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annual report

otpbanka

Report of the President of the Management Board

Dear customers and business partners,

I take great pleasure in presenting to you the business results of OTP banka Hrvatska for the year 2008. OTP banka Hrvatska recorded another successful business year, marked with good business results, expansion of the business network in the Zagreb area and in the region of Slavonia, whilst continuing the development of financial products and services.

Despite unfavourable developments in the financial markets in the second half of 2008, the net profit of OTP banka in 2008 amounted to HRK 148.5 million, which was an increase of 41 percent compared to 2007. On 31/12/2008 the Bank's assets equalled HRK 12.87 billion, having grown by 7.5 percent per annum.

The net interest income increased by 14.9 percent, and the net fee income by 12.7 percent. In the last business year OTP banka recorded a growth of the credit portfolio by 19.3 percent. The return on assets equalled 1.20%, whilst the return on equity amounted to 11.34%. The market share of OTP banka measured by the size of assets remained at the previous year's level of 3.47%, and the market share measured by the credit portfolio grew to 3.57%. In addition, during 2008 the number of retail customers using eLEMENT@ Internet banking grew by 41.5 percent, whilst the number of corporate customers using internet banking went up by 29 percent.

OTP banka is widely known as the bank strongly present in our coastal regions, but with clearly conveyed strategy of further national expansion. The regional approach is evident in strong focus on financing of local projects and development of small and medium enterprises, where the bank takes into account the specific features of every local community. We have been expanding our long-standing successful cooperation with the regional and local self-government and public institutions in traditional regions to the new regions where we have opened branches and strengthened our operations. In accordance with the network expansion strategy, we opened seven new branches and refurbished another seven branches last year. In addition to new branches, we also expanded our ATM network, so at the year end it consisted of 163 ATMs, which represented an increase of 37 percent compared to the year before.

Last year, OTP banka was also very active in product and service development. In the card products segment, OTP banka introduced new VISA Classic Instalment Card for retail customers and Visa Business Electron card for corporate customers. The Internet banking service for corporate customers was extended by introducing a new identification method, i.e. using a token. In addition, we introduced SMS info Đ text message service for retail and corporate customers alike, as well as special product and service packages intended for small enterprises.

Merits for the mentioned achievements must be given to all employees of the bank, the Supervisory Board and colleagues from the Management Board, but also to the whole OTP group. I take this occasion to extend thanks, on my behalf and on behalf of the Management Board of OTP banka Hrvatska, to our customers and partners for the trust shown. OTP banka will continue developing its business operations in accordance with the highest standards of quality in offering financial services.

Damir Odak
President of the Management Board
20th May 2009

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law (Official Gazette 146/05) 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 OTP banka Hrvatska d.d. Zadar (“the Bank”) and Group OTP banka Hrvatska d.d. Zadar (“the Group”) 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 and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank and the Group 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 the Group and must also ensure that the financial statements comply with the Croatian Accounting Law (Official Gazette 146/05) and the Croatian Banking Law (Official Gazette 84/02 and 141/06). The Management Board is also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These financial statements were authorized for issue by the Management Board on 30 March 2009 and were therefore signed on its behalf as follows:

Damir Odak
President of the Management Board

Zorislav Vidović
Member of the Management Board

OTP banka Hrvatska d.d.
Domovinskog rata 3
23 000 Zadar
Republic of Croatia

30 March 2009

Independent Auditor's Report

TO THE SHAREHOLDERS OF OTP BANKA HRVATSKA D.D.:

We have audited the accompanying unconsolidated and consolidated financial statements of OTP banka Hrvatska d.d. ("the Bank") and its subsidiaries (together "the Group") which comprise the unconsolidated and consolidated balance sheets as at 31 December 2008 and the unconsolidated and consolidated statements of income, changes in equity and cash flows 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the unconsolidated and consolidated financial statements, set out on pages 4 to 64, give a true and fair view of the financial position of the Bank and the Group, respectively as at 31 December 2008 and of their financial performance and their 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 Group's management has prepared the forms, as presented in the Appendix to these financial statements on pages 65 to 74, which comprise the consolidated balance sheet as of 31 December 2008, and the consolidated statements of income, changes in equity and cash flows for the year then ended, as well as the reconciliation to the consolidated financial statements. These forms and the accompanying reconciliation to the consolidated financial statements are the responsibility of the Group's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 4 to 64, but rather a requirement specified by the Decision. The financial information provided in those forms have been derived from the financial statements of the Group.

