

VABA d.d. BANKA VARAŽDIN

Financial statements

For the year ended 31 December 2008

Together with Independent Auditor's Report

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Statement of Responsibility of the Management Board

Pursuant to the Croatian Accounting Law (Official Gazette 109/07) and the Croatian Banking Law (Official Gazette 84/02 and 141/06), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with the applicable legislation and regulatory requirements, which give a true and fair view of the financial position of VABA d.d. BANKA VARAŽDIN and of the results of their operations, changes in equity and cash flows for that period.

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

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

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

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

Signed on behalf of the Management Board

Igor Čičak
President of the Management Board



Varaždin, 30 April 2009

Independent Auditor's Report

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik and Paul Trinder; Bank: Zagrebačka banka Zagreb d.d., Paromlinska 2, 10 000 Zagreb, bank account no. 2360000-1101896313; Foreign Currency Account: 2100312441 SWIFT Code: ZABHR2X IBAN: HR27 2360 0001 1018 9631 3; Privredna banka Zagreb d.d., Račkoga 6, 10 000 Zagreb, bank account no. 2340009-1110098294; Foreign Currency Account: 70010-519758 SWIFT Code: PBZGHR2X IBAN: HR38 2340 0091 1100 9829 4; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; Foreign Currency Account: 2100002537 SWIFT Code: RZBHR2X IBAN: HR48 2484 0082 1000 0253 7

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Matters affecting opinion

As disclosed in Note 17.1 to the financial statements, Slatinska banka shares that were classified as financial assets available for sale were valued at cost. This treatment is not in accordance with International Accounting Standard 39: Financial instruments: Recognition and Measurement, which requires that the financial assets classified as available for sale shall be measured at their fair values if the quoted market price is available. Given that the Bank did not value Slatinska banka shares at fair value, the financial assets available for sale and the fair valuation reserve in shareholders' equity as at 31 December 2008 are overstated by 13,515 thousand kuna.

As disclosed in Note 20 and in the statement of changes in equity, the Bank decreased the value of the property by 4,240 thousand in respect of certain acquisition costs. This reduction was recognised through the statement of changes in equity for the year ended 31 December 2008. This treatment is not in accordance with International Accounting Standard 16: Property Plant and Equipment, which requires to carry the property at cost including the expenditure that is directly attributable to the acquisition of the item. Had this been done the balance sheet as at 31 December 2008 would disclose net book value of the property of 18,121 thousands kuna and the accumulated losses of 34,140 thousands kuna for the year ended 31 December 2008.

Opinion

In our opinion, except for items addressed in paragraph "Matters affecting opinion", the financial statements, set out on pages 9 to 68, present fairly, in all material respects, the financial position of the Bank as of 31 December 2008, and the results of its operations and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

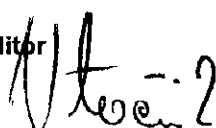
Emphasis of Matter

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 69 to 77, which comprise the balance sheet as of 31 December 2008, and the statements of income, changes in equity and cash flows for the year then ended, as well as the reconciliation to the financial statements. These forms and the accompanying reconciliation to the consolidated financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 9 to 68 but rather a requirement specified by the Decision. The financial information provided in those forms have been derived from the financial statements of the Bank.

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor



Zagreb, Republic of Croatia
30 April 2009

Balance Sheet

As at 31 December 2008

(All amounts are expressed in thousands of kunas)

	Notes	2008.	2007
Interest and similar income	5a	89,228	61,781
Interest and similar expense	5b	<u>(54,447)</u>	<u>(34,301)</u>
Net interest income		<u>34,781</u>	<u>27,480</u>
Fee and commission income	6a	8,114	10,874
Fee and commission expense	6b	<u>(2,417)</u>	<u>(2,586)</u>
Net fee and commission income		<u>5,697</u>	<u>8,288</u>
Net foreign exchange (losses) / gains	7	(49)	1,897
Other net operating (expense) / income	8	<u>(1,848)</u>	<u>22,177</u>
Operating income		<u>38,581</u>	<u>59,842</u>
Operating expenses	9	(61,915)	(55,694)
Impairment losses and provisions	10	<u>(9,664)</u>	<u>(3,658)</u>
Profit before taxation		<u>(32,998)</u>	<u>490</u>
Income tax	11	<u>-</u>	<u>-</u>
Net (loss) / profit for the year		<u>(32,998)</u>	<u>490</u>
Earnings per share (in HRK)			
-basic and diluted	12	<u>-</u>	<u>0.52</u>

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

These financial statements were approved by the Management Board on 30 April 2009 and signed by:

President of the Management Board

Igor Čičak



Executive Manager

Natalija Jambrečić



Balance Sheet

As at 31 December 2008

(All amounts are expressed in thousands of kunas)

	Notes	2008	2007 <i>restated</i>
ASSETS			
Cash and amounts due from banks	13	107,544	104,462
Obligatory reserve with Croatian National Bank	14	86,251	112,975
Treasury bills with Croatian National Bank		-	12,684
Placements with other banks	15	123,405	61,265
Financial assets at fair value through profit or loss	16	-	97,135
Available-for-sale financial assets	17	162,152	41,396
Held-to-maturity financial assets	18	52,543	9,796
Loans and advances to customers	19	816,459	706,523
Property, plant and equipment	20	25,569	28,703
Intangible assets	21	18,252	11,203
Other assets	22	8,557	20,448
Total assets		1,400,732	1,206,590
LIABILITIES AND SHAREHOLDERS' EQUITY			
Amounts due to customers	24	1,020,893	805,752
Liabilities to financial institutions	23	227,884	210,702
Provisions for liabilities and charges	25	3,450	1,293
Other liabilities	26	12,246	5,048
Total liabilities		1,264,473	1,022,795
Share capital	27	153,355	153,355
Share premium		27,423	29,056
Reserve		2,652	2,600
Fair valuation reserve		(8,791)	(74)
Accumulated losses		(38,380)	(1,142)
Total shareholders' equity		136,259	183,795
Total liabilities and shareholders' equity		1,400,732	1,206,590
Contingent liabilities and commitments	29	119,173	115,710

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

These financial statements were approved by the Management Board on 30 April 2009 and signed by:

President of the Management Board

Igor Čičak



Executive Manager

Natalija Jambrečić



Balance Sheet

As at 31 December 2008

(All amounts are expressed in thousands of kunas)

	Notes	2008	2007
Operating activities			
(Loss)/ profit before taxation		(32,998)	490
<i>Adjustment of net result to net cash from operations:</i>			
Depreciation and amortization		4,815	3,115
Losses / (gains) on security trading		5,508	(3,403)
Realised gains on available-for-sale financial instruments		(248)	(5,125)
Increase in impairment of loans and other assets, net		9,609	3,065
Increase in provisions for risks and charges		2,157	189
Operating result before changes in operating assets and liabilities		(11,157)	(1,669)
<i>Changes in operating assets and liabilities:</i>			
Decrease / (increase) in obligatory reserve with Croatian National Bank		26,724	(34,609)
Decrease / (increase) in treasury bills with Croatian National Bank		12,684	(12,684)
Decrease of placements with other banks		-	71
Increase in loans		(117,667)	(190,844)
Increase/(decrease) in deposits from other banks		-	(28,000)
Decrease / (increase) in other assets		10,013	(15,414)
Increase/(decrease) in other liabilities		7,198	(2,254)
Increase in deposits from customers		215,141	108,851
NET INCREASE/(DECREASE) IN CASH FROM OPERATING ACTIVITIES		154,093	(174,883)
<i>Investing activities</i>			
Decrease / (increase) in financial instruments held for trading		79,978	(70,133)
Increase) in available-for-sale financial assets		(117,575)	(32,373)
(Increase)/decrease in held-to-maturity financial assets		(42,747)	15,710
Purchases of tangible and intangible assets		(13,003)	(27,039)
Receipts from sale of tangible fixed assets		31	126
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(93,316)	(113,709)
<i>Financing activities</i>			
Increase in borrowings		17,182	205,699
(Decrease) / increase in share capital		(1,580)	126,152
NET INCREASE IN CASH FROM FINANCING ACTIVITIES		15,602	331,851
NET INCREASE IN CASH AND CASH EQUIVALENTS		65,222	35,460
Cash and cash equivalents at 1 January		165,727	130,267
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	28	230,949	165,727

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

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

	Share capital	Share premium	Reserves	Fair valuation reserve	Accumulated losses	Total
At 31 December 2006	62,226	(3,367)	-	47	(1,632)	57,274
Share capital increase	91,129	-	-	-	-	91,129
Share premium	-	35,023	-	-	-	35,023
Reserves for own shares	-	(2,600)	2,600	-	-	-
Losses from Available-for-sale financial assets	-	-	-	(121)	-	(121)
Realised revaluation reserve	-	-	-	-	-	-
Result for the year	-	-	-	-	490	490
At 31 December 2007	153,355	29,056	2,600	(74)	(1,142)	183,795
Correction of an error (Note 2)	-	-	-	-	(4,240)	(4,240)
Share capital decrease	-	(1,580)	-	-	-	(1,580)
Reserves for own shares	-	(52)	52	-	-	-
Losses from Available-for-sale financial assets	-	-	-	(8,716)	-	(8,716)
Realised revaluation reserve	-	-	-	-	-	-
Result for the year	-	-	-	-	(32,998)	(32,998)
At 31 December 2008	153,355	27,423	2,652	(8,790)	(38,380)	136,259

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

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

1. General

History and incorporation

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

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

In the General Shareholders' Meeting held on 18 April 2007, a decision was made to increase the share capital by issuing 619 thousand new shares, with a nominal value of HRK 100 per share, which were offered to the Bank's existing shareholders at a price of HRK 140 per share by private offering. In 2007, the share capital of the Bank was increased, and the capital increase from HRK 62,226,400 to HRK 153,355,000 was registered at the Commercial Court in Varaždin by the Court decision dated 17 April 2007. By Decision of the General Assembly dated 18 April 2007, the Bank's headquarters were changed to Aleja kralja Zvonimira 1, Varaždin.

Principal activity

As at 31 December 2008, the Bank was operating a total of 12 branches throughout the Republic of Croatia, primarily in the broader regions of Zagreb, Slavonski Brod and Varaždin.

The Bank's main areas of operation include:

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

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

1. General (continued)

Current economic situation and its impact on the Bank

The ongoing economic and financial crisis, both on the global and local levels, affects the operations of the Bank. The economic fade in 2008 (2008: 2.4%; 2007: 5.6%; 2006: 4.8%;) continued in early 2009. Because of the potential risk of destabilisation of the national currency and the financial system, the monetary policy is expected to remain restrictive also during 2009, while the opportunities of anticyclic effect of the fiscal policy have been restricted due to a more difficult access to foreign sources of capital and the level of indebtedness of the Republic of Croatia.

The crisis is generally reflected through a decreased level of liquidity, instability on capital markets, slow-down in economic activities of the Bank's customers and similar. The impact of the crisis on the Bank's operations cannot currently be fully predicted, therefore there is an element of general uncertainty.

Based on the regulatory requirements, the Bank reports on its liquidity position on a weekly basis, by reference to the remaining period to maturity. Despite the crisis, the Bank's liquidity has remained satisfactory and it appears on the interbank market with a surplus of funds.

The Bank is aware of the risks inherent to the lending operations under aggravated economic conditions and has responded adequately through a more prudent policy applied to new loans by, among others, implementing more stringent collateral acceptance and valuation rules. The management is confident that the current level of provisions is sufficient to cover the current losses and continues to monitor closely its credit risk exposure to a single counterparty, by type of receivables, by exposure to individual industries, as well as by monitoring the overall indebtedness of all groups of related borrowers.

