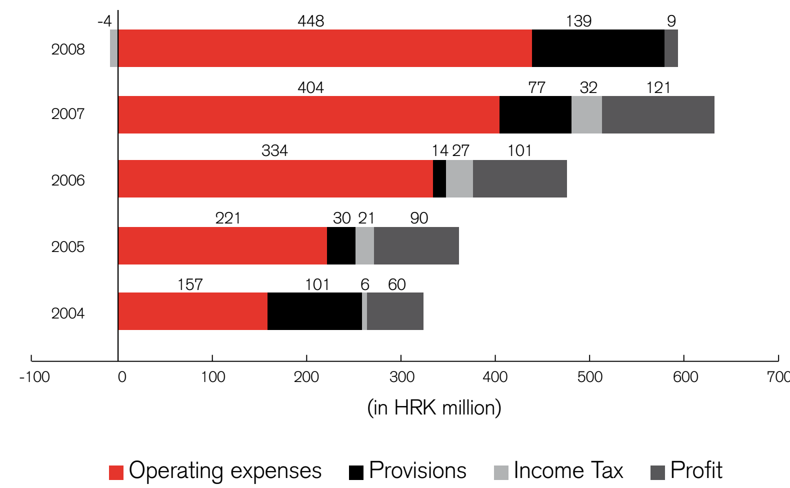
The Bank is 100% owner of HPB-Stambena štedionica d.d., HPB-Invest d.o.o., the investment fund management company, and HPB-Nekretnine d.o.o., the company for real estate and construction, which together form the HPB Group.

Shareholder structure as at 31 December 2008



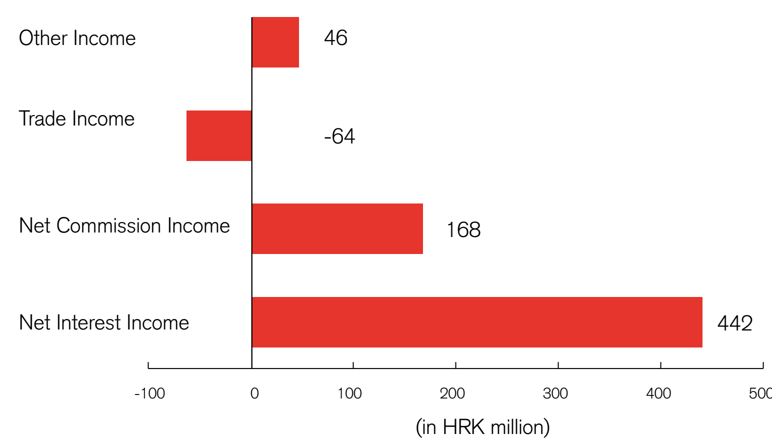
In 2008, the Bank realised HRK 592.3 million of operating income from its operation. The largest part of the income distribution structure were operating expenses (75.7 percent). Operating expenses increased by 11.1 percent compared to 2007, while total impairment losses on loans and advances to customers, other assets and provisions for liabilities and charges increased by HRK 66.4 million compared to 2007.

Allocation of operating income



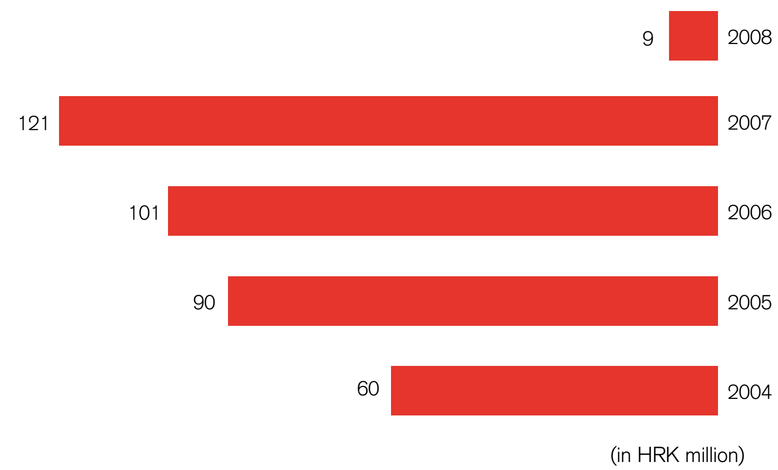
Total operating income decreased by 6.7 percent compared to 2007. The most significant part of operating income is net interest income, representing 74.7 percent of total income.

Structure of Operating Income for the period from
1 January 2008 - 31 December 2008



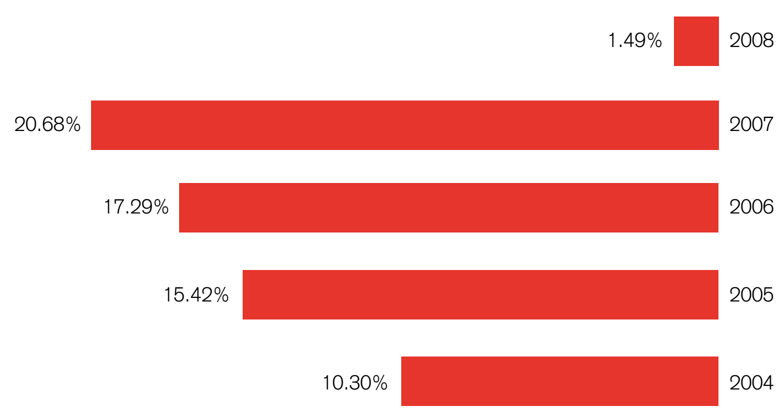
In 2008, profit for the year amounted to HRK 8.7 million.

Net Income

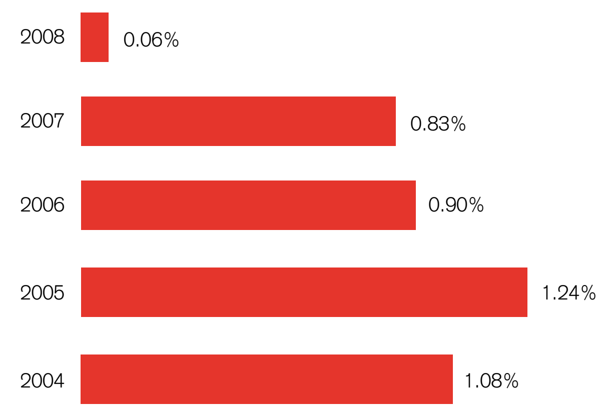


Movement in return on equity (ROE) and return on assets (ROA) for the period from 2004 to 2008 is presented below.

Return on Share Capital

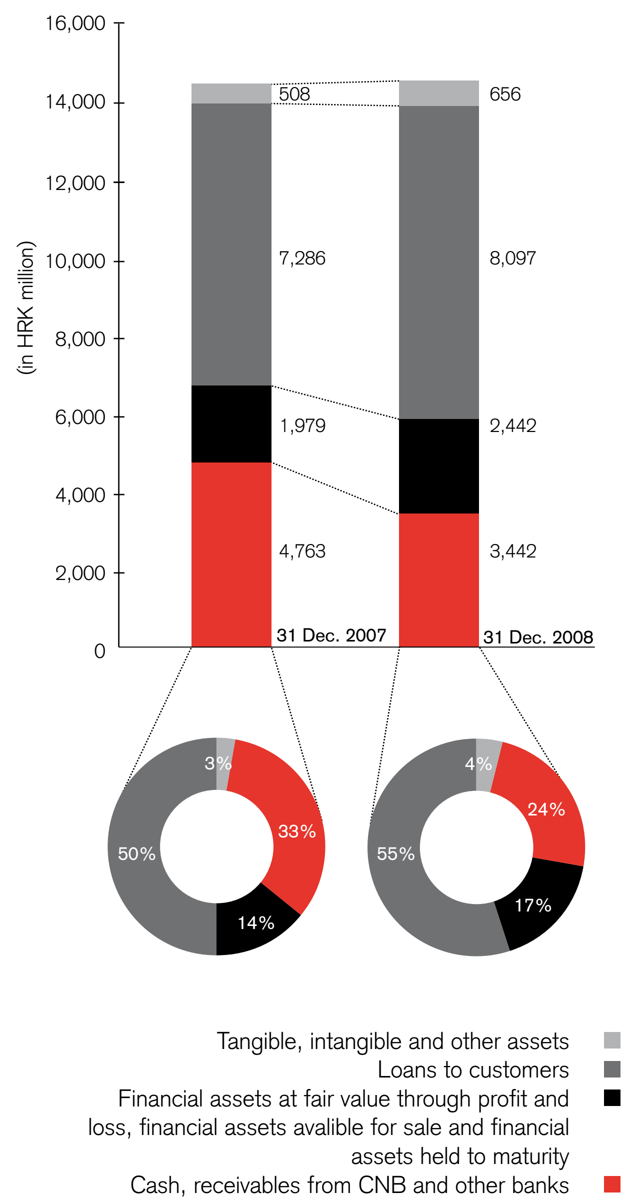


Return on Assets



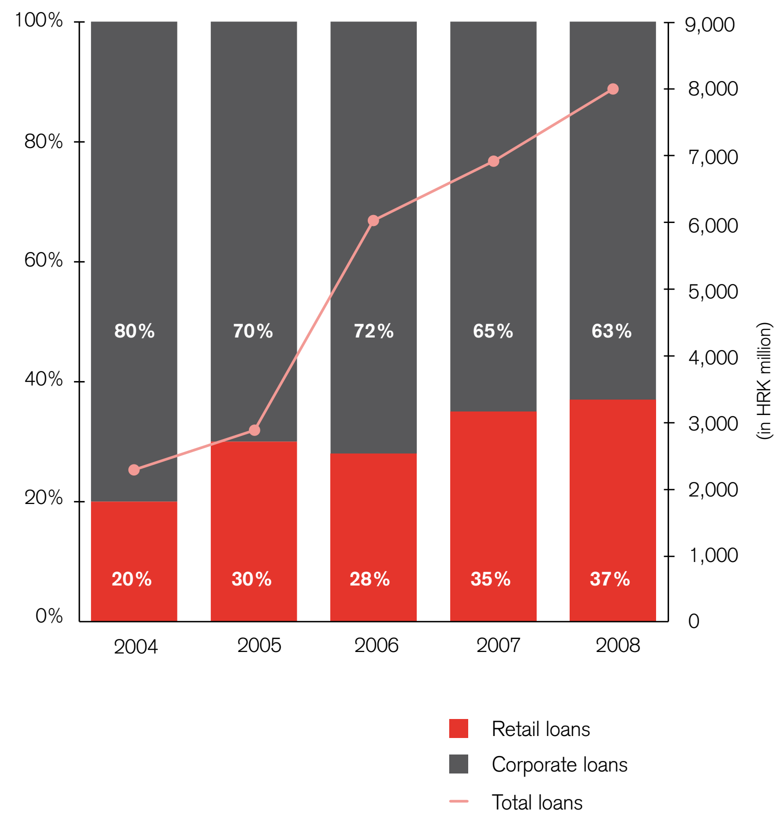
At 2008 year-end, the Bank's assets amounted to HRK 14,637 million, representing a HRK 101.2 million or 0.7 percent increase compared to 2007. The most significant part within assets structure are loans and advances to customers (55.3 percent), placements with and loans to other banks, financial assets at fair value through profit or loss, and the CNB obligatory reserve (27.8 percent).

Assets Structure



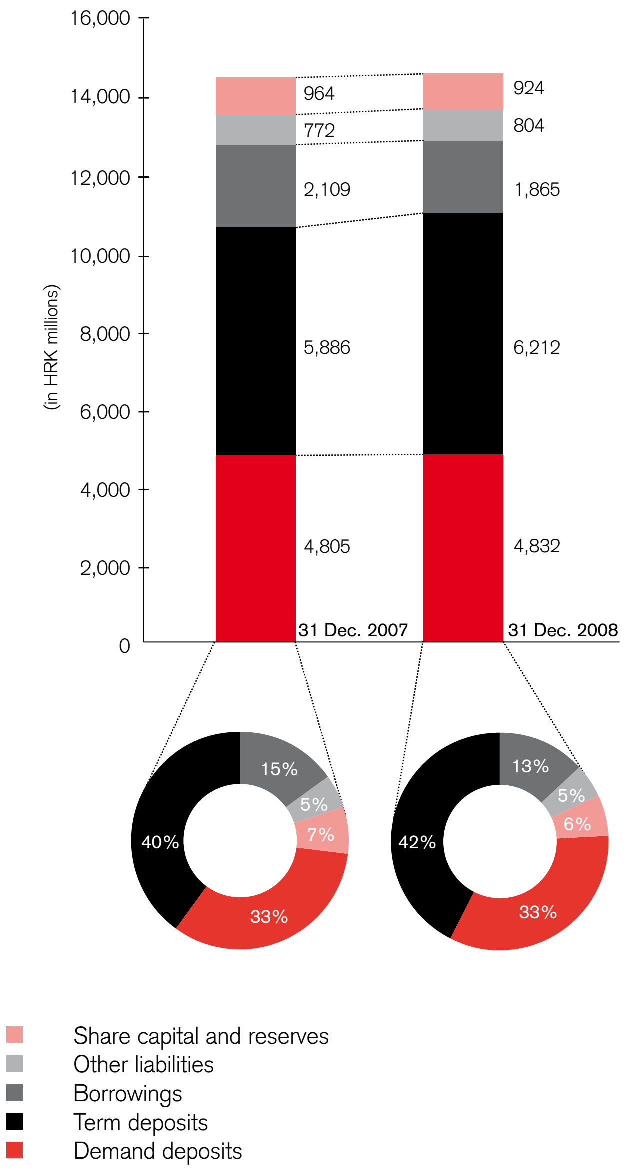
At 31 December 2008, total loans amounted to HRK 8,096.5 million, representing a 11.1% increase compared to 2007. The loan portfolio structure comprises 63.2% of corporate loans and 36.8% of retail loans.

Structure and Movement in Net Loans



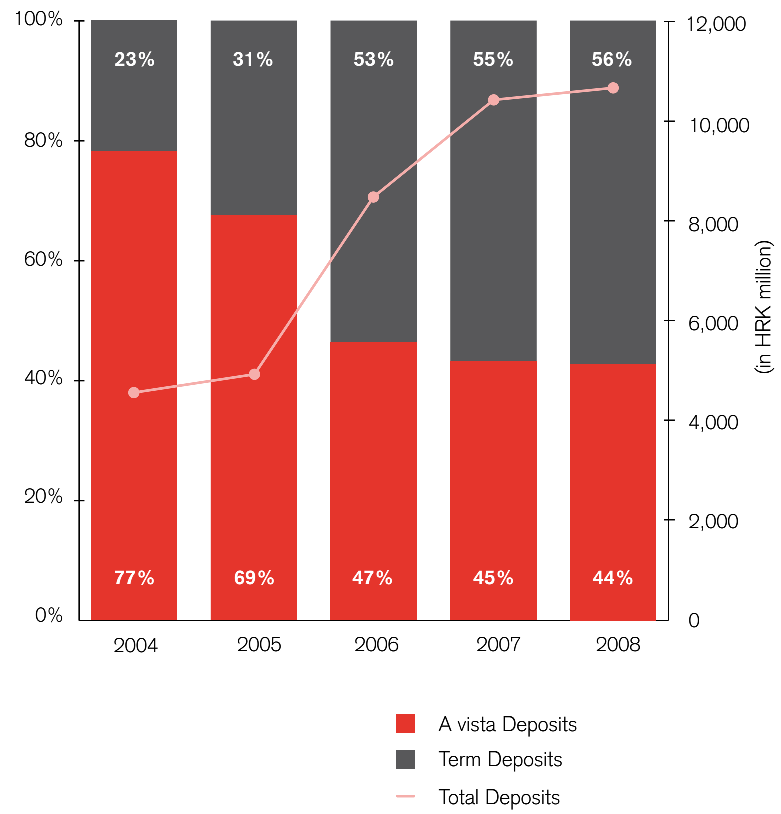
The most significant part within liabilities are term deposits (42.4 percent), and demand deposits (33.0 percent).

Liabilities Structure



In 2008 deposits from customers and banks increased by 3.3 percent compared to 2007. The structure of deposits is dominated by term deposits (56.3 percent), compared to demand deposits (43.7 percent). In 2008, term deposits increased by 5.5 percent, and their share within the structure of total deposits increased by 1.2 percentage points (from 55.1 percent to 56.3 percent). The Bank will continue its activities aimed at increasing deposits and improving maturity and foreign currency structure of term deposits, in scope of increasing long-term and foreign currency deposits.

Structure and Movement in Deposits



Retail operation

HPB performs retail operation through its own operational network which comprises 9 branches, 28 outlets, 5 detached tellers and through more than 1,100 post offices throughout the territory of the Republic of Croatia.

In accordance with its development strategy aimed at better acquaintance to customers with its products and services, in 2008, the Bank opened new outlets in Zagreb, Sesvete, Sinj, Grude, four detached tellers and two branches in Zadar and Rijeka.

Besides its operational network expansion, HPB continued to develop and improve direct banking distribution channels and installed 12 new ATMs and 75 EFTPOS terminals. At the end of 2008, the Bank had its own network of 204 ATMs and 1,573 EFTPOS terminals.

In scope of developing and improving the relationship with its retail customers, in 2008 the Bank expanded its palette of loans, savings and credit card products.

Retail deposits represent 51.3 percent of the total deposits, representing an increase of 21.3 percent and amounting to HRK 5.4 billion at 31 December 2008. Demand deposits amounted to HRK 2.4 billion, representing a decrease of 0.1 percent, and term deposits amounted to HRK 3.05 billion, representing an increase of 47.8 percent. Higher growth in term deposits as compared to demand deposits results from the expansion of the Bank's business network, improvement of business cooperation with Croatian Post, and a stimulative interest rate policy for longer term and foreign currency savings.

In 2008, total gross retail loan portfolio increased by 15.5 percent, amounting to HRK 3.08 billion at 31 December 2008. In 2008, 22,085 retail loans totalling HRK 1.03 billion were granted. Retail loans represented 37.1 percent of total gross loans portfolio. The largest part of total retail loan portfolio are non-purpose loans, followed by used frame facilities on current accounts.

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

Corporate operation

During 2008, gross loans to commercial companies increased by 7.3 percent or HRK 356.0 million, amounting to HRK 5.2 billion at 2008 year end. In the structure of loans, long-term loans represent 75.2 percent and short-term loans 24.8 percent of total placements. In granting long-term loans, HBOR resources and own long-term resources were used. As of 31 of December 2008 total deposits from corporate customers amounted to HRK 5.1 billion which is a decrease of HRK 543.5 billion or 9.6 percent compared to 2007. Decrease in deposits from funds is a consequence of withdrawal of fund deposits and its placement to the parent banks, following the cancellation of the marginal reserve by the CNB.

According with strategic orientation during 2008 the Bank continued with spreading its business with small and medium entrepreneurship in all business segments. It all influenced the increase of loans portfolio in this segment by 8.9 percent and an increase in the share of loans to small and medium entrepreneurship within total loans portfolio.

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

Total loan portfolio in operations with big corporate customers and public sector as of 31 December 2008 amounted to 2.9 billions and in the structure of the total corporate loan portfolio represents 54.3 percent.

Managed funds for and on behalf of corporate and retail customers amounted to HRK 849.3 million, out of which HRK 223.0 million relates to Russian clearing debt, and the remaining amount on the other customers. Managed funds for and on behalf of corporate and retail customers are carried out/performed for 20 customers (including Russian clearing debt).

Investment banking

During 2008, the Investment Banking Division continued with its operations as an agent in trade of securities on the domestic as well as on regional financial markets. During the previous year, the Bank conducted a policy of decreasing its exposure to credit risk in the segment of margin loans that amounted to HRK 46.4 million (of which HRK 17.9 million were unused) what is a decrease in amount of HRK 150 million compared to 31 December 2007.

The Bank's realised annual turnover on the domestic stock markets in 2008 amounted to HRK 747.3 million, while the annual turnover on regional financial markets (Montenegro, Macedonia, Serbia and Bosnia and Herzegovina) amounted to EUR 18.9 million.

Due to deterioration of global equity markets and influence of slowdown of US and other economies, year 2008 was extremely difficult for doing business in trading securities and asset management, where there was a decrease of 57 percent in value of assets managed.

In 2008, Hrvatska poštanska banka was the agent issuer, and has successfully conducted the sales, of commercial bills of H1 Telekom d.d. (nominal value of HRK 45 million) and HP - Hrvatska Pošta d.d. (nominal value of HRK 110 million).

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

Treasury operation

In conditions of global economic crysis, considerable rise in interest rates on Croatian inter-bank market and restrictive monetary policy during the better part of 2008, the Treasury division has by successful liquidity management ensured Bank's continuous growth and the growth of its client's activities.

The Bank significantly increased the number of repurchase transactions and money market transactions, and therefore confirmed itself as a crucial key player on domestic money market. The Bank has also intensified its cooperation with various investment funds. According to total number of underwritten treasury bills of Ministry of finance of Republic of Croatia the Bank is within leading investors.

By improving politics of liquidity risk management in accordance with regulations and the Bank's internal acts the Bank successfully combined its own reserves with instruments and measures of CNB monetary policy.

Although there were no new issues of RH Croatian Ministry of Finance Bonds during 2008, the Bank has continued to cooperate with Ministry of Finance as an agent of all syndicized loans throughout 2008. The Bank with its significant portfolio of first class debt and equity securities was also one of the leading actors in trading with debt securities on the Croatian market.

Successful cooperation with Bank's clients through Treasury Products Sales Department and Department for foreign currency dealings is confirmed by an increase in the number of foreign currency transactions. The Bank has also continued to successfully cooperate with FINA on collection center for foreign currencies.

During the year a new interface for treasury operations was implemented, which set up preconditions for quality management of the risks and processing of the increased number of transactions.

Internal controls system and internal audit

Internal controls are a constituent part of the managing process of the Management and all employees of the Bank. Supervision of elements of internal control, which is established by acts and procedural documents, is carried out by accountable persons of business areas and by functions of internal audit.

The Bank's Management has set out principles of the internal control system that are reflected through:

- clear lines of responsibility
- separation of duties and activities
- specific control procedures and
- effective internal audit function

The goal of internal controls and control procedures is to ensure the correctness of financial data on Bank's position, and are divided to:

- administrative - accounting controls
- detection controls and
- correction controls

Internal audit

The internal audit was organised as an independent function which is based on professional principles of internal auditing, beside the associated laws and regulations.
The audit is performed in accordance with general internal audit standards and regulatory requirements, in four following steps:

- planning
- research
- reporting and
- results monitoring

Planning is conducted through documented risk assessment, and the Yearly Operational Programme is adopted by the Supervisory Board with prior consent of the Management and the opinion of both the Audit Committee.
Report on audit results is submitted to the Bank's Management Board, Audit Committee and the Supervisory Board.

Reporting consists of the:

- Internal audit Report about performed auditing
- Summary of the report and
- Report about activities of the Internal audit

Development plan

In next period, Hrvatska poštanska banka will continue to follow the strategy of strengthening its position as the largest bank in Croatian ownership and will try to defer from its competition not only through the quality of its financial offer and competence of its employees, but with constant care about interests and prosperity of all Croatian citizens and the Croatian economy. The Bank shall continue with consolidation and business optimization in all of its business segments with in order to achieve greater efficiency and efficacy in respect of macroeconomic movements. The Bank will also continue to develop and improve the relationship with its strategic partners, in concord with its position on Croatian financial market. Among important matters, it is necessary to emphasize the expected recapitalization of the Bank which will ensure the needed adequate capital coverage, ending and stabilisation of the new information system - Finacle, and necessary reconciliation with the new regulatory framework for the Bank's business activities. With regard to safety and exposure, the Bank will continue with active risk management and conservative approach, not only in order to meet regulatory requirements, but also to continuously increase the Bank's stability.

HPB-Invest d.o.o.

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

On 31 December 2008 Company was managing ten investment funds and with one closed investment fund with the public offer for investment into real estate HPB Real d.d., and assets under management amounts to HRK 630.2 million, which represents a decrease of 51.03 percent in relation to previous year.

Asset structure under management:

Fond	Asset under management HRK '000	Yield from the beginning of the year %
HPB Global fund	135,285	(48.87%)
HPB Dynamic fund	48,435	(54.57%)
HPB Dionički fund	37,161	(58.50%)
HPB Novčani fund	322,288	6.00%
HPB Titan fund	17,935	(45.08%)
HPB Obveznički fund	45,052	4.98%
HPB Alpha fund	11,776	(52.64%)
HPB Omega fund	3,863	(58.89%)
HPB ZM-1 fund	2,637	(62.90%)
HPB WAV	5,784	(34.87%)

Additionally, HPB Invest d.o.o. is managing Pension fund and making payments in accordance with selection of fund members and Pension funds Law. In December 2008 the Company has made payments to members of Pension funs as follows:

Model B, basic register

- HRK 708.9 million, second instalment

Model B, register of family pensions and highest pensions

- HRK 118.5 million, first instalment

Model A, register of family pensions and highest pensions

- HRK 128.7 million, fourth instalment

As of 31 December 2008 the Company's total balance sheet amounted to HRK 24.3 million; second year after its foundation the Company achieved profit after tax in the amount of HRK 25.7 million.

Development plan

The Company's goal in 2009 is management of funds accompanied with achieving defined yield with special attention towards minimising volatility of unit prices, and maximising assets under management. In 2009 the Company will, beside ten existent open-end and one closed-end investment funds, found and manage one more fund:

- Sector fund

On the operating results significant impact will have cost minimising, which will arise as a result of lower Umirovljenički fund costs.

Risks

The most significant types of financial risks which affect the Company are: credit risk, liquidity risk, market risk and operating risk. Market risk includes exchange rate risk, interest rate change risk and price risk. The Company manages risks in accordance with its prescribed policies and procedures of Hrvatska poštanska banka described in Note 2.

HPB-Stambena štedionica d.d.

HPB-Stambena štedionica ("the Company"), founded in April 2006 has completed 2008 with 14,500 new savings contracts. Compared with the previous year, savings deposits increased by 122 percent and accordingly the Company increased its share in the total amount of new housing saving contracts by 3 percent. Housing loans for bridge financing tripled compared to 2007.

Although faced with extremely competitive environment of savings banks in the Republic of Croatia, along with commercial banks, the Company continually adapted its products to the current market conditions with focused sales actions for savings products and affordable bridge financing.

Even though new distributive channels were introduced in 2008 ranging from regional expansion of new sales representatives network (FINA project) to additional sale offices in Hrvatska pošta, primary distributive channel was Hrvatska poštanska banka's branch network through which 80 percent of new savings contracts were realized. Lack of planned sales through Hrvatska pošta, reflected on the financial result the again turned negative in 2008 but delivered 30 percent lower loss compared to the previous year.

As at 31 December 2008, total balance sheet of the Company amounts HRK 113.4 million and was 89.4 percent higher compared to the year before. This increase was mostly the result of realized lending activity and growth of customer deposits that tripled compared with 2007.

Development plan

The results in 2008 show that with, closer cooperation with Hrvatska poštanska banka, strategic partnership with Croatian Post as an important sales channel and even more aggressive marketing, competitive advantages of HPB Stambena štedionica could be used even more efficiently. With that in mind, the expansion of sales as well as of deposit base will continue to be primary growth drivers in the next year as well.

Risk

The most significant types of risk that the Company is exposed to: credit risk, liquidity risk, market risk and operating risk. Market risk includes changes of exchange rates and risk of interest rate gap. The Company develops a system of managing the risk by implementing policies and procedures and determining acceptable limits of risk according to prescribed policies and procedures of Hrvatska poštanska banka described in Note 2. Limits are determined for all types of risks in relation to guarantee capital.

HPB-Nekretnine d.o.o.

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

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

As of 31 December 2008 balance sheet of the HPB-Nekretnina d.o.o. amounted to HRK 10.6 million, while the net profit for the period amounted to HRK 0.4 million.

Development plan

In the upcoming period the focus will be on the active promotion on the market and rise in quality of services rendered. Total efficiency and business activity will mostly depend on the expert team and their work, in the way to achieve planned goals and measurable financial results trough entering the competitive market. In the future we can expect the rise in demand for specific services which the Company offers and this increase in demand is the Company's business and development policy. Therefore, the Group will become more recognizable and a synergy effect will be accomplished.

Risk

The most significant types of risk that the Company is exposed to: credit risk, liquidity risk, market risk and operating risk. Market risk includes changes of exchange rates, risk of interest rate gap and price risk. The Company manages its risks according to prescribed policies and procedures of Hrvatska poštanska banka described in Note 2.

Application of the Corporate Management Codex

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

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

As a company whose shares are publicly quoted on the Zagreb Stock Exchange, the Bank has voluntarily implemented recommendations in accordance with the above-mentioned Codex during 2008, with some exceptions in respect of concentrated ownership structure and specificities of the banking sector. During 2008, the Supervisory Board did not set up an appointment committee nor a reward committee, the majority of Supervisory Board members do not have independent member status, and no policy for Management and Supervisory Board rewards has been published. In 2008, detailed explanations relating to recommendations not adopted, or departures from certain Codex recommendations were included in an annual questionnaire published by the Bank. This questionnaire forms a constituent part of the Codex and is submitted to the Zagreb Stock Exchange together with the annual financial statements for public disclosure.

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

A description of basic items of internal supervision in the Company and risk management in respect of financial reporting are provided in the description of the Bank's operations in Note 2.

Significant shareholders and limitations on share rights

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

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

In accordance with the Bank's Statute, the Management Board consists of a minimum of two and maximum of five members, and decisions regarding the number of members are brought by the Supervisory Board. Members of the

Management Board and the President of the Management Board are appointed by the Supervisory Board for a period of up to five years, and can be reappointed with no restriction. Only individuals who meet the criteria prescribed in the Banking Act and who have the prior approval of the Croatian National Bank can be appointed as Management Board members.

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

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

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

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

Supervisory Board members and activities

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

Members of the Supervisory Board during the 2008 business year until the XXVII. General Assembly of the Bank, held on May 27 2008, were:

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

By the decision of the XXVII. General Assembly of the Bank, held on May 27 2008, following new members of the Supervisory Board were chosen:

dr.sc. Zdravko Marić	President
Vedran Duvnjak	Vice President
Vera Babić	Member
prof.dr.sc. Drago Jakovčević	Member
dr.sc. Miro Kovač	Member
mr.sc. Grga Ivezić	Member

By the the decision of the XXVIII. General Assembly of the Bank, held on October 22 2008, member of the Supervisory Board Vera Babić was revoked, and two new members of the Supervisory Board were chosen:

Robert Jukić	Member
Marijo Dragun	Member

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

Structure and operations of the Management Board

In accordance with the Corporate law and the Bank's Statute, the main responsibility of the Management Board is managing of the Bank's operations and representation of the Bank towards third parties, in accordance with the Banking Law. Amongst others, the Management Board is responisible to ensure that the Bank operates in accordance with the regulations on the risk management, as prescribed by the the Banking Law and related regulations which are framework for the banking operations, in accordance with regulations on providing other financial services and regulations based on the Banking Law and other regulations, and monitoring of the risk ito which the Bank is exposed to in its opearations and adopting adequate procedures according to which the Bank manages risks, montoring, estimating and developing strategy of mainitaining, ie achivieng adequate level of the capital in relation to the risks the Bank is exposed to in its operations, functioning of the internal control system in all of the Bank's business segments and ensuring independent operations of internal audit. In addition, the Management Board is responsible to monitor that the Bank maintains its business and other records and business documentation, prepares accounting documentation, realistically estimates its assets and liabilites, compiles financial and other reports in accordance with the accounting rules and standards and applicable regulations, reports to the Croatian National Bank in accordance with the Banking Law and applicable regulations, as well as implements measures proposed by the Croatian National Bank.