Deloitte.

Deloitte d.o.o.

Branislav Vrtačnik
Certified Auditor

Zagreb, 30 March 2009

All amounts are expressed in thousands of HRK

Income Statements

For the year ended 31 December 2008

		Group		Bank	
	Notes	**2008**	**2007**	**2008**	**2007**
Interest and similar income	3	740,955	630,955	727,100	623,616
Interest and similar expense	3	(344,803)	(286,169)	(331,102)	(278,869)
Net interest income		396,152	344,786	395,998	344,747
Fee and commission income	4	149,132	132,137	135,996	125,029
Fee and commission expense	4	(37,362)	(37,497)	(37,362)	(37,495)
Net fee and commission income		111,770	94,640	98,634	87,534
Net trading and valuation gains on financial instruments	5	34,767	34,510	34,769	34,496
Other operating income	6	18,310	11,703	15,168	7,189
Net trading and other income		53,077	46,213	49,937	41,685
Operating income		560,999	485,639	544,569	473,966
Operating expenses	7	(347,081)	(315,207)	(332,031)	(306,167)
Profit before loss provisions and income tax		213,918	170,432	212,538	167,799
Impairment losses and provisions	8	(27,307)	(35,771)	(27,307)	(35,771)
Profit before taxation		186,611	134,661	185,231	132,028
Income tax	9a	(37,415)	(27,359)	(36,683)	(27,243)
Net profit for the year		149,196	107,302	148,548	104,785
Attributable to:					
Equity holders of the Bank		149,674	107,435	148,548	104,785
Minority interests		(478)	(133)	-	-
Profit for the year		149,196	107,302	148,548	104,785
EARNINGS PER SHARE					
- Basic and diluted (in HRK)	10	38.17	36.25	37.88	35.35

These financial statements were approved by the Management Board of the Bank on 30 March 2009:

Damir Odak
President of the Management Board

Zorislav Vidović
Member of the Management Board

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

All amounts are expressed in thousands of HRK

Balance Sheet

As of 31 December 2008

	Notes	Group 2008	Group 2007	Bank 2008	Bank 2007
ASSETS					
Cash and balances with the Croatian National Bank	11	1,351,542	1,777,302	1,351,536	1,777,302
Amounts due from other banks	12	1,665,752	1,934,394	1,665,752	1,718,545
Financial assets at fair value through profit or loss	13a	8,428	8,200	8,428	8,200
Amounts due from customers	14	8,485,400	7,094,434	8,489,165	7,118,173
Financial assets available for sale	15	789,852	841,791	789,851	841,788
Held-to-maturity investments	16	71,231	84,922	71,231	84,922
Investments in subsidiaries	17	-	-	77,242	77,262
Investment property	18	85,717	67,530	-	-
Property and equipment	19	219,277	180,424	208,882	167,866
Intangible assets	20	28,926	28,576	28,306	9,616
Goodwill	21	42,966	42,966	42,966	42,966
Other assets	22	62,009	61,569	61,780	56,032
Total assets		12,811,100	12,122,108	12,795,139	11,902,672
LIABILITIES					
Amounts due to other banks	23	435,304	201,241	435,304	201,241
Amounts due to customers	24	8,867,092	8,969,257	8,867,934	8,974,206
Other borrowed funds	25	1,836,057	1,666,688	1,836,057	1,446,934
Financial liabilities at fair value through profit or loss	13b	84	554	84	554
Provisions	26	32,612	41,565	32,612	41,565
Deferred income tax liability	9c	5,854	1,072	3,903	1,603
Current income tax	9d	25,946	23,638	25,481	23,180
Other liabilities	27	100,893	96,681	97,230	90,711
Total liabilities		11,303,842	11,000,696	11,298,605	10,779,994
SHAREHOLDERS' EQUITY					
Share capital	28	822,280	605,280	822,280	605,280
Share premium		171,260	171,260	171,260	171,260
Statutory and legal reserves	28	60,528	60,528	60,528	60,528
Other reserves	28	212,910	194,284	176,460	168,152
Retained earnings		239,580	89,792	266,006	117,458
Total shareholders' equity attributable to equity holders of the Bank		1,506,558	1,121,144	1,496,534	1,122,678
Minority interests		700	268	-	-
Total shareholders' equity		1,507,258	1,121,412	1,496,534	1,122,678
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		12,811,100	12,122,108	12,795,139	11,902,672
CONTINGENCIES AND COMMITMENTS	29	1,227,442	1,282,338	1,228,637	1,283,675