Governance and Management

The members of the Supervisory Board during 2008 were as follows:

Milan Horvat, President

Stjepan Bunić, deputy President

Vladimir Koščec, member

Artur Gedike, member

Liljana Weissbarth, member

Anis Khan, member

Balz Merkli, member

The members of the Management Board during 2008 were as follows:

Igor Čičak, President

Zvonimir Jasek, Member

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

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

Because of the circumstances surrounding the Bank's operations that prevented it to reach full compliance with the regulations governing commercial bank operations, the CNB placed the operations of the Bank in the period after 2000 under more strict supervision and issued certain measures that significantly affected the operations of the Bank.

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

The Bank adopted recommendations resulting from the on-site supervision over its operations for the year ended 31 December 2007 and implemented them as of 31 March 2008, by adjusting the balance of accumulated losses by HRK 6,647 thousand, whereas the remaining recommendations resulted in additional costs of HRK 9,726 thousand being reported in the financial statements for the period ended 31 March 2008. The remaining part of adjustment of accumulated losses as at 31 December 2008 amounts to HRK 4,240 thousand.

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

On 29 July 2005, the Bank concluded with the State Deposit Insurance and Bank Rehabilitation Agency ("the Agency" or "DAB") and Primus Banka in liquidation an agreement to purchase a part of the assets and liabilities of Primus Banka.

Under the agreement, DAB continued to guarantee to VABA for the reasonableness of the assets and liabilities stated as of 31 May 2005, with a permissible departure of +/- 5 %, specifically for the accuracy of the reported provisions for loans and advances. If the positions were found to be unfairly presented, DAB undertook to settle all potential and actual costs incurred not included in the balance sheet that might be chargeable to the assets acquired or VABA as acquirer.

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

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies

a) Basis of presentation

The financial statements have been prepared under the historical cost basis, except for certain financial instruments and properties that were carried at revalued amounts. The financial statements are presented in thousands of Croatian Kuna (HRK'000) which is the functional currency of the Bank.

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

b) Statement of Compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. Banking operations in Croatia are subject to the Banking Law, in accordance with which financial reporting is regulated by the Croatian National Bank ("the CNB"). These financial statements have been prepared in accordance with the regulatory accounting requirements as defined by the CNB.

The accounting regulations of the CNB are based on International Financial Reporting Standards ("IFRS"). The main difference between the accounting regulations of the CNB and International Financial Reporting Standards is in the assessment of collective impairment losses for balance sheet and off-balance sheet items not identified as impaired on an individual basis. The regulations require that any provision made for impairment losses is done on a portfolio basis, and is to be in a range from 0.85% to 1.20% of items qualifying for such impairment losses. As at 31 December 2008, the Bank recognized a portfolio based allowance for impairment losses in accordance with the CNB requirements of HRK 11,287 thousand (2007: HRK 8,832 thousand) and a related movement in provision income for collective impairment in the income statement for 2008 of HRK 3,056 thousand (2007: expenses HRK 2,655 thousand).

IAS 39 requires that future cash flows in a group of financial assets that are collectively evaluated for impairment should be estimated on the basis of historical loss experience for such assets with credit risk characteristics similar to those in the group and these losses can not be limited by any means. The Bank is in the process of collecting available historical data about unidentified existing losses in various portfolios, taking into account relevant economic conditions for which these historic data should be adjusted, as a basis for estimating the unidentified losses existing at the balance sheet date in accordance with IFRS.

c) Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

Following Amendments and Interpretations are effective for the current period but did not have effect on these financial statements: IAS 39 (Amendment) "Reclassification of financial assets"; IFRIC 11 Applying the IFRS 2 "Group and Treasury Share Transactions"; IFRIC 12 "Service Concession Arrangements"; IFRIC 13 "Customer Loyalty Programmes"; IFRIC 14 Applying the IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"; and IFRIC 16 "Hedges of a Net Investment in a Foreign Operation".

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies (continued)

Standards and Interpretations not yet adopted

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

- IFRS 1 (Revised) First-time Adoption of International Financial Reporting Standards — Amendment relating to cost of an investment on first-time adoption (effective for annual periods beginning on or after 1 January 2009.)
- IFRS 2 (Revised) Share-based Payment— Amendment relating to vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009)
- IFRS 3 (Revised) Business Combinations— Comprehensive revision on applying the acquisition method (Effective for annual periods beginning on or after 1 July 2009)
- IFRS 5 (Revised) Non-current Assets Held for Sale and Discontinued Operations— Amendments resulting from May 2008 Annual Improvements to IFRSs (Effective for annual periods beginning on or after 1 July 2009)
- IFRS 8 Operating Segments - Effective for annual periods beginning on or after 1 January 2009
- IAS 1 (Revised) Presentation of Financial Statements— Amendments relating to disclosure of puttable instruments and obligations arising on liquidation (Effective for annual periods beginning on or after 1 January 2009)
- IAS 1 (Revised) Presentation of Financial Statements— Amendments resulting from May 2008 Annual Improvements to IFRSs (Effective for annual periods beginning on or after 1 January 2009)
- IAS 16 (Revised) Property, Plant and Equipment— Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2009)
- IAS 19 (Revised) Employee Benefits— Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2009)
- IAS 20 (Revised) Government Grants and Disclosure of Government Assistance— Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2009)
- IAS 23 (Revised) Borrowing Costs— Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2009)
- IAS 27 (Revised) Consolidated and Separate Financial Statements— Consequential amendments arising from amendments to IFRS 3 (effective for annual periods beginning on or after 1 July 2009)
- IAS 27 (Revised) Consolidated and Separate Financial Statements— Amendment relating to cost of an investment on first-time adoption (effective for annual periods beginning on or after 1 January 2009)
- IAS 27 (Revised) Consolidated and Separate Financial Statements— Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2009)

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies (continued)

- IAS 28 (Revised) Investments in Associates— Consequential amendments arising from amendments to IFRS 3 (effective after annual periods beginning on or after 1 July 2009)
- IAS 28 (Revised) (effective after annual periods beginning on or after 1 January 2009)
- IAS 29 (Revised) Financial Reporting in Hyperinflationary Economies— Amendments resulting from May 2008 Annual Improvements to IFRSs (effective after annual periods beginning on or after 1 January 2009)
- IAS 31 (Revised) Interests in Joint Ventures— Consequential amendments arising from amendments to IFRS 3 (effective after annual periods beginning on or after 1 July 2009)
- IAS 31 (Revised) Interests in Joint Ventures— Amendments resulting from May 2008 Annual Improvements to IFRSs (effective after annual periods beginning on or after 1 January 2009)
- IAS 32 (Revised) Financial Instruments: Presentation— Amendments relating to puttable instruments and obligations arising on liquidation(effective after annual periods beginning on or after 1 January 2009)
- IAS 36 Impairment of Assets— Amendments resulting from May 2008 Annual Improvements to IFRSs (effective after annual periods beginning on or after 1 January 2009)
- IAS 38 (Revised) Intangible Assets— Amendments resulting from May 200
- IAS 39 (Revised) Financial Instruments: Recognition and Measurement — Amendments resulting from May 2008 Annual Improvements to IFRSs 8 Annual Improvements to IFRSs (effective after annual periods beginning on or after 1 January 2009)
- IAS 39 (Revised) Financial Instruments: Recognition and Measurement — Amendments for eligible hedged items (effective after annual periods beginning on or after 1 July 2009)
- IAS 40 (Revised) Investment Property — Amendments resulting from May 2008 Annual Improvements to IFRSs (effective after annual periods beginning on or after 1 January 2009)
- IAS 41 (Revised) Agriculture— Amendments resulting from May 2008 Annual Improvements to IFRSs (effective after annual periods beginning on or after 1 January 2009)

The Management Board anticipate that adoption all of the above Interpretations will have no material impact on the financial statements of the Bank in the period of initial application

Key sources of estimation uncertainty

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

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies (continued)

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

- The Bank monitors permanently the recoverable amount of its loans and receivables, as well as the collection time, which serves as the basis for estimating future cash flows. As the assumed amounts and time of collection are subject to assumptions regarding the elements beyond the Bank's control (duration of litigation, selling price of collateral, future performance of its customers, etc.), the total actual losses may differ significantly from those currently estimated.
- The Bank is involved in various legal actions (see Note 26). Based on the consultation with legal counsel, the management's estimate is that costs are likely to be incurred on those actions and has therefore provided 2,251 thousand kuna. .

d) Interest income and expenses

Interest income is recognized on accrual basis, by reference to the principal outstanding and at the effective interest rate applicable. Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments. Penalty interest is accrued as of the due date.

When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Interest income and expense include commission income and expense in respect of approved loans, as well as amounts due from customers, or loans from other banks, issued debt securities, premium amortisation or discount, as well as other differences between the opening carrying amounts of interest-bearing financial instruments and the amounts due on maturity, determined using the effective interest method.

Loan origination fees, generated after the approval of the loans are deferred, together with the related direct costs, and recognized as an adjustment to the effective yield of the loan over its life in "Interest and similar income.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies (continued)

e) Fee and commission income and expense

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

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

f) Taxation

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

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

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

The Bank is subject to various indirect taxes which are included in administrative expenses.

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies (continued)

g) Cash and cash equivalents

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

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

h) Financial assets and financial liabilities

Financial assets held by the Bank are categorized into portfolios in accordance with the Bank's intent on the acquisition and pursuant to the Bank's investment strategy. Financial assets and liabilities are classified as 'At fair value through profit and loss', 'Held to maturity', 'Assets available for sale' or as 'Loans and receivables'. The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements.

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

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

Assets at fair value through profit or loss

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

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

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

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

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies (continued)

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

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

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

Assets available for sale

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

This portfolio comprises equity and debt securities. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models.

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

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

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

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies (continued)

Interest earned whilst holding available-for-sale securities is accrued on a daily basis and reported as "Interest income" in the income statement.

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

Loans and receivables

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

Loans and receivables are initially recognized at cost, and are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Third-party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers.

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

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

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

In addition to the above described impairment losses on assets identified as impaired, the Bank recognizes impairment losses, in the income statement, on on- and off-balance-sheet credit risk exposures not identified as impaired at predefined rates, which range from 0.85 to 1.20%, in accordance with the accounting regulations of the Croatian National Bank ("CNB").

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies (continued)

Held to maturity investments

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

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

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

l) **Employees expenses**

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

Contributions on behalf of employees

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

	2008	2007
Pension insurance contributions	20%	20%
Health insurance contributions	15%	15%
Employment Fund contribution	1.7%	1.7%
Occupational injury	0.5%	0.5%

The Bank has the obligation to withhold the pension insurance contributions from the employees' gross salaries.

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies (continued)

j) Tangible and intangible assets

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

Properties in the course of construction are carried at cost, less impairment loss, if any.

Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Intangible assets are amortized on a straight line basis over the best estimate of their useful lives. The amortization period and the amortization method are reviewed at each reporting period.

Depreciation and amortization commence when the assets are ready for their intended use. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the applicable assets, which are as follows:

	2008	2007
Buildings	33 years	33 years
Office equipment	7 – 15 years	7 – 15 years
IT equipment	5 years	5 years
Motor vehicles	4 years	4 years
Software	5 years	5 years

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

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies (continued)

k) Foreign currency translation

Transactions in currencies other than Croatian Kuna are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the balance sheet date. Translation gains and losses are included in the income statement for the period.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the statement of income for the period.

The Bank has assets and liabilities originated in HRK, which are linked to foreign currency with one-way currency clause. Due to this clause the Bank has an option to revalue the asset by more favourable exchange rate than the one ruling at the balance sheet date. In case of liability linked to this clause the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia the fair value of this option can not be calculated as the forward rates for HRK for periods over 6 months are not available.