During 2008 the Management Board consisted of the following members:

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

The Management Board, in accordance with the business processes requirements sets up permanent and temporary boards and delegations. Permanent Boards are: Executive Committee, Loan Approval Committee, Assets and Liability Management Committee, Change Management and Compliance Committee, Strategy Implementation Committee and Information System Management Committtee.

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements

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

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

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

The unconsolidated and consolidated and financial statements set out on pages 48 to 164 were authorized by the Management Board on 14 April 2009 for issue to the Supervisory Board and are signed below to signify this.

On behalf of Hrvatska poštanska banka d.d.:

Josip Protega
President of the Management Board

HRVATSKA POŠTANSKA BANKA DIONIČKO DRUŠTVO ZAGREB B

Ivan Sladonja
Member of the Management Board

KPMG

Independent Auditors' Report to the shareholders of Hrvatska poštanska banka d.d.

We have audited the accompanying consolidated financial statements of Hrvatska poštanska banka d.d. and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have also audited the accompanying unconsolidated financial statements of Hrvatska poštanska banka d.d. ("the Bank"), which comprise the unconsolidated balance sheet as at 31 December 2008, the unconsolidated income statement, unconsolidated statement of changes in equity and unconsolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

As indicated in Note 1(m) Gains and losses, the Bank's accounting policy is to recognise available-for-sale financial assets at fair value with changes in fair value recognised in a fair value reserve in equity. As indicated in Note 1(m) Impairment of financial assets, where financial assets classified as available for sale are considered to be impaired, the Bank recognises the impairment loss in profit or loss by transferring the amount of the impairment loss from equity into income.

At year end, the Bank held equity investments in two quoted securities issued by Croatian companies classified as available for sale (at the prior period year end, the Bank did not have any quoted equity investments classified as available for sale). The fair value of these investments at 31 December 2008 was 59% and 74% below cost. As disclosed in Note 9, taking into consideration the weakness in the global economy and its negative impact on financial markets at the balance sheet date, the Bank considers that this does not represent a permanent impairment of those equity investments. The Bank therefore does not believe that the change in fair value represents an impairment loss, and, accordingly, has recognised the decline in fair value within the fair value reserve in equity.

In our opinion, a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost should be considered to be objective evidence of impairment. Given the depth of the decline in the fair value of the investment held by the Bank, and the lack of persuasive evidence of an improvement in financial markets which would lead to the reversal of that decline in fair value in the near future, we believe that it would be more appropriate for the Bank to recognise an impairment loss on loans and advances to customers and other assets, included in the income statement. Accordingly, in our opinion, impairment losses on loans and advances to customers and other assets, included in the income statement, are understated by HRK 51,056 thousand with the result that the consolidated profit after tax for the financial year of HRK 4,520 thousand reported by the Group and unconsolidated profit after tax for the financial year of HRK 8,717 thousand reported by the Bank are both overstated by HRK 40,845 thousand. There is no effect on equity at year end, and, consequently, on the Bank's capital adequacy calculation.

Qualified opinion

In our opinion, except for the effect on the consolidated and unconsolidated income statement and consolidated and unconsolidated statement of changes in equity of the presentation of the decline in the fair value of equity securities classified as available for sale below cost as a movement in the fair value reserve in consolidated and unconsolidated equity, the consolidated and unconsolidated financial statements give a true and fair view of the consolidated and unconsolidated financial position of the Group and the Bank as at 31 December 2008 and of their consolidated and unconsolidated financial performance and consolidated and unconsolidated cash flows for the year then ended in accordance with the statutory accounting requirements for banks in Croatia.

Emphasis of matter

Without further qualifying our opinion, we draw attention to the following:

- As explained in Note 2.7, the Croatian National Bank requires the Bank to achieve a minimum capital adequacy ratio of 12% by 30 June 2009, calculated in accordance with the methodology prescribed by banking regulations in force at 31 December 2008 and up to the period ending on 30 June 2009, after which a revised methodology for the calculation of capital adequacy becomes applicable under the new Credit Institutions Act dated 13 October 2008 ("ZOKI"), with which the Bank will be obliged to comply. At 31 December 2008, the capital adequacy ratio calculated by the Bank was below 12%. As set out in Note 27(a), the principal shareholders of the Bank are entities controlled by the Government of the Republic of Croatia. The Bank's management is in discussion with the Supervisory Board on the source and amount of capital resources required to be injected into the Bank by 30 June 2009 in order to meet capital adequacy requirements as of 30 June 2009, as previously explained, having regard to regulatory requirements for capital adequacy going forwards in the context of expected performance after 2008 and the uncertainties disclosed in Note 3.

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08), the Management Board of the Bank has prepared the schedules set out on pages 168 to 185 ("the Schedules"), which comprise an alternative presentation of the balance sheet as of 31 December 2008, and of income statement, statement of changes in equity and cash flow statement for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements as presented on pages 48 to 164. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Bank set out on pages 48 to 164 on which we have expressed a qualified opinion as set out above.

KPMG Croatia d.o.o. za reviziju Zagreb, 14 April 2009

Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

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

KPMG Croatia
d.o.o.
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

Ismet Kamal
Director

Ivana Matovina
Croatian Certified Auditor

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	Group 2008 HRK '000	Group 2007 HRK '000
ASSETS			
Cash and amounts due from banks	5	936,127	1,033,020
Obligatory reserve with Croatian National Bank	6	1,119,720	1,657,335
Placements with and loans to other banks	7	1,407,963	2,096,927
Financial assets at fair value through profit or loss	8	1,558,597	1,672,708
Financial assets available for sale	9	334,622	118,651
Financial assets held to maturity	10	607,188	225,234
Loans and advances to customers	12	8,128,505	7,288,231
Assets held for sale	13	26,833	-
Property and equipment	15	193,968	207,020
Investment property	16	6,190	7,778
Intangible assets	17	186,193	118,711
Net deferred tax asset	18	47,524	16,040
Tax prepayment		7,123	-
Other assets	19	149,265	119,323
TOTAL ASSETS		**14,709,818**	**14,560,978**
LIABILITIES			
Financial liabilities at fair value through profit or loss	20	6,741	354
Deposits from banks	21	413,349	477,419
Deposits from customers	22	10,702,700	10,236,987
Borrowings	23	1,865,250	2,109,125
Subordinated debt	24	310,871	200,603
Provisions for liabilities and charges	25	32,907	31,900
Current tax liability		-	13,115
Other liabilities	26	466,681	535,257
TOTAL LIABILITIES		**13,798,499**	**13,604,760**
EQUITY			
Share capital	27	584,780	584,780
Treasury shares		(874)	(874)
Statutory reserve	27	19,258	18,822
General banking risk reserve	27	170,836	170,836
Fair value reserve	27	(52,878)	(3,493)
Revaluation reserve	27	4,922	4,956
Other reserves	27	36,606	36,606
Retained earnings	27	148,669	144,585
TOTAL EQUITY		**911,319**	**956,218**
TOTAL LIABILITIES AND EQUITY		**14,709,818**	**14,560,978**

The significant accounting policies and other notes on pages 60 to 164 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Group 2008 HRK '000	Group 2007 HRK '000
Interest and similar income	28	911,730	727,501
Interest expense and similar charges	29	(466,152)	(334,603)
Net interest income		**445,578**	**392,898**
Fee and commission income	30	599,889	601,756
Fee and commission expense	31	(410,353)	(437,295)
Net fee and commission income		**189,536**	**164,461**
Gains less losses arising from dealing securities	32	(95,926)	34,894
Gains less losses arising from investment securities	33	12,059	33
Gains less losses arising from dealing in foreign currencies		19,975	25,957
Other operating income	34	43,587	56,056
Dealing and other (expense)/income		**(20,305)**	**116,940**
Operating income		**614,809**	**674,299**
General and administrative expenses	35	(401,561)	(377,938)
Depreciation and amortisation	15, 16, 17	(65,685)	(54,737)
Impairment losses on loans and advances to customers and other assets	36	(139,399)	(71,534)
Provisions for liabilities and charges	25	(1,007)	(5,938)
Operating expenses		**(607,625)**	**(510,147)**
PROFIT BEFORE TAX		**7,157**	**164,152**
Income tax expense	37	(2,637)	(35,215)
PROFIT FOR THE YEAR		**4,520**	**128,937**

The significant accounting policies and other notes on pages 60 to 164 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

Group

	Share capital HRK '000	Treasury shares HRK '000	Statutory reserve HRK '000	General banking risk reserve HRK '000	Fair value reserve HRK '000	Revaluation reserve HRK '000	Other reserves HRK '000	Retained earnings HRK '000	Total HRK '000
Balance at 1 January 2007	**584,780**	**(874)**	**12,776**	**91,072**	**(885)**	**-**	**36,606**	**101,458**	**824,933**
Net unrealised losses on financial assets available for sale	-	-	-	-	(3,227)	-	-	-	(3,227)
Realised gains on financial assets available for sale	-	-	-	-	(33)	-	-	-	(33)
Gain on revaluation of land and buildings	-	-	-	-		6,195	-	-	6,195
Deferred tax	-	-	-	-	652	(1,239)	-	-	(587)
Net (expense) / income recognised directly in equity	**-**	**-**	**-**	**-**	**(2,608)**	**4,956**	**-**	**-**	**2,348**
Profit for the year	-	-	-	-	-	-	-	128,937	128,937
Total recognised income and expense for 2007	**-**	**-**	**-**	**-**	**(2,608)**	**4,956**	**-**	**128,937**	**131,285**
Transfer to statutory reserve	-	-	6,046	-	-	-	-	(6,046)	-
Transfer to general banking risk reserve	-	-	-	79,764	-	-	-	(79,764)	-
Balance at 31 December 2007	**584,780**	**(874)**	**18,822**	**170,836**	**(3,493)**	**4,956**	**36,606**	**144,585**	**956,218**
Balance at 1 January 2008	**584,780**	**(874)**	**18,822**	**170,836**	**(3,493)**	**4,956**	**36,606**	**144,585**	**956,218**
Net unrealised losses on financial assets available for sale	-	-	-	-	(49,673)	-	-	-	(49,673)
Realised gains on financial assets available for sale	-	-	-	-	(12,059)	-	-	-	(12,059)
Amortisation of gain on revaluation of land and buildings	-	-	-	-	-	(42)	-	-	(42)
Deferred tax	-	-	-	-	12,347	8	-	-	12,355
Net expense recognised directly in equity	-	-	-	-	**(49,385)**	**(34)**	-	-	(49,419)
Profit for the year	-	-	-	-	-	-	-	4,520	4,520
Total recognised income and expense for 2008	-	-	-	-	(49,385)	(34)	-	4,520	(44,899)
Transfer to statutory reserve	-	-	436	-	-	-	-	(436)	-
Balance at 31 December 2008	**584,780**	**(874)**	**19,258**	**170,836**	**(52,878)**	**4,922**	**36,606**	**148,669**	**911,319**

The significant accounting policies and other notes on pages 60 to 164 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Group 2008 HRK '000	Group 2007 HRK '000
Cash flows from operating activities			
Profit before tax		7,157	164,152
Adjustment for:			
- Depreciation and amortisation	15, 16, 17	65,685	54,737
- Foreign exchange (gains) / losses	34, 35	(853)	2,196
- Impairment losses on loans and advances to customers and other assets	36	139,399	71,534
- Impairment losses on provisions for liabilities and charges	25	1,007	5,938
- Net unrealised losses/(gains) on financial assets at fair value through profit or loss	32	88,484	(42,104)
- Reversal of impairment loss on land and buildings	34	-	(17,185)
Changes in operating assets and liabilities			
Net decrease/(increase) in placements and loans to other banks		139,391	(40,395)
Net (increase)/decrease in financial assets at fair value through profit or loss		(424,503)	178,760
Net increase in loans and advances to customers		(978,940)	(1,396,608)
Net increase in other assets		(69,112)	(10,692)
Net decrease in deposits from banks		(64,090)	(17,132)
Net increase in deposits from customers		447,862	2,105,894
Net (decrease)/increase in other liabilities		(226,726)	183,729
Net cash (outflow)/inflow from operating activities before tax		**(875,239)**	**1,242,824**
Income tax received/(paid)		16,034	(26,887)
Net cash (outflow)/inflow from operating activities		**(859,205)**	**1,215,937**
Cash flow from investing activities			
Purchase of property and equipment and intangible assets		(119,977)	(110,359)
Proceeds from sale of investment property		1,409	-
Disposal of financial assets available for sale		29,416	224,332
Acquisition of financial assets available for sale		(222,942)	(16,327)
Maturity/(acquisition) of financial assets held to maturity		34,411	(227,359)
Dividend receipts		27,346	494
Net cash outflow from investing activities		**(250,337)**	**(129,219)**
Cash flow from financing activities			
Increase in subordinated debt		110,000	200,000
Increase in borrowings		16,470,759	15,451,276
Decrease in borrowings		(16,644,607)	(14,753,145)
Net cash (outflow)/inflow from financing activities		**(63,848)**	**898,131**
Effect of foreign exchange differences on cash and cash equivalents		1,825	(5,975)
Net (decrease)/increase in cash and cash equivalents		**(1,171,565)**	**1,978,874**
Cash and cash equivalents at the beginning of the year	40	**4,554,685**	**2,575,811**
Cash and cash equivalents at the end of the year	40	**3,383,120**	**4,554,685**

The significant accounting policies and other notes on pages 60 to 164 form an integral part of these consolidated financial statements.

UNCONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	Bank 2008 HRK '000	Bank 2007 HRK '000
ASSETS			
Cash and amounts due from banks	5	936,119	1,033,016
Obligatory reserve with Croatian National Bank	6	1,119,720	1,657,335
Placements with and loans to other banks	7	1,386,235	2,072,511
Financial assets at fair value through profit or loss	8	1,558,577	1,672,708
Financial assets available for sale	9	320,162	81,132
Financial assets held to maturity	10	562,823	225,234
Loans and advances to customers	12	8,096,536	7,286,226
Assets held for sale	13	26,833	-
Investment in subsidiaries	14	53,550	53,550
Property and equipment	15	191,393	204,084
Intangible assets	17	185,710	118,707
Net deferred tax asset	18	46,438	15,269
Tax prepayment		18,063	-
Other assets	19	134,892	116,030
TOTAL ASSETS		**14,637,051**	**14,535,802**
LIABILITIES			
Financial liabilities at fair value through profit or loss	20	6,741	354
Deposits from banks	21	413,349	477,419
Deposits from customers	22	10,630,774	10,213,471
Borrowings	23	1,865,250	2,109,125
Subordinated debt	24	310,871	200,603
Provisions for liabilities and charges	25	32,902	31,895
Current tax liability		-	11,841
Other liabilities	26	452,714	526,814
TOTAL LIABILITIES		**13,712,601**	**13,571,522**
EQUITY			
Share capital	27	584,780	584,780
Treasury shares	27	(874)	(874)
Statutory reserve	27	19,258	18,822
General banking risk reserve	27	170,836	170,836
Fair value reserve	27	(50,409)	(1,896)
Revaluation reserve	27	4,922	4,956
Other reserves	27	36,606	36,606
Retained earnings	27	159,331	151,050
TOTAL EQUITY		**924,450**	**964,280**
TOTAL LIABILITIES AND EQUITY		**14,637,051**	**14,535,802**

The significant accounting policies and other notes on pages 60 to 164 form an integral part of these unconsolidated financial statements.

UNCONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Bank 2008 HRK '000	Bank 2007 HRK '000
Interest and similar income	28	906,873	725,792
Interest expense and similar charges	29	(465,195)	(334,314)
Net interest income		**441,678**	**391,478**
Fee and commission income	30	571,568	559,623
Fee and commission expense	31	(403,462)	(434,632)
Net fee and commission income		**168,106**	**124,991**
Gains less losses arising from dealing securities	32	(95,926)	34,111
Gains less losses arising from investment securities	33	12,144	50
Gains less losses arising from dealing in foreign currencies		19,954	25,960
Other operating income	34	46,379	57,671
Dealing and other (expense)/ income		**(17,449)**	**117,792**
Operating income		**592,335**	**634,261**
General and administrative expenses	35	(382,994)	(349,247)
Depreciation and amortisation	15, 17	(65,385)	(54,469)
Impairment losses on loans and advances to customers and other assets	36	(137,774)	(71,327)
Provisions for liabilities and charges	25	(1,007)	(5,933)
Operating expenses		**(587,160)**	**(480,976)**
PROFIT BEFORE TAX		**5,175**	**153,285**
Income tax expense	37	3,542	(32,369)
PROFIT FOR THE YEAR		**8,717**	**120,916**
		HRK	**HRK**
Earnings per share	38	**16.42**	**227.79**

The significant accounting policies and other notes on pages 60 to 164 form an integral part of these unconsolidated financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

Bank

	Share capital HRK '000	Treasury shares HRK '000	Statutory reserve HRK '000	General banking risk reserve HRK '000	Fair value reserve HRK '000	Revaluation reserve HRK `000	Other reserves HRK `000	Retained earnings HRK '000	Total HRK '000
Balance at 1 January 2007	**584,780**	**(874)**	**12,776**	**91,072**	**(222)**	**-**	**36,606**	**115,944**	**840,082**
Net unrealised losses on financial assets available for sale	-	-	-	-	(2,042)	-	-	-	(2,042)
Realised gains on financial assets available for sale	-	-	-	-	(50)	-	-	-	(50)
Gain on revaluation of land and buildings	-	-	-	-	-	6,195	-	-	6,195
Deferred tax	-	-	-	-	418	(1,239)	-	-	(821)
Net (expense) / income recognised directly in equity	**-**	**-**	**-**	**-**	**(1,674)**	**4,956**	**-**	**-**	**3,282**
Profit for the year	-	-	-	-	-	-	-	120,916	120,916
Total recognised income and expense for 2007	**-**	**-**	**-**	**-**	**(1,674)**	**4,956**	**-**	**120,916**	**124,198**
Transfer to statutory reserve	-	-	6,046	-	-	-	-	(6,046)	-
Transfer to general banking risk reserve	-	-	-	79,764	-	-	-	(79,764)	-
Balance at 31 December 2007	**584,780**	**(874)**	**18,822**	**170,836**	**(1,896)**	**4,956**	**36,606**	**151,050**	**964,280**
Balance at 1 January 2008	**584,780**	**(874)**	**18,822**	**170,836**	**(1,896)**	**4,956**	**36,606**	**151,050**	**964,280**
Net unrealised losses on financial assets available for sale	-	-	-	-	(48,498)	-	-		(48,498)
Realised gains on financial assets available for sale	-	-	-	-	(12,144)	-	-	-	(12,144)
Amortisation of gain on revaluation of land and buildings	-	-	-	-	-	(42)		-	(42)
Deferred tax	-	-	-	-	12,129	8	-	-	12,137
Net expense recognised directly in equity	-	-	-	-	**(48,513)**	**(34)**	**-**	-	(48,547)
Profit for the year	-	-	-	-	-	-	-	8,717	8,717
Total recognised income and expense for 2008	-	-	-	-	(48,513)	(34)	-	8,717	(39,830)
Transfer to statutory reserve	-	-	436	-	-	-	-	(436)	-
Balance at 31 December 2008	**584,780**	**(874)**	**19,258**	**170,836**	**(50,409)**	**4,922**	**36,606**	**159,331**	**924,450**

The significant accounting policies and other notes on pages 60 to 164 form an integral part of these unconsolidated financial statements.

UNCONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Bank 2008 HRK '000	Bank 2007 HRK '000
Cash flows from operating activities			
Profit before tax		5,175	153,285
Adjustment for:			
- Depreciation and amortisation	15, 17	65,385	54,469
- Foreign exchange (gains)/ losses	34, 35	(843)	2,201
- Impairment losses on loans and advances to customers and other assets	36	137,774	71,327
- Impairment losses on provisions for liabilities and charges	25	1,007	5,933
- Net unrealised losses / (gains) on financial assets at fair value through profit or loss	32	88,484	(42,104)
- Reversal of impairment loss on land and buildings	34	-	(17,185)
Changes in operating assets and liabilities			
Net decrease/(increase) in placements and loans to other banks		148,343	(35,776)
Net (increase)/decrease in financial assets at fair value through profit or loss		(424,483)	177,977
Net increase in loans and advances to customers		(950,372)	(1,377,244)
Net increase in other assets		(74,304)	(4,210)
Net decrease in deposits from banks		(64,090)	(17,128)
Net increase in deposits from customers		398,279	2,087,085
Net (decrease)/increase in other liabilities		(155,104)	182,259
Net cash (outflow)/inflow from operating activities before tax		**(824,749)**	**1,240,889**
Income tax received/(paid)		18,063	(26,887)
Net cash (outflow)/inflow from operating activities		**(806,686)**	**1,214,002**
Cash flow from investing activities			
Investments in subsidiaries		-	(18,500)
Purchase of property and equipment and intangible assets		(119,739)	(109,809)
Disposal of financial assets available for sale		57,565	221,408
Acquisition of financial assets available for sale		(244,083)	(7,201)
Maturity/(acquisition) of financial assets held to maturity		51,004	(227,359)
Dividend receipts		31,914	494
Net cash outflow from investing activities		**(223,339)**	**(140,967)**
Cash flow from financing activities			
Increase in subordinated debt		110,000	200,000
Increase in borrowings		16,402,891	15,451,276
Decrease in borrowings		(16,644,607)	(14,753,145)
Net cash (outflow)/inflow from financing activities		**(131,716)**	**898,131**
Effect of foreign exchange differences on cash and cash equivalents		1,825	(5,975)
Net (decrease)/increase in cash and cash equivalents		**(1,159,916)**	**1,965,191**
Cash and cash equivalents at the beginning of the year	40	**4,535,320**	**2,570,129**
Cash and cash equivalents at the end of the year	40	**3,375,404**	**4,535,320**

The significant accounting policies and other notes on pages 60 to 164 form an integral part of these unconsolidated financial statements.

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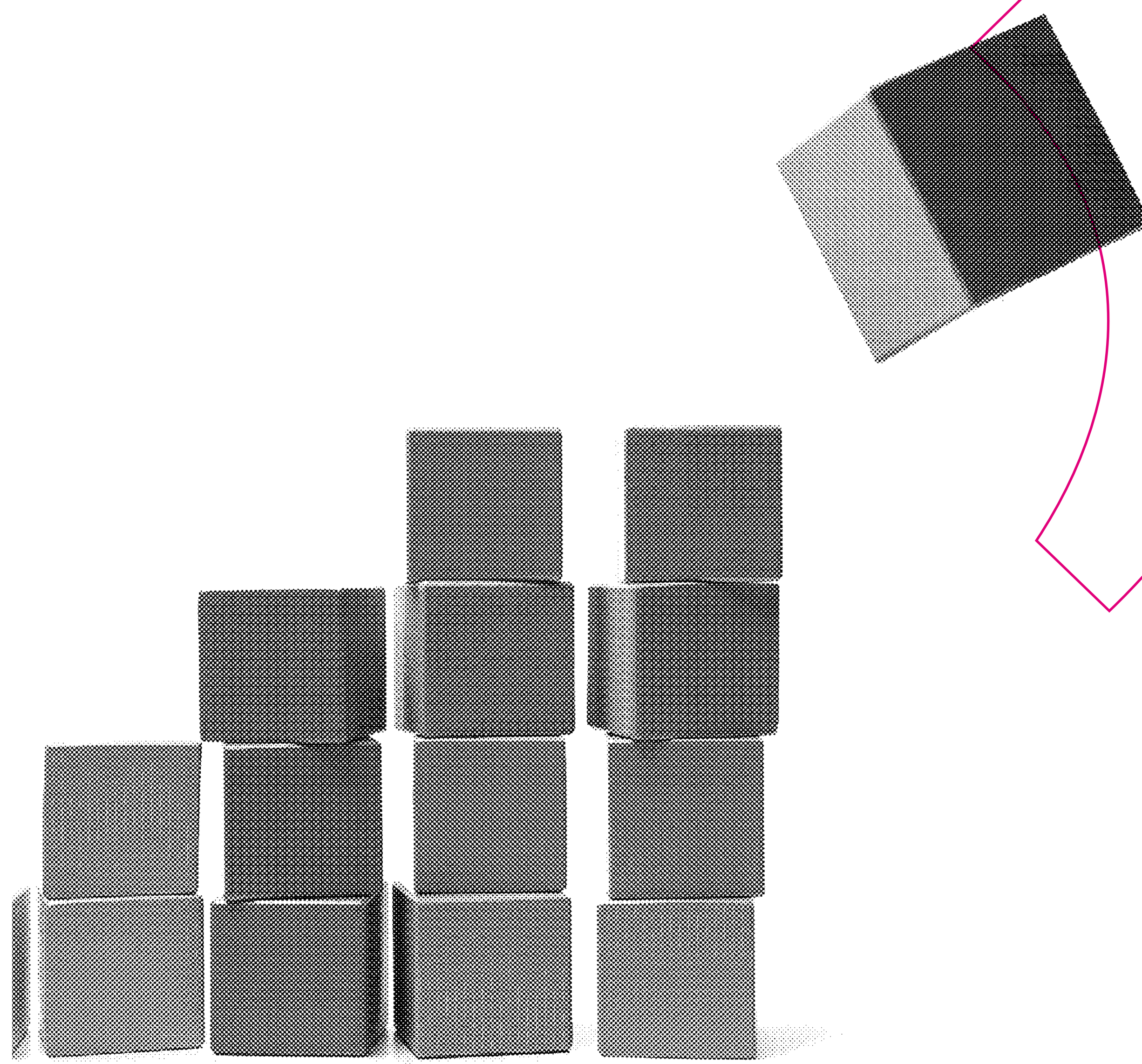


1. SIGNIFICANT ACCOUNTING POLICIES

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

These financial statements were authorised for issue by the Management Board on 14 April 2009 for approval by the Supervisory Board.

The principal accounting policies applied in the preparation of these financial statements are summarised below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards, reference may be made to certain Standards in describing the accounting policies of the Group; unless otherwise stated, these references are to Standards applicable at 31 December 2008.

a) Statement of compliance

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

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

- The CNB requires banks to recognise impairment losses, in income, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value). The Group and Bank have made portfolio-based provisions of HRK 140,523 thousand and HRK 139,598 thousand respectively (2007: HRK 143,269 thousand and HRK 142,775 thousand respectively) in compliance with these regulations and have recognised income in respect of the write back of such provisions of HRK 2,746 thousand and HRK 3,177 thousand respectively as income within the charge for impairment losses on loans and advances to customers and other assets for the year (2007: expense of HRK 39,705 thousand and HRK 39,493 thousand respectively). Although, in accordance with International Financial Reporting Standards, such provisions should more properly be presented as an appropriation within equity, the Group and Bank continue to recognise such provisions in the income statement as a substitute for unidentified impairment losses calculated in accordance with the requirements of International Financial Reporting Standards.
- Although the Group calculates impairment losses on corporate lending as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate, in accordance with International Financial Reporting Standards, the CNB requires the amortisation of the discount calculated to be presented in the income statement within the movement on impairment losses on loans and advances to customers and other assets, rather than as interest income, as required by International Financial Reporting Standards.
- Additionally the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognised in accordance with IFRS.

b) Basis of preparation

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

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

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

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

Judgments made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

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

Certain regulations have been issued by the CNB as of the date on which these financial statements were authorised for issue, which were not effective at the balance sheet date, but which will be mandatory for accounting periods beginning on or after 1 January 2009. The Group considers that the following regulations may have a significant impact on the financial statements or otherwise have a significant financial impact on its operations:

- The Credit Institutions Act enters into force on 1 January 2009 (replacing the Banking Act). It enacts new regulations on risk management in credit institutions based on all three pillars of the Basel II standard. From 1 July 2009, the minimum capital adequacy ratio required under the act is increased to 12 % (from 10% as required under the previous Banking Act).

The Group also expects that, in the ordinary course of updating its accounting regulations, the CNB may have regard to the following Standards and Interpretations issued by the International Accounting Standards Board and its International Financial Reporting Interpretations Committee, which were in issue as of the date on which these financial statements have been authorised for issue, but which are applicable to entities reporting under IFRS in periods commencing after 1 January 2009, and which may have an impact on the Group, if adopted:

- IFRS 8, Operating Segments (applicable from 1 January 2009). The standard requires disclosure of segment information based on the components of the entity which are monitored by management when making business decisions. Operating segments are components of an entity for which separate financial data can be attained, and which are regularly reviewed by the entity's chief decision maker in order to decide how to allocate resources and assess business performance. The Group is currently considering the effect of IFRS 8 on the presentation of its segment reporting for annual periods beginning on 1 January 2009.
- Revised IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The revised standard requires information provided in the financial statements to be agregated based on shared characteristics, and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement) or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Group is currently considering whether to present a single statement of comprehensive income or two separate statements.
- Revised IAS 23, Borrowing Costs (applicable from 1 January 2009). The revised standard removes the option to recognise borrowing costs as an expense for the period, and requires that borrowing costs attributable to qualifying assets (for which a significant of period time to be brought into use or prepared for sale is needed) should be capitalised. The Group is currently analysing the effect of this revised standard.
- Amended IAS 27, Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 January 2009). The amendments revoke the definition of the 'cost method', which is currently set out in IAS 27, and instead require that all dividends from subsidiaries, mutually controlled entities and associate companies be recognised as income in the investor's separate financial statements at the moment when the right to obtain the dividend is established. Furthermore, the amendments provide guidelines as to when the receipt dividend income should be considered as an indicator of impairment. The Group is currently analysing the effect of this revised standard.
- Amendments to IAS 39, Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 July 2009). The amended standard clarifies the use of existing principles which determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions of cash flow must be separately identifiable and reliably measurable; inflation, though, cannot be designated, except in limited circumstances. The Group does not expect these amendments to IAS 39 to have any relevant impact on its business, considering that hedge accounting is not applied.

d) Functional and presentation currency

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

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

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

f) Basis of consolidation

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

Subsidiaries

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

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

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

Transactions eliminated on consolidation

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

g) Interest income and expense

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

h) Fee and commission income and expense

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

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

i) Dividend income

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

j) Gains less losses from dealing and investment securities

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

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

k) Gains less losses arising from dealing in foreign currencies

Gains less losses from dealing in foreign currencies include unrealised and realised gains and losses arising from spot dealings in foreign currencies.

l) Foreign currencies

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

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

m) Financial instruments

Classification

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

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

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

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

Loans and receivables

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

Financial instruments held to maturity

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

Financial assets available for sale

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

Other financial liabilities

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

Reclassification

In accordance with the amendments to IAS 39: Financial instruments: Recognition and Measurement and IFRS 7: Financial instruments: Disclosures dating from October 2008, the Group has reclassified certain financial instruments from financial assets at fair value through profit or loss into financial assets held to maturity and into financial assets available for sale and has also reclassified certain financial instruments from financial assets available for sale into financial assets held to maturity. The effects of reclassification are presented in Note 11.

Recognition and derecognition

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

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

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

Initial and subsequent measurement

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

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

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

Gains and losses

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

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

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

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

Determination of fair value of financial instruments

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

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

Impairment of financial assets

Impairment of assets identified as impaired

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

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

If any evidence of impairment exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

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

Impairment of assets not identified as impaired

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

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

n) Specific financial instruments

Cash and cash equivalents

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

Derivative financial instruments

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

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

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

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

Treasury bills and debt securities

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

Equity securities and investments in open-ended investment funds

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

Placements with banks

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

Loans and advances to customers

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

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

Investments in subsidiaries

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

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

Borrowings

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

Repurchase agreements and linked transactions

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

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

o) Income tax

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

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

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

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

p) Property and equipment

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

Recognition and measurement

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

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

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

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

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

The estimated useful lives are as follows:

	2008	2007
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and equipment	3-4 years	3-4 years
Motor vehicles	5 years	5 years
Other assets	10 years	10 years

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

q) Investment property

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

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

	2008	2007
Investment property	40 years	40 years

Residual amounts are not taken into account.

r) Intangible assets

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

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

	2008	2007
Leasehold improvements	4 years	4 years
Software	3-7 years	3-7 years
Licences	3-7 years	3-7 years

s) Assets held for sale

Assets are classified as held for sale when the criteria set out in IFRS 5 Non-current Assets Held for Sale and Discounted Operations are met.