These financial statements were approved by the Management Board of the Bank on 30 March 2009:

Damir Odak
President of the Management Board

Zorislav Vidović
Member of the Management Board

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

All amounts are expressed in thousands of HRK

Statement of Changes in Equity - Group

For the year ended 31 December 2008

Group	Share capital	Share premium	Legal and statutory reserves	Other reserves	Retained earnings	Minority interests	Total
Balance at 1 January 2007	455,280	171,260	60,528	110,042	30,214	-	827,324
Revaluation surplus on land and buildings, net of deferred taxes	-	-	-	16,585	-	-	16,585
Assets available for sale:							
Revaluation gains taken to equity	-	-	-	24,755	-	-	24,755
Tax on items taken directly to or transferred from equity (Note 9)	-	-	-	(4,951)	-	-	(4,951)
Net income recognized directly in equity	-	-	-	36,389	-	-	36,389
Profit for the period	-	-	-	-	107,435	(133)	107,302
Total recognized income and expense for the period	-	-	-	36,389	107,435	(133)	143,691
Issued share capital	150,000	-	-	-	-	-	150,000
Proposed transfer to the general banking risk reserve	-	-	-	47,857	(47,857)	-	-
Other movements (in the reserve funds for housing units and holders of minority interests)				(4)		401	397
Balance at 31 December 2007	605,280	171,260	60,528	194,284	89,792	268	1,121,412
Changes in equity during 2008							
Revaluation surplus on land and buildings, net of deferred taxes				10,318			10,318
Assets available for sale:							
Revaluation gains taken to equity	-	-	-	10,390	-	-	10,390
Tax on items taken directly to or transferred from equity (Note 9)	-	-	-	(2,078)	-	-	(2,078)
Net income recognized directly in equity	-	-	-	18,630	-	-	18,630
Profit for the period	-	-	-	-	149,674	(478)	149,196
Total recognized income and expense for the period	-	-	-	18,630	149,674	(478)	167,826
Issued share capital	217,000	-	-	-	-	910	217,910
Proposed transfer to the general banking risk reserve	-	-	-	-	-	-	-
Other movements (in the reserve funds for housing units and holders of minority interests)	-	-	-	(4)	114	-	110
Balance at 31 December 2008	822,280	171,260	60,528	212,910	239,580	700	1,507,258

These financial statements were approved by the Management Board of the Bank on 30 March 2009:

Damir Odak
President of the Management Board

Zorislav Vidović
Member of the Management Board

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

All amounts are expressed in thousands of HRK

Statement of Changes in Equity - Bank

For the year ended 31 December 2008

Bank	**Share capital**	**Share premium**	**Legal and statutory reserves**	**Other reserves**	**Retained earnings**	**Total**
Balance at 1 January 2007	455,280	171,260	60,528	100,495	60,530	848,093
Changes in equity during 2008						
Assets available for sale:						
Revaluation gains taken to equity	-	-	-	24,755	-	24,755
Tax on items taken directly to or transferred from equity (Note 9)	-	-	-	(4,951)	-	(4,951)
Net income recognized directly in equity	-	-	-	19,804	-	19,804
Profit for the period	-	-	-	-	104,785	104,785
Total recognized income and expense for the period	-	-	-	19,804	104,785	124,589
Issued share capital	150,000	-	-	-	-	150,000
Proposed transfer to the general banking risk reserve	-	-	-	47,857	(47,857)	-
Proposed transfer to legal and statutory reserves	-	-	-	-	-	-
Other movements (in the reserve funds for housing units)	-	-	-	(4)	-	(4)
Balance at 31 December 2007	605,280	171,260	60,528	168,152	117,458	1,122,678
Changes in equity during 2008						
Assets available for sale:						
Revaluation gains taken to equity	-	-	-	10,390	-	10,390
Tax on items taken directly to or transferred from equity (Note 9)	-	-	-	(2,078)	-	(2,078)
Net income recognized directly in equity	-	-	-	8,312	-	8,312
Profit for the period	-	-	-	-	148,548	148,548
Total recognized income and expense for the period	-	-	-	8,312	148,548	156,860
Issued share capital	217,000	-	-	-	-	217,000
Proposed transfer to the general banking risk reserve	-	-	-	-	-	-
Other movements (in the reserve funds for housing units)	-	-	-	(4)	114	110
Balance at 31 December 2008	822,280	171,260	60,528	176,460	266,120	1,496,648