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies (continued)

As such the Bank values its assets and liabilities related to this clause by middle rate of Croatian National Bank valid at the date of balance sheet or foreign exchange rate agreed by the option (rate valid at origination) if higher.

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

31 December 2008	EUR 1 = HRK 7.324425	USD 1 = HRK 5.155504
31 December 2007	EUR 1 = HRK 7.325131	USD 1 = HRK 4.985465

l) Leases

Leases of assets in terms of which the Group retains all the risks and rewards of ownership are classified as finance leases. Such assets are recognised in the balance sheet and measured after initial recognition at value lesser of fair value or present value of future payments under the lease. At balance sheet date the Group did not have any financial leases, either as lessor or lessee.

Other leases are classified as operating leases and assets under the lease are not recognised in the balance sheet. Lease payments are recognised as expenses over the lease term and included in general and administrative expenses.

m) Sale and Repurchase Agreements

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

Securities sold under sale and repurchase agreements ("repos") are recorded as assets in the balance sheet lines of assets in the original classification or the Group reclassifies the asset on its balance sheet. The counterparty liability is included in "Due to other banks" or "Due to customers", as appropriate.

Securities purchased under agreements to purchase and resell ("reverse repos") are recorded as assets in the balance sheet, under "Placements with and loans to other banks" or "Loans and receivables" as appropriate, with the corresponding decrease in cash. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

n) Off-balance sheet commitments

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

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

4. Summary of significant accounting policies (continued)

o) Provisions

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

p) Fiduciary activities

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

q) Share capital and treasury shares

External costs directly attributable to the issuance of new shares, except for those resulting from transactions, are deducted from the equity, net of any related taxes.

Dividends on ordinary shares are recognized in equity in the period in which they are declared.

When the Bank purchases or becomes entitled to purchase its share capital, the consideration paid, including all transaction costs less any taxes, is presented as a deduction from the total equity. Gains and losses on the sale of treasury shares are credited and charged, respectively, to treasury shares within equity.

r) Comparative information

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

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

5. Interest and similar income and expenses

a) Interest and similar income

	2008	2007
Individuals	32,794	22,387
Corporate entities	50,813	36,085
State and public sector	552	247
Croatian National Bank	843	780
Domestic banks	1,604	537
Foreign banks	2,611	1,741
Others	11	4
	<u>89,228</u>	<u>61,781</u>

b) Interest and similar expense

	2008	2007
Individuals	20,761	12,652
Corporate entities	8,068	8,382
Domestic banks and other financial institutions	23,362	11,414
Savings deposit insurance premium	1,136	768
State and public sector	391	117
Others	729	968
	<u>54,447</u>	<u>34,301</u>

6. Fee and commission income and expenses

a) Fee and commission income

	2008	2007
Individuals	1,700	666
Corporate entities	6,414	10,208
	<u>8,114</u>	<u>10,874</u>

b) Fee and commission expenses

	2008	2007
Payments and money transfer	1,422	1,770
Domestic banks	468	255
Foreign banks	27	22
Others	500	539
	<u>2,417</u>	<u>2,586</u>

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

7. Net foreign exchange (losses) / gains

	2008	2007
Net (losses)/gains on translation of monetary assets and liabilities	(49)	1,897
	<u>(49)</u>	<u>1,897</u>

8. Other operating (expenses) / income

	2008	2007
Dividend income	509	-
Realised gains on financial assets at fair value through profit or loss	-	6,235
Realized losses on available-for-sale assets	(5,260)	-
Unrealised gains on on financial assets at fair value through profit or loss	-	3,403
Gains on sale of other tangible assets	-	6
Income from tangible assets takeover in exchange for impaired receivables	209	-
Rental income	625	1,126
Income from receivables from DAB	-	10,253
Foreign exchange loss from trading	(112)	-
Write-off of Primus liabilities	153	-
Income from loan penalties	538	-
Income from contract cancelation before due date	136	-
Income from co-financed employment	153	-
Income from given confirmations and bank statements	200	-
Liabilites write-off per Management Board decision	268	-
Other income	733	1,154
	<u>(1,848)</u>	<u>22,177</u>

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

(All amounts are expressed in thousands of kunas)

9. Operating expenses

	2008	2007
Staff costs (Note 9.1)	26,614	21,956
Rental costs	5,748	6,274
Advertising	2,367	1,922
Intellectual services	4,875	3,078
Depreciation and amortisation	4,815	3,125
Supervisory Board fees	721	984
Provisions for risks and charges	2,251	310
Security services	1,658	1,446
Postage, telecommunications and SWIFT charges	2,310	2,152
Office supplies, heating and energy	1,440	1,293
IT services	1,212	1,276
Grants and sponsorships	431	350
Entertainment	566	1,314
Taxes and duties payable irrespective of operating results	567	567
Other expenses	6,340	9,647
	<u>61,915</u>	<u>55,694</u>

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

9.1 Staff costs

	2008	2007
Net salaries	13,924	11,205
Taxes and surtaxes	3,465	3,198
Contributions	7,939	6,432
Provision for severance payment	214	
Other staff costs	1,072	1,121
	<u>26,614</u>	<u>21,956</u>

At the end of 2008, there were 182 staff employed by the Bank (2007: 161).

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

10. Impairment losses and provisions

	Notes	2008	2007
New allowances:			
Loans and advances to customers	19	(10,816)	(20,618)
Interest and other assets	22	(1,878)	(931)
Contingencies	26	<u>(220)</u>	<u>(645)</u>
		<u>(12,914)</u>	<u>(22,194)</u>
Collections and reversals:			
Loans and advances to customers	19	3,086	18,484
Interest and other assets	22	-	-
Provisions for contingencies and commitments	26	<u>166</u>	<u>52</u>
		<u>3,251</u>	<u>18,536</u>
		<u>(9,664)</u>	<u>(3,658)</u>

11. Income tax expense

Income tax represents the amount payable in accordance with Croatian law. The income tax rate is 20 % (2007: 20 %).

The reconciliation of accounting profit before tax and tax base is shown below:

	2008	2007
Current tax	-	-
Deferred tax	<u>-</u>	<u>-</u>
Income tax credit	<u>-</u>	<u>-</u>

The movement in the deferred income tax account is provided as follows:

	2008	2007
Balance at 1	283	283
Deferred tax assets recognised	<u>-</u>	<u>-</u>
Balance at 31 December	<u>283</u>	<u>283</u>

HRK 283 thousand relate to deferred tax assets in respect of deferred loan origination fees recognised by the Bank in 2006, whereas no deferred tax assets were recognized by the Bank in 2007 and 2008. In the opinion of the management, the amount is not material and does not have a significant influence on the financial statements.

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

11. Income tax expense (continued)

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

	2008	2007
Accounting profit before tax	(32,998)	490
Tax disallowable expense, permanent differences	1,739	1,337
Tax benefits	(509)	(568)
Tax base before tax losses brought forward	(31,768)	1,259
Tax losses brought forward	(11,393)	(31,700)
Tax losses expired in this year	8,615	19,048
Tax losses carried forward	(34,546)	(11,393)
Tax base after the utilisation of tax losses brought forward	-	-
Income tax at the rate of 20%	-	-
Income tax liability	-	-

In the previous years the Bank incurred tax losses. The ability to carry forward tax losses expires in the fifth year from the year in which the tax losses are incurred. At 31 December 2008 tax losses available for carry forward expire as follows:

Year incurred	Year of expiry	2008	Cumulative
2005	2010	2,778	2,778
2008	2013	31,768	34,546
		34,546	

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

12. Earnings per share

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

	2008	2007
Profit /(loss) for the year (in HRK)	-	490,166
Weighted average number of shares	944,335	944,335
Earnings per share (in HRK)	-	0.52
-earnings per share and diluted earnings per share	-	0.52

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

13. Cash and current accounts with banks

	31 December 2008	31 December 2007
Cash in hand	14,726	13,000
Current accounts with domestic banks	7,566	3,183
Current accounts with foreign banks	13,278	6,112
Current accounts with Croatian National Bank	71,974	82,167
	<u>107,544</u>	<u>104,462</u>

14. Obligatory reserve with Croatian National Bank

	31 December 2008	31 December 2007
In HRK	73,053	75,536
In foreign currencies	13,198	37,439
	<u>86,251</u>	<u>112,975</u>

Obligatory reserve represents the amount of liquid assets required to be deposited with the Croatian National Bank. At the end of each month the obligatory reserve is calculated on certain balances of attracted funds for the previous month. The obligatory reserve is calculated as 17 percent of HRK denominated (in 2007 17 percent) and 17 percent of foreign currency denominated balances (in 2007 17 percent). From that amount the banks should maintain at least 70 percent for the kuna obligatory reserve and 60 percent for the obligatory reserve in foreign currency with the Croatian National Bank.

The Croatian National Bank made decision on changing percentage of the obligatory reserve from 17% to 14% as at 10 December 2008, which was accordingly adopted by the Bank.

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

15. Placements with other banks

	31 December 2008	31 December 2007
Placements with domestic banks	100,391	11,052
Placements with foreign banks	23,014	50,213
	<u>123,405</u>	<u>61,265</u>

Placements with other banks comprise mainly short-term deposits (up to one months) with domestic and foreign banks, which bear interest at an average rate of 4.5 percent (2007: 3 percent).

Placements with domestic banks at 31 December 2008:

	Nominal value	Due date	Currency	Interest rate %	2008
Privredna banka Zagreb d.d.	25,000	02.01.2009	HRK	6.00	25,004
Hrvatska poštanska banka d.d.	30,000	02.01.2009	HRK	2.50	30,002
Zagrebačka banka d.d.	15,000	02.01.2009	HRK	4.50	15,002
Raiffeisenbank Austria d.d.Zagreb	30,000	02.01.2009	HRK	2.40	30,002
Erste & Steiermaerkische d.d.	366	09.01.2009	EUR	3.92	381
	<u>100,366</u>				<u>100,391</u>

Placements with foreign banks at 31 December 2008 are shown as follows:

	Nominal value	Due date	Currency	Interest rate %	2008
KBC Bank NV	13,916	02.01.2009	EUR	1.90	13,917
Unicredit Bank Austria AG	8,374	05.01.2009	CHF	0.30	8,375
Commerzbank AG	722		USD		722
	<u>23,012</u>				<u>23,014</u>

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

15. Placements with other banks (continued)

Geographic analysis

Country	2008	2007
Germany	722	22,848
Austria	8,375	12,715
Slovenia	-	14,650
Belgium	13,917	-
	23,014	50,213

16. Financial assets at fair value through profit or loss

	2008	2007
	-	
Shares of domestic issuers	-	9,954
Units in open-ended investment funds	-	87,181
	-	97,135

During the year the Bank made reclassification of financial assets from financial assets held as fair value through profit and loss to financial assets held as available for sale. Reclassification is made at fair value at date of reclassification.