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

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

t) Impairment of non-financial assets

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

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

u) Provisions for liabilities and charges

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

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

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

v) Operating leases

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

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

w) Employee benefits

Defined pension contributions

The Group pays contributions to insurance plans on a mandatory, contractual basis.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Provisions for severance payments and jubilee awards

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

x) Share capital and reserves

Share capital and reserves

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

Dividends

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

Reserve for general banking risks

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

Retained earnings

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

Earnings per share

The Bank presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. EPS is not presented for the Group.

y) Off-balance-sheet commitments and contingent liabilities

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

z) Managed funds for and on behalf of third parties

The Group manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Group's assets and are excluded from the balance sheet. For the services rendered, the Group charges a fee which is recognised in the income statement on an accruals basis.

The Group also manages seven open-ended funds: HPB Dionički fund, HPB Global fund, HPB Novčani fund, HPB Obveznički fund, HPB Dynamic fund, HPB Titan fund and HPB World Apsolute Value, and three open-ended funds with private offer: HPB Alpha fund, HPB Omega fund and HPB ZM-1 fund and one closed investment fund with the public offer for real estate investments: HPB Real d.d. The Group also manages HPB Umirovljenički fund, a special purpose fund, established by the Government, for payment of debt to retired persons.

aa) Segment reporting

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

2. RISK MANAGEMENT POLICIES

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

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

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

2.1. Credit risk

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

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank evaluates debtors' creditworthiness, and in order to minimise credit risk, obtains appropriate collateral.

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

The Group's primary exposure to credit risk arises from loans to and advances to

customers. The amount of credit exposure in this regard, and in respect of held-to-maturity debt securities recognised at amortised cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk in respect of the off-balance-sheet items, through commitments arising from unused facilities and guarantees issued, as disclosed in Note 41.

- The Bank manages its credit risk exposure in accordance with the legislative requirements and regulations of the Croatian National Bank, as well as in accordance with its internal procedures. In line with measures prescribed by the CNB, the Bank amended its policy on Credit Risk Management with effect from 2009 on the assessment of the recoverable amount of credit risk exposures and their allocation to risk groups. Various articles were added that more closely address the criteria relating to the following:
  - situations where the Bank estimates that its receivables will be settled from collateral;
  - estimation of the timing of repayment through the enforcement of collateral; and
  - estimation of the overall recoverable amount of several placements to one debtor.

The Bank has also improved its database for monitoring collateral, principally real estate, and has planned further improvements in 2009, relating to improvement of the process of estimation of loan recoverability (including improved IT support).

The Bank has set up a separate team for the purpose of ensuring compliance with the new regulations (the Credit Institutions Act and related by-laws).

Credit risk management comprises assessment of credit risk, subsequent monitoring and supervision of credit risk and quarterly assessment of the adequacy of impairment losses identified, and reporting to the Management Board of the Bank.

2.1.1. Assessment of credit risk

Assessment of the individual credit risk exposure comprises the following:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations and
- collateral quality.

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

2.1.2. Classification of placements into risk categories

The Bank classifies placements into risk categories depending on the estimated recovery of placements, and in accordance with the CNB's Decision on Classification of Placements and Contingent Liabilities of Banks. All placements that the Bank estimates are fully recoverable are classified in risk category A. Upon initial approval, the Bank classifies all placements into risk category A. Placements that the Bank estimates are partly recoverable are classified into risk category B, depending on the recovery percentage (in subcategory B1 - the recoverable amount is estimated at between 70 percent and 100 percent; in subcategory B2 - the recoverable amount is estimated at between 30 percent and 70 percent; and in subcategory B3 - the recoverable amount is estimated at between 10 percent and 30 percent. Placements estimated to be substantially irrecoverable (recoverable amount less than or equal to 10 percent), are classified into risk category C.

2.1.3. Impairment policy of placements

When estimating the recoverable amount of placements, the Bank divides placements into those which belong to the portfolio of small placements and those which do not belong to the portfolio of small placements.

Placements which belong to the portfolio of small placements are those whose gross value (before any impairment loss) does not exceed HRK 700 thousand towards one debtor at the date of estimation.

Generally, the Bank estimates the recoverability of placements to retail customers according to the criteria established for the small portfolio, whereas the recoverability of placements to corporate clients is estimated according to criteria which do not relate to the small portfolio.

Identified losses

Estimate of the recoverable amount of placements that are not classified within small loan portfolio of the Bank is performed on an individual basis according to the following criteria:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations and
- collateral quality.

Unidentified losses

The estimate of the recoverable amount of exposures that are classified within the small loan portfolio is, in general, performed on a portfolio basis having regard principally to the debtors' timeliness in meeting their obligations.

The following table presents the classification of exposures into risk categories for the Group and the Bank and the allocation of the corresponding impairment losses as a percentage of gross principal. The analysis includes unquoted debt securities classified as available for sale, which are recognised at cost less impairment.

Group

%	Loans to customers	Impairment losses	Placements with and loans to other banks	Impairment losses	Financial assets available for sale	Impairment losses	Financial assets held to maturity	Impairment losses	Other assets	Impairment losses
2008										
A	89.83	1.41	99.96	-	98.43	0.83	97.53	0.98	95.35	-
A (until 90 days overdue)	2.18	-	0.04	-	-	-	-	-	0.78	-
B and C	7.99	27.82	-	100	1.57	58.99	2.47	46.65	3.87	100.00
	100		**100**		**100**		**100**		**100**	
2007										
A	92.97	1.65	99.97	-	95.59	0.90	100.00	1.00	96.94	-
A (until 90 days overdue)	2.82	-	0.03	-	-	-	-	-	-	-
B and C	4.21	46.54	-	100	4.41	58.97	-	-	3.06	100.00
	100		**100**		**100**		**100**		**100**	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Bank

%	Loans to customers	Impairment losses	Placements with and loans to other banks	Impairment losses	Financial assets available for sale	Impairment losses	Financial assets held to maturity	Impairment losses	Other assets	Impairment losses
2008										
A	89.79	1.41	99.96	-	98.36	0.83	97.33	0.99	95.70	-
A (until 90 days overdue)	2.19	-	0.04	-	-	-	-	-	0.86	-
B and C	8.02	27.82	-	100	1.64	60.08	2.67	48.30	3.44	100.00
	100		**100**		**100**		**100**		**100**	
2007										
A	92.97	1.65	99.98	-	93.58	0.93	100.00	1.00	96.86	-
A (until 90 days overdue)	2.82	-	0.02	-	-	-	-	-	-	-
B and C	4.21	46.54	-	100	6.42	67.46	-	-	3.14	100.00
	100		**100**		**100**		**100**		**100**	

Maximum exposure to credit risk before consideration of collateral

This table shows the maximum exposure to credit risk as at 31 December 2008 and 2007, where existing collateral is not taken into account.

The exposure shown in the table below is exposure net of impairment losses.

Maximum exposure		**Group**		**Bank**	
	Notes	**2008 HRK '000**	**2007 HRK '000**	**2008 HRK '000**	**2007 HRK '000**
Amounts due from banks	5	568,224	732,190	568,224	732,190
Obligatory reserve with Croatian National Bank	6	1,119,720	1,657,335	1,119,720	1,657,335
Placements with and loans to other banks	7	1,407,963	2,096,927	1,386,235	2,072,511
Loans and advances to customers	12	8,128,505	7,288,231	8,096,536	7,286,226
Financial assets available for sale	9	334,622	118,651	320,162	81,132
Financial assets held to maturity	10	607,188	225,234	562,823	225,234
Other assets	19	149,265	119,323	134,892	116,030
Off balance sheet exposure	41	**2,345,023**	**2,219,741**	**2,344,411**	**2,219,140**
Unused facilities		1,590,035	1,583,966	1,589,423	1,583,365
Guarantees		546,576	446,789	546,576	446,789
Other exposure		208,412	188,986	208,412	188,986
Total credit exposure		**14,660,510**	**14,457,632**	**14,533,003**	**14,389,798**

2.1.4. Assets exposed to credit risk

Group 2008	Loans to customers HRK '000	Placements with and loans to other banks HRK '000	Financial assets available for sale HRK '000	Financial assets held to maturity HRK '000	Other assets HRK '000
Loans without delay and no impairment	7,567,470	1,407,963	336,054	602,930	148,063
Loans with delay but no impairment	183,733	-	-	-	1,200
Impaired loans	672,891	500	5,349	15,300	6,015
Total gross loans	**8,424,094**	**1,408,463**	**341,403**	**618,230**	**155,278**
Identified losses	(187,215)	(500)	(4,000)	(5,151)	(6,013)
Unidentified losses	(108,374)	-	(2,781)	(5,891)	-
Total losses	**(295,589)**	**(500)**	**(6,781)**	**(11,042)**	**(6,013)**
Total	**8,128,505**	**1,407,963**	**334,622**	**607,188**	**149,265**

Group 2007	Loans to customers HRK '000	Placements with and loans to other banks HRK '000	Financial assets available for sale HRK '000	Financial assets held to maturity HRK '000	Other assets HRK '000
Loans without delay and no impairment	7,022,959	2,096,927	115,844	227,509	119,319
Loans with delay but no impairment	213,175	-	-	-	-
Impaired loans	317,632	543	5,349	-	3,770
Total gross loans	**7,553,766**	**2,097,470**	**121,193**	**227,509**	**123,089**
Identified losses	(147,829)	(543)	(1,499)	-	(3,766)
Unidentified losses	(117,706)	-	(1,043)	(2,275)	-
Total losses	**(265,535)**	**(543)**	**(2,542)**	**(2,275)**	**(3,766)**
Total	**7,288,231**	**2,096,927**	**118,651**	**225,234**	**119,323**

Bank 2008	Loans to customers HRK '000	Placements with and loans to other banks HRK '000	Financial assets available for sale HRK '000	Financial assets held to maturity HRK '000	Other assets HRK '000
Loans without delay and no impairment	7,535,087	1,386,235	321,471	558,188	133,692
Loans with delay but no impairment	183,733	-	-	-	1,200
Impaired loans	672,891	500	5,349	15,300	4,813
Total gross loans	**8,391,711**	**1,386,735**	**326,820**	**573,488**	**139,705**
Identified losses	(187,215)	(500)	(4,000)	(5,151)	(4,813)
Unidentified losses	(107,960)	-	(2,658)	(5,514)	-
Total losses	**(295,175)**	**(500)**	**(6,658)**	**(10,665)**	**(4,813)**
Total	**8,096,536**	**1,386,235**	**320,162**	**562,823**	**134,892**

Bank 2007	Loans to customers HRK '000	Placements with and loans to other banks HRK '000	Financial assets available for sale HRK '000	Financial assets held to maturity HRK '000	Other assets HRK '000
Loans without delay and no impairment	7,020,834	2,072,511	78,005	227,509	116,026
Loans with delay but no impairment	213,175	-	-	-	-
Impaired loans	317,632	500	5,349	-	3,764
Total gross loans	**7,551,641**	**2,073,011**	**83,354**	**227,509**	**119,790**
Identified losses	(147,829)	(500)	(1,499)	-	(3,760)
Unidentified losses	(117,586)	-	(723)	(2,275)	-
Total losses	**(265,415)**	**(500)**	**(2,222)**	**(2,275)**	**(3,760)**
Total	**7,286,226**	**2,072,511**	**81,132**	**225,234**	**116,030**

In accordance with applicable acts, the Bank utilises the following basic collateral instruments as insurance for placements: bank guarantees; HAMAG ("Croatian Agency for Small Entrepreneurship") and other legal entity guarantees; bills of exchange accepted by a bank; pledged property and equipment; insurance policies; pledged shares, bonds, commercial papers, and units in open-ended investment funds; transfer of receivables (cessions) from corporate clients and the Government; pledged concessions; pledged industrial and intellectual property; and other common financial execution instruments, such as bills of exchange and promissory notes.

The valuation of property is performed by an authorised valuer: HPB-Nekretnine; while the valuation of securities and units in investment funds is performed by HPB-Invest.

Collateral value is reviewed in accordance with general market trends.

The gross amount of unimpaired lending, which was not overdue as at the balance sheet date, together with the Group's estimate of the fair value of the related collateral, expressed as a percentage of the amount net of provisions for unidentified losses, is as follows.

(a) Assets exposed to credit risk without delay and no impairment

Group 2008 HRK '000	State units	Non-banking financial institutions	Companies	Housing loans	Mortgage loans	Credit card loans	Other loans	**Total**	**Placements with and loans to other banks**	**Financial assets available for sale**	**Financial assets held to maturity**	**Other assets**
Gross loans	298,229	104,719	4,134,721	281,455	2,099	86,589	2,659,658	**7,567,470**	1,407,963	336,054	602,930	148,063
Total unidentified losses	(4,199)	(1,474)	(58,210)	(3,962)	(30)	(1,219)	(37,443)	**(106,537)**	-	(2,781)	(5,891)	-
Net loans	**294,030**	**103,245**	**4,076,511**	**277,493**	**2,069**	**85,370**	**2,622,215**	**7,460,933**	**1,407,963**	**333,273**	**597,039**	**148,063**
Collateral value	-	-	1,071,446	369,866	468	-	633,394	**2,075,174**	-	-	-	-
% collateral coverage	-	-	26.28	133.29	22.62	-	24.15	**27.81**	-	-	-	-

Group 2007 HRK '000	State units	Non-banking financial institutions	Companies	Housing loans	Mortgage loans	Credit card loans	Other loans	**Total**	**Placements with and loans to other banks**	**Financial assets available for sale**	**Financial assets held to maturity**	**Other assets**
Gross loans	149,413	192,002	4,075,381	160,542	177,743	54,582	2,213,296	**7,022,959**	2,096,927	115,844	227,509	119,319
Total unidentified losses	(2,459)	(3,160)	(67,067)	(2,642)	(2,925)	(898)	(36,423)	**(115,574)**	-	(1,043)	(2,275)	-
Net loans	**146,954**	**188,842**	**4,008,314**	**157,900**	**174,818**	**53,684**	**2,176,873**	**6,907,385**	**2,096,927**	**114,801**	**225,234**	**119,319**
Collateral value	-	-	353,300	123,699	46,062	-	614,144	1,137,205	-	-	-	-
% collateral coverage	-	-	8.81	78.34	26.35	-	28.21	16.46	-	-	-	-

Bank 2008 HRK '000

	State units	Non-banking financial institutions	Companies	Housing loans	Mortgage loans	Credit card loans	Other loans	**Total**	**Placements with and loans to other banks**	**Financial assets available for sale**	**Financial assets held to maturity**	**Other assets**
Gross loans	298,229	113,826	4,134,721	239,965	2,099	86,589	2,659,658	**7,535,087**	1,386,235	321,471	558,188	133,692
Total unidentified losses	(4,200)	(1,603)	(58,233)	(3,380)	(30)	(1,220)	(37,457)	**(106,123)**	-	(2,658)	(5,514)	-
Net loans	**294,029**	**112,223**	**4,076,488**	**236,585**	**2,069**	**85,369**	**2,622,201**	**7,428,964**	**1,386,235**	**318,813**	**552,674**	**133,692**
Collateral value	-	-	1,071,446	369,866	468	-	633,394	**2,075,174**	-	-	-	-
% collateral coverage	-	-	26.28	156.34	22.62	-	24.16	**27.93**	-	-	-	-

Bank 2007 HRK '000

	State units	Non-banking financial institutions	Companies	Housing loans	Mortgage loans	Credit card loans	Other loans	**Total**	**Placements with and loans to other banks**	**Financial assets available for sale**	**Financial assets held to maturity**	**Other assets**
Gross loans	149,413	201,887	4,075,381	148,532	177,743	54,582	2,213,296	**7,020,834**	2,072,511	78,005	227,509	116,026
Total unidentified losses	(2,457)	(3,320)	(67,018)	(2,443)	(2,923)	(898)	(36,395)	**(115,454)**	-	(723)	(2,275)	-
Net loans	**146,956**	**198,567**	**4,008,363**	**146,089**	**174,820**	**53,684**	**2,176,901**	**6,905,380**	**2,072,511**	**77,282**	**225,234**	**116,026**
Collateral value	-	-	353,300	123,699	46,062	-	614,144	**1,137,205**	-	-	-	-
% collateral coverage	-	-	8.81	84.67	26.35	-	28.21	**16.47**	-	-	-	-

(b) Assets exposed to credit risk that are overdue but not impaired

Loans that are 90 days overdue are not considered to be impaired, unless other information confirms otherwise.

The gross amount of such assets and the Group's estimate of the fair value of related collateral expressed as a percentage of the amount net of provisions for unidentified losses, are disclosed below:

Group 2008 HRK '000	Loans to customers		
	Companies	**Total**	**Other assets**
Gross loans	183,733	**183,733**	1,200
Total unidentified losses	(1,837)	**(1,837)**	-
Net loans	**181,896**	**181,896**	**1,200**
Collateral value	110,000	**110,000**	-
% collateral coverage	**60.47**	**60.47**	**-**

Group 2007 HRK '000	Loans to customers		
	Companies	Other loans	**Total**
Gross loans	204,479	8,696	**213,175**
Total unidentified losses	(2,045)	(87)	**(2,132)**
Net loans	**202,434**	**8,609**	**211,043**
Collateral value	33,515	-	**33,515**
% collateral coverage	**16.56**	**-**	**15.88**

(c) Impaired assets exposed to credit risk

The table below shows the amount of specifically impaired lending, gross and net of specific provisions, compared with the Bank's estimate of the fair value of the collateral held in respect of these assets, expressed as a percentage of the amount net of specific provisions.

Group 2008 HRK '000	Loans to customers								
	Companies	Housing loans	Mortgage loans	Other loans	**Total**	**Placements with and loans to other banks**	**Financial assets available for sale**	**Financial assets held to maturity**	**Other assets**
Gross loans	501,619	1,914	342	169,016	**672,891**	500	5,349	15,300	6,015
Total identified losses	(105,407)	(1,107)	(296)	(80,405)	**(187,215)**	(500)	(4,000)	(5,151)	(6,013)
Net loans	**396,212**	**807**	**46**	**88,611**	**485,676**	**-**	**1,349**	**10,149**	**2**
Collateral value	32,451	2,477	69	133,584	**168,581**	-	-	-	-
% collateral coverage	**8.19**	**306.94**	**150.00**	**150.75**	**34.71**	**-**	**-**	**-**	**-**

Bank 2008 HRK '000	Loans to customers		
	Companies	**Total**	**Other assets**
Gross loans	183,733	**183,733**	1,200
Total unidentified losses	(1,837)	**(1,837)**	-
Net loans	**181,896**	**181,896**	**1,200**
Collateral value	110,000	**110,000**	-
% collateral coverage	**60.47**	**60.47**	**-**

Bank 2007 HRK '000	Loans to customers		
	Companies	Other loans	**Total**
Gross loans	204,479	8,696	**213,175**
Total unidentified losses	(2,045)	(87)	**(2,132)**
Net loans	**202,434**	**8,609**	**211,043**
Collateral value	33,515	-	**33,515**
% collateral coverage	**16.56**	**-**	**15.88**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Group 2007 HRK '000	Loans to customers Companies	Housing loans	Mortgage loans	Other loans	Total	Placements with and loans to other banks	Financial assets available for sale	Other assets
Gross loans	241,604	1,425	5,679	68,924	**317,632**	543	5,349	3,770
Total identified losses	(88,535)	(1,363)	(4,562)	(53,369)	**(147,829)**	(543)	(1,499)	(3,766)
Net loans	**153,069**	**62**	**1,117**	**15,555**	**169,803**	**-**	**3,850**	**4**
Collateral value	23,556	-	1,351	18,806	**43,713**	-	-	-
% collateral coverage	**15.39**	**-**	**120.95**	**120.90**	**25.74**	**-**	**-**	**-**

Bank 2008 HRK '000	Loans to customers Companies	Housing loans	Mortgage loans	Other loans	Total	Placements with and loans to other banks	Financial assets available for sale	Financial assets held to maturity	Other assets
Gross loans	501,619	1,914	342	169,016	**672,891**	500	5,349	15,300	4,813
Total identified losses	(105,407)	(1,107)	(296)	(80,405)	**(187,215)**	(500)	(4,000)	(5,151)	(4,813)
Net loans	**396,212**	**807**	**46**	**88,611**	**485,676**	**-**	**1,349**	**10,149**	-
Collateral value	32,451	2,477	69	133,584	**168,581**	-	-	-	-
% collateral coverage	**8.19**	**306.94**	**150.00**	**150.75**	**34.71**	**-**	**-**	**-**	**-**

Bank 2007 HRK '000	Loans to customers Companies	Housing loans	Mortgage loans	Other loans	Total	Placements with and loans to other banks	Financial assets available for sale	Other assets
Gross loans	241,604	1,425	5,679	68,924	**317,632**	500	5,349	3,764
Total identified losses	(88,535)	(1,363)	(4,562)	(53,369)	**(147,829)**	(500)	(1,499)	(3,760)
Net loans	**153,069**	**62**	**1,117**	**15,555**	**169,803**	**-**	**3,850**	**4**
Collateral value	23,556	-	1,351	18,806	**43,713**	-	-	-
% collateral coverage	**15.39**	**-**	**120.95**	**120.90**	**25.74**	**-**	**-**	**-**

(d) Rescheduled loans to customers

Loans are most often rescheduled in cases where borrowers have difficulty in settlement of overdue liabilities, which is generally caused by disparity between the settlement of borrowers' liabilities to the Group, and collection by borrowers from their customers, which leads to liquidity problems; or after consideration of projected budgets which indicate that it is more appropriate to replace short-term lending with long-term lending, which will lead to move timely settlement of the debt towards the Bank and improved client operations.

		Bank
	2008 HRK '000	**2007 HRK '000**
Net loans to customers		
Large companies	832,785	294,419
Small and medium companies	33,716	98,236
Retail	239,745	230,295
Total	**1,106,246**	**622,950**

The increase in 2008 reflects the rescheduling of loans to shipyards, covered by state guarantees.

2.1.5. Concentration of credit risk by industry

Commercial lending is concentrated on corporate and retail customers domiciled in Croatia. An analysis of the concentration of credit risk by industry is presented in the table below:

		Group		Bank
	2008 HRK '000	**2007 HRK '000**	**2008 HRK '000**	**2007 HRK '000**
Agriculture and forestry	235,064	149,114	235,064	149,114
Industry	2,038,939	1,910,299	2,038,939	1,910,299
Construction	519,711	374,399	519,711	374,399
Transport, storage and communication	162,283	214,663	162,283	214,663
Retail	978,040	990,212	978,040	990,212
Tourism	364,319	328,270	364,319	328,270
Services	454,980	396,468	464,087	406,353
Ministry of Finance RH	204,159	147,267	204,159	147,267
Other	252,078	342,605	252,078	342,605
Total gross loans to corporate	**5,209,573**	**4,853,297**	**5,218,680**	**4,863,182**
Loans to retail customers (gross)	3,124,737	2,635,586	3,083,326	2,623,601
- covered by collateral	487,115	322,025	445,626	310,515
Accrued interest	89,784	64,883	89,705	64,858
Impairment losses	(295,589)	(268,535)	(295,175)	(268,415)
Total	**8,128,505**	**7,285,231**	**8,096,536**	**7,283,226**

2.2. Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of its positions. The main categories of liquidity risk to which the Group is exposed are:

- structural liquidity risk - inability to settle liabilities as a result of the maturity gap between cash inflow and outflow; and
- liquidity risk of financial instruments (financial assets held for trading, financial assets available for sale) - risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe.

The Group's liquidity risk management is conducted in compliance with regulatory requirements. Alongside legal regulations on liquidity risk management, the following internal acts exist:

- asset and liability management policy,
- liquidity risk management policy and
- procedure for liquidity risk management.

The liquidity risk management policy is the basis for managing the Bank's liquidity risk, while asset and liability management policies define measurement of the Bank's exposure toward structural risks (liquidity risk and interest rate risk of non-trading portfolios). The system for managing liquidity risk, in line with defined polices, includes:

- estimation and measurement of liquidity risk exposure,
- setting limits for exposure to liquidity risk and
- reporting and supervision of limits used.

The Group identifies its own internal exposure to liquidity risk limits alongside regulatory limits, which it implements. The risk management sector reports to the Asset and Liability Management Committee quarterly on the Bank's exposure to liquidity risk, and monthly on movements in the Bank's liquidity reserves. The Management Board is responsible for liquidity risk management. In the last quarter of 2008, the Asset and Liability Management Committee formed a liquidity subcommittee which assesses the Group's liquidity on a weekly basis. The Group achieves liquidity management through operational management of daily and short-term liquidity which includes:

- maintaining minimum reserve requirements in kuna and foreign currency,
- maintaining regular liquidity in foreign currency and kuna,
- planning and budgeting daily/weekly/monthly cash flow and monitoring the realisation of planned cash inflow and outflow,
- managing long-term liquidity by maintaining positions in accordance with liquidity risk exposure limits and
- diversification of sources of financing.

Together with monitoring movements in liquidity reserves (required and achieved), and taking into account deposit concentrations and oscillation in demand deposit movements, the Group prescribes and performs liquidity stress tests. Long-term management of liquidity is achieved by maintaining positions within liquidity risk exposure limits.

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

The Group is aware of the increased uncertainty in financial markets caused by the credit crisis, and has, for this reason, increased its monitoring of liquidity reserves in accordance with applicable policies. In 2009, the Group plans to continue its increased monitoring of liquidity reserves and will employ additional resources in the collection of funds from legal entities and individuals, intensifying the collection process of due placements and accessing guarantees required for the acquisition of large clients. In addition, the Group will have access to additional funds after an expected increase in share capital, and in cases of additional liquidity requirements they have access to CNB liquidity instruments (REPO and short-term liquidity loans).

One of the measures the Bank uses to measure liquidity limits is monitoring the percentage share of loans to customers in total assets (suggested limit is < 60 percent).

	Bank
Share of loans to customers in total assets	
2008	55%
2007	50%

2.2.1. Maturity analysis

A maturity analysis of assets and liabilities of the Group and the Bank, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss which are analysed as current based on their classification and the Group's and the Bank's trading intention, as at 31 December 2008 and 31 December 2007, is presented in the tables furtheron.

Group 2008 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
ASSETS						
Cash and amounts due from banks	936,127	-	-	-	-	936,127
Obligatory reserve with Croatian National Bank	1,119,720	-	-	-	-	1,119,720
Placements with and loans to other banks	1,301,767	9,000	24,020	1,511	71,665	1,407,963
Financial assets at fair value through profit and loss	1,555,385	3,212	-	-	-	1,558,597
Financial assets available for sale	2,689	26,836	69,981	50,665	184,451	334,622
Financial assets held to maturity	11,508	55,835	100,797	21,091	417,957	607,188
Loans and advances to customers	1,309,586	803,593	1,949,549	1,595,993	2,469,784	8,128,505
Assets held for sale	-	-	26,833	-	-	26,833
Property and equipment	-	-	-	-	193,968	193,968
Investment property	-	-	-	-	6,190	6,190
Intangible assets	-	-	-	-	186,193	186,193
Net deferred tax asset	-	-	1,086	-	46,438	47,524
Tax prepayment	-	-	7,123	-	-	7,123
Other assets	71,285	457	18,976	1,392	57,155	149,265
TOTAL ASSETS	**6,308,067**	**898,933**	**2,198,365**	**1,670,652**	**3,633,801**	**14,709,818**
LIABILITIES						
Financial liabilities at fair value hrough profit or loss	6,741	-	-	-	-	6,741
Deposits from banks	395,415	17,934	-	-	-	413,349
Deposits from customers	6,778,922	1,612,533	1,550,481	670,804	89,960	10,702,700
Borrowings	495,203	53,849	210,579	297,801	807,818	1,865,250
Subordinated debt	270	-	-	-	310,601	310,871
Provisions for liabilities and charges	-	7,367	5	2,069	23,466	32,907
Other liabilities	374,209	11,440	28,838	16,800	35,394	466,681
Total equity	-	-	-	-	911,319	911,319
TOTAL LIABILITIES AND EQUITY	**8,050,760**	**1,703,123**	**1,789,903**	**987,474**	**2,178,558**	**14,709,818**
MATURITY GAP	**(1,742,693)**	**(804,190)**	**408,462**	**683,178**	**1,455,243**	**-**
CUMULATIVE MATURITY GAP	**(1,742,693)**	**(2,546,883)**	**(2,138,421)**	**(1,455,243)**	**-**	**-**

Group 2007 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
ASSETS						
Cash and amounts due from banks	1,033,020	-	-	-	-	1,033,020
Obligatory reserve with Croatian National Bank	1,657,335	-	-	-	-	1,657,335
Placements with and loans to other banks	1,879,699	62,203	55,025	-	100,000	2,096,927
Financial assets at fair value through profit and loss	1,664,272	8,436	-	-	-	1,672,708
Financial assets available for sale	3,827	2,261	1,731	-	110,832	118,651
Financial assets held to maturity	15,594	54,019	155,621	-	-	225,234
Loans and advances to customers	1,574,159	777,944	1,696,353	1,288,005	1,951,770	7,288,231
Property and equipment	-	-	-	-	207,020	207,020
Investment property	-	-	-	-	7,778	7,778
Intangible assets	-	-	-	-	118,711	118,711
Net deferred tax asset	-	-	-	-	16,040	16,040
Other assets	63,082	192	2,427	1,576	52,046	119,323
TOTAL ASSETS	**7,890,988**	**905,055**	**1,911,157**	**1,289,581**	**2,564,197**	**14,560,978**
LIABILITIES						
Financial liabilities at fair value through profit or loss	354	-	-	-	-	354
Deposits from banks	317,964	159,455	-	-	-	477,419
Deposits from customers	7,317,433	1,109,794	1,288,414	466,831	54,515	10,236,987
Borrowings	832,345	30,153	240,779	221,618	784,230	2,109,125
Subordinated debt	-	-	-	-	200,603	200,603
Provisions for liabilities and charges	5	7,683	-	2,021	22,191	31,900
Current tax liability	-	-	13,115	-	-	13,115
Other liabilities	458,534	8,898	31,544	16,800	19,481	535,257
Total equity	-	-	-	-	956,218	956,218
TOTAL LIABILITIES AND EQUITY	**8,926,635**	**1,315,983**	**1,573,852**	**707,270**	**2,037,238**	**14,560,978**
MATURITY GAP	**(1,035,647)**	**(410,928)**	**337,305**	**582,311**	**526,959**	**-**
CUMULATIVE MATURITY GAP	**(1,035,647)**	**(1,446,575)**	**(1,109,270)**	**(526,959)**	**-**	**-**

Bank 2008 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
ASSETS						
Cash and amounts due from banks	936,119	-	-	-	-	936,119
Obligatory reserve with Croatian National Bank	1,119,720	-	-	-	-	1,119,720
Placements with and loans to other banks	1,294,059	9,000	10,000	1,511	71,665	1,386,235
Financial assets at fair value through profit and loss	1,555,365	3,212	-	-	-	1,558,577
Financial assets available for sale	2,689	26,836	69,981	50,665	169,991	320,162
Financial assets held to maturity	11,508	55,457	95,354	21,091	379,413	562,823
Loans and advances to customers	1,308,516	803,414	1,948,426	1,592,788	2,443,392	8,096,536
Assets held for sale	-	-	26,833	-	-	26,833
Investments in subsidiaries	-	-	-	-	53,550	53,550
Property and equipment	-	-	-	-	191,393	191,393
Intangible assets	-	-	-	-	185,710	185,710
Net deferred tax asset	-	-	-	-	46,438	46,438
Tax prepayment	-	-	18,063	-	-	18,063
Other assets	67,324	450	8,572	1,392	57,154	134,892
TOTAL ASSETS	**6,295,300**	**898,369**	**2,177,229**	**1,667,447**	**3,598,706**	**14,637,051**
LIABILITIES						
Financial liabilities at fair value hrough profit or loss	6,741	-	-	-	-	6,741
Deposits from banks	395,415	17,934	-	-	-	413,349
Deposits from customers	6,780,169	1,614,209	1,544,224	643,100	49,072	10,630,774
Borrowings	495,203	53,849	210,579	297,801	807,818	1,865,250
Subordinated debt	270	-	-	-	310,601	310,871
Provisions for liabilities and charges	-	7,367	-	2,069	23,466	32,902
Other liabilities	368,822	8,981	22,717	16,800	35,394	452,714
Total equity	-	-	-	-	924,450	924,450
TOTAL LIABILITIES AND EQUITY	**8,046,620**	**1,702,340**	**1,777,520**	**959,770**	**2,150,801**	**14,637,051**
MATURITY GAP	**(1,751,320)**	**(803,971)**	**399,709**	**707,677**	**1,447,905**	**-**
CUMULATIVE MATURITY GAP	**(1,751,320)**	**(2,555,291)**	**(2,155,582)**	**(1,447,905)**	**-**	**-**

Bank 2007 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
ASSETS						
Cash and amounts due from banks	1,033,016	-	-	-	-	1,033,016
Obligatory reserve with Croatian National Bank	1,657,335	-	-	-	-	1,657,335
Placements with and loans to other banks	1,860,308	62,203	50,000	-	100,000	2,072,511
Financial assets at fair value through profit and loss	1,664,272	8,436	-	-	-	1,672,708
Financial assets available for sale	3,816	2,255	-	-	75,061	81,132
Financial assets held to maturity	15,593	54,019	155,622	-	-	225,234
Loans to customers	1,574,067	777,956	1,696,412	1,288,211	1,949,580	7,286,226
Investments in subsidiaries	-	-	-	-	53,550	53,550
Property and equipment	-	-	-	-	204,084	204,084
Intangible assets	-	-	-	-	118,707	118,707
Net deferred tax asset	-	-	-	-	15,269	15,269
Other assets	57,663	133	4,612	1,576	52,046	116,030
TOTAL ASSETS	**7,866,070**	**905,002**	**1,906,646**	**1,289,787**	**2,568,297**	**14,535,802**
LIABILITIES						
Financial liabilities at fair value through profit or loss	354	-	-	-	-	354
Deposits from banks	317,964	159,455	-	-	-	477,419
Deposits from customers	7,319,192	1,109,794	1,286,923	462,140	35,422	10,213,471
Borrowings	832,345	30,153	240,779	221,618	784,230	2,109,125
Subordinated debt	-	-	-	-	200,603	200,603
Provisions for liabilities and charges	-	7,683	-	2,021	22,191	31,895
Current tax liability	-	-	11,841	-	-	11,841
Other liabilities	454,991	8,898	27,173	16,800	18,952	526,814
Total equity	-	-	-	-	964,280	964,280
TOTAL LIABILITIES AND EQUITY	**8,924,846**	**1,315,983**	**1,566,716**	**702,579**	**2,025,678**	**14,535,802**
MATURITY GAP	**(1,058,776)**	**(410,981)**	**339,930**	**587,208**	**542,619**	**-**
CUMULATIVE MATURITY GAP	**(1,058,776)**	**(1,469,757)**	**(1,129,827)**	**(542,619)**	**-**	**-**

2.3. Market risk

The exposure to market risk occurs in respect of balance sheet and off-balance-sheet positions recognised at fair value:

- financial assets held for trading,
- financial assets available for sale,
- positions denominated in foreign currency (including placements and liabilities linked to foreign currencies).