These financial statements were approved by the Management Board of the Bank on 30 March 2009:

Damir Odak
President of the Management Board

Zorislav Vidović
Member of the Management Board

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

All amounts are expressed in thousands of HRK

Cash flow statements

For the year ended 31 December 2008

	Notes	Group Year ended 31 December 2008	Group 2007	Bank Year ended 31 December 2008	Bank 2007
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxes		186,611	134,661	185,231	132,028
Adjustments to reconcile profit before taxes to net cash from operating activities					
Impairment allowance on loans and receivables		27,177	19,881	27,177	19,881
Provisions for legal actions and off-balance sheet items		130	15,890	130	15,890
Depreciation and amortisation		25,164	23,731	24,273	22,981
Gain on disposal of property and equipment		(1,957)	(2,438)	(1,957)	2,438
Interest income		(740,955)	(630,955)	(732,443)	(623,616)
Interest expense		344,803	286,169	336,445	278,869
Realised gains on assets available for sale		(2,432)	-	(2,432)	
Operating income before changes in working capital		(161,459)	(153,061)	(163,576)	(151,529)
(Increase)/decrease in operating assets:					
Obligatory reserves with the CNB		433,241	(174,006)	433,236	(174,006)
Amounts due from other banks		143,541	2,814	706	1,046
Amounts due from customers		(1,390,762)	(1,439,314)	(1,370,788)	(1,464,256)
Assets at fair value through profit or loss		(228)	1,999	(228)	224
Other assets		(6,940)	12,451	(13,318)	16,854
Increase/(decrease) in operating liabilities:					
Amounts due to other banks		233,527	(43,224)	233,527	(43,224)
Amounts due to customers		(101,691)	866,431	(105,798)	869,917
Other liabilities		3,698	41,759	6,509	36,361
Provisions		(8,615)	673	(8,615)	673
Other borrowed funds		169,369	452,323	389,123	379,454
Net cash from operating activities before interest and income taxes paid		(686,319)	(431,155)	(599,222)	(528,486)
Income tax paid		(34,151)	-	(34,382)	-
Interests received		724,775	559,894	(336,625)	549,583
Interests paid		(344,983)	(259,933)	717,333	(254,140)
Net cash generated from / (used in) operating activities		(340,678)	(131,194)	(252,896)	(233,043)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property and equipment, intangible assets and investment property		(92,166)	(64,820)	(87,762)	(35,983)
Proceeds from sale of property, equipment and intangible assets and foreclosed assets		24,466	17,343	5,740	17,343
(Decrease) in investments in subsidiaries		-	-	20	-
Net proceeds on sale of available-for-sale financial assets		64,708	116,540	64,231	116,543
Purchase of held-to-maturity securities			(27,783)	-	(27,783)
Proceeds from matured held to maturity securities		11,706	-	11,706	-
Net cash generated from investing activities		8,714	41,280	(6,065)	70,120
CASH FLOWS FROM FINANCING ACTIVITIES					
Issued share capital		217,000	150,000	217,000	150,000
Net cash from financing activities		217,000	150,000	217,000	150,000
Net increase/(decrease) in cash and cash equivalents		(114,964)	60,086	(41,961)	(12,923)
Cash and cash equivalents at beginning of year		2,199,665	2,139,579	2,126,656	2,139,579
Cash and cash equivalents at end of year	30	2,084,701	2,199,665	2,084,695	2,126,656

These financial statements were approved by the Management Board of the Bank on 30 March 2009:

Damir Odak
President of the Management Board

Zorislav Vidović
Member of the Management Board

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


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Notes to the financial statements

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Notes to the financial statements

For the year ended 31 December 2008

1. GENERAL

The consolidated group of OTP banka Hrvatska d.d. (the "Group") consists of the parent company OTP banka Hrvatska d.d. (the "Bank") and three subsidiaries fully owned by the Bank (OTP Invest d.o.o., OTP Nekretnine d.o.o., and Kratos Nekretnine d.o.o.). The Bank is headquartered in Zadar, Domovinskog rata 3, and is incorporated in the Republic of Croatia as a joint stock company. The Bank provides retail and corporate banking services. The Bank is registered at the Commercial Court in Zadar, with the registered share capital in the amount of HRK 822,279,600 as at 31 December 2008 (2007: HRK 605,279,600).