The values of reclassified financial assets is presented as follows:

Security	Value as at 31.12.2008	Fair value at the date of reclassification
Jadran kapital	360	1,302
Atlantic grupa	147	282
KD Balanced	5,127	10,066
	5,634	11,650

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

16. Financial assets at fair value through profit or loss (continued)

Changes during the year	2008
Balance at 1 January – SHARES	9,954
Reclassification	(1,584)
Sale of Helios Faros shares	(7,848)
Realised gains on sale of Helios Faros shares	(522)
Balance at 31 December – SHARES	-
Balance at 1 January – UNITS	87,181
Reclassification	(10,066)
Purchases of units	-
Sale of units	(74,633)
Change in fair value	-
Realised loss from selling shares in funds	(2,482)
Balance at 31 December – UNITS	-

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

(All amounts are expressed in thousands of kunas)

17. Available-for-sale financial assets

	2008	2007
Shares of domestic issuers	21,853	17,439
Open investment funds	26,214	-
Closed investment funds	14,208	-
Croatian Government bonds denominated in HRK	-	9,636
Croatian Government bonds denominated in FCY	21,059	-
Treasury bills of the Republic of Croatia	-	14,321
Treasury bills of the foreign governments	78,818	-
	<u>162,152</u>	<u>41,396</u>

17.1 Shares of domestic issuers

Issuer	Value	Equity share in %	Cost	Unrealised gains/(losses)	Fair value at 31.12.2008
Slatinska banka dd	HRK	3.81	17,439	-	17,439
Adris Grupa	HRK	0.08	2,232	(1,148)	1,084
Ericsson d.o.o.	HRK	0.07	2,494	(1,425)	1,069
HT	HRK	0.01	2,477	(979)	1,498
IGH	HRK	0.12	701	(445)	256
Atlantic grupa	HRK	0.02	280	(133)	147
Jadran kapital d.d.	HRK		1,302	(942)	360
			<u>26,925</u>	<u>(5,072)</u>	<u>21,853</u>

As at 31 December 2008 the Bank valued Slatinska banka shares at cost of HRK 17,439 thousand. Quoted closing price of Slatinska banka shares at Zagreb Stock Exchange as at 31 December 2008 amounted to HRK 112.10. If the Bank had applied provisions of IAS 39 and valued the related shares at their market value, the value of Slatinska banka shares as at 31 December 2008 would amount HRK 3,924 thousand.

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

(All amounts are expressed in thousands of kunas)

17. Available-for-sale financial assets (continued)

17.2 Open investment funds

Issuer	Value	Cost	Unrealised gains/(losses)	Fair value at 31.12.2008
KD Balanced	HRK	10,067	(4,940)	5,127
HI Cash	HRK	13,000	87	13,087
Erste Money	HRK	8,000	-	8,000
		<u>31,067</u>	<u>(4,853)</u>	<u>26,214</u>

17.3 Closed Investment funds

Issuer	Value	Cost	Unrealised gains/(losses)	Fair value at 31.12.2008
Quaestus Private Equity Kapital	HRK	13,888	320	14,208
		<u>13,888</u>	<u>320</u>	<u>14,208</u>

17.4 Croatian Government bonds

Series	Currency	Interest rate	Due date	Accrued interest	Cost	Unrealised gains/(losses)	Fair value at 31.12.2008 EUR	Fair value at 31.12.2008 HRK
CROA 10	EUR	4,625	24.2.2010.	118	2,847	19	2,866	21,059

17.5 Treasury bills

Series	Currency	Interest rate %	Due date	Accrued interest at 31.12.2008	Unrealised gains/(losses)	Fair value at 31.12.2008 EUR	Fair value at 31.12.2008 HRK
German t bill	EUR	2.800	22.4.2009	(18)	14	2,796	20,476
German t bill	EUR	1.300	13.5.2009	(10)	6	1,296	9,492
French t bill	EUR	4.100	9.4.2009	(43)	115	4,172	30,560
DTB 0	EUR	2.500	18.2.2009	(6)	3	2,497	18,290
						<u>10,761</u>	<u>78,818</u>

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

(All amounts are expressed in thousands of kunas)

17. Available-for-sale financial assets (continued)

	2008	2007
Balance as at 1 January – SHARES	17,439	4,018
Brought into portfolio	1,584	-
Change in Fair value	(5,072)	-
Purchases shares of Atlantska plovidba	653	-
Sale shares of Atlantska plovidba	(841)	-
Realised gain from selling shares of Atlantska plovidba	188	-
Purchases shares of Adris Grupa	2,232	-
Sale shares of IGH	(1,375)	-
Purchases shares of IGH	1,923	-
Realised gain from selling shares of IGH	153	-
Purchases shares of HT	2,477	-
Purchases shares of Ericsson Nikola Tesla	2,492	-
Sale shares	-	(4,018)
Purchases shares of Slatinska banka	-	17,439
Balance as at 31 December – SHARES	21,853	17,439
Balance as at 1 January – FUNDS	-	-
Brought into portfolio	10,066	-
Purchases share in funds	24,000	-
Sale share from funds	(3,002)	-
Change in Fair value	(4,853)	-
Realised gain from selling shares from funds	3	-
Balance as at 31 December – FUNDS	26,214	-
Balance as at 1 January – BONDS (HRK)	9,636	-
Purchases bonds of RHMF	-	9,636
Sale bonds of RHMF	(9,561)	-
Realised loss from selling bonds of RHMF	(75)	-
Balance as at 31 December – BONDS (HRK)	-	9,636
Balance as at 1 January – BONDS (HRK)	-	-
Purchases bonds	20,502	-
Change in fair value	143	-
Foreign exchange differences	414	-
Balance as at 31 December – BONDS (HRK)	21,059	-

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

(All amounts are expressed in thousands of kunas)

17. Available-for-sale financial assets (continued)

	2008	2007
Balance as at 1 January – Treasury Bills (HRK)	14,321	-
Purchases	-	14,348
Sale	(14,328)	-
Change in fair value (revaluation reserves)	-	(27)
Change in fair value (valued through profit and loss account)	7	-
Balance as at 31 December – Treasury Bills (HRK)	-	14,321
	2008	2007
Balance as at 1 January – Foreign Treasury Bills (EUR)	-	-
Purchases	143,801	-
Sale	(67,821)	-
Change in fair value (revaluation reserves)	991	-
Change in fair value (valued through profit and loss account)	1,555	-
Foreign exchange differences	856	-
Discount	(564)	-
Balance as at 31 December – Foreign Treasury Bills (EUR)	78,818	-

18. Held-to-maturity financial assets

	2008	2007
Bills of exchange	52,543	9,779
Public debt bonds purchased from Primus	-	17
	52,543	9,796

Bills of exchange were issued by various legal entities, at an interest rate 7.9 – 10.5 % .

Bills of exchange are due within 3 to 12 months from the balance sheet date. At 31 December 2008, HRK 3,015 thousand of the total investments in bills of exchange were due (2007: HRK 13 thousand).

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

(All amounts are expressed in thousands of kunas)

19. Loans and advances to customers

	31 December 2008	31 December 2007
Loans and advances to corporate customers	556,649	466,390
Loans and advances to individuals	294,098	268,938
<i>Total loans and advances to customers, gross</i>	<u>850,747</u>	<u>735,328</u>
Impairment allowance – individuals	(4,360)	(16,232)
Impairment allowance	(18,641)	(3,741)
General provision	(11,287)	(8,832)
<i>Total impairment allowance</i>	<u>(34,288)</u>	<u>(28,805)</u>
Total loans and advances to customers, net	<u>816,459</u>	<u>706,523</u>
Lending portfolio analysis		
	31 December 2008	31 December 2007
<i>HRK denominated</i>		
Loans to corporate customers	454,257	426,646
Loans to individuals	194,358	153,397
	<u>648,615</u>	<u>580,043</u>
<i>Foreign currency denominated</i>		
Loans to corporate customers	102,392	39,744
Loans to individuals	99,740	115,541
	<u>202,132</u>	<u>155,285</u>
Total gross loans and advances to customers	850,747	735,328
Impairment allowance	<u>(34,288)</u>	<u>(28,805)</u>
Total net loans and advances to customers	<u>816,459</u>	<u>706,523</u>

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

19. Loans and advances to customers (continued)

Movements in provisions for impairment

	2008	2007
At 1 January	28,805	29,584
Charged during the year	10,816	20,618
Amounts collected or reversed	(3,085)	(18,484)
Amounts written-off	(2,248)	(2,913)
At 31 December	34,288	28,805

Concentration of credit risk by industry

All commercial lending is to companies domiciled in Croatia. At 31 December 2008 the Bank had the following gross credit risk concentration by industry:

	31 December 2008	%	31 December 2007	%
Agriculture and forestry	18,795	2.21	10,487	1.43
Manufacturing	195,960	23.03	95,469	12.98
Construction	39,772	4.67	100,322	13.64
Transport	12,455	1.46	17,769	2.42
Trade and commerce	36,833	4.33	60,900	8.28
Individuals	208,947	24.56	132,635	18.04
Business services	286,409	33.67	186,508	25.36
Other services	17,105	2.01	120,000	16.32
Other	34,471	4.05	11,238	1.53
	850,747	100	735,328	100
Allowance	(34,288)	(4.03)	(28,805)	(4.08)
	816,459	95.97	706,523	95.92

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

19. Loans and advances to customers (continued)

Loan and receivables impairment allowance movement

	Banks 2008 HRK '000 Identified	Banks 2008 HRK '000 Unidentified	Banks 2008 HRK '000 Total	Banks 2007 HRK '000 Identified	Banks 2007 HRK '000 Unidentified	Banks 2007 HRK '000 Total
Impairment allowance – opening balance	19,973	8,832	28,805	23,307	6,277	29,584
Increase in impairment losses	7,760	3,056	10,816	18,063	2,555	20,618
Reversal of impairment losses	(2,484)	(601)	(3,085)	(18,484)	-	(18,484)
Exchange differences	(44)	-	(44)	-	-	-
Amounts written-off	(2,204)	-	(2,204)	(2,913)	-	(2,913)
Impairment allowance – closing balance	23,001	11,287	34,288	19,973	8,832	28,805

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

The CNB requires from the banks to recognise impairment losses through profit or loss for assets not identified as individually impaired, as well as for off-balance sheet items, whereas the sum of impairment loss provision, i.e. the impairment allowance should account for 0.85 to 1.20 percent of the total loans and off-balance sheet items for which the losses are determined. The Bank's general provision for assets not individually determined as impaired amounted to HRK 11,287 thousand and was reported in the balance sheet at 31 December 2008 (2007: HRK 8,832 thousand), and expense in the amount of HRK 3,056 thousand in respect of the provision was included in impairment losses for the year 2008 (2007: expense of HRK 2,555 thousand). Although, according to IFRS, such provisions cannot be limited versus the basis on which they are determined, the Bank continues to recognise those provisions in line with the CNB rules in lieu for the existing unidentified impairment losses that are determined in accordance with the IFRS requirements. The Bank is in the process of collecting available historical data about unidentified losses that exist in various portfolios exposed to credit risk as of the balance sheet, by determining the appropriate period in which such losses are identified and by identifying, for each portfolio, the appropriate economic conditions for which the historical data should be adjusted to determine the basis for estimating the amount of unidentified losses as of the balance sheet in accordance with IFRS requirements. The Bank was not able to quantify any effect of any potential recognition of impairment losses on assets not individually identified as impaired or on off-balance sheet items, as required by IFRS, on the presented financial statements.