All dealing instruments are subject to market risk, that is, the risk that future changes in market conditions may make an instrument less valuable or could lead to the need to recognise impairment. Dealing financial instruments are recognised at fair value, and all changes in market conditions directly affect dealing income. The Bank manages its use of dealing instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with the risk limits set by the management through acquisitions or disposals of financial instruments.

Market risk management of the Bank is conducted in accordance with regulatory requirements which is defined in internal policies and procedures which are regularly revised by the Risk Management Division.

The Rsk Management Division daily calculates market risk exposure figures, usage of exposure to market risk limits and capital requirements for exposure to market risks.

In the measurement of the market risk exposure, the Bank relies on regulations set out by the Croatian National Bank and monitors:

- Capital requirement calculated by the standard method calculated in accordance with the Croatian National Bank's Decision on the capital adequacy of banks;
- Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors (interest rates, exchange rate and share prices) for a period of retaining the same position for 10 days at statistical accuracy of 99 percent. VaR is calculated at the end of the day and does not include daily exposure arising from a change in position. To calculate VaR, a database containing 250 historical figures is used.
- Capital requirement calculated by an internal model (VaR x 4)

The Risk Management Division reports daily to the Treasury Division on the usage of market risk exposure limits, daily to the Accounting and Financial Control Division regarding the capital requirements for currency risk and position risks, and monthly to the Asset and Liability Management Committee on market risk exposure.

2.4. Interest rate risk

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

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

The majority of loans and receivables to companies and individuals and deposits from companies and individuals are initially contracted at an interest rate that allows the Bank to vary the interest rate at the Management Board's decision. These financial instruments are classified as instruments that bear variable interest rates.

The Bank utilises the following measures for measurement of interest rate risk exposure:

- Duration (measure of the sensitivity of debt security prices to changes in interest rates)
- PV01 which represents the decline in price value of the portfolio in case of interest rate increase by 0.01 percent and
- Value at risk (VaR).

a) Investment in equity securities risk

Financial assets at fair value through profit or loss

The Bank uses value at risk (VaR) figures to measure exposure to risks in investment in equity securities.

The table below shows the movement in given figures as at 31 December 2008 and 31 December 2007.

Bank

2008	Position HRK'000	VaR HRK'000
Currency risk	59,798	(592)
Interest rate risk	1,449,839	(8,790)
Investment risk in equity securities	40,464	(6,969)
Correlation effect	-	4,128
Market risk	**-**	**(12,207)**
2007		
Currency risk	109,138	(762)
Interest rate risk	1,471,849	(14,588)
Investment risk in equity securities	131,813	(9,097)
Correlation effect	-	7,161
Market risk	**-**	**(17,803)**

Interest rate risk depends on the volatility of the interest rates on the market which increased in 2008 due to the greater oscillations of interest rates based on which they are derived.

In 2008, the market value of the Bank's equity securities portfolio has decreased, which is a direct consequence of the fall in the price of equity securities on the market and fall in equity securities position.

Available for sale portfolio

The available for sale portfolio consists of debt and equity securities.

The table below shows the movement in market values and the risk values for the portfolio of debt securities within the portfolio available for sale.

Bank

Debt securities	Market value HRK'000	VaR HRK'000
2008	271,134	(2,819)
2007	77,679	(688)
Equity securities	**Market value HRK'000**	**VaR HRK'000**
2008	46,812	(5,154)
2007	-	-

During 2008, the value of the portfolio available for sale increased significantly as opposed to the end of the previous year, as reflected by the increase in risk factors.

b) Interest rate risk for the non-commercial part of the balance sheet

The interest rate risk for the non-commercial part of the balance sheet is assessed from two perspectives - profit perspective and the perspective of economic value of capital.

Profit perspective

The profit perspective takes into account the potential decrease in net interest income as a result of a change in market interest rates. The measurement of interest rate risk from the profit perspective requires the Bank to simulate basic parallel movements in interest rates ± 2 percent, through a time period of 12 months and the potential decrease in net interest income is to be maintained within a 10 percent limit of planned net interest income for the current year.

The table illustrates the potential decrease in net interest income and the usage of limits as at 31 December 2008 and 31 December 2007.

Bank	Potential decrease in net interest income HRK'000	% of planned net interest income
2008		
31 December 2008	4,473	0.98
Average during 2008	9,087	1.99
Minimum during 2008	4,473	0.98
Maximum during 2008	12,366	2.71
2007		
31 December 2007	4,660	1.05
Average during 2007	6,959	1.57
Minimum during 2007	3,376	0.76
Maximum during 2007	13,788	3.11

Perspective of economic value of capital

The perspective of economic value of capital relates to a potential decrease in the market value of capital as a result of a change in the prevailing market interest rates.

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

Bank	Capital market value HRK'000	Change at interest rate change by 200 bp	Change at interest rate change by -200 bp
2008			
31 December 2008	769,962	(6.5)	7.4
Average during 2008	821,523	(4.5)	5.1
Minimum during 2008	769,962	(6.5)	3.9
Maximum during 2008	876,482	(3.5)	7.4
2007			
31 December 2007	830,521	(4.4)	4.9
Average during 2007	759,315	(5.5)	(6.2)
Minimum during 2007	723,055	(4.4)	(4.9)
Maximum during 2007	830,521	(6.6)	(7.3)

2.4.1. Interest rate gap analysis

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

The tables presented furtheron represent the management's estimate of the interest rate risk for the Group and the Bank as at 31 December 2008 and 31 December 2007 and are not necessarily indicative for the positions in different periods, but provide some indication of the sensitivities of the Group's and the Bank's earnings to movements in interest rates.

Group 2008 HRK '000	**0-30 days**	**31-90 days**	**91-360 days**	**1 to 3 years**	**More than 3 years**	**Without interest**	**Total**	**Fixed interest**
ASSETS								
Cash and amounts due from banks	568,229	-	-	-	-	367,898	936,127	-
Obligatory reserve with Croatian National Bank	1,118,946	-	-	-	-	774	1,119,720	-
Placements with and loans to other banks	1,372,743	9,000	24,020	-	-	2,200	1,407,963	1,320,290
Financial assets at fair value through profit and loss	1,449,860	-	-	-	-	108,737	1,558,597	1,449,840
Financial assets available for sale	2,689	21,706	69,981	50,665	133,766	55,815	334,622	278,807
Financial assets held to maturity	16,951	48,667	95,354	21,091	417,957	7,168	607,188	594,587
Loans to customers	7,817,490	946	3,598	5,244	211,443	89,784	8,128,505	222,875
Assets held for sale	-	-	-	-	-	26,833	26,833	-
Property and equipment	-	-	-	-	-	193,968	193,968	-
Investment property	-	-	-	-	-	6,190	6,190	-
Intangible assets	-	-	-	-	-	186,193	186,193	-
Net deferred tax asset	-	-	-	-	-	47,524	47,524	-
Tax prepayment	-	-	-	-	-	7,123	7,123	-
Other assets	-	-	-	-	-	149,265	149,265	-
TOTAL ASSETS	**12,346,908**	**80,319**	**192,953**	**77,000**	**763,166**	**1,249,472**	**14,709,818**	**3,866,399**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	6,741	6,741	-
Deposits from banks	395,404	17,520	-	-	-	425	413,349	33,421
Deposits from customers	9,511,690	429,067	598,768	91,858	43,692	27,625	10,702,700	2,065,851
Borrowings	1,705,021	17,381	3,038	27,657	103,517	8,636	1,865,250	496,843
Subordinated debt	-	-	-	-	310,601	270	310,871	310,601
Provisions for liabilities and charges	-	-	-	-	-	32,907	32,907	-
Other liabilities	-	-	-	-	-	466,681	466,681	-
Total equity	-	-	-	-	-	911,319	911,319	-
TOTAL LIABILITIES AND EQUITY	**11,612,115**	**463,968**	**601,806**	**119,515**	**457,810**	**1,454,604**	**14,709,818**	**2,906,716**
INTEREST RATE GAP	**734,793**	**(383,649)**	**(408,853)**	**(42,515)**	**305,356**	**(205,132)**	**-**	**959,683**

Group 2007 HRK '000	**0-30 days**	**31-90 days**	**91-360 days**	**1 to 3 years**	**More than 3 years**	**Without interest**	**Total**	**Fixed interest**
ASSETS								
Cash and amounts due from banks	732,194	-	-	-	-	300,826	1,033,020	-
Obligatory reserve with Croatian National Bank	1,608,569	-	-	-	-	48,766	1,657,335	-
Placements with and loans to other banks	1,979,604	57,000	54,959	-	-	5,364	2,096,927	1,991,655
Financial assets at fair value through profit and loss	1,471,849	-	-	-	-	200,859	1,672,708	1,485,608
Financial assets available for sale	3,827	-	1,732	-	107,249	5,843	118,651	113,494
Financial assets held to maturity	15,593	54,020	155,621	-	-	-	225,234	227,509
Loans and advances to customers	6,963,289	1,028	49,143	4,521	205,340	64,910	7,288,231	275,927
Property and equipment	-	-	-	-	-	207,020	207,020	-
Investment property	-	-	-	-	-	7,778	7,778	-
Intangible assets	-	-	-	-	-	118,711	118,711	-
Net deferred tax asset	-	-	-	-	-	16,040	16,040	-
Other assets	-	-	-	-	-	119,323	119,323	-
TOTAL ASSETS	**12,774,925**	**112,048**	**261,455**	**4,521**	**312,589**	**1,095,440**	**14,560,978**	**4,094,193**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	354	354	-
Deposits from banks	355,340	121,500	-	-	-	579	477,419	121,500
Deposits from customers	9,420,207	520,296	239,220	4,716	21,604	30,944	10,236,987	946,410
Borrowings	2,025,756	5,790	8,674	8,727	51,377	8,801	2,109,125	786,865
Subordineted debt	-	-	-	-	200,603	-	200,603	200,603
Provisions for liabilities and charges	-	-	-	-	-	31,900	31,900	-
Current tax liability	-	-	-	-	-	13,115	13,115	-
Other liabilities	-	-	-	-	-	535,257	535,257	-
Total equity	-	-	-	-	-	956,218	956,218	-
TOTAL LIABILITIES AND EQUITY	**11,801,303**	**647,586**	**247,894**	**13,443**	**273,584**	**1,577,168**	**14,560,978**	**2,055,378**
INTEREST RATE GAP	**973,622**	**(535,538)**	**13,561**	**(8,922)**	**39,005**	**(481,728)**	**-**	**2,038,815**

Bank 2008 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Without interest	Total	Fixed interest
ASSETS								
Cash and amounts due from banks	568,224	-	-	-	-	367,895	936,119	-
Obligatory reserve with Croatian National Bank	1,118,946	-	-	-	-	774	1,119,720	-
Placements with and loans to other banks	1,365,035	9,000	10,000	-	-	2,200	1,386,235	1,298,562
Financial assets at fair value through profit and loss	1,449,840	-	-	-	-	108,737	1,558,577	1,449,840
Financial assets available for sale	2,689	21,706	69,981	50,665	119,435	55,686	320,162	264,476
Financial assets held to maturity	11,508	48,667	95,354	21,091	379,413	6,790	562,823	556,033
Loans to customers	7,824,771	769	2,475	184	178,632	89,705	8,096,536	182,712
Assets held for sale	-	-	-	-	-	26,833	26,833	-
Investments in subsidiaries	-	-	-	-	-	53,550	53,550	-
Property and equipment	-	-	-	-	-	191,393	191,393	-
Intangible assets	-	-	-	-	-	185,710	185,710	-
Net deferred tax asset	-	-	-	-	-	46,438	46,438	-
Tax prepayment	-	-	-	-	-	18,063	18,063	-
Other assets	-	-	-	-	-	134,892	134,892	-
TOTAL ASSETS	**12,341,013**	**80,142**	**177,810**	**71,940**	**677,480**	**1,288,666**	**14,637,051**	**3,751,623**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	6,741	6,741	-
Deposits from banks	395,404	17,520	-	-	-	425	413,349	33,421
Deposits from customers	9,512,936	430,744	592,511	64,154	2,804	27,625	10,630,774	1,988,756
Borrowings	1,705,021	17,381	3,038	27,657	103,517	8,636	1,865,250	496,843
Subordinated debt	-	-	-	-	310,601	270	310,871	310,601
Provisions for liabilities and charges	-	-	-	-	-	32,902	32,902	-
Other liabilities	-	-	-	-	-	452,714	452,714	-
Total equity	-	-	-	-	-	924,450	924,450	-
TOTAL LIABILITIES AND EQUITY	**11,613,361**	**465,645**	**595,549**	**91,811**	**417,922**	**1,453,763**	**14,637,051**	**2,829,621**
INTEREST RATE GAP	**727,652**	**(385,503)**	**(417,739)**	**(19,871)**	**260,558**	**(165,097)**	**-**	**922,002**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Bank 2007 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Without interest	Total	Fixed interest
ASSETS								
Cash and amounts due from banks	732,190	-	-	-	-	300,826	1,033,016	-
Obligatory reserve with Croatian National Bank	1,608,569	-	-	-	-	48,766	1,657,335	-
Placements with and loans to other banks	1,960,308	57,000	50,000	-	-	5,203	2,072,511	1,967,307
Financial assets at fair value through profit and loss	1,471,849	-	-	-	-	200,859	1,672,708	1,485,608
Financial assets available for sale	3,850	-	-	-	71,607	5,675	81,132	76,179
Financial assets held to maturity	15,751	54,565	154,918	-	-	-	225,234	227,509
Loans to customers	6,963,331	1,040	49,182	4,723	203,092	64,858	7,286,226	264,062
Investments in subsidiaries	-	-	-	-	-	53,550	53,550	-
Property and equipment	-	-	-	-	-	204,084	204,084	-
Intangible assets	-	-	-	-	-	118,707	118,707	-
Net deferred tax asset	-	-	-	-	-	15,269	15,269	-
Other assets	-	-	-	-	-	116,030	116,030	-
TOTAL ASSETS	**12,755,848**	**112,605**	**254,100**	**4,723**	**274,699**	**1,133,827**	**14,535,802**	**4,020,665**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	354	354	-
Deposits from banks	355,340	121,500	-	-	-	579	477,419	121,500
Deposits from customers	9,421,966	520,296	237,729	25	2,511	30,944	10,213,471	921,130
Borrowings	2,025,756	5,790	8,674	8,727	51,377	8,801	2,109,125	786,865
Subordinated debt	-	-	-	-	200,603	-	200,603	200,603
Provisions for liabilities and charges	-	-	-	-	-	31,895	31,895	-
Current tax liability	-	-	-	-	-	11,841	11,841	-
Other liabilities	-	-	-	-	-	526,814	526,814	-
Total equity	-	-	-	-	-	964,280	964,280	-
TOTAL LIABILITIES AND EQUITY	**11,803,062**	**647,586**	**246,403**	**8,752**	**254,491**	**1,575,508**	**14,535,802**	**2,030,098**
INTEREST RATE GAP	**952,786**	**(534,981)**	**7,697**	**(4,029)**	**20,208**	**(441,681)**	**-**	**1,990,567**

2.5. Currency risk

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

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

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

The Bank manages its currency risk by setting principles and limits for foreign currency exposures and monitoring exposures against these limits. The Bank directs its business activities towards trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency, and maintaining daily business activities within daily allowed open limits per currency.

The Bank is primarily exposed to EUR. As at 31 December 2008 the value of assets denominated in EUR or in EURO linked currencies amounted to HRK 3,229,362 thousand (2007: HRK 2,728,227 thousand) while liabilities denominated in EUR or EURO linked currencies amounted to HRK 3,542,668 thousand (2007: HRK 2,925,391 thousand). Hence, a 1 percentage fall in the HRK/EUR exchange rate (appreciation of the HRK) would affect the result in the amount of HRK 3,133 thousand.

2.5.1. Currency risk analysis

The following tables illustrate the value of total assets and liabilities of the Group and Bank at 31 December 2008 and 31 December 2007 in HRK and foreign currencies (values denominated in HRK with foreign currency clause are mostly linked to EUR).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Group 2008 HRK '000	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	780,473	-	108,354	47,300	**936,127**
Obligatory reserve with Croatian National Bank	1,017,565	-	102,095	60	**1,119,720**
Placements with and loans to other banks	260,891	-	1,110,124	36,948	**1,407,963**
Financial assets at fair value through profit and loss	1,422,637	3,554	120,001	12,405	**1,558,597**
Financial assets available for sale	128,457	111,361	93,852	952	**334,622**
Financial assets held to maturity	564,281	19,878	-	23,029	**607,188**
Loans to customers	6,337,051	1,393,249	238,016	160,189	**8,128,505**
Assets held for sale	26,833	-	-	-	**26,833**
Property and equipment	193,968	-	-	-	**193,968**
Investment property	6,190	-	-	-	**6,190**
Intangible assets	186,193	-	-	-	**186,193**
Net deferred tax asset	47,524	-	-	-	**47,524**
Tax prepayment	7,123	-	-	-	**7,123**
Other assets	144,603	751	3,859	52	**149,265**
TOTAL ASSETS	**11,123,789**	**1,528,793**	**1,776,301**	**280,935**	**14,709,818**
LIABILITIES					
Financial liabilities at fair value through profit or loss	1,014	-	5,727	-	**6,741**
Deposits from banks	361,688	-	37,377	14,284	**413,349**
Deposits from customers	8,056,061	101,383	2,400,387	144,869	**10,702,700**
Borrowings	794,614	826,760	243,816	60	**1,865,250**
Subordinated debt	310,871	-	-	-	**310,871**
Provisions for liabilities and charges	32,907	-	-	-	**32,907**
Other liabilities	9,631	4,331	2	452,717	**466,681**
Total equity	911,319	-	-	-	**911,319**
TOTAL LIABILITIES AND EQUITY	**10,478,105**	**932,474**	**2,687,309**	**611,930**	**14,709,818**
NET FOREIGN EXCHANGE POSITION	**645,684**	**596,319**	**(911,008)**	**(330,995)**	**-**

Group 2007 HRK '000	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	885,803	-	69,845	77,372	**1,033,020**
Obligatory reserve with Croatian National Bank	1,506,285	-	151,050	-	**1,657,335**
Placements with and loans to other banks	782,285	-	868,910	445,732	**2,096,927**
Financial assets at fair value through profit and loss	1,417,880	161,515	93,313	-	**1,672,708**
Financial assets available for sale	50,018	16,503	50,853	1,277	**118,651**
Financial assets held to maturity	225,234	-	-	-	**225,234**
Loans to customers	5,756,894	1,288,185	52,201	190,951	**7,288,231**
Property and equipment	207,020	-	-	-	**207,020**
Investment property	7,778	-	-	-	**7,778**
Intangible assets	118,711	-	-	-	**118,711**
Net deferred tax asset	16,040	-	-	-	**16,040**
Other assets	118,838	333	143	9	**119,323**
TOTAL ASSETS	**11,092,786**	**1,466,536**	**1,286,315**	**715,341**	**14,560,978**
LIABILITIES					
Financial liabilities at fair value through profit or loss	354	-	-	-	**354**
Deposits from banks	432,838	-	36,075	8,506	**477,419**
Deposits from customers	8,102,324	200,157	1,720,207	214,299	**10,236,987**
Borrowings	1,226,819	642,706	239,600	-	**2,109,125**
Subordinated debt	200,603	-	-	-	**200,603**
Provisions for liabilities and charges	31,900	-	-	-	**31,900**
Current tax liability	13,115	-	-	-	**13,115**
Other liabilities	423,323	2	111,924	8	**535,257**
Total equity	956,218	-	-	-	**956,218**
TOTAL LIABILITIES AND EQUITY	**11,387,494**	**842,865**	**2,107,806**	**222,813**	**14,560,978**
NET FOREIGN EXCHANGE POSITION	**294,708**	**623,671**	**(821,491)**	**(492,528)**	**-**

Bank 2008 HRK '000	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	780,465	-	108,354	47,300	**936,119**
Obligatory reserve with Croatian National Bank	1,017,565	-	102,095	60	**1,119,720**
Placements with and loans to other banks	239,163	-	1,110,124	36,948	**1,386,235**
Financial assets at fair value through profit and loss	1,422,617	3,554	120,001	12,405	**1,558,577**
Financial assets available for sale	128,327	97,030	93,852	953	**320,162**
Financial assets held to maturity	539,794	-	-	23,029	**562,823**
Loans to customers	6,346,079	1,352,252	238,016	160,189	**8,096,536**
Assets held for sale	26,833	-	-	-	**26,833**
Investments in subsidiaries	53,550	-	-	-	**53,550**
Property and equipment	191,393	-	-	-	**191,393**
Intangible assets	185,710	-	-	-	**185,710**
Net deferred tax asset	46,438	-	-	-	**46,438**
Tax prepayment	18,063	-	-	-	**18,063**
Other assets	130,755	225	3,859	53	**134,892**
TOTAL ASSETS	**11,126,752**	**1,453,061**	**1,776,301**	**280,937**	**14,637,051**
LIABILITIES					
Financial liabilities at fair value through profit or loss	1,014	-	5,727	-	**6,741**
Deposits from banks	361,688	-	37,377	14,284	**413,349**
Deposits from customers	8,061,228	24,288	2,400,387	144,871	**10,630,774**
Borrowings	794,614	826,760	243,816	60	**1,865,250**
Subordinated debt	310,871	-	-	-	**310,871**
Provisions for liabilities and charges	32,902	-	-	-	**32,902**
Other liabilities	33	4,331	2	448,348	**452,714**
Total equity	924,450	-	-	-	**924,450**
TOTAL LIABILITIES AND EQUITY	**10,486,800**	**855,379**	**2,687,309**	**607,563**	**14,637,051**
NET FOREIGN EXCHANGE POSITION	**639,952**	**597,682**	**(911,008)**	**(326,626)**	**-**

Bank 2007 HRK '000	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	885,799	-	69,845	77,372	**1,033,016**
Obligatory reserve with Croatian National Bank	1,506,285	-	151,050	-	**1,657,335**
Placements with and loans to other banks	757,869	-	868,910	445,732	**2,072,511**
Financial assets at fair value through profit and loss	1,417,880	161,515	93,313	-	**1,672,708**
Financial assets available for sale	25,063	3,939	50,853	1,277	**81,132**
Financial assets held to maturity	225,234	-	-	-	**225,234**
Loans and advances to customers	5,766,779	1,276,295	52,201	190,951	**7,286,226**
Investments in subsidiaries	53,550	-	-	-	**53,550**
Property and equipment	204,084	-	-	-	**204,084**
Intangible assets	118,707	-	-	-	**118,707**
Net deferred tax asset	15,269	-	-	-	**15,269**
Other assets	115,715	163	143	9	**116,030**
TOTAL ASSETS	**11,092,234**	**1,441,912**	**1,286,315**	**715,341**	**14,535,802**
LIABILITIES					
Financial liabilities at fair value through profit or loss	354	-	-	-	**354**
Deposits from banks	432,838	-	36,075	8,506	**477,419**
Deposits from customers	8,104,088	174,877	1,720,207	214,299	**10,213,471**
Borrowings	1,226,819	642,706	239,600	-	**2,109,125**
Subordinated debt	200,603	-	-	-	**200,603**
Provisions for liabilities and charges	31,895	-	-	-	**31,895**
Current tax liability	11,841	-	-	-	**11,841**
Other liabilities	414,880	2	111,924	8	**526,814**
Total equity	964,280	-	-	-	**964,280**
TOTAL LIABILITIES AND EQUITY	**11,387,598**	**817,585**	**2,107,806**	**222,813**	**14,535,802**
NET FOREIGN EXCHANGE POSITION	**(295,364)**	**624,327**	**(821,491)**	**492,528**	**-**

2.6. Operational risk management

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

The Group recognises the possibility of operational risk which, as a consequence, exposes the Group to financial losses, gains or missed profits, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk but does not include strategic and reputation risk.

2.7. Capital management

Capital allocation

Capital allocation is governed primarily by regulatory requirements. The process of capital allocation to specific activities is conducted independent of managers responsible for each section.

Even though maximisation of returns on weighted capital is one of the fundamental bases of capital allocation to particular activities within the Group, it is not the only basis for decision-making. Other reasons for capital management include synergy with other activities, accessibility of the Management Board and other resources, and correlation of activities with the long-term strategic goals of the Group. Management regularly assesses the Group's capital management and allocation policy.

The capital adequacy rate is calculated as the ratio between the regulatory capital and the sum of credit-risk-weighted assets, exposure to position risks (capital requirements for position risks multiplied by 10 times) and total exposure of open foreign currency positions exposed to currency risk.

The following table presents the movement in capital adequacy rates, exposure to position and currency risks, movement of credit risk weighted assets and regulatory capital of the Bank.

	2008 HRK '000	2007 HRK '000
REGULATORY CAPITAL		
Basic capital	903,846	947,631
Additional capital	310,000	245,727
Deductions from regulatory capital	(57,946)	(58,560)
Total regulatory capital	**1,155,900**	**1,134,798**
Credit risk weighted assets	10,063,862	9,145,319
Exoposure of foreign exchange position to the currency risk	21,960	109,138
Exposure to position risks	214,776	415,774
Exposure to settlement risk and counterparty risk	27,575	4,893
CREDIT RISK WEIGHTED ASSETS AND EXPOSURE TO OTHER RISKS	**10,328,173**	**9,675,124**
CAPITAL ADEQUACY RATIO	**11.19**	**11.73**

The Bank, through the Asset and Liability Management Committee, continuously monitors the capital adequacy rate and in accordingly undertakes necessary measures in line with the Bank's policies, especially the Bank's policy regarding loan placements.

The CNB requires the Bank to reach a minimum capital adequacy ratio of 12% by 30 June 2009, calculated in accordance with the methodology prescribed by the banking regulations applicable in the period between 31 December 2008 to 30 June 2009, when the new revised methodology for calculation of capital adequacy, in accordance with the new Law on Credit Institutions from 13 October 2008 ("ZOKI"), with which the Bank will be obliged to comply, comes into force.

The Bank has been aware of the shortfall in capital, which is necessary to ensure long-term growth, over a longer period, and the Management Board regularly discusses this with the Supervisory Board. To overcome the current situation until a share capital increase, in 2007, the Bank increased its capital base by the receipt of subordinated debt from Gradska Banka d.d. (in receivership) in the amount of HRK 200 million. During 2008, the Bank's additional capital was reinforced by the receipt of subordinated debt in the amount of HRK 110 million from Hrvatske pošta d.d., as a result of which the capital adequacy ratio as at 31 December 2008 was above 11%.

Given that the new Law on Credit Institutions comes into force on 1 July 2009, in which case, the minimum capital adequacy rate will increase to 12%, the Bank will further consider options of increasing its regulatory capital, including potential share capital injections, subordinated debt and the effective management of credit exposures to adjust to the new regulatory requirements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Impairment losses on loans and receivables

The Group monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Group's on- and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans and advances to corporate and retail customers (summarised in Note 12), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of guarantees, documentary credits and undrawn loan commitments (summarised in Notes 25 and 41). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

The following tables represent the summary of impairment losses of loans and advances to customers.