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

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

Directors and Management

General Assembly	
Viktor Siništaj	President of the General Assembly

Supervisory Board	
Antal György Kovács	President
Gábor Czikora	Member
Balázs Fekete	Member
Lászlo Kecskes	Member
Gábor Kovács	Member

Management Board	
Damir Odak	President
Balazs Bekeffy	Member
Zorislav Vidović	Member

All amounts are expressed in thousands of HRK

Shareholding structure

The shareholding structure of the Bank is as follows:

	31 December 2008		31 December 2007	
	Paid capital	Ownership %	Paid capital	Ownership %
OTP Bank Rt, Hungary	822,280	100.00	605,280	100.00
Total	822,280	100.00	605,280	100.00

OTP Bank Rt., Hungary, increased the share capital of the Bank on 6 March 2008 by HRK 217,000 thousand.

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

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

These financial statements were authorised for issue by the Management Board on 30 March 2009 for approval by the Supervisory Board.

Economic situation

As expected, the Group has been impacted by the recent financial crisis and deteriorating economic conditions. The economic situation is expected to worsen further in 2009 and the outlook has deteriorated in first months of 2009 due to weakening domestic economic activities. Due to the current global crisis in the market and its effects on the local market in Croatia, the Group will probably operate in more difficult and uncertain economic environment in 2009, and possibly beyond. The impact of this crisis on the Group's business operations is currently not possible to fully predict and therefore there is an element of general uncertainty.

So far, the ongoing financial crisis has had a limited impact on the financial position and performance of the Group, mainly due to the internal risk management policies and regulatory restrictions. The Group has adopted new policies on credit approvals, collateral acceptance and evaluation policies and the treasury operations. The Group monitors closely the credit, liquidity, interest rate and foreign exchange risks on a regular basis. The capital adequacy of the Bank is expected to remain at a current level, sufficient to continue the banking operations without any additional equity injections. Liquidity is also expected to be satisfactory without requiring new additional funds from the parent company for next 12 months. In case of additional financing needs, the Group has appropriate arrangements with the parent company with regard to the provision of all necessary support measures.

The deteriorating economic situation in the country will probably impact the position of certain industries and the abilities of some clients to meet their loan obligations. This may consequently influence the amount of the Group's provisions for impairment losses in 2009 and other areas that require estimates to be made by management, including the valuation of collateral and of securities. The 2008 financial statements contain significant estimates with respect to impairment charges, collateral valuation and the fair value of securities. The key priorities of the Group in 2009 will be attention to the management of the financial portfolio adjusting to the changing economic environment and maintaining the Group's position on the market.

2. ACCOUNTING POLICIES

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

2.1 Statement of compliance

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

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

The CNB requires banks to recognise impairment losses, through profit and loss, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets at fair value through profit or loss). The Group and the Bank have made portfolio based provisions of HRK 115,314 thousand (2007: HRK 109,143 thousand) carried in the balance sheet in compliance with these regulations, and have recognised a charge of HRK 6,171 thousand in relation to these provisions within the charge for impairment losses for the year (2007: charge of HRK 15,168 thousand). Although, in accordance with IFRS, such provisions should more properly be presented as an appropriation within equity, in accordance with CNB rules the Group continues to recognise such provisions as a substitute for existing but unidentified impairment losses calculated in accordance with the requirements of IFRS. The Group is in the process of compiling the observable historical data in respect of the unidentified losses existing in its various credit risk portfolios at the balance sheet date, determining the appropriate emergence period over which these losses come to light, and identifying, for each portfolio, the relevant current economic conditions with which the historical data should be adjusted, as a basis for estimating the extent of unidentified losses existing at the balance sheet date on the basis required by IFRS.

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

2.2 Basis of preparation

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

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

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

Judgements made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in the next year are discussed in Note 38.