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

20. Property, plant and equipment

	Land and buildings	IT equipment	Office furniture and fittings	Motor vehicles	Other	Assets under construction	Total
Cost							
Balance at 31 December 2007	19,743	4,669	9,187	586	941	-	35,126
Additions	-	-	-	-	-	3,855	3,855
Disposals and retirements	(4,240)	(13)	(11)	-	(46)	-	(4,310)
Transfer from assets under construction	12	705	2,033	91	227	(3,068)	-
Balance at 31 December 2008	15,515	5,361	11,209	677	1,122	787	34,671
Accumulated depreciation							
At 31 December 2007	1,141	1,408	3,331	194	349	-	6,423
Charge for the year	493	899	1,026	112	187	-	2,717
Disposals and retirements	-	(8)	(7)	-	(24)	-	(39)
Balance at 31 December 2008	1,634	2,299	4,350	306	512	-	9,102
Net book value							
At 31 December 2008	13,881	3,062	6,859	371	610	787	25,569
At 31 December 2007	18,602	3,261	5,856	392	592	-	28,703

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

20. Property, plant and equipment (continued)

	Land and buildings	IT equipment	Office furniture and fittings	Motor vehicles	Other	Assets under construction	Total
Cost							
Balance at 1 January 2006	4,397	2,641	6,253	140	509	126	14,066
Additions	-	-	-	-	-	21,792	21,792
Disposals and retirements	-	(447)	(262)	-	(23)	-	(732)
Transfer from assets under construction	15,346	2,475	3,196	446	455	(21,918)	-
Balance at 31 December 2007	19,743	4,669	9,187	586	941	-	35,126
Accumulated depreciation							
At 31 December 2006	896	1,333	2,811	140	231	-	5,411
Charge for the year	245	378	888	54	141	-	1,706
Disposals and retirements	-	(303)	(368)	-	(23)	-	(694)
Balance at 31 December 2007	1,141	1,408	3,331	194	349	-	6,423
Net book value							
At 31 December 2007	18,602	3,261	5,856	392	592	-	28,703
At 31 December 2006	3,501	1,308	3,442	-	278	126	8,655

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

21. Intangible assets

	Software	Goodwill	Leasehold improvements	Other	Assets under development	Total
Cost						
Balance at 31 December 2007	1,121	-	7,600	2,179	3,901	14,801
Transfer from assets under development	125	-	1,821	370	(2,316)	-
Additions		2,300			6,848	9,148
Disposals and retirements	-	-	-	-	-	-
Balance at 31 December 2008	1,246	2,300	9,421	2,549	8,433	23,949
Accumulated amortisation						
At 31 December 2007	632	-	2,352	614	-	3,598
Charge for the year	142	-	1,549	409	-	2,099
Disposals and retirements						
Balance at 31 December 2008	773	-	3,901	1,023	-	5,697
Net book value						
At 31 December 2008	473	2,300	5,520	1,526	8,433	18,252
At 31 December 2007	489	-	5,248	1,565	3,901	11,203

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For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

21. Intangible assets (continued)

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

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

(All amounts are expressed in thousands of kunas)

22. Other assets

	31 December 2008	31 December 2007
Accrued fees and commissions	688	799
Foreclosed assets	2,119	725
Office supplies and small inventory	1,443	844
Advances	566	633
Receivables from the state and state institutions	56	26
Receivables in respect of the Primus transaction	-	21,426
Prepaid expenses	3,642	480
Other assets	3,319	4,329
	11,833	29,262
Impairment allowance	(3,276)	(8,814)
	8,557	20,448

Receivables in respect of the Primus transaction were collected in first quarter of 2008.

Movements in impairment provision

	2008	2007
At 1 January	8,814	7,883
Charged during the year	1,878	931
Amounts collected or reversed	-	-
Amounts written-off or adjusted otherwise	(7,416)	-
At 31 December	3,276	8,814

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

23. Liabilities to financial institutions

	31 December 2008	31 December 2007
Hrvatska poštanska banka d.d. Zagreb	30,000	10,000
Jadranska banka d.d.	30,000	20,000
Podravska banka d.d.	-	7,000
Croatia banka d.d.	8,500	9,000
Slatinska banka d.d.	14,000	10,000
Nava banka d.d.	-	8,300
Hypo Alpe-Adria Bank d.d.	-	19,598
Banka Sonic d.d.	-	10,000
Imex banka d.d.	-	10,000
Banka Kovanica d.d.	15,000	10,000
Jadranska banka d.d. Šibenik	-	10,000
Samoborska banka d.d. Samobor	-	31,000
Kreditna banka Zagreb d.d.	-	10,000
Zagrebačka banka d.d. Zagreb	64,900	9,500
Obrtnička štedna banka d.d. Zagreb	2,000	-
Veneto banka d.d. Zagreb	10,000	-
Privredna banka d.d. Zagreb	30,500	
HBOR Zagreb	14,346	12,012
Fima Global Invest d.o.o. Varaždin	-	22,000
Učka-Marjan ZIF-Mediteraninvest Križevci	-	2,000
Jadran kapital d.d.	1,000	-
Zagorska štedno kreditna zadruga	1,400	-
KD životno osiguranje	3,031	-
MIPCRO ŠKZ	2,844	-
Accrued interest	363	292
	227,884	210,702

Liabilities presented in table above includes following repo contracts:

- As at 31 December 2008 the Bank had concluded repo contracts with two Croatian banks. Collateral per these contracts were Croatian government bonds, and foreign Treasury Bills in amount of HRK 101,380 thousands.
- As at 31 December 2007 the Bank had concluded repo contracts with two Croatian banks. Collateral per these contracts were Croatian government bonds, and Ministry of Finance Treasury Bills in amount of HRK 25 thousands.

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

23. Liabilities to financial institutions (continued)

Liabilities to other financial institutions as at 31 December 2008 can be shown as follows:

	Nominal amount	Due date	Currency	Interest rate	2008
Hrvatska poštanska banka d.d.	30,000	02.01.2009	HRK	2.75	30,003
Jadranska banka d.d.	10,000	05.01.2009	HRK	6.00	10,012
Jadranska banka d.d.	20,000	02.01.2009	HRK	3.50	20,004
Croatia banka d.d.	8,500	07.01.2009	HRK	5.50	8,511
Slatinska banka d.d.	10,000	05.01.2009	HRK	5.00	10,009
Slatinska banka d.d.	4,000	02.01.2009	HRK	3.00	4,001
Banka Kovanica d.d.	10,000	05.01.2009	HRK	6.00	10,012
Banka Kovanica d.d.	5,000	02.01.2009	HRK	3.25	5,001
Zagrebačka banka d.d.	20,400	05.01.2009	HRK	3.00	20,417
Zagrebačka banka d.d.	17,500	07.01.2009	HRK	4.50	17,519
Zagrebačka banka d.d.	7,600	02.01.2009	HRK	5.00	7,602
Zagrebačka banka d.d.	19,400	02.01.2009	HRK	5.00	19,406
Obrtnička štedna banka d.d.	2,000	05.01.2009	HRK	5.00	2,002
Veneto banka d.d.	10,000	02.01.2009	HRK	2.00	10,001
Privredna banka Zagreb d.d.	9,000	02.01.2009	HRK	6.50	9,050
Privredna banka Zagreb d.d.	21,500	02.01.2009	HRK	6.50	21,558
HBOR	10,000	28.02.2009	HRK	3.50	10,085
HBOR	3,000	31.03.2009	HRK	2.85	3,035
HBOR	111	30.06.2013	HRK	2.50	112
HBOR	1,235	31.07.2018	HRK	2.75	1,253
Jadran kapital	500	02.01.2009	HRK	7.50	500
Jadran kapital	500	26.01.2009	HRK	7.50	502
Zagorska štedno kreditna zadruga	1,400	19.01.2009	HRK	5.80	1,403
KD životno osiguranje	1,000	10.06.2009	HRK	6.80	1,001
KD životno osiguranje	2,031	14.01.2009	HRK	9.00	2,034
Mipcro ŠKZ	2,844	30.11.2010	HRK	6.80	2,851
	227,521				227,884

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24. Amounts due to customers

	31 December 2008	31 December 2007
Corporate customers		
<i>Demand deposits</i>		
- in HRK	107,441	33,497
- in foreign currency or tied to foreign currency	2,991	1,999
Subtotal	110,432	35,496
<i>Term deposits</i>		
- in HRK	349,866	379,027
- in foreign currency or tied to foreign currency	40,506	34,198
Subtotal	390,372	413,225
Total corporate customers	500,804	448,721
Individuals		
<i>Demand deposits</i>		
- in HRK	12,770	12,448
- in foreign currency or tied to foreign currency	11,448	9,529
Subtotal	24,218	21,977
<i>Term deposits</i>		
- in HRK	141,817	82,497
- in foreign currency or tied to foreign currency	332,867	220,362
Subtotal	474,684	302,859
Total individuals	498,902	324,836
Public sector and non-profit organisations		
<i>Demand deposits</i>		
- in HRK	15,186	3,258
- in foreign currency or tied to foreign currency	1	2
Subtotal	15,187	3,260
<i>Term deposits</i>		
- in HRK	880	27,691
- in foreign currency or tied to foreign currency	-	-
Subtotal	880	27,691
Total public sector and non-profit organisations	16,069	30,951
Restricted deposits		
<i>Demand deposits</i>		
- in HRK	5,118	1,244
- in foreign currency or tied to foreign currency	-	-
Subtotal	5,118	1,244
Total restricted deposits	5,118	1,244
Total	1,020,893	805,752

At the year-end, interest rates on amounts due to customers in respect of current accounts and demand deposits ranged between 0.5% and 1.0%, and on term deposits from 3.5%-8.0%.

The largest individual balance due to a single depositor amounted to HRK 80,685 thousand at 31 December 2008 (2007: HRK 103,349 thousand), which relates to a HRK denominated term deposit in the total amount of 80,685 thousand (2007: HRK 103,349 thousand), with interest at a rate of 3.0% (2007: 2.5%), which matures on 31 January 2009.

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25. Provisions for liabilities and charges

Movements in provisions for liabilities and charges were as follows:

	31 December 2008	31 December 2007
Provisions for contingent liabilities and commitments	1,037	983
Litigation provision	<u>2,413</u>	<u>310</u>
	<u>3,450</u>	<u>1,293</u>

	2008			
	Taxes and contributions	Contingent liabilities	Litigation provision	Total
At 1 January	-	983	310	1,293
New provisions made	-	220	2,251	2,471
Amounts reversed	-	(166)		(166)
Utilised	-	-	(148)	(148)
At 31 December	<u>-</u>	<u>1,037</u>	<u>2,413</u>	<u>3,450</u>

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

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

The management has reviewed all legal actions outstanding against the Bank and have provide for the estimated amount of HRK 2,251 thousands in respect of legal cases.

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

26. Other liabilities

	31 December 2008	31 December 2007
Fees and interest payable	-	10
Amounts due to suppliers	3,308	1,588
Amounts due to employees	1,066	1,007
Taxes and contributions	942	955
Liabilities for received payments and unallocated funds	-	-
Savings deposit insurance premiums	355	206
Liabilities taken from ŠKZ Folis	-	-
Other liabilities assumed from Primus banka	-	223
Amounts due to the Supervisory Board	26	116
Accruals on retail business	24	172
Deferred income	2,504	-
Accrued expenses	200	-
Provision for severance payment	214	-
Received funding deposits	200	-
Loan prepayments	733	-
Liabilities for received payments which are another bank custody	1,998	-
Other liabilities	676	771
	<u>12,246</u>	<u>5,048</u>

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

27. Share capital and reserves

a) Share capital

	31 December 2008	31 December 2007
Nominal value of share capital	153,355	153,355
Number of ordinary shares (in pcs)	1,533,550	1,533,550
Nominal value per share (in kunas)	100	100
Shareholders with a holding in excess of 5%		
- Validus d.d., Varaždin	29.46%	33.82%
- Balkan financial sector equity fund C.V.	19.04%	19.04%
- Fima grupa d.d., Varaždin	12.10%	10.99%
- Nikomat d.o.o. Varaždin (former Retis d.o.o.)	3.28%	5.35%

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

(All amounts are expressed in thousands of kunas)

28. Analysis of cash and cash equivalents

Cash and cash equivalents included in the cash flow statement for the year ended 31 December 2008 include:

	31 December 2008	31 December 2007
Cash in hand	14,726	13,001
Current accounts with domestic banks	7,566	3,183
Current accounts with foreign banks	13,278	6,112
Current accounts with the Croatian National Bank	71,974	82,167
Placements with domestic banks	100,391	11,749
Placements with foreign banks	23,014	49,515
	230,949	165,727

29. Contingent liabilities and commitments

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

	31 December 2008	31 December 2007
Guarantees	21,015	29,199
Undrawn lending facilities	97,624	66,520
Other	534	19,991
	119,173	115,710

30. Funds managed on behalf of third parties

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

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

	31 December 2008	31 December 2007
Liabilities		
Corporate entities	46,467	45,881
HBOR	32,253	31,142
Others	-	6
Total liabilities:	78,720	77,029
Assets		
Corporate loans	46,466	45,763
Loans to individuals	32,236	31,142
Cash	18	124
Total assets:	78,720	77,029

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

31. Operating lease commitments

The Bank has commitments under 16 operating lease agreements concluded for the lease of an outlet premises, ATMs and cars.