Group	**Notes**	**2008 HRK '000**	**2007 HRK '000**
Impairment losses on loans and advances to customers	12	295,589	265,535
Provisions for off-balance-sheet exposures	25	23,471	22,196
Total		**319,060**	**287,731**

Bank	**Notes**	**2008 HRK '000**	**2007 HRK '000**
Impairment losses on loans and advances to customers	12	295,175	265,415
Provisions for off-balance-sheet exposures	25	23,466	22,191
Total		**318,641**	**287,606**

Financial assets carried at amortized cost

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

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

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

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

Group and Bank			**2008 HRK'000**			**2007 HRK'000**
	Corporate	**Retail**	**Total**	**Corporate**	**Retail**	**Total**
Gross value of exposure	502,032	170,859	**672,891**	241,604	76,028	**317,632**
Impairment rate	19%	48%	**26%**	37%	70%	**45%**

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2008 would lead to the recognition of an additional impairment loss of HRK 6,729 thousand (2007: HRK 3,176 thousand).

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

The amount of impairment allowance at 31 December 2008 estimated on a portfolio basis amounted to HRK 140,523 thousand (2007: HRK 143,269 thousand) of the relevant on- and off-balance-sheet exposure of the Group, and HRK 139,598 thousand (2007: HRK 142,775 thousand) of the relevant on- and off-balance-sheet exposure of the Bank.

At the minimum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 21,078 thousand (2007: HRK 21,448 thousand) lower than the amount recognised by the Group and HRK 17,819 thousand (2007: HRK 21,416 thousand) lower than the amount recognised by the Bank.

At the maximum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 28,104 thousand (2007: HRK 28,597 thousand) higher than the amount recognised by the Group and HRK 27,919 thousand (2007: HRK 28,555 thousand) higher than the amount recognised by the Bank.

Uncertainties of fair value of pledged property and foreclosed assets

As disclosed in Note 2.1.5 (c), loans and advances to customers at 31 December 2008 include exposures with a carrying value of HRK 672,891 thousand classified by the Bank as impaired in view of delinquencies in payment, a significant proportion of which are secured on collateral in the form of property, plant and equipment. In addition, as disclosed in Note 19, other assets at 31 December 2008 include property, plant and equipment with a carrying value of HRK 56,317 thousand which represent foreclosed assets collected in settlement of non-performing debts. In view of the impact of the global financial and economic crisis, the fair market value of such collateral and foreclosed assets at 31 December 2008, together with the time needed for their realisation, is uncertain.

Fair value of derivatives

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

Fair value of treasury bills

The Group determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia, using an internal model which considers their remaining maturity and the latest available auction prices of equivalent instruments. As at 31 December 2008, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss was to HRK 1,249,870 thousand (2007: HRK 961,258 thousand).

Fair value of the financial instruments quoted in an active market

In estimating the fair value of quoted financial instruments, the Bank does not use closing prices at the date of estimation, but applies average prices which are based on the individual transaction volumes of the specified instruments during the day of estimation. In the opinion of the Bank's management, this method provides a more realistic indication of the real price of the instrument, and decreases the risk of inadequate or inappropriate estimation of fair value which may result from limited trading in the instrument just before the end of the trading period, at a price which significantly differs from the daily average. This policy resulted in financial assets at fair value through profit or loss of HRK 199,969 thousand (2007: HRK 672,083 thousand) being carried at amounts HRK 1,598 thousand lower (2007: HRK 746 thousand higher), and financial assets available for sale of HRK 264,411 thousand (2007: HRK 81,132 thousand) being carried at amounts HRK 2,187 thousand lower (2007: HRK 4 thousand higher), than had closing prices been applied.

Provisions for court cases initiated against the Group

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

Taxation

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

Regulatory requirements

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

4. SEGMENT REPORTING

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

Business segments

The Group comprises the following primary business segments:

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

Group 2008 HRK'000

	Corporate	Retail	Treasury	Investment banking and asset manage-ment	Unallo-cated	Total
Net interest income	235,770	142,843	52,471	14,494	-	445,578
Net fee and commission income	16,895	138,672	(1,004)	34,973	-	189,536
Dealing and investment income	-	-	(63,892)	-	-	(63,892)
Other income	6,380	2,943	3,314	23,900	7,050	43,587
Operating income	**259,045**	**284,458**	**(9,111)**	**73,367**	**7,050**	**614,809**
General and administrative expenses	-	-	-	-	(401,561)	(401,561)
Depreciation and amortisation	-	-	-	-	(65,685)	(65,685)
Impairment losses on loans and advances to customers and other assets	(88,290)	(51,109)	-	-	-	(139,399)
Provisions for liabilities and charges	-	(361)	-	-	(646)	(1,007)
Operating expenses	**(88,290)**	**(51,470)**	**-**	**-**	**(467,892)**	**(607,652)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	7,157
Income tax expense	-	-	-	-	(2,637)	(2,637)
Profit for the year	**-**	**-**	**-**	**-**	**(2,637)**	**4,520**
Segment assets	5,517,863	3,270,162	5,439,360	109,917	-	14,337,302
Unallocated assets	-	-	-	-	372,516	372,516
Total assets	**5,517,863**	**3,270,162**	**5,439,360**	**109,917**	**372,516**	**14,709,818**
Segment liabilities	6,305,148	5,568,709	1,671,226	35,893	-	13,580,976
Unallocated equity and liabilities	-	-	-	-	1,128,842	1,128,842
Total equity and liabilities	**6,305,148**	**5,568,709**	**1,671,226**	**35,893**	**1,128,842**	**14,709,818**

Group 2007 HRK'000

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

Bank

	Corporate	Retail	Treasury	Investment banking and asset manage-ment	Unallo-cated	2008 HRK'000 Total
Net interest income	235,770	142,843	48,571	14,494	-	441,678
Net fee and commission income	11,204	137,396	(1,004)	20,510	-	168,106
Dealing and investment income	-	-	(63,828)	-	-	(63,828)
Other income	6,380	2,943	3,250	28,192	5,614	46,379
Operating income	**253,354**	**283,182**	**(13,011)**	**63,196**	**5,614**	**592,335**
General and administrative expenses	-	-	-	-	(382,994)	(382,994)
Depreciation and amortisation	-	-	-	-	(65,385)	(65,385)
Impairment losses on loans and advances to customers and other assets	(88,318)	(49,456)	-	-	-	(137,774)
Provisions for liabilities and charges	-	(361)	-	-	(646)	(1,007)
Operating expenses	**(88,318)**	**(49,817)**	**-**	**-**	**(449,025)**	**(587,160)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	5,175
Income tax expense	-	-	-	-	3,542	3,542
Profit for the year	**-**	**-**	**-**	**-**	**3,542**	**8,717**
Segment assets	5,517,863	3,229,086	5,439,360	109,917	-	14,296,226
Unallocated assets	-	-	-	-	340,825	340,825
Total assets	**5,517,863**	**3,229,086**	**5,439,360**	**109,917**	**340,825**	**14,637,051**
Segment liabilities	6,305,148	5,568,709	1,671,226	35,893	-	13,580,976
Unallocated equity and liabilities	-	-	-	-	1,056,075	1,056,075
Total equity and liabilities	**6,305,148**	**5,568,709**	**1,671,226**	**35,893**	**1,056,075**	**14,637,051**

Bank

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

5. CASH AND RECEIVABLES FROM BANKS

Group			2008 HRK '000			2007 HRK '000
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Cash in hand						
Held by the Group	92,454	105,440	197,894	84,874	43,970	128,844
Held by other parties	170,008	-	170,008	171,982	-	171,982
Cheques in the course of collection	-	1	1	-	4	4
	262,462	**105,441**	**367,903**	**256,856**	**43,974**	**300,830**
Amounts due from banks						
Current accounts with domestic banks	-	3,019	3,019	-	4,521	4,521
Current accounts with foreign banks	-	47,194	47,194	-	98,722	98,722
Giro account with the CNB	518,011	-	518,011	628,947	-	628,947
	518,011	**50,213**	**568,224**	**628,947**	**103,243**	**732,190**
Total	**780,473**	**155,654**	**936,127**	**885,803**	**147,217**	**1,033,020**

Bank			2008 HRK '000			2007 HRK '000
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Cash in hand						
Held by the Bank	92,446	105,440	197,886	84,870	43,970	128,840
Held by other parties	170,008	-	170,008	171,982	-	171,982
Cheques in the course of collection	-	1	1	-	4	4
	262,454	**105,441**	**367,895**	**256,852**	**43,974**	**300,826**
Amounts due from banks						
Current accounts with domestic banks	-	3,019	3,019	-	4,521	4,521
Current accounts with foreign banks	-	47,194	47,194	-	98,722	98,722
Giro account with the CNB	518,011	-	518,011	628,947	-	628,947
	518,011	**50,213**	**568,224**	**628,947**	**103,243**	**732,190**
Total	**780,465**	**155,654**	**936,119**	**885,799**	**147,217**	**1,033,016**

6. OBLIGATORY RESERVE WITH CROATIAN NATIONAL BANK

		Group		Bank
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Obligatory reserve				
- in HRK	1,016,851	1,083,327	1,016,851	1,083,327
- in foreign currency	102,095	103,409	102,095	103,409
Marginal obligatory reserve	-	47,555	-	47,555
Mandatory Croatian National Bank treasury bills	-	421,833	-	421,833
Interest receivable - due	714	758	714	758
Interest receivable - not due	60	453	60	453
Total	**1,119,720**	**1,657,335**	**1,119,720**	**1,657,335**

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

The obligatory reserve requirement at 31 December 2008 amounted to 14% (2007: 17%) of HRK and foreign currency deposits, borrowings and issued debt securities.

At 31 December 2008 the required minimum rate of maintenance of the kuna obligatory reserve with the CNB amounted to 70% (2007: 70%), while the remaining 30% (2007: 30%) could be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK (see below). In 2008, the annual interest rate on the kuna obligatory reserve payable by the CNB was 0.75% (2007: 0.75%).

60% of the foreign currency obligatory reserve (2007: 60%) is maintained with the CNB, while the remaining 40% (2007: 40%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). 50% (2007: 50%) of the foreign currency obligatory reserve is required to be held in HRK and is added to the HRK obligatory reserve (see above). At 31 December 2008, the annual interest rate on the foreign currency obligatory reserve payable by the CNB was 1% (2007: 2%).

Until 10 October 2008, the marginal obligatory reserve requirement, whereby banks have to maintain funds on a non-interest earning account with the CNB, amounted to 40% of the net increase in certain liabilities to non-residents and related parties from June 2004 and an additional 15% from November 2005, when the basis for calculation was broadened and from May 2006 when the basis for calculation was further broadened. The marginal obligatory reserve requirement was revoked by CNB as of 10 October 2008.

Mandatory bills of the Croatian National Bank are subscribed to in respect of growth in eligible assets and off-balance-sheet items in excess of a threshold determined by the CNB. Subscription rate amounts to 75 percent of the exceeded threshold. This measure was introduced in 2007. These bills earn interest equal to that on

HRK obligatory reserve balances with the CNB (0.75% at 31 December 2008, annually), and were issued to mature 360 days from the date of subscription. Given that in 2008, there was no growth above the prescribed threshold, the Group and the Bank were not required to subscribe to mandatory bills of the Croatian National Bank as of 31 December 2008.

7. PLACEMENTS WITH AND LOANS TO OTHER BANKS

	Group 2008 HRK '000	Group 2007 HRK '000	Bank 2008 HRK '000	Bank 2007 HRK '000
Short-term placements with domestic banks	506,213	592,898	485,004	573,601
Short-term placements with foreign banks	822,558	1,251,892	822,558	1,251,891
Short-term loans to domestic banks	-	97,000	-	97,000
Total short-term placements and loans	**1,328,771**	**1,941,790**	**1,307,562**	**1,922,492**
Guarantee deposits with foreign banks	3,297	3,124	3,297	3,124
Long-term placements with domestic banks	70,317	142,000	70,317	137,000
Total long-term placements and loans	**73,614**	**145,124**	**73,614**	**140,124**
Short-term placements with domestic non-bank financial institutions	500	500	500	500
Long-term placements with domestic non-bank financial institutions	2,859	4,692	2,859	4,692
Total placements with non-bank financial institutions	**3,359**	**5,192**	**3,359**	**5,192**
Specific provision for placements with non-bank financial institutions	**(500)**	**(543)**	**(500)**	**(500)**
Interest receivable - not due	2,719	5,364	2,200	5,203
Total interest receivable	**2,719**	**5,364**	**2,200**	**5,203**
Total	**1,407,963**	**2,096,927**	**1,386,235**	**2,072,511**

Long-term placements with domestic banks include an amount of HRK 70,317 thousand (2007: HRK 100,000 thousand) held at domestic banks, pledged as collateral for the repayment of long-term borrowings repayable in 17 instalments from 14 September 2008 to 14 September 2015. Guarantee deposits mainly relate to deposits for card operations.

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

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

	Group 2008 HRK '000	Group 2007 HRK '000	Bank 2008 HRK '000	Bank 2007 HRK '000
Balance as at 1 January	543	500	500	500
(Decrease)/increase in impairment loss on placements with loans to other banks	(43)	43	-	-
Balance as at 31 December	**500**	**543**	**500**	**500**

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Trading instruments	Group 2008 HRK '000	Group 2007 HRK '000	Bank 2008 HRK '000	Bank 2007 HRK '000
Debt securities, quoted on active markets				
Bonds issued by Croatian Bank for Reconstruction and Development	-	29,679	-	29,679
Bonds issued by banks	-	6,790	-	6,790
Domestic government bonds	197,345	451,634	197,345	451,634
Corporate debt securities	2,624	22,488	2,624	22,488
Debt securities, quoted on active markets	**199,969**	**510,591**	**199,969**	**510,591**
Debt securities, non-quoted on active markets				
Treasury bills issued by Ministry of Finance	1,249,870	961,258	1,249,870	961,258
Units in investment funds, quoted on active markets	58,117	58,549	58,097	58,549
Equity securities, quoted on active markets	40,464	131,813	40,464	131,813
	1,548,420	**1,662,211**	**1,548,400**	**1,662,211**
Positive fair value of foreign exchange derivatives				
- forward contracts, OTC	6,965	1,032	6,965	1,032
- futures, quoted on active markets	-	1,029	-	1,029
	6,965	**2,061**	**6,965**	**2,061**
Interest receivable - not due	**3,212**	**8,436**	**3,212**	**8,436**
Total	**1,558,597**	**1,672,708**	**1,558,577**	**1,672,708**

The Group held domestic government bonds at 31 December 2008, traded outside the arranged capital market. Considering that the Group's transactions are not included in the trading system of the Zagreb Stock Exchange ("ZSE"), the weighted average cost at which these instruments are valued is different from the weighted average cost recorded in the system of ZSE. The total effect of valuation of these bonds at weighted average cost, which includes Group's transactions at 31 December 2008, in relation to weighted average cost recorded in the system of ZSE on the same day, results in a higher valuation of these bonds by HRK 2,652 thousand.

9. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2008 HRK '000	**2007 HRK '000**	**2008 HRK '000**	**2007 HRK '000**
Debt securities, quoted on active markets				
Domestic government bonds	208,181	109,965	193,728	72,330
Bills of exchange	6,723	5,349	6,723	5,349
Commercial paper	70,683	-	70,683	-
	285,587	**115,314**	**271,134**	**77,679**
Equity securities, non-quoted on active markets				
- corporate	2,410	2,066	2,410	2,066
- non-banking financial institutions	1,334	1,334	1,334	1,334
	3,744	**3,400**	**3,744**	**3,400**
Equity securities, quoted on active markets				
- corporate	17,465	-	17,465	-
- non-banking financial institutions	29,347	-	29,347	-
	46,812	**-**	**46,812**	**-**
Interest receivable - not due	5,260	2,479	5,130	2,275
Impairment allowance	(6,781)	(2,542)	(6,658)	(2,222)
Total	**334,622**	**118,651**	**320,162**	**81,132**

In accordance with the applicable accounting policies, the Bank recognises available-for-sale financial assets at fair value with changes in fair value recognised in a fair value reserve in equity.

At year end, the Bank held investments in two actively quoted equity securities on the Croatian capital market, issued by Croatian companies and classified as available for sale: Industrija nafte Zagreb d.d. in the amount of HRK 17,465 thousand and Croatia osiguranje d.d. in the amount of HRK 9,347 thousand. Although the fair value of these investments, measured by the price at the Zagreb Stock Exchange at 31 December 2008 was 59% and 74% below cost, respectively, considering the weakness in the global economy and its negative impact of financial markets at the balance sheet date, the Bank does not believe that this change in fair value represents an impairment loss and, accordingly, has recognised the decline in fair value within the fair value reserve in equity.

Furtheron, in accordance with the applicable accounting policies of the Bank and in accordance with the IAS 39: Financial instruments: Recognition and Measurement, paragraph 59, the Bank believes that a financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment of financial assets such as follows:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal repayments;
- the lender, due to the financial difficulties of the borrower, granting to the borrower a reduction in liabilities, which the lender would not otherwise consider;
- it is highly probable that the borrower will enter the receivership process; and
- other extraordinary causes.

Given the current financial standing of the legal entities in which the Bank held equity investments, the Bank considers that none of the conditions were fulfilled that would provide objective evidence of permanent impairment, but that the current decrease in the share prices of these companies is solely the result of the global credit crisis and its negative impact on the local financial market at the year end. In addition, on 3 October 2008, through a public tender for the acquisition of Industrija nafte Zagreb d.d. shares, MOL acquired shares at the price of HRK 2,800, while the CEE Valuation Monitor, a publication of Erste Bank's treasury department in Vienna issued on 20 February 2009, estimated the fair value of Industrija nafte Zagreb d.d. at a price of HRK 2,550.

In making its decision, the Bank has also taken into account current discussions about fair-value-based accounting for financial instruments, and the possibility that accounting standards for the recognition of impairment losses on financial instruments measured at fair value may change at a future date. In this regard, the Bank notes the intention announced on 18 March 2009 of the International Accounting Standards Board, the standard setter for International Financial Reporting Standards, to seek views on certain amendments proposed by the US Financial Accounting Standards Board, the standard setter for US GAAP (Proposed FSP No. FAS 157-e Determining Whether a Market is Not Active and a Transaction is Not Distressed), and Proposed FSP No. FAS 115-a, AFS 124-a, and EITF 99-20-b Recognition and Presentation of Other-Than-Temporary Impairments - which propose amendments to the impairment approach for financial assets in the form of securities).

Movement in impairment allowance for financial assets available for sale

Available-for-sale financial assets include unquoted debt securities which are measured at cost less impairment charges. Additionally, under CNB regulations, the Bank and Group are required to recognise provisions for unidentified losses.

The movement in the impairment allowance for financial assets available for sale, recognised in the income statement, is as follows:

Group	Identified losses	Unidentified losses	2008 HRK'000 Total	Identified losses	Unidentified losses	2007 HRK'000 Total
At January 1	**1,499**	**1,043**	**2,542**	**257**	**272**	**529**
Increase in impairment losses	2,501	1,738	**4,239**	1,242	771	**2,013**
At December 31	**4,000**	**2,781**	**6,781**	**1,499**	**1,043**	**2,542**

Bank	Identified losses	Unidentified losses	2008 HRK'000 Total	Identified losses	Unidentified losses	2007 HRK'000 Total
At January 1	**1,499**	**723**	**2,222**	**257**	**-**	**257**
Increase in impairment losses	2,501	1,935	**4,436**	1,242	723	**1,965**
At December 31	**4,000**	**2,658**	**6,658**	**1,499**	**723**	**2,222**

10. FINANCIAL ASSETS HELD TO MATURITY

	Group 2008 HRK '000	Group 2007 HRK '000	Bank 2008 HRK '000	Bank 2007 HRK '000
Domestic government bonds	383,557	-	344,636	-
Bonds issued by Croatian Bank for Reconstruction and Development	23,029	-	23,029	-
Corporate bonds	29,958	-	29,958	-
Bonds issued by banks	6,852	-	6,852	-
Bills of exchange	162,223	227,509	162,223	227,509
Treasury bills	5,443	-	-	-
	611,062	**227,509**	**566,698**	**227,509**
Interest receivable - not due	**7,168**	**-**	**6,790**	**-**
Impairment allowance	**(11,042)**	**(2,275)**	**(10,665)**	**(2,275)**
Total	**607,188**	**225,234**	**562,823**	**225,234**

Movement in impairment allowance for financial assets held to maturity
The movement in the impairment allowance for financial assets held to maturity recognised in the income statement, is as follows:

Group	Identified losses	Unidentified losses	2008 HRK'000 Total	Identified losses	Unidentified losses	2007 HRK'000 Total
At January 1	**-**	**2,275**	**2,275**	**-**	**-**	**-**
Increase in impairment losses	5,151	3,616	**8,767**	-	2,275	**2,275**
At December 31	**5,151**	**5,891**	**11,042**	**-**	**2,275**	**2,275**

Bank	Identified losses	Unidentified losses	2008 HRK'000 Total	Identified losses	Unidentified losses	2007 HRK'000 Total
At January 1	**-**	**2,275**	**2,275**	**-**	**-**	**-**
Increase in impairment losses	5,151	3,239	**8,390**		2,275	**2,275**
At December 31	**5,151**	**5,514**	**10,665**	**-**	**2,275**	**2,275**

11. RECLASSIFICATION OF FINANCIAL ASSETS

In accordance with amendments to IAS 39: Financial instruments: Recognition and measurement and IFRS 7: Financial instruments: Disclosures issued in October 2008, the Group reclassified certain financial assets. HPB Stambena štedionica made the reclassification on 1 October 2008, while the Bank reclassified its financial assets on 31 October 2008, whereby the fair value at the day of reclassification was used as the basis for initial measurement. The table below sets out the financial assets reclassified and their carrying and fair values at the date of reclassification.

Group HRK '000	Date of reclassification		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at fair value through profit or loss reclassified to financial assets available for sale	58,092	58,092	54,013	54,013
Financial assets available for sale reclassified to financial assets held to maturity	36,509	36,509	28,149	26,131
Financial assets at fair value through profit or loss reclassified to financial assets held to maturity	399,844	399,844	394,758	373,764
TOTAL	**494,445**	**494,445**	**476,920**	**453,908**

Bank HRK '000	Date of reclassification		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at fair value through profit or loss reclassified to financial assets available for sale	58,092	58,092	54,013	54,013
Financial assets available for sale reclassified to financial assets held to maturity	8,500	8,500	-	-
Financial assets at fair value through profit or loss reclassified to financial assets held to maturity	399,844	399,844	394,758	373,764
TOTAL	**466,436**	**466,436**	**448,771**	**427,777**

The following table presents the amounts recognised in the income statement and in equity in the period before and after reclassification of financial assets.

	Group HRK '000		Bank HRK '000	
	Income statement	Equity	Income statement	Equity
Period before reclassification				
Financial assets at fair value through profit or loss reclassified to financial assets available for sale				
- net trading loss	(14,769)	-	(14,769)	-
Financial assets available for sale reclassified to financial assets held to maturity				
- change in fair value	-	(2,523)	-	-
Financial assets at fair value through profit or loss reclassified to financial assets held to maturity				
- net trading loss	(5,660)	-	(5,660)	-
	(20,429)	**(2,523)**	**(20,429)**	**-**
Period after reclassification				
Financial assets at fair value through profit or loss reclassified to financial assets available for sale				
- change in fair value	-	(26,843)		(26,843)
- interest income	2,158	-	2,158	-
- unidentified losses	(540)	-	(540)	-
Financial assets available for sale reclassified to financial assets held to maturity				
- amortisation of unrealised loss from equity	(85)	85	-	-
- interest income	1,435	-	-	-
- unidentified losses	(281)	-	-	-
Financial assets at fair value through profit or loss reclassified to financial assets held to maturity	-	-	-	-
- interest income	5,963	-	5,963	-
- unidentified losses	(3,948)	-	(3,948)	-
	4,702	**(26,758)**	**3,633**	**(26,843)**
TOTAL	**(15,727)**	**(29,281)**	**(16,796)**	**(26,843)**

The following table presents the estimated impact on the fair value reserve in equity arising from unrealised losses, as well the estimated impact on the income statement arising from unrealised losses from fair value measurement as of 31 December 2008, had no reclassifications occurred.

	Group HRK '000	Bank HRK '000	Group HRK '000	Bank HRK '000
	Equity	**Equity**	**Income statement**	**Income statement**
Financial assets at fair value through profit or loss reclassified to financial assets available for sale	-	-	(26,843)	(26,843)
Financial assets available for sale reclassified to financial assets held to maturity	(1,933)	-	-	-
Financial assets at fair value through profit or loss reclassified to financial assets held to maturity	-	-	(20,994)	(20,994)
Total	**(1,933)**	**-**	**(47,837)**	**(47,837)**

12. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2008 HRK '000	**2007 HRK '000**	**2008 HRK '000**	**2007 HRK '000**
Short-term loans				
Corporate	1,296,034	1,287,301	1,296,034	1,266,858
Retail	737,957	783,337	737,957	783,337
Total short-term loans	**2,033,991**	**2,070,638**	**2,033,991**	**2,050,195**
Long-term loans				
Corporate	3,913,539	3,565,996	3,922,646	3,596,324
Retail	2,386,780	1,852,249	2,345,369	1,840,264
Total long-term loans	**6,300,319**	**5,418,245**	**6,268,015**	**5,436,588**
Total gross loans	**8,334,310**	**7,488,883**	**8,302,006**	**7,486,783**
Interest receivable - due	68,430	53,471	68,353	53,447
Interest receivable - not due	21,354	11,412	21,352	11,411
Impairment allowance	**(295,589)**	**(265,535)**	**(295,175)**	**(265,415)**
Total	**8,128,505**	**7,288,231**	**8,096,536**	**7,286,226**
Total impairment allowance as a percentage of gross loans and advances to customers	**3.55%**	**3.55%**	**3.56%**	**3.55%**

Movement in impairment allowance for loans and advances to customers

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

Group			**2008 HRK'000**			**2007 HRK'000**
	Identified losses	**Unidentified losses**	**Total**	**Identified losses**	**Unidentified losses**	**Total**
At 1 January	**147,829**	**117,706**	**265,535**	**114,858**	**86,407**	**201,265**
Increase/ (decrease) in impairment losses	134,765	(9,332)	**125,433**	34,876	31,299	**66,175**
Amounts recovered during the year	(1,425)	-	**(1,425)**	-	-	**-**
Net foreign exchange loss/(gain)	12	-	**12**	(303)	-	**(303)**
Usage	(93,966)	-	**(93,966)**	(1,602)	-	**(1,602)**
At 31 December	**187,215**	**108,374**	**295,589**	**147,829**	**117,706**	**265,535**

Bank			**2008 HRK'000**			**2007 HRK'000**
	Identified losses	**Unidentified losses**	**Total**	**Identified losses**	**Unidentified losses**	**Total**
At 1 January	**147,829**	**117,586**	**265,415**	**114,858**	**86,407**	**201,265**
Increase/ (decrease) in impairment losses	134,765	(9,626)	**125,139**	34,876	31,179	**66,055**
Amounts recovered during the year	(1,425)	-	**(1,425)**	-	-	**-**
Net foreign exchange loss/(gain)	12	-	**12**	(303)	-	**(303)**
Usage	(93,966)	-	**(93,966)**	(1,602)	-	**(1,602)**
At 31 December	**187,215**	**107,960**	**295,175**	**147,829**	**117,586**	**265,415**

13. ASSETS HELD FOR SALE

a) The Group's assets designated for sale include:

	Industry	Domicile	Ownership at 31 December 2008 %
H1 Telekom d.d.	Telecomunications	Croatia	41.25

On 25 March 2008 the Bank made an agreement with H1 Telecom d.d. on the conversion of the Bank's receivables based on a long term loan contract dated 9 February 2006 and its annex dated 27 March 2007 into share capital.

Given that the Bank has no intention to hold its equity stake over a long-term period, in accordance with IFRS 5: Non-Current Assets held for Sale and Discontinuing Operations, it is classified as assets held for sale. Accordingly, the business results of H1 Telekom d.d. are not reflected in the consolidated financial statements of the Group.

b) Assets held for sale are as follows:

	Group and Bank	
	2008 HRK '000	2007 HRK '000
H1 Telekom d.d.	26,833	-

c) Movement in assets held for sale is as follows:

	Group and Bank	
	2008 HRK'000	2007 HRK '000
Balance at January 1	**-**	**-**
H1 Telekom d.d.	26,833	-
Balance at December 31	**26,833**	**-**

14. INVESTMENTS IN SUBSIDIARIES

a) The Group's subsidiaries are as follows:

	Industry	Domicile	Ownership at 31 December 2008 %
HPB-Invest d.o.o.	Investment fund management	Croatia	100
HPB-Nekretnine d.o.o.	Real estate agency	Croatia	100
HPB-Stambena štedionica d.d.	Banking	Croatia	100

All subsidiaries are fully consolidated in the Group's financial statements.

b) Investments in subsidiaries are as follows:

	Bank	
	2008 HRK '000	2007 HRK '000
HPB-Invest d.o.o.	13,500	13,500
HPB-Nekretnine d.o.o.	50	50
HPB-Stambena štedionica d.d.	40,000	40,000
Total	**53,550**	**53,550**

c) Movements in investment in subsidiaries were as follows:

	Bank	
	2008 HRK '000	2007 HRK '000
Balance as at 1 January	**53,550**	**35,050**
Investment in HPB-Invest d.o.o.	-	8,500
Investment in HPB-Stambena štedionica d.d.	-	10,000
Balance as at 31 December	**53,550**	**53,550**

15. PROPERTY AND EQUIPMENT

Group 2008	Land and buildings HRK '000	Computers, equipment and vehicles HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost				
Balance as at 1 January 2008	155,082	181,987	14,807	351,876
Additions	-	33	31,748	31,781
Written-off	-	(2,753)	(321)	(3,074)
Brought into use	4,809	36,125	(40,934)	-
Balance as at 31 December 2008	**159,891**	**215,392**	**5,300**	**380,583**
Accumulated depreciation				
Balance as at 1 January 2008	(42,982)	(101,874)	-	(144,856)
Charge for the year	(3,839)	(40,533)	-	(44.372)
Written-off	-	2,613	-	2.613
Balance as at 31 December 2008	**(46,821)**	**(139,794)**	**-**	**(186,615)**
Carrying value				
Balance as at 1 January 2008	112,100	80,113	14,807	207,020
Balance as at 31 December 2008	**113,070**	**75,598**	**5,300**	**193,968**

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

Assets in the course of construction comprise equipment at cost of HRK 5,300 thousand (2007: HRK 14,807 thousand).

Bank 2008	Land and buildings HRK '000	Computers, equipment and vehicles HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost				
Balance as at 1 January 2008	153,087	181,849	13,903	348,839
Additions	-	-	31,730	31,730
Written-off	-	(2,753)	-	(2,753)
Brought into use	4,809	36,107	(40,916)	-
Balance as at 31 December 2008	**157,896**	**215,203**	**4,717**	**377,816**
Accumulated depreciation				
Balance as at 1 January 2008	(42,932)	(101,823)	-	(144,755)
Charge for the year	(3,795)	(40,486)	-	(44,281)
Written-off	-	2,613	-	2,613
Balance as at 31 December 2008	**(46,727)**	**(139,696)**	**-**	**(186,423)**
Carrying value				
Balance as at 1 January 2008	110,155	80,026	13,903	204,084
Balance as at 31 December 2008	**111,169**	**75,507**	**4,717**	**191,393**

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

Assets in the course of construction comprise equipment at cost of HRK 4,717 thousand (2007: HRK 13,903 thousand).