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

2.3 Standards and Interpretations effective in the current period

IAS 39 Financial instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosure, as amended in October and November 2008 to permit the reclassification of certain financial instruments as follows:

- Reclassification of held-for-trading or available-for-sale instruments into loans and receivables, taking into account that the financial instruments comply with the portfolio requirements and provided that the Company has both the intent and the ability to hold the instruments in the foreseeable future;
- Reclassification of held-for-trading financial instruments but only in rare circumstances and provided that they are not intended for sale in a short term.

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".

2.4 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.I

- 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)
- 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 2008)
- 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 all of the above Interpretations will be adopted in the Group's financial statements for the period commencing 1 January 2009 and that the adoption of those Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

2.5 Functional and presentation currency

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

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

31 December 2007
1 EUR= 7.325131 kn 1 USD= 4.985456 kn

31 December 2008
1 EUR= 7.324425 kn 1 USD= 5.155514 kn

2.6 Basis of consolidation

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

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

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

2.7 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at balance sheet date. The Group does not have qualifying cash flow hedges and qualifying net investment hedges as defined in International Accounting Standard 39 "Financial Instruments: Measurement and Recognition" ("IAS 39").

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

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

2.8 Goodwill

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

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

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

2.9 Minority interest

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

2.10 Leases

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

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

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

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

2.11 Interest income and expense

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

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

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

2.12 Fee and commission income and expense

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

Fees and commissions are generally recognized as income when due.

2.13 Employee benefits

Short-term service benefits

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

Long-term service benefits

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

2.14 Taxation

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years. Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities, based on tax rates enacted or substantially enacted at the balance sheet date.

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

2.15 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Croatian National Bank (‘CNB’), current accounts with other banks and term placements with other banks with residual maturity up to 3 months.

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

2.16 Financial instruments

Classification

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

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

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

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

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

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Other financial liabilities

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

Recognition and derecognition

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

The Group derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on financial assets. This occurs when the Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired.

The Group derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions. Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method

Initial and subsequent measurement

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

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

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

Gains and losses

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

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

Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses are transferred to the income statement.

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

Fair value measurement principles

The fair values of quoted investments are based on current closing bid prices. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Group establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate. The fair value of non-exchange-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

2.17 Impairment of financial assets

Impairment of financial assets identified as impaired

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

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

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

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

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

Financial assets carried at fair value

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

Financial assets carried at cost

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

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

Impairment of financial assets not identified as impaired

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

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

2.18 Derivative financial instruments

The Group uses derivative financial instruments to hedge economically its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative trading purposes. No derivatives are accounted for as hedging instruments.

All derivatives are classified as financial instruments held for trading, within financial instruments at fair value through profit or loss. Derivative financial instruments including foreign exchange contracts, forward rate agreements and cross currency swaps are initially recognised in the balance sheet and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when negative. Changes in the fair value of derivatives are included in the income statement under "Net gains and losses from derivative transactions. "

2.19 Sale of repurchase agreement

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

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

All amounts are expressed in thousands of HRK

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

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

2.20 Property, equipment and intangible assets

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

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

	2008	2007
Buildings	10-40 years	10-40 years
Computers	4 years	4 years
Furniture and equipment	2,5-10 years	2,5-10 years
Motor vehicles	4 years	4 years
Intangible assets	5-15 years	3,3-5 years

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred. Improvements are capitalised.

In 2008, OTP banka Hrvatska d.d. changed amortization rates on intangible asset, leasehold improvements. Changes of amortization rates were made based on duration of the rental of premises where they have made investments. If OTP banka Hrvatska d.d. used amortization rates from year 2007, total amortisation charge for year 2008 would be HRK 1,577 thousand higher.

2.21 Investment property

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

2.22 Impairment of tangible and intangible assets and investment property

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. The recoverable amount of tangible and intangible assets and investment property is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value

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

2.23 Financial guarantees

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

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

2.24 Off-balance-sheet commitments

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

2.25 Provisions

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

2.26 Fiduciary activities

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

2.27 Issued share capital

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

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

All amounts are expressed in thousands of HRK

2.28 Treasury shares

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

2.29 Retained earnings

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

2.30 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is deferred in equity and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. NET INTEREST INCOME