Future minimum lease payments under these operating lease arrangements are as follows:

	31 December 2008	31 December 2007
Up to 1 year	12,437	6,805
From 1 to 5 years	25,891	16,901
Over 5 years	19,785	14,341
	<u>58,113</u>	<u>38,047</u>

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

32. Financial risk management policies

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

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

Credit risk

The Bank is subject to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counter parties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of the credit risk, the Bank deals with clients of good credit standing and when appropriate the Bank obtains collaterals.

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of the credit exposure in this regard is represented by the carrying amounts of the assets in the balance sheet. In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued (refer to note 29).

The loan approval process is specified in the Procedure for Loan Approval and Establishing Creditworthiness of Legal Entities. In 2008 the Bank defined an internal credit rating model, which is used to rate the creditworthiness on each loan application, which is minimum once a year, subsequent to the delivery of the annual accounts by the clients to which the Bank is exposed who have not filed a loan request for a new risky product. The internal model includes the assessment of the following: the nature of the borrower, the borrower's capital, liquidity and profitability, the asset power and the general business terms and conditions, as well as the outlook of the borrower. Depending on the credit rating, borrowers are classified in one of the five creditworthiness categories.

The credit exposure to a portfolio or separate groups of counterparties is regularly reviewed against the defined limits. The level of the limit used is reported to the competent bodies of the Bank responsible for their approval. The Credit Committee approves all significant increases in credit exposures and passes all decisions regarding the credit risk. The Bank's management monitors changes in the credit exposure and considers the proposed adjustments. Credit risk is monitored and reported on an ongoing basis so as to timely identify any impairment in the credit portfolio. The Bank applies prudent procedures for the approval, monitoring and collection of loans and advances, and monitors permanently the financial position of its debtors using an early warning system.

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

(All amounts are expressed in thousands of kunas)

32. Financial risk management policies (continued)

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

- Performing loans – A Risk Group – measured on a collective basis;
- Substandard loans – B Risk Group – measured on an individual basis;
- Non-performing loans (bad debt) – C Risk Group – measured on an individual basis.

All three levels contain sub-categories, which are mandatory for the substandard loans.

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Collateral for loans, guarantees and letters of credit is usually in the form of deposits, pledge, listed investments, bills of exchange, mortgages over residential properties, mortgages over business properties, promissory notes or other assets.

Liquidity risk

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

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings, subordinated liabilities including deposits, borrowings and share capital.

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

Market risk

The majority of available for sale instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognised at fair value, and all changes in market conditions directly affect revaluation reserves, or income statement depending in which portfolio financial instruments are classified. The Bank manages its use of trading instruments in response to changing market conditions.

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

32. Financial risk management policies (continued)

The Bank is strongly engaged in formalizing and passing internal procedures and setting exposure limits to manage efficiently its market instruments in response to market changes, and the existing exposure is limited using short horizon investments. Limits will be set in line with the Bank's requirements and strategy, in accordance with the top management risk policy.

Currency risk

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

Interest rate risk

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

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

Derivative financial instruments

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

Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk. In order to efficiently measure and manage the operational risk exposure at the Bank level, the Bank will be developing the operational risk exposure management in line with the Basel II prescribed framework.

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

33. Maturity analysis

The remaining contractual maturity of the Bank's assets, liabilities and equity as at 31 December 2008 is presented in the table below.

31 December 2008	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Over 3 years	Undefined	Total
ASSETS							
Cash and amounts due from banks	107,544	-	-	-	-	-	107,544
Obligatory reserve with Croatian National Bank	29,756	16,244	29,399	9,628	1,224	-	86,251
Placements with other banks	123,039	-	-	366	-	-	123,405
Available-for-sale financial assets	78,922	40,422	360	20,955	21,493	-	162,152
Held-to-maturity financial assets	-	52,543	-	-	-	-	52,543
Loans and advances to customers	149,424	139,243	253,971	137,603	136,218	-	816,459
Tangible assets	-	-	-	-	-	25,569	25,569
Intangible assets	-	-	-	-	-	18,252	18,252
Other assets	2,669	3,220	8	-	2,660	-	8,557
Total assets	491,354	251,672	283,738	168,552	161,595	43,821	1,400,732
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to customers	359,084	190,287	344,388	112,785	14,349	-	1,020,893
Other borrowed funds	204,900	8,638	13,000	-	1,346	-	227,884
Provisions for liabilities and charges	-	2,413	-	-	1,037	-	3,450
Other liabilities	12,031	215	-	-	-	-	12,246
Total shareholders' equity	-	-	-	-	-	136,259	136,259
Total liabilities and shareholders' equity	576,015	201,552	357,388	112,785	16,732	136,259	1,400,732
Net liquidity gap	(84,661)	50,120	(73,650)	55,767	144,863	(92,438)	-

31 December 2007	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Over 3 years	Total
Total assets	426,794	183,721	324,652	119,484	151,939	1,206,590
Total liabilities and shareholders' equity	505,390	94,617	286,258	124,997	195,328	1,206,590
Net liquidity gap	(78,596)	89,104	38,394	(5,513)	(43,389)	-

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

34. Price risk

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

At 31 December 2008	Assumed price change	Influence of price increase on profit and loss	Influence of price decrease on profit and loss	Influence of price increase on revaluation reserves
Equity instruments	5.88%-21.18%	10,101	(4,448)	2,619
Debt instruments	3.75%-5.00%	3,429	(9,563)	5,080
Units in open-ended investment funds	8.00%-25.00%	351	(6,043)	2,557

35. Credit risk

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

As at 31 December 2008	Gross placements	Provisions on individual basis	Provisions on general basis	Net placements
A. On-balance sheet exposure	1,347,024	-	-	-
Balances with Croatian National Bank	158,177	-	-	158,177
Derivative financial assets	-	-	-	-
Placements with other banks	123,405	-	-	123,405
Available-for-sale assets	162,152	-	-	162,152
Held-to-maturity assets	52,543	-	-	52,543
Loans to customers	850,747	(23,001)	(11,287)	816,459
- performing	818,714	-	-	818,714
- substandard	13,662	(4,630)	-	9,032
- non-performing	18,371	(18,371)	-	-
Total on-balance sheet exposure	1,347,024	(23,001)	(11,287)	1,312,736
B. Off-balance sheet exposure	119,173	-	-	119,173
Other banks	-	-	-	-
Customers	119,173	-	(1,037)	118,134
- performing	-	-	-	-
- substandard	-	-	-	-
- non-performing	-	-	-	-
Total off-balance sheet exposure	119,173	-	(1,037)	118,134
OVERALL EXPOSURE (A+B)	1,466,197	(23,001)	(12,325)	1,430,870

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

35. Credit risk (continued)

b) Overall exposure to credit risk – balance sheet and off-balance sheet (continued)

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

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For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

35. Credit risk (continued)

b) Past due claims

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

As at 31 December 2008	Due up to 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 365 days	Due between 1 and 2 years	Due between 2 and 3 years	Due over 3 years
Placements with other banks	-	-	-	-	-	-	-
Loans to customers	166,300	92,344	65,977	7,127	2,804	2,456	13,840
- individuals	92,239	34,770	15,190	2,740	2,525	2,008	10,161
- corporate entities	74,061	57,574	50,787	4,387	279	448	3679
- public and other sectors	-	-	-	-	-	-	-
Other past due debtors	2,532	2,167	2,880	704	372	795	9,438
Overall past due claims	168,832	94,511	68,857	7,831	3,176	3,251	23,278

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

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35. Credit risk (continued)

c) Placements covered by collaterals

	Deposit	Housing mortgages	Business mortgages	Other instruments	No collateral
As at 31 December 2008					
A, On-balance sheet exposure					
Balances with Croatian National Bank	-	-	-	-	158,177
Derivative financial assets	-	-	-	-	-
Placements with other banks	-	-	-	-	-
Loans to customers	179,215	33,673	162,221	552,544	97,819
Available-for-sale assets	-	-	-	-	-
Held-to-maturity assets	-	-	-	-	52,543
Total on-balance sheet exposure	179,215	33,673	162,221	552,544	308,539
B, Off-balance sheet exposure					
Other banks	-	-	-	-	-
Customers	2,541	-	6,719	19,863	-
Total off-balance sheet exposure	2,541	-	6,719	19,863	-
OVERALL EXPOSURE (A+B)	181,756	33,673	168,940	572,407	308,539
Fair value of collaterals					
At 31 December 2007					
A, On-balance sheet exposure					
Balances with Croatian National Bank	-	-	-	-	125,657
Derivative financial assets	-	-	-	-	-
Placements with other banks	-	-	-	-	61,265
Loans to customers	157,482	12,156	137,585	420,366	7,739
Available-for-sale assets	-	-	-	-	41,396
Held-to-maturity assets	-	-	-	-	9,796
Total on-balance sheet exposure	157,482	12,156	137,585	420,366	245,853
B, Off-balance sheet exposure					
Other banks	-	-	-	-	-
Customers	121	878	27,142	-	-
Total off-balance sheet exposure	121	878	27,142	66,437	21,432
OVERALL EXPOSURE (A+B)	157,603	13,034	164,727	486,803	267,285
Fair value of collaterals					

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(All amounts are expressed in thousands of kunas)

35. Credit risk (continued)

d) Provision ratio in performing and non-performing loans

	2008		2007	
	Customer loans (%)	Provision ratio (%)	Customer loans (%)	Provision ratio (%)
Performing loans	97	0.85	96	0.85
Substandard loans	1	34.65	1	40.40
Non-performing loans	2	100	3	100
Total	100		100	

36. Interest rate risk

The bank is exposed to various risks pertaining to the effect of changes in market interest rates on its financial position and cash flows. The table below shows the assessment by the Management Board concerning the exposure of the Bank on 31 December 2008, which is not necessarily indicative for a position in another period. The table shows the sensitivity of the Bank's profit to the fluctuations in interest rates. The profit also depends on currency structure of the Bank's assets and liabilities. The Bank has a significant portion of interest-bearing assets and liabilities which bear and pay interest in foreign currencies.