16. INVESTMENT PROPERTY

Group	2008 HRK '000
Cost	
Balance as at 1 January 2008	7,980
Disposal	(1,466)
Balance as at 31 December 2008	**6,514**
Accumulated depreciation	
Balance as at 1 January 2008	(202)
Disposal	57
Charge for the year	(179)
Balance as at 31 December 2008	**(324)**
Carrying value	
Balance as at 1 January 2008	7,778
Balance as at 31 December 2008	**6,190**

Group	2007 HRK '000
Cost	
Balance as at 1 January 2008	-
Transfers from property and equipment during the year	7,980
Balance as at 31 December 2008	7,980
Accumulated depreciation	
Balance as at 1 January 2008	-
Transfers from property and equipment during the year	(16)
Charge for the year	(186)
Balance as at 31 December 2008	**(202)**
Carrying value	
Balance as at 1 January 2008	-
Balance as at 31 December 2008	7,778

17. INTANGIBLE ASSETS

Group 2008	Software HRK '000	Leasehold improvements HRK '000	Licences HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost					
Balance as at 1 January 2008	23,947	46,330	21,387	63,688	155,352
Additions	508	-	-	88,150	88,658
Brought into use	5,140	9,993	8,952	(24,085)	-
Written-offs	(55)	-	-	-	(55)
Balance at 31 December 2008	**29,540**	**56,323**	**30,339**	**127,753**	**243,955**
Accumulated depreciation					
Balance as at 1 January 2008	(15,356)	(11,591)	(9,694)	-	(36,641)
Charge for the year	(3,818)	(12,394)	(4,964)	-	(21,176)
Written-offs	55	-	-	-	55
Balance at 31 December 2008	**(19,119)**	**(23,985)**	**(14,658)**	**-**	**(57,762)**
Carrying value					
Balance at 1 January 2008	8,591	34,739	11,693	63,688	118,711
Balance at 31 December 2008	**10,421**	**32,338**	**15,681**	**127,753**	**186,193**

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

As at 31 December 2008 assets in the course of construction comprise application software and licences at a cost of HRK 125,683 thousand (2007: HRK 63,507 thousand) and leasehold improvements at a cost of HRK 2,070 thousand (2007: HRK 180 thousand), which are being prepared for use by the Group.

Bank 2008	Software HRK '000	Leasehold improve-ments HRK '000	Licences HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost					
Balance as at 1 January 2008	23,947	46,324	21,387	63,687	155,345
Additions	-	-	-	88,149	88,149
Brought into use	5,140	9,993	8,952	(24,085)	-
Write-offs	(55)	-	-	-	(55)
Balance at 31 December 2008	**29,032**	**56,317**	**30,339**	**127,751**	**243,439**
Accumulated depreciation					
Balance as at 1 January 2008	(15,356)	(11,588)	(9,694)	-	(36,638)
Charge for the year	(3,790)	(12,392)	(4,964)	-	(21,146)
Write- offs	55	-	-	-	55
Balance at 31 December 2008	**(19,091)**	**(23,980)**	**(14,658)**	**-**	**(57,729)**
Carrying value					
Balance at 1 January 2008	8,591	34,736	11,693	63,687	118,707
Balance at 31 December 2008	**9,941**	**32,337**	**15,681**	**127,751**	**185,710**

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

As at 31 December 2008 assets in the course of construction comprise application software and licences at a cost of HRK 125,683 thousand (2007: HRK 63,507 thousand) and leasehold improvements at a cost of HRK 2,068 thousand (2007: HRK 180 thousand), which are being prepared for use by the Bank.

18. NET DEFERRED TAX ASSET

a) Recognised deferred tax assets and liabilities - Group

Movements in temporary differences and components of deferred tax assets and deferred tax liabilities in 2008 are as follows:

Group 2008	2008 HRK '000	Income / (expense) to income statement HRK '000	Credited / (charged) to equity HRK '000	2007 HRK '000
Deferred tax assets				
Loans and advances to customers	15,967	3,787	-	12,180
Other provisions	1,877	(915)	-	2,792
Financial assets	19,236	16,709	-	2,527
Fair value reserve	13,219	-	12,347	872
Deferred tax liabilities				
Borrowings	(834)	(87)	-	(747)
Revaluation reserve	(1,231)	-	8	(1,239)
Prepaid expenses	(710)	(365)	-	(345)
Net deferred tax asset	**47,524**	**19,129**	**12,355**	**16,040**

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

Group 2007	2007 HRK '000	Income / (expense) to income statement HRK '000	Credited / (charged) to equity HRK '000	2005 HRK '000
Deferred tax assets				
Loans and advances to customers	12,180	5,679	-	6,501
Other provisions	2,792	159	-	2,633
Financial assets	2,527	1,107	-	1,420
Tax losses	-	(1,765)	-	1,765
Fair value reserve	872	-	652	220
Deferred tax liabilities				
Borrowings	(747)	(60)	-	(687)
Fair value reserve	(1,239)	-	(1,239)	-
Prepaid expenses	(345)	(252)	-	(93)
Net deferred tax asset	**16,040**	**4,868**	**(587)**	**11,759**

b) Recognised deferred tax assets and liabilities - Bank

Movements in temporary differences and components of deferred tax assets and deferred tax liabilities in 2008 are as follows:

Bank 2008	2008 HRK '000	Income / (expense) to income statement HRK '000	Credited / (charged) to equity HRK '000	2007 HRK '000
Deferred tax assets				
Loans and advances to customers	14,933	3,313	-	11,620
Other provisions	1,732	(903)	-	2,635
Financial assets	19,236	16,709	-	2,527
Fair value reserve	12,602	-	12,129	473
Deferred tax liabilities				
Borrowings	(834)	(87)	-	(747)
Revaluation reserve	(1,231)	-	8	(1,239)
Net deferred tax asset	**46,438**	**19,032**	**12,137**	**15,269**

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

Bank 2007	2007 HRK '000	Income / (expense) to income statement HRK '000	Credited / (charged) to equity HRK '000	2005 HRK '000
Deferred tax assets				
Loans and advances to customers	11,620	5,304	-	6,316
Other provisions	2,635	70	-	2,565
Financial assets	2,527	1,107	-	1,420
Fair value reserve	473	-	418	55
Deferred tax liabilities				
Borrowings	(747)	(60)	-	(687)
Fair value reserve	(1,239)	-	(1,239)	-
Net deferred tax asset	**15,269**	**6,421**	**(821)**	**9,669**

19. OTHER ASSETS

	Group		Bank	
	2008 **HRK '000**	**2007** **HRK '000**	**2008** **HRK '000**	**2007** **HRK '000**
Fees receivable	39,797	46,719	37,782	41,846
Assets held for sale	56,317	50,688	56,317	50,688
Items in course of collection	19,803	7,244	19,803	7,274
Deferred fee expense	7,715	5,457	4,168	3,734
Prepaid expenses	7,560	3,112	7,309	4,012
Other receivables	24,086	9,869	14,326	12,236
Total gross amounts	**155,278**	**123,089**	**139,705**	**119,790**
Allowance for impairment losses	(6,013)	(3,766)	(4,813)	(3,760)
Total	**149,265**	**119,323**	**134,892**	**116,030**

At 31 December 2008, the Group and Bank had HRK 56,317 thousand of foreclosed assets (2007: HRK 50,688 thousand). Foreclosed assets consist of HRK 30,358 thousand of construction property, HRK 17,929 thousand of land and HRK 8,030 thousand of equipment. Internal estimations of the fair value of forclosed assets exceed their carrying amount, given that, for part of the foreclosed assets, the process of transfer of their initially intended use from industrial to commercial purposes commenced.

Movement in foreclosed assets

The following table represents movement in foreclosed assets during 2008:

	Group and Bank **HRK'000**
Balance at 1 January	50,688
Foreclosed in 2008	5,733
Disposed in 2008	(104)
Balance at 31 December	**56,317**

Movement in impairment allowance for other assets

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

	Group		Bank	
	2008 **HRK '000**	**2007** **HRK '000**	**2008** **HRK '000**	**2007** **HRK '000**
Balance at 1 January	3,766	2,738	3,760	2,728
Increase in impairment losses	2,428	1,032	1,234	1,032
Amounts recovered during the year	-	(4)	-	-
Usage	(181)	-	(181)	-
Balance at 31 December	**6,013**	**3,766**	**4,813**	**3,760**

20. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 2008 HRK '000	Group 2007 HRK '000	Bank 2008 HRK '000	Bank 2007 HRK '000
Negative fair value of futures contracts	1,206	-	1,205	-
Negative fair value of forward foreign exchange contracts	3,984	195	3,985	195
Negative fair value of cross currency swaps	1,551	159	1,551	159
Balance at 31 December	**6,741**	**354**	**6,741**	**354**

21. DEPOSITS FROM BANKS

	Group 2008 HRK '000	Group 2007 HRK '000	Bank 2008 HRK '000	Bank 2007 HRK '000
Demand deposits				
- in HRK	845	1,291	845	1,291
- in foreign currency	28,433	4,025	28,433	4,025
Term deposits				
- in HRK	360,420	431,010	360,420	431,010
- in foreign currency	23,226	40,514	23,226	40,514
Interest payable - not due	414	569	414	569
Interest payable - due	11	10	11	10
Total	**413,349**	**477,419**	**413,349**	**477,419**

22. DEPOSITS FROM CUSTOMERS

Group	2008 HRK '000 In HRK	2008 In foreign currency	2008 Total	2007 HRK '000 In HRK	2007 In foreign currency	2007 Total
Demand deposits						
Retail	2,293,051	141,380	2,434,431	2,327,000	131,286	2,458,286
Corporate	1,321,707	143,656	1,465,363	1,418,405	237,919	1,656,324
Restricted deposits						
Retail	833	234	1,067	-	-	-
Corporate	866,978	27,433	894,411	594,206	86,203	680,409
	4,482,569	**312,703**	**4,795,272**	**4,339,611**	**455,408**	**4,795,019**
Term deposits						
Retail	1,537,382	1,587,444	3,124,826	1,093,828	997,588	2,091,416
Corporate	2,120,395	634,581	2,754,976	2,821,836	503,176	3,325,012
	3,657,777	**2,222,025**	**5,879,802**	**3,915,664**	**1,500,764**	**5,416,428**
Interest payable - due	6,895	172	7,067	18,746	577	19,323
Interest payable - not due	10,201	10,358	20,559	3,181	3,036	6,217
Total	**8,157,442**	**2,545,258**	**10,702,700**	**8,277,202**	**1,959,785**	**10,236,987**

Bank			2008 HRK '000			2007 HRK '000
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Demand deposits						
Retail	2,293,051	141,381	2,434,432	2,327,000	131,286	2,458,286
Corporate	1,323,477	143,656	1,467,133	1,420,169	237,919	1,658,088
Restricted deposits						
Retail	833	232	1,065	-	-	-
Corporate	866,978	27,434	894,412	594,206	86,203	680,409
	4,484,339	**312,703**	**4,797,042**	**4,341,375**	**455,408**	**4,796,783**
Term deposits						
Retail	1,460,287	1,587,444	3,047,731	1,093,828	972,308	2,066,136
Corporate	2,123,794	634,581	2,758,375	2,821,836	503,176	3,325,012
	3,584,081	**2,222,025**	**5,806,106**	**3,915,664**	**1,475,484**	**5,391,148**
Interest payable - due	6,895	172	7,067	18,746	577	19,323
Interest payable - not due	10,201	10,358	20,559	3,181	3,036	6,217
Total	**8,085,516**	**2,545,258**	**10,630,774**	**8,278,966**	**1,934,505**	**10,213,471**

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

23. BORROWINGS

Group			2008 HRK '000			2007 HRK '000
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Short-term borrowings from other financial institutions	362,200	-	362,200	205,333	-	205,333
Short-term borrowings from domestic banks	-	-	-	574,500	-	574,500
Long-term borrowings from banks	-	239,612	239,612	-	236,128	236,128
Long-term borrowing from HBOR (kuna and foreign currency clause)	1,254,802	-	1,254,802	1,084,363	-	1,084,363
Interest payable - due	1,735	-	1,735	3,727	-	3,727
Interest payable - not due	2,636	4,265	6,901	1,602	3,472	5,074
	1,621,373	**243,877**	**1,865,250**	**1,869,525**	**239,600**	**2,109,125**

Bank			2008 HRK '000			2007 HRK '000
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Short-term borrowings from other financial institutions	362,200	-	362,200	205,333	-	205,333
Short-term borrowings from domestic banks	-	-	-	574,500	-	574,500
Long-term borrowings from banks	-	239,612	239,612	-	236,128	236,128
Long-term borrowing from HBOR (kuna and foreign currency clause)	1,254,802	-	1,254,802	1,084,363	-	1,084,363
Interest payable - due	1,735	-	1,735	3,727	-	3,727
Interest payable - not due	2,636	4,265	6,901	1,602	3,472	5,074
	1,621,373	**243,877**	**1,865,250**	**1,869,525**	**239,600**	**2,109,125**

In accordance with their terms, borrowings from the Croatian Bank for Reconstruction and Development ("HBOR") are used to fund loans to customers of the Bank for financing eligible reconstruction and development projects at preferential interest rates.

24. SUBORDINATED DEBT

		Group		Bank
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Subordinated debt	310,601	200,000	310,601	200,000
Interest receivable - not due	270	603	270	603
	310,871	**200,603**	**310,871**	**200,603**

Subordinated debt in the amount of HRK 200,000 thousand was obtained by the Bank from Gradska banka d.d. (in receivership) in June 2007, with the following terms: maturity of 61 months and a fixed interest rate of 5.5% per annum. The Bank also obtained subordinated debt in the amount of HRK 110,000 thousand from Hrvatska pošta d.d. in December 2008, with the following terms: maturity of 61 months and a fixed interest rate of 9% per annum. These instruments are included in the computation of capital for the purpose of capital adequacy measurement and are, without any limitations, available to the Bank in receivership for the settlement of creditors. Repayment is subordinated to all other liabilities of the Bank.

25. PROVISIONS FOR LIABILITIES AND CHARGES

		Group		Bank
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Provisions for court cases	7,056	7,054	7,056	7,054
Provisions for potential and other liabilities	2,380	2,650	2,380	2,650
Provisions for off-balance-sheet exposures	23,471	22,196	23,466	22,191
Balance at 31 December	**32,907**	**31,900**	**32,902**	**31,895**

Movement in provisions for impairment

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

		Group		Bank
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Balance at 1 January	31,900	26,030	31,895	26,030
Increase in impairment losses	1,007	5,938	1,007	5,933
Usage	-	(68)	-	(68)
Balance at 31 December	**32,907**	**31,900**	**32,902**	**31,895**

26. OTHER LIABILITIES

		Group		Bank
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Suppliers	9,843	49,295	9,248	48,185
Salaries, deductions from salaries, taxes and contributions	15,775	21,272	15,103	19,757
Liabilities for retirement, severance payments and other liabilities	12,658	9,797	12,588	9,797
Fees payable	19,646	21,167	21,000	20,891
Items in the course of settlement	258,487	255,505	258,493	255,505
Deferred fee income	79,837	60,895	74,665	58,098
Other liabilities	70,435	117,326	61,617	114,581
Balance at 31 December	**466,681**	**535,257**	**452,714**	**526,814**

Liabilities in the course of settlement mainly relate to liabilities for repayment of pensions on behalf of the Croatian Pension Fund in the amount of HRK 188 million (2007: HRK 161 million) and liabilities for transfer of cash inflows from the Bank's account to retail clients who do not hold accounts with the Bank in the amount of HRK 33 million (2007: HRK 55 million).

27. EQUITY

a) Share capital

As at 31 December 2008 and 2007, authorised, issued and fully paid ordinary share capital amounted to HRK 584,780 thousand and comprised 531,618 approved ordinary shares with a nominal value of HRK 1,100 each. The holders of the ordinary shares are entitled to receive dividends as declared at the General Assembly of Shareholders and are entitled to one vote per share. As of 31 December 2008, the Bank had 795 treasury shares (2007: 795) in the total amount of HRK 874 thousand (2007: HRK 874 thousand).

The shareholder structure is as follows:

	Paid capital HRK'000	2008 Ownership %	Paid capital HRK'000	2007 Ownership %
Croatian Privatisation Fund	216,354	37.00%	216,354	37.00%
Croatian Post	196,231	33.56%	196,231	33.56%
Croatian Pension Fund	163,811	28.01%	163,811	28.01%
Other	8,384	1.43%	8,384	1.43%
Total	**584,780**	**100.00%**	**584,780**	**100.00%**

b) Statutory reserve

The Bank is required to build a legal reserve by appropriating 5% of net profit for the year until the reserve reaches 5% of share capital. Following a transfer from retained earnings of HRK 436 thousand, representing 5% of the net profit for the year, the balance on the legal reserve at 31 December 2008 amounted to HRK 19,258 thousand (2007: HRK 18,822 thousand), or 3.29% (2007: 3.22%) of share capital. The legal reserve may be used to cover prior period losses if the losses are not covered by current year profits or if other reserves are not available.

c) General banking risk reserve

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

In accordance with CNB regulations, the Bank is required to create and maintain provisions for general banking risks, if the growth in the Bank's balance-sheet and off-balance-sheet exposure exceeds 15% of balance sheet and off-balance-sheet exposure at the previous year end. The Bank has not recognised any increase in the reserve for general banking risks (2007: increase of HRK 79,764 thousand as an appropriation within equity from retained earnings).

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

d) Fair value reserve

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

e) Revaluation reserve

A revaluation reserve in the amount of HRK 4,922 thousand (2007: HRK 4,956 thousand), net of tax, arises from the revaluation of land and buildings of the Group.

f) Proposed dividends

Dividends payable are not accounted for until they have been ratified at the General Assembly of Shareholders. Management will not propose any dividend payment for the year ended 31 December 2008 (2007: Nil).

g) Other reserves

Other reserves as at 31 December 2008 amounted to HRK 36,606 thousand (2007: HRK 36,606 thousand) whose purpose is determined by Bank's Management and Supervisory Board.

h) Retained earnings

Retained earnings comprise unallocated accumulated earnings from previous years.

28. INTEREST AND SIMILAR INCOME

a) Analysis by product

	Group		Bank	
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Loans and advances to customers				
- Corporate	434,239	350,262	434,460	350,281
- Retail	286,286	200,658	284,606	200,388
	720,525	**550,920**	**719,066**	**550,669**
Placements with and loans to banks	70,252	71,647	68,970	71,635
Debt securities	93,012	80,591	90,897	79,145
Bills of exchange	16,992	14,195	16,991	14,195
Obligatory reserve with the Croatian National Bank	10,949	10,148	10,949	10,148
Total	**911,730**	**727,501**	**906,873**	**725,792**

b) Analysis by source

	Group		Bank	
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Companies	400,466	326,744	400,688	326,763
Individuals	286,286	200,658	284,606	200,388
State and the public sector	128,884	110,703	126,769	109,257
Banks and other financial institutions	94,068	88,078	92,784	88,066
Other organisations	2,026	1,318	2,026	1,318
Total	**911,730**	**727,501**	**906,873**	**725,792**

The information system currently used by the Group records interest income on loans with annuity repayments to retail customers relating to the current month on the first day of the following month. Accordingly, interest income on loans with annuity repayments to retail customers for December 2008 was recorded in January 2009. In order to monitor its results more precisely, from 2009 the Group commenced to account for interest income on loans to retail customers with annuity repayments in the current month, and interest income on loans with annuity repayments to retail customers for December 2008, recorded in January 2009 in the amount of HRK 12,858 thousand, was recognised in the accounting period for December, when earned. No restatement was made to reallocate interest income on loans with annuity repayments to retail customers for December 2007, recorded in January 2008, in the amount of HRK 7,162 thousand.

29. INTEREST EXPENSE AND SIMILAR CHARGES

a) Analysis by product

	Group		Bank	
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Borrowings	76,503	62,471	76,503	61,631
Deposits from customers				
- Corporate	231,561	162,245	231,561	162,245
- Retail	120,285	80,662	119,328	80,354
	351,846	**242,907**	**350,889**	**242,599**
Deposits from banks	37,477	26,808	37,477	26,808
Other	326	2,417	326	3,276
Total	**466,152**	**334,603**	**465,195**	**334,314**

b) Analysis by recipient

	Group		Bank	
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Companies	102,676	78,421	102,676	77,581
Individuals	120,284	80,662	119,328	80,354
State and public sector	36,888	11,490	36,888	11,490
Banks and other financial institutions	199,188	160,479	199,187	160,479
Other	7,116	3,551	7,116	4,410
Total	**466,152**	**334,603**	**465,195**	**334,314**

30. FEE AND COMMISSION INCOME

	Group		Bank	
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Commissions from cash-based payment transactions	392,743	402,976	392,743	402,976
Commissions from non-cash-based payment transactions	32,853	32,791	32,852	32,803
Commissions from retail and credit card business	95,654	70,582	95,654	70,332
Commissions from letters of credit, guarantees and foreign currency payment transactions	20,884	17,721	20,884	17,721
Other commissions	57,755	77,686	29,435	35,791
Total	**599,889**	**601,756**	**571,568**	**559,623**

31. FEE AND COMMISSION EXPENSE

	Group		Bank	
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Commissions on cash-based payment transactions	321,002	350,396	321,002	350,396
Commissions on non-cash-based payment transactions	45,682	49,112	45,682	49,121
Commissions on credit card transactions	23,971	20,066	23,971	20,066
Other commissions	19,698	17,721	12,807	15,049
Total	**410,353**	**437,295**	**403,462**	**434,632**

32. GAINS LESS LOSSES ARISING FROM DEALING SECURITIES

	Group		Bank	
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Gains less losses from financial assets at fair value through profit or loss				
Realised gains/(losses)				
- Debt securities	(11,148)	(12,674)	(11,148)	(12,674)
- Equity securities	164	4,577	164	3,794
- Investment funds	(1,395)	-	(1,395)	-
- Forward foreign exchange contracts - OTC	4,937	887	4,937	887
	(7,442)	**(7,210)**	**(7,442)**	**(7,993)**
Unrealised gains/(losses)				
- Debt securities	(4,227)	(5,439)	(4,227)	(5,439)
- Investment funds	(17,196)	7,452	(17,196)	7,452
- Equity securities	(68,345)	38,388	(68,345)	38,388
- Futures	(327)	1,028	(327)	1,028
- Forward foreign exchange contracts - OTC	1,611	675	1,611	675
	(88,484)	**42,104**	**(88,484)**	**42,104**
Total	**(95,926)**	**34,894**	**(95,926)**	**34,111**

33. GAINS LESS LOSSES ARISING FROM INVESTMENT SECURITIES

	Group		Bank	
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Realised gains on disposal of debt securities available for sale	49	33	134	50
Realised gains on disposal of equity securities available for sale	12,010	-	12,010	-
Total	**12,059**	**33**	**12,144**	**50**

34. OTHER OPERATING INCOME

	Group		Bank	
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Dividend income	27,569	494	31,914	494
Derecognition of liabilities on dormant customer accounts	2,169	13,335	2,169	13,335
Reversal of impairment loss on land and buildings	-	17,185	-	17,185
Other income	12,996	25,042	11,452	26,657
Net foreign exchange gain from translation of monetary assets and liabilities	853	-	843	-
Total	**43,587**	**56,056**	**46,379**	**57,671**

35. GENERAL AND ADMINISTRATIVE EXPENSES

	Group		Bank	
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Materials and services	115,564	100,518	111,954	97,673
Administration and marketing	45,168	46,752	43,943	45,278
Post and telecommunications	32,196	32,659	31,993	31,920
Personnel expenses	168,530	149,322	155,774	139,318
Deposit insurance expenses	17,419	14,390	17,419	14,330
Other general and administrative costs	22,684	32,101	21,911	18,527
Net foreign exchange loss from translation of monetary assets and liabilities	-	2,196	-	2,201
Total	**401,561**	**377,938**	**382,994**	**349,247**

a) Personnel expenses

	Group		Bank	
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Net salaries, severance payments and other expenses	86,338	74,662	80,938	69,024
Taxes and contributions (including employer's contributions)	73,957	68,179	67,806	65,112
Other payments to employees	6,838	4,868	6,475	4,678
Fees to Supervisory Board members	1,397	1,613	555	504
Total	**168,530**	**149,322**	**155,774**	**139,318**

As at 31 December 2008 the Bank had 902 employees (2007: 742), while the Group had 942 employees (2007: 774).

Personnel expenses of the Group include HRK 25,842 thousand (2007: HRK 22,011 thousand), while the Bank's personnel expenses include HRK 24,120 thousand (2007: HRK 20,654 thousand), of obligatory contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries.

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

	Notes	Group 2008 HRK '000	Group 2007 HRK '000	Bank 2008 HRK '000	Bank 2007 HRK '000
Identified losses					
Financial assets available for sale	9	(2,501)	(1,242)	(2,501)	(1,242)
Financial assets held to maturity	10	(5,151)	-	(5,151)	-
Loans and advances to customers	12	(133,340)	(34,876)	(133,340)	(34,876)
Other assets	19	(2,428)	(1,032)	(1,234)	(1,032)
Total charge		**(143,420)**	**(37,150)**	**(142,226)**	**(37,150)**
Unidentified losses					
Placements with and loans to other banks	7	43	(43)	-	-
Financial assets available for sale	9	(1,738)	(771)	(1,935)	(723)
Financial assets held to maturity	10	(3,616)	(2,275)	(3,239)	(2,275)
Loans and advances to customers	12	9,332	(31,299)	9,626	(31,179)
Other assets	19	-	4	-	-
Total release/(charge)		**4,021**	**(34,384)**	**4,452**	**(34,177)**
Total identified and unidentified losses					
Placements with and loans to other banks	7	43	(43)	-	-
Financial assets available for sale	9	(4,239)	(2,013)	(4,436)	(1,965)
Financial assets held to maturity	10	(8,767)	(2,275)	(8,390)	(2,275)
Loans and advances to customers	12	(124,008)	(66,175)	(123,714)	(66,055)
Other assets	19	(2,428)	(1,028)	(1,234)	(1,032)
Total charge		**(139,399)**	**(71,534)**	**(137,774)**	**(71,327)**

37. INCOME TAX EXPENSE

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

Income tax expense recognised in the income statement

	Group 2008 HRK '000	Group 2007 HRK '000	Bank 2008 HRK '000	Bank 2007 HRK '000
Current income tax expense	(21,766)	(40,083)	(15,490)	(38,790)
Deferred income tax relating to the origination and reversal of temporary differences	19,129	4,868	19,032	6,421
Total income tax expense in income statement	**(2,637)**	**(35,215)**	**3,542**	**(32,369)**

Movement in income tax liabilities recognised directly in equity

	Group 2008 HRK '000	Group 2007 HRK '000	Bank 2008 HRK '000	Bank 2007 HRK '000
Deferred tax income relating to unrealised gains on available-for-sale investments recognised in fair value reserve	**12,347**	**652**	**12,129**	**418**
Deferred tax income/(charges) relating to revaluation reserve on land and buildings	**8**	**(1,239)**	**8**	**(1,239)**

Reconciliation of income tax expense

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

	Group 2008 HRK '000	Group 2007 HRK '000	Bank 2008 HRK '000	Bank 2007 HRK '000
Profit before tax	7,157	164,152	5,175	153,285
Income tax at 20% (2007: 20%)	(1,431)	(32,830)	(1,035)	(30,657)
Expenses not deductible for tax purposes	(11,142)	(7,794)	(11,032)	(7,668)
Income not subject to tax	10,002	5,409	15,609	5,956
Taxable income	(66)	-	-	-
	(2,637)	**(35,215)**	**3,542**	**(32,369)**
Effective income tax rate	36.8%	21.5%	-	21.1%

Deferred tax in respect of unused tax losses

As at 31 December 2008, a subsidiary of the Bank had gross accumulated tax losses of HRK 11,366 thousand (2007: HRK 9,296 thousand) available for reduction of taxable profits of prospective periods.

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

Group Expiry of tax losses	2008 HRK '000 Gross tax losses	2008 HRK '000 Taxable profits	2007 HRK '000 Gross tax losses	2007 HRK '000 Taxable profits
31 December 2011	6,187	1,238	6,187	1,238
31 December 2012	3,109	622	3,109	622
31 December 2013	2,070	414	-	-
Total tax losses carried forward	**11,366**	**2,274**	**9,296**	**1,860**

Based on expected future income, the Group estimates that it is not probable that these tax losses would be used to reduce taxable income of prospective periods and, accordingly, no deferred tax asset has been recognised (2007: -).

38. EARNINGS PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the profit for the period attributable to equity holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic earnings per share was 530,823 (2007: 530,823). Given that there is no effect of options, convertible bonds or similar effect, the weighted average number of ordinary shares used for diluted earnings per share was the same as used to calculate basic earnings per share: 530,823 (2007: 530,823).

		Bank
	2008 HRK '000	2007 HRK '000
Net profit for the year	8,717	120,916
Profit for the year attributable to ordinary shareholders	8,717	120,916
Average number of ordinary shares in issue (excluding treasury shares	530,823	530,823
Earnings per share (in HRK)	**16.42**	**227.79**

39. CONCENTRATION OF ASSETS AND LIABILITIES

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

			Group		Bank
	Notes	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Giro account with the CNB	5	518,011	628,947	518,011	628,948
Obligatory reserve with the CNB	6	1,119,720	1,657,335	1,119,720	1,657,334
Bonds issued by the Republic of Croatia		864,559	571,688	810,678	534,169
Ministry of Finance treasury bills		1,249,870	961,339	1,249,870	961,339
Loans and advances to the Republic of Croatia		79,756	51,081	79,756	51,081
Deposits from the Republic of Croatia		(932,356)	(942,239)	(932,356)	(942,239)
Repurchase agreements with the CNB		-	(574,754)	-	(574,754)
Total		**2,899,560**	**2,353,397**	**2,845,679**	**2,315,878**

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

		Group		Bank
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Loans and advances	114,288	102,581	114,288	102,581
Deposits	(623,777)	(405,645)	(623,777)	(405,645)
Total	**(509,489)**	**(303,064)**	**(509,489)**	**(303,064)**

40. CASH AND CASH EQUIVALENTS

			Group		Bank
	Notes	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Cash and receivables from banks	5	936,127	1,033,020	936,119	1,033,016
Obligatory reserve with Croatian National Bank	6	1,119,720	1,657,335	1,119,720	1,657,335
Placements to banks with original maturity up to 90 days		1,307,470	1,857,086	1,299,762	1,837,695
Items in course of collection	19	19,803	7,244	19,803	7,274
Total		**3,383,120**	**4,554,685**	**3,375,404**	**4,535,320**

41. COMMITMENTS AND CONTINGENCIES

		Group		Bank
	2008 HRK '000	2007 HRK '000	2008 HRK '000	2007 HRK '000
Guarantees denominated in HRK	524,448	415,908	524,448	415,908
Guarantees denominated in foreign currencies	22,128	30,881	22,128	30,881
Letters of credit	60,214	79,408	60,214	79,408
Accepted bills of exchange	124,800	109,578	124,800	109,578
Undrawn lending commitments	1,590,035	1,583,966	1,589,423	1,583,365
Other off-balance-sheet items	23,398	-	23,398	-
Total	**2,345,023**	**2,219,741**	**2,344,411**	**2,219,140**

At 31 December 2008, the Group and the Bank recognised portfolio-based provisions for off-balance-sheet risks arising from the issue of guarantees, letters of credit and undrawn lending commitments, the Group in the amount of HRK 23,471 thousand, (2007: HRK 22,196 thousand), and the Bank in the amount of HRK 23,466 thousand (2007: HRK 22,191 thousand which are included in Provisions for liabilities and charges (see Note 25).

42. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

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

Group and Bank	Notional amount, remaining life					Fair values	
2008	Up to 3 months HRK '000	3 - 12 months HRK '000	1 - 5 years HRK '000	Over 5 years HRK '000	Total HRK '000	Assets HRK '000	Liabilities HRK '000
Forward foreign exchange contracts - OTC							
EUR	117,006	-	-	-	117,006	4,343	3,984
Cross currency swaps-OTC	275,234	-	-	-	275,234	2,622	1,551
Futures	21,973	-	-	-	21,973		1,206
	414,213	**-**	**-**	**-**	**414,213**	**6,965**	**6,741**

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

43. RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska poštanska banka Group. The key shareholders of the Bank and of the Group are the Croatian Privatisation Fund, Hrvatska pošta d.d. ("Croatian Post") and Hrvatski zavod za mirovinsko osiguranje ("HZMO") which together owned 98.57 % (2007: 98.57 %) of the Bank's shares at year end. The remaining 1.43% (2007: 1.43%) of the shares are publicly held. The Bank considers that it has an immediate related party relationship with its key shareholders; its subsidiaries and the investment funds managed by one of its subsidiaries, HPB Invest d.o.o.; the Supervisory and Management Board members and other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in IAS 24 "Related Party Disclosures" ("IAS 24").

a) Key transactions with immediate related parties

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

Income from HZMO arises from services provided in respect of payment of pensions and other fees payable by HZMO.

The exposure to HPB Invest consists of investment into investment funds managed by HPB Invest. The Bank performs payment transactions on behalf of its subsidiaries and, accordingly, recognises income. Expenses payable to HPB Nekretnine relate to the services performed by the subsidiary in respect of estimation of collateral.

Key management personnel held no ordinary shares at the year-end (2007: -).

Included in loans and receivables are HRK 1,688 thousand (2007: HRK 1,829 thousand) in respect of loans and advances granted to key management personnel.

b) Amounts arising from transactions with immediate related parties

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the year ended 31 December 2008 and 31 December 2007 of the Group, arising from transactions with related parties were as follows:

Group 2008	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
Key shareholders				
Croatian Post	71,446	142,128	393,245	291,422
HZMO	-	-	5,455	-
Croatian Privatisation Fund	100,890	132,353	8,450	50
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	2,245	8,030	9	39,303
Long-term benefits (loans and deposits)	35,696	4,480	1,437	235
Severance payments	-	-	-	19
Companies under significant influence	88,158	58	2,848	12
Total	**298,435**	**287,049**	**411,444**	**331,041**

Group 2007	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
Key shareholders				
Croatian Post	53,658	154,822	402,952	316,174
HZMO	662	-	7,447	6
Croatian Privatisation Fund	100,713	3,665	1,431	2
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	5,381	2,211	23	25,688
Long-term benefits (loans and deposits)	25,660	1,607	879	94
Severance payments	-	-	-	22
Companies under significant influence	48,346	297	3,752	39
Total	**234,420**	**162,602**	**416,484**	**342,025**

* Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 13,553 thousand (2007: HRK 32,865 thousand) of off-balance-sheet exposure, whereof HRK 6,038 thousand (2007: HRK 28,536 thousand) relates to Croatian Post and key management personnel.

b) Amounts arising from transactions with immediate related parties

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the year ended 31 December 2008 and 31 December 2007 of the Bank, arising from transactions with related parties were as follows:

Bank 2008	**Exposure* HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expense HRK'000**
Key shareholders				
Croatian Post	71,446	142,128	393,245	291,422
HZMO	-	-	5,455	-
Croatian Privatisation Fund	100,890	132,353	8,450	50
Subsidiaries				
HPB Invest	71,613	452	1,222	180
HPB Nekretnine	9,657	1,234	1,318	1,742
HPB Stambena štedionica	40,000	3,478	777	38
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	2,107	8,018	8	32,902
Long-term benefits (loans and deposits)	31,162	3,692	1,257	123
Severance payments	-	-	-	19
Companies under significant influence	88,158	58	2,848	12
Total	**415,033**	**291,413**	**414,580**	**326,488**

Bank 2007	**Exposure* HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expense HRK'000**
Key shareholders				
Croatian Post	53,658	154,822	402,952	316,174
HZMO	662	-	7,447	6
Croatian Privatisation Fund	100,713	3,665	1,431	2
Subsidiaries				
HPB-Invest	72,300	21,939	668	15
HPB- Nekretnine	10,112	311	1,487	972
HPB-Stambena štedionica	40,270	421	573	2
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	4,928	2,144	14	22,272
Long-term benefits (loans and deposits)	22,235	1,607	818	94
Severance payments	-	-	-	22
Companies under significant influence	48,346	297	3,752	39
Total	**353,224**	**185,206**	**419,142**	**339,598**

* Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 13,605 thousand (2007: HRK 32,658 thousand) of off-balance-sheet exposures, whereof HRK 16,605 thousand (2007: HRK 28,359 thousand) relates to Croatian Post and key management personnel.

c) State owned companies

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

44. REPURCHASE AND RESALE AGREEMENTS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. At the balance sheet date, the Banke did not enter into linked sell and buy-back transactions. At 31 December 2007, the Bank entered into a series of linked sell and buy-back transactions, which, in line with IAS 39: Financial instruments: Recognition and measurement, do not satisfy criteria for derecognition and accordingly are recognised in the same manner as related agreements.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognised and the proceeds are accounted for as interest bearing borrowings. At 31 December 2008 assets sold under repurchase agreements were as follows:

	Fair value of underlying assets HRK'000	**Carrying amount of corresponding liabilities HRK'000**	**Repurchase date**	**Repurchase price HRK'000**
Debt securities at fair value through profit or loss - repurchase agreements				
2008	365,648	362,818	January and March 2009	363,791
2007	751,065	735,840	January and February 2008	736,399

Linked transactions have been accounted for as repurchase agreements, in accordance with IAS 39: Financial instruments: Recognition and measurement.

The Bank also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to customers and are accounted for as loans and advances to customers; the underlying financial instruments are not recognised. At 31 December 2008 assets purchased subject to agreements to resell them and linked transactions were as follows:

	Carrying amounts of receivable HRK'000	**Fair value of assets held as collateral HRK'000**	**Repurchase date**	**Repurchase price HRK'000**
Loans and advances to customers - reverse repurchase agreement				
2008	-	-	-	-
2007	229,462	228,547	January 2008	229,637
Linked transactions				
2007	84,345	83,895	January 2008	84,405

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

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

At 31 December 2008, the total assets under custody held by the Bank on behalf of customers were HRK 3.9 billion, including custody of HPB funds (2007: HRK 8 billion).

In addition, at 31 December 2008, total assets of investment and pension funds to which the Bank is a depository bank, amounted to HRK 0.9 billion (2007: HRK 5.7 billion).

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

	2008 HRK '000	2007 HRK '000
Assets		
Corporate	255,451	195,992
Retail	553,832	496,666
Giro accounts	40,037	30,543
Total assets	**849,320**	**723,201**
Liabilities		
Croatian Employment Office	48,186	34,018
Counties	31,076	33,699
Government of the Republic of Croatia	569,097	524,541
HBOR	15,137	14,785
Development and Employment Fund	175,155	97,276
Other liabilities	10,669	18,882
Total liabilities	**849,320**	**723,201**

46. AVERAGE INTEREST RATES

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

Group	**Average interest rates 2008**	**Average interest rates 2007**
Assets		
Cash and receivables from banks	0.50%	0.50%
Obligatory reserve with Croatian National Bank	0.85%	0.83%
Placements with and loans to other banks	4.71%	5.94%
Financial assets at fair value through profit or loss	6.46%	3.69%
Financial assets available for sale	7.07%	5.85%
Financial assets held to maturity	6.05%	7.64%
Loans and advances to customers	8.72%	7.90%
Liabilities		
Deposits from banks	4.18%	8.05%
Deposits from customers	2.55%	3.32%
Borrowings	4.48%	4.15%
Subordinated debt	5.39%	5.50%

Bank	**Average interest rates 2008**	**Average interest rates 2007**
Assets		
Cash and receivables from banks	0.50%	0.50%
Obligatory reserve with Croatian National Bank	0.85%	0.83%
Placements with and loans to other banks	4.69%	5.93%
Financial assets at fair value through profit or loss	6.46%	3.69%
Financial assets available for sale	7.16%	6.53%
Financial assets held to maturity	6.17%	7.64%
Loans and advances to customers	8.74%	7.91%
Liabilities		
Deposits from banks	4.18%	8.05%
Deposits from customers	2.55%	3.33%
Borrowings	4.48%	4.15%
Subordinated debt	5.39%	5.50%

47. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Loans

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

Investments carried at cost

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

Bank and customer deposits

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

Borrowings

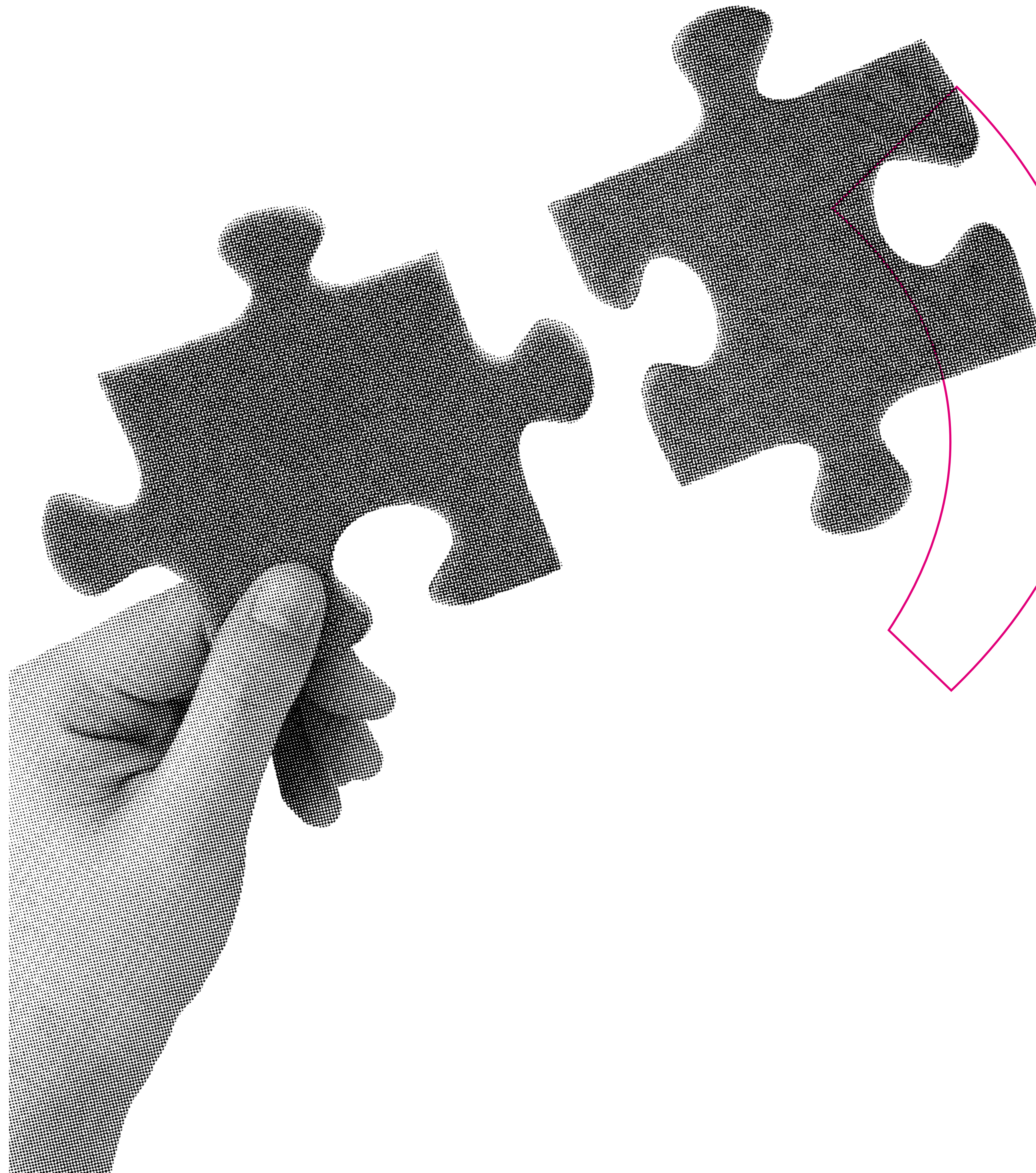
Most of the Group's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the balance sheet date to the Group for new debt of similar type and remaining maturity. As the majority of the Group's long-term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

The following table represents the Group's and the Bank's estimate of the fair value of financial instruments as of 31 December 2008 and 31 December 2007.

Group			**2008 HRK '000**			**2007 HRK '000**
	Carrying amount	**Fair value**	**Unrecognised gains / (losses)**	**Carrying amount**	**Fair value**	**Unrecognised gains / (losses)**
Cash and receivables from banks	936,127	936,127	-	1,033,020	1,033,020	-
Obligatory reserve with the Croatian National Bank	1,119,720	1,119,720	-	1,657,335	1,657,335	-
Placements with and loans to other banks	1,407,963	1,407,286	(677)	2,096,927	2,094,477	(2,450)
Financial assets at fair value through profit or loss	1,558,597	1,558,597	-	1,672,708	1,672,708	-
Financial assets available for sale	334,622	334,622	-	118,651	118,651	-
Financial assets held to maturity	607,188	607,188	-	225,234	225,234	-
Loans and advances to customers	8,128,505	8,068,116	(60,389)	7,288,231	7,229,568	(58,663)
Financial liabilities at fair value through profit or loss	6,741	6,741	-	354	354	-
Deposits from banks	413,349	413,231	118	477,419	475,882	1,537
Deposits from customers	10,702,700	10,684,956	17,744	10,236,987	10,227,477	9,510
Borrowings	1,865,250	1,846,371	18,879	2,109,125	2,100,634	8,491
Total			**(24,325)**			**(41,575)**

Bank			2008 HRK '000			2007 HRK '000
	Carrying amount	Fair value	Unreco-gnised gains / (losses)	Carrying amount	Fair value	Unreco-gnised gains / (losses)
Cash and receivables from banks	936,119	936,119	-	1,033,016	1,033,016	-
Obligatory reserve with the Croatian National Bank	1,119,720	1,119,720	-	1,657,335	1,657,335	-
Placements with and loans to other banks	1,386,235	1,385,896	(339)	2,072,511	2,070,215	(2,296)
Financial assets at fair value through profit or loss	1,558,577	1,558,577	-	1,672,708	1,672,708	-
Financial assets available for sale	320,162	320,162	-	81,132	81,132	-
Financial assets held to maturity	562,823	562,823	-	225,234	225,234	-
Loans and advances to customers	8,096,536	8,046,116	(50,420)	7,286,226	7,228,056	(58,170)
Financial liabilities at fair value through profit or loss	6,741	6,741	-	354	354	-
Deposits from banks	413,349	413,231	118	477,419	475,882	1,537
Deposits from customers	10,630,774	10,618,308	12,466	10,213,471	10,206,561	6,910
Borrowings	1,865,250	1,846,371	18,879	2,109,125	2,100,638	8,487
Total			**(19,296)**			**(43,532)**

THINK OF THE BIG PICTURE.

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Balance sheet as at 31.12.2008

	2008 HRK '000	2007 HRK '000
Cash and deposits with the CNB	1,989,703	2,571,877
- cash	367,916	309,460
- deposits held with the CNB	1,621,787	2,262,417
Deposits with banking institutions	1,417,042	2,049,141
Treasury bills issued by the Ministry of Finance and the CNB Treasury bills	1,249,870	961,258
Securities and other financial instruments held for trading	298,529	700,952
Securities and other financial instruments available for sale	315,082	78,857
Securities and other financial assets held to maturity	555,982	225,234
Securities and other finanacial instruiments at fair value through profit or loss - non actively traded	-	-
Derivative financial instruments	6,965	1,032
Loans to financial institutions	99,375	288,533
Loans to customers	7,925,762	7,065,274
Investment in subsidiaries, associated companies and joint venture	80,383	53,550
Assets acquired in lieu of uncollectible receivables	56,317	50,688
Tangible assets (less depreciation)	195,847	207,175
Interest, fees and other assets	448,278	292,851
TOTAL ASSETS	**14,639,135**	**14,546,422**
LIABILITIES		
Borrowings from financial institutions	1,787,702	2,070,939
- short-term borrowings	362,200	819,833
- long-term borrowings	1,425,502	1,251,106
Deposits	10,124,705	9,984,316
- giro and current account deposits	2,584,552	2,717,158
- savings deposits	1,350,401	1,404,486
- term deposits	6,189,752	5,862,672
Other borrowings	58,655	29,301
- short-term borrowings	60	-
- long-term borrowings	58,595	29,301
Financial derviatives and other traded financial liabilities	6,741	354
Debt securities - issued	-	-
- Short term debt securities	-	-
- Long term debt securities	-	-
Subordinated instruments - issued	-	-
Subordinated debt	310,601	200,603
Interest, fees and other liabilities	1,426,281	1,296,630
TOTAL LIABILITIES	**13,714,685**	**13,582,143**
EQUITY		
Share capital	583,906	583,906
Profit (loss) for the year	8,717	120,916
Retained earnings (loss)	150,175	115,069
Statutory reserves	18,822	12,776
Statutory and other capital reserve	213,239	133,508
Unrealised gain (loss) on financial assets available for sale	(50,409)	(1,896)
Hedge transactions reserve	-	-
TOTAL EQUITY	**924,450**	**964,279**
TOTAL LIABILITIES AND EQUITY	**14.639,135**	**14.546,422**

Income statement for the year ended 31 December 2008

	2008 HRK '000	2007 HRK '000
Interest income	907,190	725,633
Interest expense	(482,833)	(348,565)
Net interest income	**424,357**	**377,068**
Fee and commission income	571,567	559,617
Fee and commission charges	(403,303)	(434,625)
Net fee and commission income	**168,264**	**124,992**
Profit / loss from investments in subsidiaries, associated companies and joint venture	**-**	**-**
Profit / loss from dealing activities	(75,972)	60,071
Profit / loss from embedded derivatives	-	54
Profit / loss from assets at fair value trought profit or loss - non actively traded	-	-
Profit / loss from trading with available for sale financial assets	12,043	50
Profit / loss from trading with held to maturity financial assets	101	-
Profit / loss from hedge transactions	-	-
Income from investment in subsidiaries, associated companies and joint ventures	27,346	-
Income from other equity investments	4,569	494
Net foreign exchange profit / loss	599	(2,560)
Other income	27,848	73,424
Other expense	(63,393)	(71,902)
General and administrative expense and depreciation	(381,526)	(332,146)
Net operating income before provisions and impairment losses	**144,236**	**229,545**
Provisions and impairment losses	(139,061)	(76,260)
PROFIT / LOSS BEFORE TAX	**5,175**	**153,285**
INCOME TAX EXPENSE	**3,542**	**(32,369)**
PROFIT / LOSS FOR THE YEAR	**8,717**	**120,916**
Earnings per share	16	228

Statement of changes in equity for the year ended 31 December 2008

Bank

	Share capital HRK '000	Treasury shares HRK '000	Statutory and other reserves HRK '000	Retained earnings / loss HRK '000	Profit / loss for the year HRK '000	Unrealised gain (loss) on financial assets available for sale HRK '000 kn	Total equity HRK '000
Balance at 1 January 2008	**584,780**	**(874)**	**146,285**	**115,069**	**120,916**	**(1,896)**	**964,280**
Changes in accounting policies and correction of errors	-	-	-	-	-	-	-
Restated balance at 1 January 2008	584,780	(874)	146,285	115,069	120,916	(1,896)	**964,280**
Disposal of financial assets available for sale	-	-	-	-	-	-	-
Change in the fair value of f inancial assets available for sale	-	-	-	-	-	-	-
Deferred tax on items recognised in equity	-	-	-	-	-	-	-
Other gains / losses recognised directly in equity	-	-	-	-	-	-	-
Net gains losses recognised directly in equity							
Net gains/(losses) recognised in equity	-	-	-	-	-	-	-
Profit/loss for the year	-	-	-	-	-	-	-
Increase / decrease in share capital	-	-	-	-	-	-	-
Purchase / sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	35,106	(112,199)	(48,513)	**(125,606)**
Transfer to reserves	-	-	85,776	-	-	-	**85,776**
Dividends paid	-	-	-	-	-	-	-
Profit allocation	-	-	85,776	-	-	-	**85,776**
Balance at 31 December 2008	**584,780**	**(874)**	**232,061**	**150,175**	**8,717**	**(50,409)**	**924,450**

Cash flows for the year ended 31 December 2008

	2008 HRK '000	2007 HRK '000
OPERATING ACTIVITIES		
Cash flow from operating activities before changes in operating assets	**296,982**	**227,927**
Profit / loss before tax	5,175	153,286
Impairment losses and provisions for liabilities and charges	138,781	77,260
Amortisation	65,385	54,469
Net unrealised gains/losses on financial assets at fair value through profit or loss	88,484	(42,104)
Reversal of impairment loss on land and buildings	-	(17,185)
Other gains/ losses	(843)	2,201
Net cash inflow / decrease of operating assets	**(1,487,334)**	**(1,025,046)**
Treasury bills issued by Ministry of Finance and the CNB Treasury bills	(288,612)	470,437
Deposits with banking institutions and loans to financial institutions	148,343	(35,776)
Loans to customers	(950,372)	(1,377,244)
Securities and other financial instruments held for trading	(135,871)	(292,460)
Securities and other financial instruments available for sale	(186,518)	214,207
Other operating assets	(74,304)	(4,210)
Net changes in operating liabilites	**210,999**	**2,252,710**
Demand deposits	(132,607)	851,601
Savings and term deposits	272,995	1,271,954
Derivative financial liabilities and other liabilities held for trading	6,387	(576)
Other liabilities	64,224	129,731
Net cash flow from operating activities before tax	**(979,353)**	**1,455,591**
Income tax paid	18,063	(26,887)
Net cash inflow / outflow from operating activities	**(961,290)**	**1,428,704**
INVESTMENT ACTIVITIES		
Net cash flow from investing activities	**(68,735)**	**(355,668)**
Disposal/acquisition/ of property and equipment and intangible assets	(119,739)	(109,809)
Disposal/acquisition of investment in subsidiaries, associated companies and joint ventures	-	(18,500)
Maturity/acquisition of securities and other financial instruments held to maturity	51,000	(227,359)
FINANCIAL ACTIVITIES		
Cash flow from financing activities	**(131,716)**	**898,130**
Net increase /decrease in borrowings	(241,716)	698,130
Net increase/decrease in subordinated debt	110,000	200,000
Net increase in cash and cash equivalents	**(1,161,741)**	**1,971,166**
Effect of foreign exchange differences on cash and cash equivalents	1,825	(5,975)
Net increase/decrease in cash and cash equivalents	**(1,159,916)**	**1,965,191**
Cash and cash equivalents at the beginning of the year	**4,535,320**	**2,570,129**
Cash and cash equivalents at the end of the year	**3,375,404**	**4,535,320**

Reconciliation of the balance sheet at 31 December 2008

	Supplementary schedule HRK '000	Financial statements HRK '000	Difference HRK '000
Cash and deposits with the CNB			
- cash	367,916	-	367,916
- deposits with the CNB	1,621,787	-	1,621,787
Cash and amounts due from banks	-	936,119	(936,119)
Obligatory reserve with Croatian National Bank	-	1,119,720	(1,119,720)
Deposits with banking institutions	1,417,042	-	1,417,042
Placements with and loans to other banks	-	1,386,235	(1,386,235)
Treasury bills issued by Ministry of Finance and the CNB Treasury bills	1,249,870	-	1,249,870
Securities and other financial instruments held for trading	298,529	-	298,529
Financial assets at fair value through profit or loss	-	1,558,577	(1,558,577)
Securities and other financial instruments available for sale	315,082	-	315,082
Financial assets held for sale	-	320,162	(320,162)
Securities and other financial instruments held to maturity	555,982	-	555,982
Financial assets held to maturity	-	562,823	(562,823)
Securities and other finanacial instruiments at fair value through profit or loss - non actively traded	-	-	-
Derivative financial assets	6,965	-	6,965
Loans to financial institutions	99,375	-	99,375
Loans to customers	7,925,762	-	7,925,762
Loans and advances to customers	-	8,096,536	(8,096,536)
Investment in subsidiaries, associated companies and joint ventures	80,383	-	80,383
Assets held for sale	-	26,833	(26,833)
Investment in subsidiaries	-	53,550	(53,550)
Foreclosed assets	56,317	-	56,317
Tangible assets (less depreciation)	195,847	-	195,847
Property and equipment	-	191,393	(191,393)
Intangible assets	-	185,710	(185,710)
Net deferred tax asset	-	46,438	(46,438)
Interest, fees and other assets	448,278	-	448,278
Tax prepayment	-	18,063	(18,063)
Other assets	-	134,892	(134,892)
TOTAL ASSETS	**14,639,135**	**14,637,051**	**2,084**

	Supplementary schedule HRK '000	Financial statements HRK '000	Difference HRK '000
LIABILITIES			
Financial liabilities at fair value through profit or loss	-	6,741	(6,741)
Borrowings from financial institutions	-	-	-
- short-term borrowings	362,200	-	362,200
- long-term borrowings	1,425,502	-	1,425,502
Borrowings	-	1,865,250	(1,865,250)
Deposits	-	-	-
- giro and current account deposits	2,584,552	-	2,584,552
- savings deposits	1,350,401	-	1,350,401
- term deposits	6,189,752	-	6,189,752
Deposits from banks	-	413,349	(413,349)
Deposits from customers	-	10,630,774	(10,630,774)
Other borrowings	-	-	-
- short-term borrowings	60	-	60
- long-term borrowings	58,595	-	58,595
Financial derviatives and other traded liabilities	6,741	-	6,741
Debt securities - issued	-	-	-
- Short term debt securities	-	-	-
- Long term debt securities	-	-	-
Subordianted debt - issued	-	-	-
Issued hybrid instrument	310,601	-	310,601
Hybrid instrument	-	310,871	(310,871)
Provisions for liabilities and charges	-	32,902	(32,902)
Net deferred tax liabilties	-	-	-
Current tax liability	-	-	-
Interest, fees and other liabilities	1,426,281	-	1,426,281
Other liabilities	-	452,714	(452,714)
TOTAL LIABILITIES	**13,714,685**	**13,712,601**	**2,084**
EQUITY			
Share capital	583.906	584.780	(874)
Treasury shares	-	(874)	874
Profit (loss) for the year	8.717	-	8.717
Retained earnings	150.175	159.331	(9.156)
Statutory reserve	18.822	19.258	(436)
Other reserves	-	36.606	(36.606)
Statutory and other capital reserve	213.239	-	213.239
General banking risk reserve	-	170.836	(170.836)
Revaluation reserve	-	4.922	(4.922)
Unrealised gain (loss) on financial assets available for sale	(50.409)	(50.409)	-
Hedge transactions reserve	-	-	-
TOTAL EQUITY	**924,450**	**924,450**	**-**
TOTAL LIABILITIES AND EQUITY	**14,639.135**	**14,637,051**	**2,084**

Reconciliation of the balance sheet supplementary schedule as of 31 December 2008

1 Reclassification of HRK 47,194 thousand from item Deposits with banking institutions in the balance sheet supplementary schedule to the item Cash and amounts due from banks in the financial statements.

2 Reclassification of foreign currency accounts held with the domestic banks in the amount of HRK 3,019 thousand from item Deposits with banking institutions in the balance sheet supplementary schedule to the item Cash and amounts due from banks in the financial statements.

3 Reclassification of the giro account in the amount of HRK 518,011 thousand from the item Deposits with the CNB in the balance sheet supplementary schedule to the item Cash and amounts due from banks in the financial statements.

4 Reduction of retail deposits in the amount of HRK 20 thousand of the balance sheet supplementary schedule of the item Interest, fees and other liabilities to the item Cash and amounts due from banks in the financial statements.

5 Reclassification of deposits held with non-banking financial institutions in the amount of HRK 2,859 thousand (accounts 5214) from the item Interest, fees and other assets in the balance sheet supplementary schedule to the item Placements with and loans to other banks in the financial statements.

6 Reclassification of receivables from not-due interest in the amount of HRK 38,744 thousand from the item Interest, fees and other assets in the balance sheet supplementary schedule to the items: Obligatory reserve held with the CNB in the amount of HRK 60 thousand, Placements with and loans to other banks in the amount of HRK 2,200 thousand, Financial assets at fair value through profit or loss in the amount of HRK 3,212 thousand, Financial assets available for sale in the amount of HRK 5,130 thousand, Financial assets held to maturity in the amount of HRK 6,790 thousand and Loans and advances to customers in the amount of HRK 21,352 thousand in the financial statements.

7 Reclassification of receivables for due interest in the amount of HRK 69,097 thousand from item Interest, fees and other assets in the balance sheet supplementary schedule to items: Obligatory reserve with CNB in the amount of HRK 714 thousand and Loans and advances to customers in the amount of HRK 68,353 thousand in the financial statements.

8 Reclassification of provision for unidentified losses related to the items Deposits with the CNB in the amount of HRK 15,170 thousand from the Deposits with the banking institutions in the amount of HRK 14,347 thousand, Loans to financial institutions in the amount of HRK 1,004 thousand and Interest, fees and other assets in the amount of HRK 2,236 thousand in the balance sheet supplementary schedule to the item Loans and advances to customers in the financial statements in the total amount of HRK 32,757 thousand.

9 Reclassification of the amount of HRK 50 thousand from the item Securities and other financial instruments held to maturity in the balance sheet supplementary schedule to the item financial assets available for sale in the financial statements.

10 Reclassification of HRK 1,249,870 thousand from the item Treasury bills issued by the Ministry of Finance and the CNB Treasury bills in the balance sheet supplementary schedule to the item Financial assets at fair value through profit or loss in the financial statements.

11 Reclassification of HRK 185,710 thousand from the item Interest, fees and other assets in the balance sheet supplementary schedule to the item Intangible assets in the financial statements.

12 Reclassification of HRK 6,965 thousand from the item Derivative financial instruments in the balance sheet supplementary schedule to the item Financial assets at fair value through profit or loss in the financial statements.

13 Reclassification of the amount of HRK 100,378 thousand from the item Loans to the financial institutions in the balance sheet supplementary schedule to the item Loans and advances to customers in the financial statements.

14 Reclassification of credit card receivables (account 14811) in the amount of HRK 13,488 thousand from the item Interest, fees and other assets in the balance sheet supplementary schedule to the item Loans and advances to customers in the financial statements.

15 Reclassification of the amount of HRK 48,502 thousand from the item Interest, fees and other assets in the balance sheet supplementary schedule to the item Net deferred tax asset in the financial statements.

16 Netting of the deferred tax liability in the amount of HRK 2,064 thousand from the item Interest, fees and other liabilities in the balance sheet supplementary schedule to the item Net deferred tax asset in the financial statements.

17 Reclassification of the amount of HRK 56,317 thousand from the item foreclosed assets in the balance sheet supplementary schedule to the item Other assets in the financial statements.

18 Reclassification of HRK 4,454 thousand from the item Tangible assets (less depreciation) in the balance sheet supplementary schedule to the item Other assets in the financial statements.

19 Reclassification of HRK 26,833 thousand from the item Investment in subsidiaries, associated companies and joint venture in the balance sheet supplementary schedule to the item Assets held for sale in the financial statements.

20 Reclassification of HRK 874 thousand from the item Treasury shares in the balance sheet supplementary schedule to the item Share capital in the financial statements.

21 Reclassification of HRK 8,717 thousand from the item Profit (loss)for the year in the balance sheet supplementary schedule to the item Retained earnings in the financial statements.