	Up to 1 month	1-3 months	3 – 12 months	1 – 3 years	Over 3 years	Non- interest bearing	Total
ASSETS							
Cash and amounts due from banks	92,817	-	-	-	-	14,727	107,544
Obligatory reserve with CNB	29,756	16,244	29,399	9,628	1,224	-	86,251
Placements with other banks	123,039	-	-	366	-	-	123,405
Held-for-trading financial assets	-	-	-	-	-	-	-
Available-for-sale financial assets	78,922	40,422	360	20,955	21,493	-	162,152
Held-to-maturity financial assets	-	52,543	-	-	-	-	52,543
Loans and advances to customers	149,424	139,243	253,971	137,603	136,218	-	816,459
Treasury bills –Government and	-	-	-	-	-	-	-
Tangible assets	-	-	-	-	-	25,569	25,269
Intangible assets	-	-	-	-	-	18,252	18,252
Other assets	-	-	-	-	-	8,557	8,557
Total assets	473,958	248,452	283,730	168,552	158,935	50,678	1,400,732
LIABILITIES AND SHAREHOLDERS' EQUITY							
Deposits from banks	359,084	190,287	344,388	112,785	14,349	-	1,020,893
Amounts due to customers	204,900	8,638	13,000	-	1,346	-	227,884
Other borrowed funds	-	2,413	-	-	1,037	-	3,450
Provisions for liabilities and	-	-	-	-	-	12,245	12,245
<i>Other liabilities</i>	<i>563,984</i>	<i>201,338</i>	<i>357,388</i>	<i>112,785</i>	<i>16,732</i>	<i>12,245</i>	<i>1,264,472</i>
Total liabilities	-	-	-	-	-	136,260	136,260
Total shareholders' equity	563,984	201,338	357,388	112,785	16,732	148,505	1,400,732
Total liabilities and							
Interest rate sensitivity gap	(90,026)	47,114	(73,658)	55,767	142,203	(81,400)	-
Fixed rate loans	5,650	192	33,668	1,511	4,619	-	45,640
Fixed rate deposits	3,778	912	26,797	34,969	13,582	-	80,038

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(All amounts are expressed in thousands of kunas)

36. Interest rate risk (continued)

31 December 2007	Up to 1 month	1-3 months	3 – 12 months	1 – 3 years	Over 3 years	Non-interest bearing	Total
Total assets	983,002	26,699	73,162	21,027	29,345	73,355	1,206,590
Total liabilities and shareholders' equity	939,254	19,010	21,157	27,605	10,721	188,841	1,206,590
Interest rate sensitivity gap	43,748	7,688	52,005	(6,578)	18,624	(115,486)	-

Average interest rates

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

31 December 2008	EUR	USD	Other currencies	HRK
ASSETS				
Cash and amounts due from banks	1.25%	-	-	0.75%
Obligatory reserve with Croatian National Bank	2.26%-3.50%	5.22%-5.30%	-	-
Placements with other banks	-	-	-	1%-12%
Loans and advances to customers				5% - 13%
LIABILITIES				
Amounts due to customers	1.5%-5%	1.5%-5%	-	0.5% - 7%
Other borrowed funds	-	-	-	-
31 December 2007	EUR	USD	Other currencies	HRK
ASSETS				
Cash and amounts due from banks	-	-	-	-
Obligatory reserve with Croatian National Bank	1.79%	-	-	0.71%
Placements with other banks	-	-	-	0-12%
Loans and advances to customers	-	-	-	-
LIABILITIES				
Amounts due to customers	1.5%-5%	1.5%-5%	-	1.5%-6%
Other borrowed funds	-	-	-	-

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

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(All amounts are expressed in thousands of kunas)

36. Interest rate risk (continued)

	Assumed increase of the interest rate	Impact on 2008 profit and loss	Impact on 2007 profit and loss
Assets			
Balances with Croatian National Bank	5.00%	26	39
Financial assets	5.00%	172	120
Placements with other banks	25.00%	1,148	570
Loans to customers	10.00%	5,879	5,056
Other assets	3.00%	5	7
Liabilities			
Due to other banks	20.00%	-	371
Amounts due to customers	10.00%	2,756	2,205
Other borrowed funds	8.00%	950	752
Impact on net interest income		3,523	2,465

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(All amounts are expressed in thousands of kunas)

37. Foreign exchange position

The Bank had the following foreign exchange position as at 31 December 2008:

31 December 2008	EUR and EUR linked currencies	USD	Other currencie s	Total foreign currencies	HRK	Total
ASSETS						
Cash and balances with other banks	10,566	13,460	2,088	26,114	81,430	107,544
Obligatory reserve with Croatian National Bank	13,199	-	-	13,199	73,052	86,251
Placements with other banks	14,298	721	8,376	23,395	100,010	123,405
Held-for-trading financial assets	-	-	-	-	-	-
Available-for-sale financial assets	99,877	-	-	99,877	62,275	162,152
Held-to-maturity financial assets	-	-	-	-	52,543	52,543
Loans and advances to customers	186,446	-	-	186,446	630,013	816,459
Treasury bills – Government and CNB	-	-	-	-	-	-
Tangible assets	-	-	-	-	25,569	25,569
Intangible assets	-	-	-	-	18,252	18,252
Other assets	19	-	-	19	8,538	8,557
Total assets	324,405	14,181	10,464	349,050	1,051,682	1,400,732
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits from banks	-	-	-	-	-	-
Amounts due to customers	355,189	14,115	9,836	379,140	641,753	1,020,893
Other borrowed funds	-	-	-	-	227,884	227,884
Provisions for liabilities and charges	-	-	-	-	3,450	3,450
Other liabilities	22	-	5	-	12,246	12,246
Total liabilities	355,211	14,115	9,841	379,140	885,333	1,264,473
Total shareholders' equity	-	-	-	-	136,259	136,259
Total liabilities and shareholders' equity	355,211	14,115	9,841	379,140	1,021,592	1,400,732
Net foreign exchange position	(30,806)	66	623	(30,090)	30,090	-

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

37. Foreign exchange position (continued)

31 December 2007	EUR and EUR-tied currencies	USD	Other currencies	Total foreign currencies	HRK	Total
Total assets	226,887	8,697	13,025	248,609	957,981	1,206,590
Total liabilities and shareholders' equity	245,164	8,994	8,065	262,223	944,367	1,206,590
Net foreign exchange position	(18,277)	(297)	4,960	(13,614)	-	-

The Table below presents sensitivity of Bank's net assets and profit and loss to an increase in CNB's middle exchange rate. By applying the same assumed percentage to a decrease of the CNB middle exchange rate, the impact on the profit or loss, on the net principle, by individual currency would be the same and opposite, that is, the aggregate impact on all currencies would result in expense for the year 2008 and in income for the year 2007. The result of exchange rate variation is recognized as exchange rate differences – an item of profit and loss.

Currency on 31 December 2008	Assumed increase of CNB's middle exchange rate	Influence on profit and loss	Influence on profit and loss	Influence on profit and loss
		Assets	Liabilities	Net
EUR	1,50%	4,866	5,328	(462)
USD	2,50%	355	353	2
Other currencies	3,00%	313	295	18
Total		5,534	5,976	(442)

Currency on 31 December 2007	Assumed increase of CNB's middle exchange rate	Influence on profit and loss	Influence on profit and loss	Influence on profit and loss
		Assets	Liabilities	Net
EUR	1,50%	1,290	2,641	(1,351)
USD	2,50%	217	225	(8)
Other currencies	3,00%	391	242	149
Total		1,898	3,108	(1,210)

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

38. Fair value of financial assets and liabilities

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

It is the opinion of the management of the Bank that the fair value of the Bank financial assets and liabilities are not materially different from the amounts stated in the balance sheet as at 31 December 2008.

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

(a) Cash and balances with central bank

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

(b) Investments held to maturity

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

(c) Amounts due from other banks

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

(d) Loans and advances to customers

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

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

38. Fair value of financial assets and liabilities (continued)

(e) Amounts due to other banks and customers

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

39. Related party transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As at 31 December 2008, balances outstanding with related parties comprise of following:

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
Assets and liabilities with related companies	184	6,974	112,599	22,772
	<u>184</u>	<u>6,974</u>	<u>112,599</u>	<u>22,772</u>

	2008		2007	
	Income	Expenses	Income	Expenses
Interest and commissions	-	298	9,248	1,582
Other	392	67	7,112	4,644
	<u>392</u>	<u>365</u>	<u>16,360</u>	<u>6,226</u>

The most significant amount in total assets relate to receivables from Fima Vrijednosnice d.d. in amount of HRK 77 thousand related to issued sublease invoices.

Liabilities include deposit from Fima Global Invest in amount of HRK 5,000 thousand (term deposits) and current account balances.

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

	2008	2007
Salaries	1,757	1,842
Bonuses	-	-
	<u>1,757</u>	<u>1,842</u>

Notes to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

40. Approval of the financial statements

The financial statements were approved and signed by the Management Board of Vaba d.d. banka Varaždin on 30 April 2009:

President of the Management Board

Igor Čičak



Executive Manager

Natalija Jambrečić



Appendix to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

Pursuant to the Croatian Accounting Law (Official Gazette 109/07) Croatian National Bank issued the Decision on structure and contents of annual financial statement of the banks (Official Gazette 62/08). The following tables present financial statements in accordance to the above mentioned decision:

Income statement

	2008.	2007.
	Unaudited	Unaudited
	HRK '000	HRK '000
1. Interest income	89,228	56,656
2. (Interest expenses)	54,447	34,301
3. Net interest income	34,781	22,355
4. Commission and fee income	8,173	10,873
5. (Commission and fee expenses)	2,417	2,586
6. Net commission and fee income	5,756	8,287
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. Gain/(loss) from trading activities	(5,620)	11,230
9. Gain/(loss) from embedded derivatives	1	27
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	-	-
11. Gain/(loss) from financial assets available for sale	248	2,125
12. Gain/(loss) from financial assets held to maturity	-	-
13. Gain/(loss) from hedging transactions	-	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-
15. Income from other equity investments	509	-
16. Gain/(loss) from foreign exchange differences	(94)	278
17. Other income	3,015	12,539
18. Other expenses	(8,525)	(9,093)
19. General and administrative expenses, depreciation and amortization	(53,391)	(46,601)
20. Net income before value adjustments and provisions for losses	(23,320)	4,147
21. Expenses from value adjustments and provisions for losses	(9,678)	(3,657)
22. Profit/(loss) before tax	(32,998)	490
23. Income tax	-	-
24. Current year profit/(loss)	(32,998)	490
25. Earnings per share	-	0,52

Appendix to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

Balance sheet

	2008	2007
	Unaudited	Unaudited
	HRK '000	HRK '000
Imovina		
Assets	172,904	220,750
1. Cash and deposits with CNB	14,727	13,001
1.1. Cash	158,177	207,749
1.2. Deposits with CNB	44,222	64,522
2. Deposits with banking institutions	-	14,321
3. Treasury bills of Ministry of Finance and treasury bills of CNB	-	97,135
4. Securities and other financial instruments held for trading	162,088	26,928
5. Securities and other financial instruments available for sale	52,408	9,653
6. Securities and other financial instruments held to maturity	-	-
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	13	18
8. Derivative financial assets	100,022	6,000
9. Loans to financial institutions	811,586	700,083
10. Loans to other clients	-	-
11. Investments in subsidiaries, affiliated companies and joint ventures	2,119	725
12. Repossessed assets	26,528	29,547
13. Tangible and intangible assets (minus depreciation and amortization)	34,792	37,883
A. Total assets	1,406,682	1,207,565
Liabilities and equity		
1. Borrowings from financial institutions	219,246	193,410
1.1. Short-term borrowings	217,900	193,410
1.2. Long-term borrowings	1,346	-
2. Deposits	1,009,802	811,065
2.1. Deposits on giro-accounts and current accounts	132,781	45,347
2.2. Savings deposits	14,744	13,877
2.3. Term deposits	862,277	751,841
3. Other borrowings	-	-
4. Derivative financial liabilities and other trading financial liabilities	-	-
5. Issued debt securities	-	-
5.1. Issued short-term debt securities	-	-
5.2. Issued long-term debt securities	-	-
6. Issued subordinated instruments	-	-
7. Issued subordinated debt	-	-
8. Interests, fees and other liabilities	41,374	19,296
B. Total liabilities	1,270,422	1,023,771
Equity		
1. Share capital	184,146	185,778
2. Current year gain/loss	(32,998)	490
3. Retained earnings/(loss)	(5,382)	(1,632)
4. Legal reserves	-	-
5. Statutory and other capital reserves	(716)	(768)
6. Unrealised gain /(loss) from available for sale fair value adjustment	(8,790)	(74)
C. Total equity	136,260	183,794
D. Total liabilities and equity	1,406,682	1,207,565