22 Reclassification of the treasury shares in the amount of HRK 875 thousand from item Statutory and other capital reserve in the balance sheet supplementary schedule to the item Retained earnings in the financial statements.

23 Reclassification of other reserves (accont 90231) in the amount of HRK 36,606 thousand from the item Statutory and other capital reserve in the balance sheet supplementary schedule to the item Other reserves in the financial statements.

24 Reclassification of HRK 4,922 thousand (account 9080) from the item Statutory and other capital reserve in the balance sheet supplementary schedule to the item Revaluation reserve in the financial statements.

25 Reclassification of HRK 436 thousand from the item Retained earnings (loss) in the balance sheet supplementary schedule to the item Statutory reserve in the financial statements.

26 Reclassification of HRK 1,425,502 thousand from the item Borrowings from financial institutions in the balance sheet supplementary schedule to the item Borrowings in the financial statements.

27 Reclassification of HRK 58,595 thousand from item the Other borrowings - long-term borrowings in the balance sheet supplementary schedule to the item Borrowings in the financial statements.

28 Reclassification of HRK 60 thousand from the item Other borrowings - short-term in the balance sheet supplementary schedule to the item Borrowings in the financial statements.

29 Reclassification of HRK 6,741 thousand from the item Financial derviatives and other traded liabilities in the balance sheet supplementary schedule to the item Financial liabilities at fair value through profit or loss in the financial statements.

30 Reclassification of HRK 27,874 thousand from the item Interest, fees and other liabilities in the balance sheet supplementary schedule to the item Borrowings in the amount of HRK 6,901 thousand, Deposits from banks in the amount of HRK 414 thousand and Deposits from customers in the amount of HRK 20,559 thousand in the financial statements

31 Reclassification of HRK 9,083 thousand from the item Interest, fees and other liabilities in the balance sheet supplementary schedule to the item Borrowings in the amount of HRK 1,735 thousand, Deposits from banks HRK in the amount of HRK 11 thousand, Deposits from customers in the amount of HRK 7,067 thousand and Subordinated debt HRK in the amount of HRK 270 thousand in the financial statements.

32 Reclassification of HRK 10 thousands from the item Savings deposits in the balance sheet supplementary schedule to the item Other liabilities in the financial statements.

33 Reclassification of HRK 155 thousand from the item Interest, fees and other liabilities in the balance sheet supplementary schedule to the item Deposits from customers in the financial statements.

34 Reclassification of HRK 887,157 thousand from item Interest, fees and other liabilities in the balance sheet supplementary schedule to the item Deposits from customers in the financial statements.

35 Reclassification of HRK 4,065 thousand from item Interest, fees and other liabilities in the balance sheet supplementary schedule to the item Deposits from customers in the financial statements.

36 Reclassification of HRK 4,255 thousand (account 81010) from item Savings deposits in the balance sheet supplementary schedule to the item Deposits from customers in the financial statements.

37 Reclassification of HRK 10,256 (account 81131) thousand from the item Interest, fees and other liabilities in the balance sheet supplementary schedule to the item Borrowings in the financial statements.

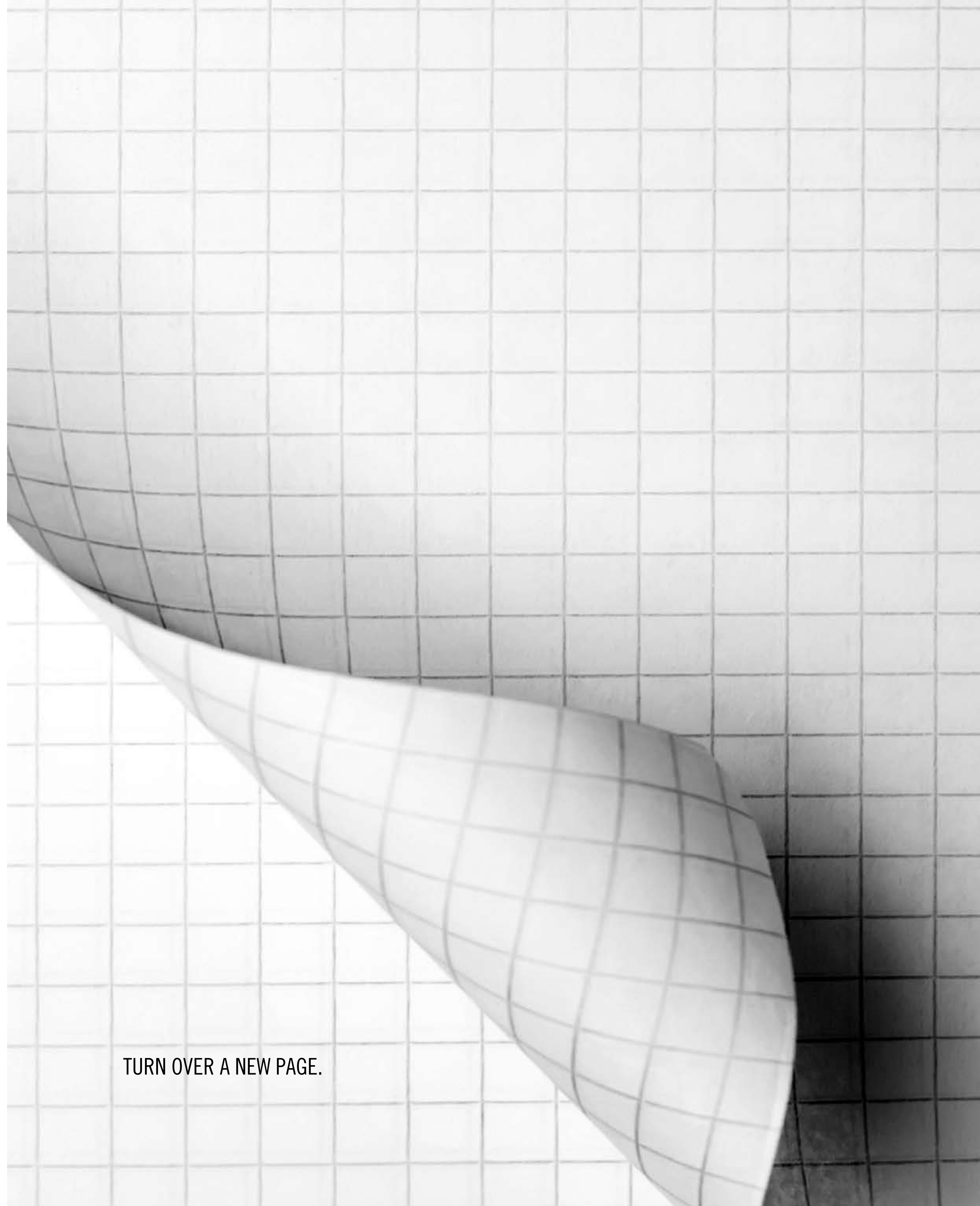
38 Reclassification of HRK 32,902 thousand from item Interest, fees and other liabilities in the balance sheet supplementary schedule to the item Provisions for liabilities and charges in the financial statements.

39 Reclassification of HRK 2,584,552 thousand from the item Giro and current account deposits, Savings deposits in the amount of HRK 1,346,136 thousand and term deposits in the amount of HRK 6,189,752 thousand in the balance sheet supplementary schedule to the item Deposits from banks in the amount of HRK 412,923 thousand and Deposits from customers in the amount of HRK 9,707,516 thousand in the financial statements.

40 Reclassification of HRK 18,063 thousand from the item Interest, fees and other assets in the balance sheet supplementary schedule to the item Tax prepayment in the financial statements.

Reconciliation of the income statement supplementary schedule for the year ended 31 December 2008

	Supplementary schedule HRK '000	Financial statements HRK '000	Difference HRK '000
Interest income	907,190	906,873	317
Interest expense	(482,833)	(465,195)	(17,638)
Net interest income	**424,357**	**441,678**	**(17,321)**
Fee and commission income	571,567	571,568	(1)
Fee and commission expense	(403,303)	(403,462)	159
Net fee and commission income	**168,264**	**168,106**	**158**
Gains less losses arising from dealing securities	-	(95,926)	95,926
Gains less losses arising from investment securities	-	12,144	(12,144)
Gains less losses arising from dealing in foreign currencies	-	19,954	(19,954)
Other operating income	-	46,379	(46,379)
	-	(17,449)	-
Operating income	**-**	**592,335**	**-**
Other non-interest income	(3,466)	-	(3,466)
Other non-interest expense	**(63,393)**	**-**	**(63,393)**
Net other non-interest income	**(66,859)**	**-**	**(66,859)**
Net non-interest income	**101,405**	**-**	**101,405**
General and administrative expense and depreciation	(381,526)	(448,379)	66,853
Net operating income before provisions and impairment losses	**144,236**	**-**	**144,236**
Impairment losses on loans and advances to customers and other assets	-	(137,774)	137,774
Provisions for liabilities and charges	-	(1,007)	1,007
Operating expenses	**-**	**(587,160)**	**587,160**
Impairment losses and provisions	(142,239)	-	(142,239)
Provisions for portfolio based impairment losses	3,178	-	3,178
Total provisions for impairment losses	**(139,061)**		**(139,061)**
PROFIT BEFORE TAX	**5,175**	**5,175**	**-**
Income tax expense	3,542	3,542	-
PROFIT FOR THE YEAR	**8,717**	**8,717**	**-**
Earnings per share	**16,42**	**16,42**	-



Reconciliation of the income statement supplementary schedule for the year ended 31 December 2008

1 Reconciliation of foreign exchange differences

Reclassification of HRK 317 thousand of net foreing exchange differences from the item Interest income in the income statement supplementary schedule to the item Other operating income in the financial statements.

Reclassification of HRK 60 thousand of net foreing exchange differences from the item Interest expense in the income statement supplementary schedule to the item Other operating income in the financial statements.

Reclassification of HRK 1 thousand of net foreing exchange differences from the item Fee and commission income in the income statement supplementary schedule to the item Other operating income in the financial statements.

Reclassification of HRK 19,954 thousand from the item Other non-interest income in the income statement supplementary schedule to the item Gains less losses arising from dealing with foreign currencies in the financial statements.

Reclassification of HRK 599 thousand from the item Other non-interest income (foreing exchange differences on revaluation of assets at the mid CNB rate) in the income statement supplementary schedule to the item Other operating income in the financial statements.

Reclassification of HRK 12 thousand (foreing exchange differences on impairment losses on accounts 6409 and 6419) from the item Impairment losses on loans and advances to customers and other assets in the income statement supplementary schedule to the item Other operating income in the financial statements.

2 Reclassification of HRK 17,419 thousand of the insurance premium expense from the item Interest expense in the income statement supplementary schedule to the item General and administrative expense in the financial statements.

3 Reclassification of HRK 159 thousand (account 6087) of fee expenses from prior periods from the item Interest expense in the income statement supplementary schedule to the item Fee and commission expense in the financial statements.

4 Reclassification of HRK 12,144 thousand from the item Other non-intereset income in the income statement supplementary schedule to the item Gains less losses arising from investment securities in the financial statements.

5 Reclassification of HRK 102,147 thousand from the item Other non-interest income in the income statement supplementary schedule to the item Gains less losses from dealing securities in the financial statements.

6 Reclassification of HRK 6,221 thousand from the item Other non-interest income in the income statement supplementary schedule to the item Gains less losses from dealing securities in the financial statements, given that it relates to the realised gains on forward transactions and options.

7 Reclassification of HRK 31,915 thousand from the item Other non-interest income in the income statement supplementary schedule to the item Other income in the financial statements, given that it relates to the dividend income.

8 Reclassification of the amount of HRK 13,620 thousand from the item Other non-interest income (other income at the account 68 less 68010, 6885 and income from released impairment losses on the account 6881 and 6882) in the income statement supplementary schedule to the item Other income in the financial statements.

9 Reclassification of the amount of HRK 13,078 thousand from the item Other non-interest income (income from released impairment losses on 6882) in the income statement supplementary schedule to the item General and administrative expenses in the financial statements.

10 Reclassification of the amount of HRK 631 thousand from the item Other non-interest income (income from released impairment at the account 68804) in the income statement supplementary schedule to the item Provisions for liabilites and charges in the financial statements.

11 Reclassification of HRK 518 thousand from the item Other non-interest income (income from released impairment at the account 6881) in the income statement supplementary schedule to the item Provisions for liabilities and charges in the financial statements.

12 Reclassification of the amount of HRK 43,943 thousand from the item Other non-interest expense (expenses at the account 627) in the income statement supplementary schedule to the tem General and administrative expenses in the financial statements

13 Reclassification of the amount of HRK 18,570 thousand from the item Other non-interest expense (expenses at accounts 634 and 635 and 6310 and 6311) in the income statement supplementary schedule to the item General and administrative expense in the financial statements.

14 Reclassification of the amount of HRK 880 thousand from item Other non interest expense (expenses at accounts 633 and 638) in the income statement supplementary schedule to the item Provisions for liabilities and charges in the financial statements.

15 Reclassification of the amount of HRK 4,452 thousand from the item Provisions for unidentified losses on placements in the income statement supplementary schedule to the item Impairment losses on loans and advances to customers in the financial statements

16 Reclassification of the amount of HRK 1,275 thousand from the item Provisions for unidentified losses on off-balance sheet exposure in the income statement supplementary schedule to the item Provisions for liabilities and charges in the financial statements

17 Reclassification of the amount of HRK 142,227 thousand (account 647) from the item Provisions for identified losses in the in the income statement supplementary schedule to the item Impairment losses on loans and advances to customers and other assets in the financial statements

SUPPLEMENTARY SCHEDULES FOR CROATIAN NATIONAL BANK

Reconciliation of the changes in equity supplementary schedule for the year ended 31 December 2008

Bank

	Share capital HRK '000	Treasury shares HRK '000	Statutory and other reserves HRK '000	Retained earnings / loss HRK '000	Profit / loss for the year HRK '000	Unrealised gain (loss) on financial assets available for sale HRK '000 kn	Total equity HRK '000
Balance at 1 January 2008	**584,780**	**(874)**	**146,285**	**115,069**	**120,916**	**(1,896)**	**964,280**
Changes in accounting policies and correction of errors	-	-	-	-	-	-	-
Restated balance at 1 January 2008	584,780	(874)	146,285	115,069	120,916	(1,896)	**964,280**
Disposal of financial assets available for sale	-	-	-	-	-	-	-
Change in the fair value on financial assets available for sale	-	-	-	-	-	-	-
Deferred tax on items recognised in equity	-	-	-	-	-	-	-
Other gains / losses recognised directly in equity	-	-	-	-	-	-	-
Net gains / losses recognised directly in equity	-	-	-	-	-	-	-
Profit / loss for the year	-	-	-	-	-	-	-
Total recognised income / expense for 2008	-	-	-	-	-	-	-
Increase / decrease in share capital	-	-	-	-	-	-	-
Purchase / sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	35,106	(112,199)	(48,513)	**(125,606)**
Transfer to reserves	-	-	85,776	-	-	-	**85,776**
Dividends paid	-	-	-	-	-	-	-
Profit allocation	-	-	85,776	-	-	-	**85,776**
Balance at 31 December 2008	**584,780**	**(874)**	**232,061**	**150,175**	**8,717**	**(50,409)**	**924,450**

Statutory and other capital reserves, Reserve for general banking risk, Revaluation reserve and other reserves in the financial statements are comprised in the item Statutory and other reserves in the changes in equity supplementary schedule.

The item retained earnings in the financial statements is presented in items Retained earnings / losses, profit /loss for the year while the amount of HRK 436 thousand is presented in the Statutory and other reserves as profit allocation to statutory reserves in 2008.

Reconciliation of statement of cash flows supplementary schedules for the year ended 31 December 2008

	Supplementary schedule HRK '000	Financial statements HRK '000	Difference HRK '000
Cash flows from operating activities			
Profit before tax	5,175	5,175	-
Adjustment:	-	-	-
- Amortisation	65,385	65,385	-
- Foreign exchange losses/gains	(843)	(843)	-
- Impairment losses on loans and advances to customers and other assets	-	137,774	(137,774)
- Impairment losses on provisions for liabilities and charges	-	1,007	(1,007)
Impairment losses and provisions	138,781	-	138,781
- net gains on financial assets at fair value through profit or loss	88,484	88,484	-
Changes in operating assets and liabilities	-	-	-
Net decrease in placements and loans to other banks	-	148,343	(148,343)
Net (increase)/decrease in financial assets at fair value through profit or loss	-	(424,483)	(424,483)
Treasury bills issued by Ministry of Finance and CNB Treasury bills	(288,612)	-	(288,612)
Deposits with banking institutions and loans to financial institutions	148,343	-	148,343
Loans to customers	(950,372)	-	(950,372)
Securities and other financial instruments held for trading	(135,871)	-	(135,871)
Net (increase)/decrease in loans and advances to customers	-	(950,372)	950,372
Net (increase)/decrease in other assets	(74,304)	(74,304)	-
Net (decrease)/increase in deposits from banks	-	(64,090)	(64,090)
Net increase/(decrease) in deposits from customers	-	398,279	(398,279)
Net increase/(decrease) in other liabilities	-	(155,104)	155,104
Demand deposits	(132,607)	-	(132,607)
Savings and term deposits	272,995	-	272,995
Derivative financial liabilities and other liabilities held for trading	6,387	-	6,387
Other liabilities	64,224	-	64,224
Net cash inflow from operating activities before tax	**-**	**(824,749)**	**(824,749)**
Income tax paid	18,063	18,063	-
Net cash inflow from operating activities	**-**	**(806,686)**	**(806,686)**
Cash flow from investing activities	-	-	-
Purchase of property, plant and equipment and intangible assets	(119,739)	(119,739)	-
Disposal of financial assets available for sale	(186,518)	(186,518)	-
Maturity/(acquisition) of financial assets held to maturity	51,004	51,004	-
Dividend receipts	-	31,914	(31,914)
Net cash inflow/(outflow) from investing activities	**-**	**(223,339)**	**(223,339)**
Cash flow from financing activities	-	-	-
Increase in subordinated debt	110,000	110,000	-
Increase in borrowings	-	16,402,891	(16,402,891)
Repayment of borrowings	-	(16,644,607)	16,644,607
Net increase /decrease in borrowings	(241,716)		(241,716)
Net cash inflow from financing activities	**-**	**(131,716)**	**131,716**
Effect of foreign exchange differences on cash and cash equivalents	1,825	1,825	-
Net increase in cash and cash equivalents	**(1,159,916)**	**(1,159,916)**	**-**
Cash and cash equivalents at the beginning of the year	**4,535,320**	**4,535,320**	**-**
Cash and cash equivalents at the end of the year	**3,375,404**	**3,375,404**	**-**

1 Reclassification of HRK 138,781 thousand from the item Impairment losses and provisions in the supplementary cash flow schedule to the items: Impairment losses on loans and advances to customers and other assets in the amount of HRK 137,774 thousand and to Provisions for liabilities and charges in the amount of HRK 1,007 thousand in the financial statements.

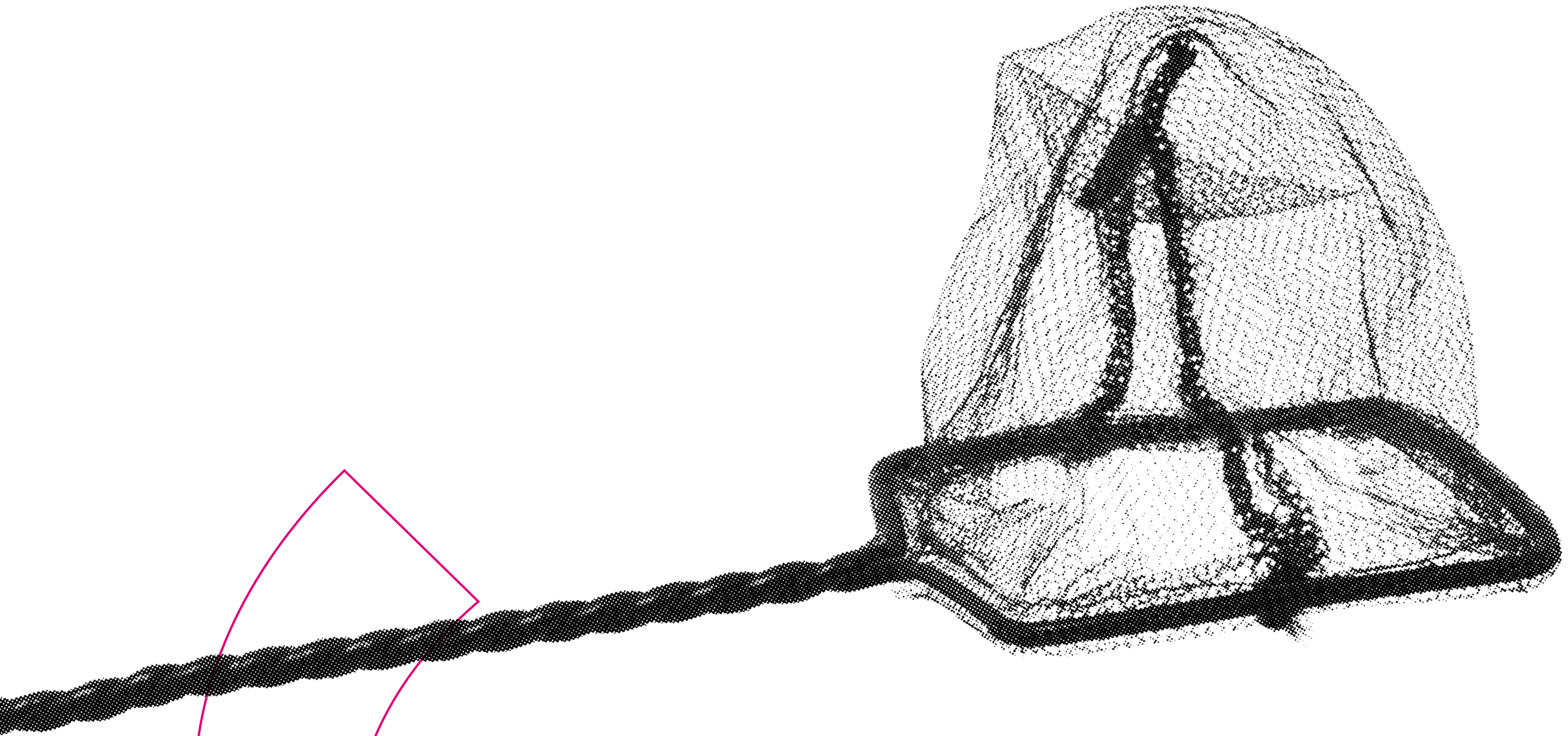
2 Reclassification of HRK 288,612 thousand of Treasury bills issued by the Ministry of finance and the CNB treasury bills and HRK 135,871 thousand of Securities and other financial instruments held for trading in the supplementary cash flow schedule to the item Net (increase)/decrease in financial assets at fair value through profit or loss in the financial statements.

3 Reclassification of items Demand deposits in the amount of HRK 132,607, Savings and term deposits in the amount of HRK 272,995 thousand, Derivative financial liabilities and financial liabilities held for trading in the amount of HRK 6,387 thousand and Other liabilities in the amount of HRK 64,224 thousand in the supplementary cash flow schedule to: Net (decrease) / increase in deposits from banks in the amount of HRK 64.090 thousand, Net (decrease) / increase in deposits from customers in the amount of HRK 398.278 thousand and Net (decrease) / increase in other liabilities HRK in the amount of 155,104 thousand in the financial statements. Dividend receipts in the amount of HRK 31,914 are separately presented in the financial statements.

4 Reclassification of Net decrease / increase in Borrowings in the amount of HRK 241,716 thousand in the supplementary cash flow schedule to the item Increase in borrowings in the amount of HRK 16,402,891 thousand and Repayment of borrowings in the amount of HRK 16,644,607 thousand in the financial statements.

5 Reclassification of Deposits with banking institutions and placements to other banks in the amount of HRK 148,343 thousand in the supplementary cash flow schedule to the item Increase in placements and loans to other banks in the financial statements.

6 Reclassification of Loans to customers in the amount of HRK 950,372 thousand in the supplementary cash flow schedule to the item Net increase in loans and advances to customers in the financial statements.



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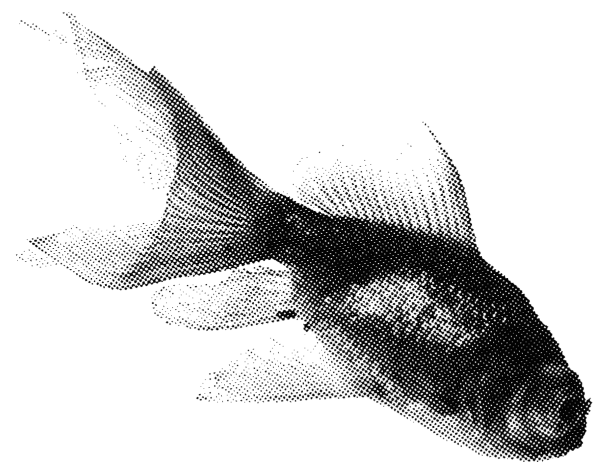

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fax: +385 1 4804 598

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fax: +385 1 4804 522

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fax: + 385 1 3466 939

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fax: + 385 1 6238 614

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fax: + 385 1 2019 287

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fax: + 385 1 4804 455

Split Branch
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tel.: + 385 21 340 621
fax: + 385 21 340 630

Split outlet
Bihaćka 2a
21 000 Split
tel.: +385 21 340 626
fax: +385 21 340 629

Split Dubrovačka outlet
Dubrovačka 31
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fax: +385 21 401 639

Kaštel Stari outlet
Ivana Danila bb
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tel.: +385 21 246 184
fax: +385 21 246 199

Sinj outlet
Vrlička 50
21 230 Sinj
tel.: +385 21 708 080
fax: +385 21 708 097

Detached teller Trilj
Bana Jelačića 8
21 240 Trilj
tel.: +385 21 830 410
fax: +385 21 830 427

Makarska outlet
Trg 4. svibnja 533. broj 1
21 300 Makarska
tel.: +385 21 695 760
fax: +385 21 695 768

Varaždin Branch
Trg slobode 9a
42 000 Varaždin
tel.: +385 42 215 332
fax: +385 42 215 329

Varaždin outlet
Trg slobode 9a
42 000 Varaždin
tel.: +385 42 215 320
fax: +385 42 215 330

Dubrovnik Branch
Vukovarska 16
20 000 Dubrovnik
tel.: +385 20 362 050
fax: +385 20 362 040

Dubrovnik outlet
Vukovarska 16
20 000 Dubrovnik
tel.: +385 20 362 045
fax: +385 20 362 048

Konavle outlet
Gruda 43
20 215 Gruda
tel.: +385 20 450 800
fax: +385 20 450 802

Detached teller Cavtat
Trumbićeva 10
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tel.: +385 20 450 810
fax: +385 20 450 811

Rijeka Branch
Medulićeva 6
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Rijeka outlet
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fax: +385 51 301 288

Zadar Branch
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fax: + 385 53 617 109

Virovitica outlet
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fax: + 385 33 740 068

Vukovar outlet
J.J. Strossmayera 4
32 000 Vukovar
tel.: +385 32 451 000/010
fax: +385 32 451 019

Pula Branch
Anticova 9
52 100 Pula
tel.: +385 52 544 922
fax: +385 52 544 929

Pula outlet
Anticova 9
52 100 Pula
tel.: +385 52 300 602/603
fax: +385 52 300 609

Detached teller Pula
Danteov trg 4
52 100 Pula
tel.: +385 52 300 662
fax: +385 52 300 669

Detached teller Banjole
Kamik bb
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tel.: +385 52 573 409
fax: +385 52 573 378

Poreč outlet
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fax: +385 52 703 229

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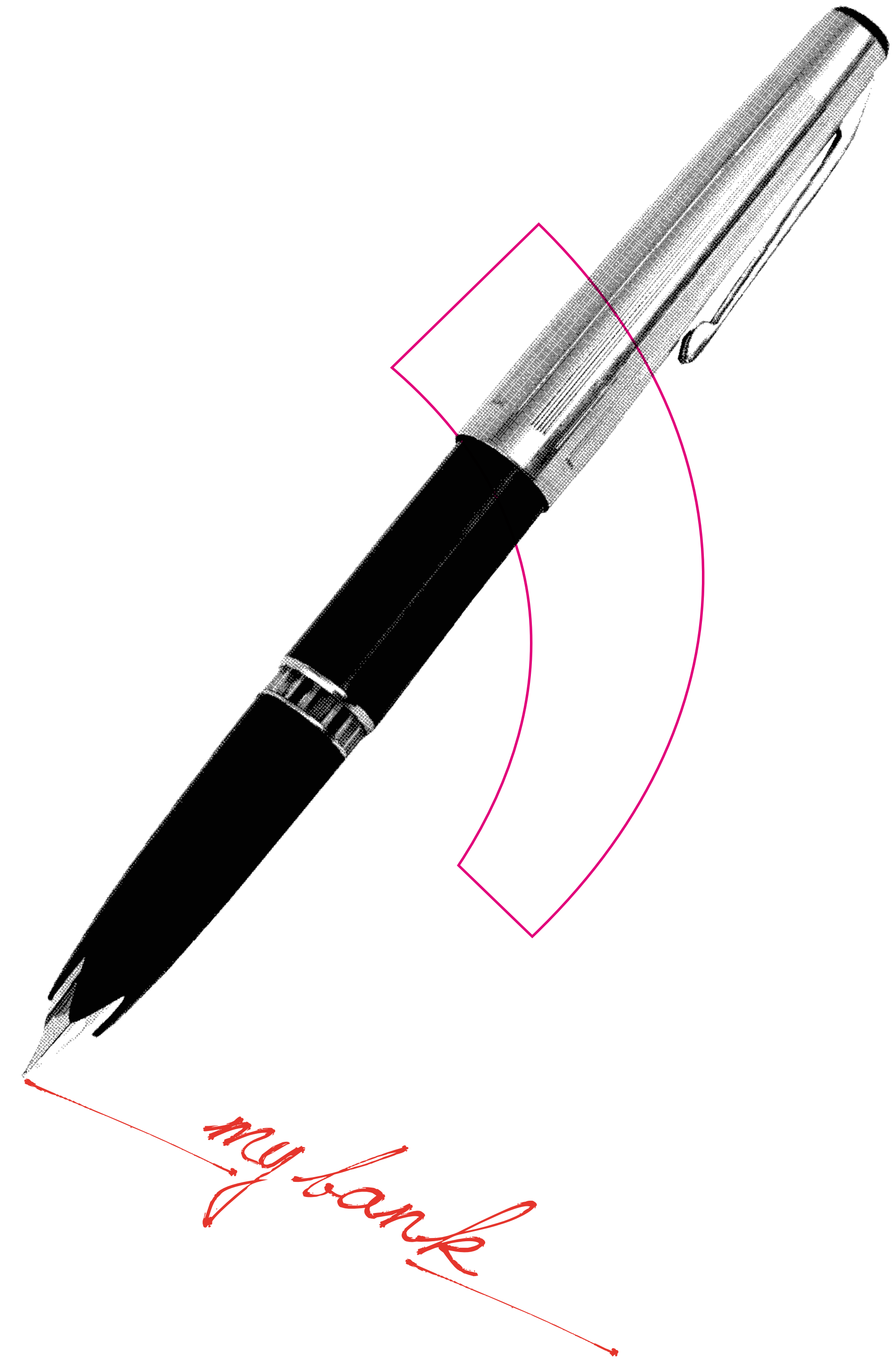

Publisher: **Hrvatska poštanska banka d.d., 2009**
Graphic concept and design: **TF Marketing d.o.o.**
ISSN 1334-7764

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HRVATSKA POŠTANSKA BANKA