Appendix to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

Cash flow statement

	2008	2007
	Unaudited	Unaudited
Operating activities		
1.1. Gain/(loss) before tax	(32,998)	490
1.2. Value adjustments and provisions for losses	2,157	291
1.3. Depreciation and amortization	4,815	3,124
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value		(403)
1.5. Gain/(loss) from tangible assets sale	31	
1.6. Other (gains)/losses	(509)	
1. Operating cash flow before operating assets movements	(26,504)	502
2.1. Deposits with CNB	49,572	(88,741)
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	14,321	(14,321)
2.3. Deposits with banking institutions and loans to financial institutions	(73,722)	10,085
2.4. Loans to other clients	(111,503)	(192,837)
2.5. Securities and other financial instruments held for trading	97,135	(70,132)
2.6. Securities and other financial instruments available for sale	(135,160)	(22,869)
2.7. Securities and other financial instruments that are not traded on active		
2.8. Other operating assets	1,697	(19,394)
2. Net (increase)/decrease in operating assets	(157,660)	(398,209)
Increase/(decrease) in operating liabilities	(184,164)	(397,707)
3.1. Demand deposits	88,301	(30,714)
3.2. Savings and term deposits	110,436	125,925
3.3. Derivative financial liabilities and other trading liabilities	5	14
3.4. Other liabilities	19,921	131
3. Net increase/(decrease) in operating liabilities	218,663	95,356
4. Net cash flow from operating activities before profit tax paying	34,499	(302,351)
5. Paid profit tax		
6. Net inflows/(outflows) of cash from operating activities	34,499	(302,351)
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible	(1,827)	(23,871)
7.2. Receipts from sale /(payments for buying) investments in subsidiaries,		
7.3. Receipts from collection/(payments for buying) securities and other	(42,755)	15,807
7. Net cash flow from investing activities	(44,582)	(8,064)
Financial activities		
8.1. Net increase/(decrease) in borrowings	25,836	188,410
8.2. Net increase/(decrease) in issued debt securities		
8.3. Net increase/(decrease) in subordinated and subordinated debt		
8.4. Receipts from issued share capital		
8.5. (Dividends paid)	509	
8.6. Other receipts/(payments) from financial activities	(14,536)	126,030
8. Net cash flow from financial activities	11,809	314,440
9. Net increase/(decrease) in cash and cash equivalents	1,726	4,025
10. Effects from foreign exchange rates changes on cash and cash		
11. Net increase/(decrease) in cash and cash equivalents	1,726	4,025
12. Cash and cash equivalents at the beginning of the year	13,001	8,976
13. Cash and cash equivalents at the end of the year	14,727	13,001

Appendix to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

Statement of changes in equity

Unaudited	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/losses from available for sale financial assets fair value adjustment za prodaju	Total capital and
1. Balance at 1 January 2008	153,355		31,703	(1,142)		(121)	183,795
2. Changes of Accounting policies and error corrections							
3. Restated current year balance	153,355		31,703	(1,142)		(121)	183,795
4. Sale of financial assets available for sale							
5. Fair value changes of financial assets available for sale						(8,718)	(8,718)
6. Tax on items directly recognised or transferred from capital and reserves							
7. Other gains or losses directly recognised in capital and reserves			(1,580)	(4,240)			(5,820)
8. Net gains/losses directly recognised in capital and reserves							
9. Current year gain/(loss)					(32,998)		(32,998)
10. Total income and expenses recognised for the current year							
11. Increase/ (decrease) in share capital							
12. Buying/(sale) of treasury shares	-	-	-	-	-	-	-
13. Other changes	-						
14. Transfer to reserves	-						
15. Dividends paid	-						
16. Distribution of profit	-						
17. Balance at 31 December 2008	153,355	30,123	(5,382)	(32,998)	(8,839)		136,259

Appendix to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

Statement of changes in equity (continued)

Unaudited	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/losses from available for sale financial assets fair value adjustment	Minority Participation	Total capital and reserves
1. Balance at 1 January 2007	62,226		(3,320)	(1,632)				57,274
2. Changes of Accounting policies and error corrections								
3. Restated current year balance	62,226		(3,320)	(1,632)				57,274
4. Sale of financial assets available for sale						(121)		(121)
5. Fair value changes of financial assets available for sale								
6. Tax on items directly recognised or transferred from capital and reserves								
7. Other gains or losses directly recognised in capital and reserves								
8. Net gains/losses directly recognised in capital and reserves								
9. Current year gain/(loss)					490			490
10. Total income and expenses recognised for the current year								
11. Increase/ (decrease) in share capital	91,129		35,023					126,152
12. Buying/(sale) of treasury shares								
13. Other changes								
14. Transfer to reserves								
15. Dividends paid								
16. Distribution of profit								
17. Balance at 31 December 2007	153,355		31,703	(1,632)	490	(121)		183,795

Appendix to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

As data in financial statements prepared in accordance with the Croatian National Bank ("CNB") decision are classified differently from those in financial statements prepared according to the statutory accounting requirements for banks in Croatia the following tables present comparatives.

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

	2008	2008	2008	2007	2007	2007
	Croatian	Accounting	Difference	Croatian	Accounting	Difference
	National	Requirements		National	Requirements	
	Bank	for banks		Bank	for banks	
	Decision	in Croatia		Decision	in Croatia	
	2008	2008	2008	2007	2007	2007
	Unaudited			Unaudited		
Interest and interest similar income	89,228	89,228		56,656	61,781	5,125
Interest and interest similar expenses	(54,447)	(54,447)		(34,301)	(34,301)	
Net interest income	34,781	34,781		22,355	22,355	5,125
Commission and fee income	8,173	8,114	(59)	10,874	10,874	
Commission and fee expenses	(2,417)	(2,417)		(2,586)	(2,586)	
Net commission and fee income	5,756	5,697	(59)	8,288	8,288	
Net trading gain	(5,620)	(5,620)		11,230	6,235	(4,995)
Gain/(loss) from financial assets available for sale	248		(248)	5,125		(5,125)
Income from other equity investments	1		(1)			
Net foreign exchange differences	(49)	(49)		278	305	27
Other operating income	3,479	3,772	293	12,566	17,534	4,968
Total other income	(1,941)	(1,897)	44	29,199	24,074	(5,125)
General and administrative expenses, depreciation and Expenses from value adjustments and provisions for	(53,391)	(61,915)	(8,524)	(46,601)	(55,694)	(9,093)
	(9,678)	(9,664)	14	(3,658)	(3,658)	
Other operating expenses	(8,525)		8,525	(9,093)		(9,093)
Total other expenses	(71,594)	(71,579)	15	(59,352)	(59,352)	
Profit before tax	(32,998)	(32,998)		490	490	
Income tax						
Net profit for the year						
Earnings per share (HRK)						

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For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

The difference for the year ended 31 December 2008 in "Fee and commission income" of HRK 59 thousand (2007: HRK 0 thousand) arises from foreign exchange differences which are presented in "Net foreign exchange differences" and "Other income" in the income statement in accordance with statutory accounting requirements for banks in Croatia.

The difference for the year ended 31 December 2007 in "Interest and interest similar expenses" of HRK 5,125 thousand is presented in „Gain/(loss) from financial assets available for sale" in the income statement in accordance with statutory accounting requirements for banks in Croatia.

Differences in positions included in "Total other income" result from more detailed net trading gain elaboration in the income statement according to the CNB decision.

The difference in "Other operating expenses" arises from marketing expenses presented in "General and administrative expenses" in the income statement in accordance with statutory accounting requirements for banks in Croatia.

Appendix to the financial statements

For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

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

	2008	2008	2008	2007	2007	2007
	Croatian	Accounting	Difference	Croatian	Accounting	Difference
	National	Requirements		National	Requirements	
	Bank	for banks		Bank	for banks	
	Decision	in Croatia		Decision	in Croatia	
Assets						
Cash and deposits with CNB	172,904	193,795	20,891	220,750	217,437	(3,313)
Treasury bills of Ministry of Finance and treasury bills of Financial assets at fair value through profit and loss				14,321	12,684	(1,637)
				97,135	97,135	
Financial assets HTM	52,408	52,543	135	9,653	9,796	143
Placements with and loans to other banks	144,244	123,405	(20,839)	70,522	61,265	(9,257)
Loans and receivables	811,586	816,459	4,873	700,083	706,523	6,440
Available for sale financial assets	162,088	162,152	64	26,928	41,396	(14,468)
Repossessed assets	2,119		(2,119)	725		(725)
Property, plant and equipment and intangible assets	26,528	43,821	17,293	29,547	39,906	10,359
Derivative financial assets	13		(13)	18		(18)
Deferred tax assets						
Other assets	34,792	8,557	(26,235)	37,883	20,448	(17,435)
General provisions	(11,287)		11,287	(8,832)		8,832
Total assets	1,406,682	1,400,732	(5,950)	1,207,565	1,206,590	(975)
Liabilities						
Due to other banks and deposits from customers	1,229,048	1,248,777	19,729	1,004,475	1,016,454	11,979
Long-term issued debt securities						
Provisions for liabilities and charges		3,450	3,450		1,293	1,293
Derivative financial liabilities and other trading financial						
Other liabilities	41,375	12,246	(29,129)	19,296	5,048	(14,248)
Total liabilities	1,270,423	1,264,473	(5,950)	1,023,771	1,022,795	(976)
Equity						
Share capital	153,355	153,355		153,355	153,355	
Share premium	30,123	27,423	(2,700)	31,703	29,056	(2,646)
Net profit for the year						
Retained earning/(loss carried forward)	(38,380)	(38,380)		(1,142)	(1,142)	
Hedging reserve						
Unrealised gain/(loss) from available for sale fair value	(8,839)	(8,791)	48	(121)	(74)	47
Reserves		2,652	2,652		2,600	2,600
Total equity	136,259	136,259		183,795	183,795	
Total liabilities and equity	1,406,682	1,400,732	(5,950)	1,207,565	1,206,590	(975)

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For the year ended 31 December 2008

(All amounts are expressed in thousands of kunas)

The difference in total assets and total liabilities of HRK 5,950 thousand as of 31 December 2008 (2007: HRK 975 thousand) between the balance sheet presented according to the CNB decision and the balance sheet presented in accordance with statutory accounting requirements for banks in Croatia arises from different classification of deferred loan origination fees. In balance sheet according to CNB decision deferred origination fees are included in the position "Interests, fees and other assets" in "Total liabilities" whereas in balance sheet according to the statutory accounting requirements for banks in Croatia they are recognized as an adjustment in the position "Loans and receivables" in "Total assets".

Differences in other positions arise from different classification of interest receivables and interest payables. In balance sheet according to CNB decision interest receivables and interest payables are recognised in "Other assets" and "Other liabilities" respectively, whereas in the balance sheet according to the statutory accounting requirements for banks in Croatia they are recognised in assets or liabilities positions they are related to, as an adjustment to their amortised cost.

Intangible assets are in the balance sheet according to CNB decision presented in „Other assets“.