	Group		Bank	
	2008	2007	2008	2007
Interest and similar income				
Cash reserves and amounts due from other banks	73,836	84,589	59,981	77,250
Balances with Croatian National Bank	10,442	11,961	10,442	11,961
Corporate loans	191,394	145,991	191,394	145,991
Retail loans	418,547	335,451	418,547	335,451
Debt securities	46,722	52,813	46,722	52,813
Other	14	150	14	150
	740,955	630,955	727,100	623,616
Interest and similar expense				
Amounts due to retail customers	217,635	182,816	217,635	182,816
Amounts due to corporate customers	47,940	46,544	47,940	46,544
Other borrowed funds and amounts due to other banks	76,821	56,729	63,120	49,429
Other	2,407	80	2,407	80
	344,803	286,169	331,102	278,869

All amounts are expressed in thousands of HRK

4. NET FEE AND COMMISSION INCOME

a) Net fee and commission income by source

	Group		Bank	
	2008	2007	2008	2007
Fee and commission income				
Corporate customers	46,416	40,711	33,280	33,603
Banks	25,451	21,925	25,451	21,925
Retail customers	77,265	69,501	77,265	69,501
	149,132	132,137	135,996	125,029
Fee and commission expense				
Corporate customers	29,813	30,520	29,813	30,520
Banks	7,549	6,977	7,549	6,975
	37,362	37,497	37,362	37,495

b) Net fee and commission income per type of fee

	Group		Bank	
	2008	2007	2008	2007
Fee and commission income				
Credit related fees and commissions	10,973	10,324	10,973	10,324
Credit card related fees and commissions	32,254	26,369	32,254	26,369
Domestic payment transaction related fees and commissions	40,171	40,860	40,171	40,860
Foreign payment transaction related fees and commissions	8,314	7,344	8,314	7,344
Guarantee related fees and commissions	7,092	7,223	7,092	7,223
Investment management, brokerage and consultancy fees	2,458	3,634	2,458	3,634
Other fees and commissions	47,870	36,383	34,734	29,275
	149,132	132,137	135,996	125,029

Fee and commission expense				
Credit card related charges	8,775	7,281	8,775	7,281
Domestic payment transaction related charges	16,019	18,646	16,019	18,646
Foreign payment transaction related charges	1,967	1,449	1,967	1,449
Other fees and commissions	10,601	10,121	10,601	10,119
	37,362	37,497	37,362	37,495

5. NET TRADING AND VALUATION GAINS ON FINANCIAL INSTRUMENTS

	Group		Bank	
	2008	2007	2008	2007
Net gains on foreign currency spot transactions	32,294	32,953	32,294	32,953
Realized gains on securities available-for-sale	2,432	40	2,432	40
Net (loss)on derivatives	(7,150)	(3,481)	(7,150)	(3,481)
Net gain on translation of foreign currency assets and liabilities	7,191	4,998	7,193	4,984
	34,767	34,510	34,769	34,496

All amounts are expressed in thousands of HRK

6. OTHER OPERATING INCOME

	Group		Bank	
	2008	2007	2008	2007
Gains on sale and disposal of property and equipment	1,957	2,438	1,957	2,438
Income on closing of dormant accounts	175	236	175	236
Write-off on inventory	1,733	75	1,733	75
Dividend income	1,818	692	1,818	692
Management fees	4,611	4,217	-	-
Other income	8,016	4,045	9,485	3,748
	18,310	11,703	15,168	7,189

7. OPERATING EXPENSES

	Group		Bank	
	2008	2007	2008	2007
Staff costs	156,977	135,510	153,163	132,950
Provisions for retirement benefits and bonuses to employees	132	2,809	132	2,809
	157,109	138,319	153,295	135,759
Professional services and cost of material	105,016	89,779	98,636	84,875
Savings deposit insurance premiums	19,668	18,543	19,668	18,543
Marketing	17,662	15,818	17,061	15,818
Amortisation and depreciation	25,164	23,731	24,273	22,981
Administrative expenses	14,121	18,037	14,121	18,037
Other taxes and contributions	2,389	1,611	2,389	1,611
Write-off of receivables	522	1,923	522	1,923
Other costs	5,430	7,446	2,066	6,620
	347,081	315,207	332,031	306,167

Staff costs:

	Group		Bank	
	2008	2007	2008	2007
Gross salary	108,015	100,457	104,762	98,276
- Net salaries	74,322	68,999	72,440	67,604
- Taxes, surtaxes and contributions	33,693	31,458	32,322	30,672
Contributions on salaries	18,626	17,327	18,065	16,948
Other payments to employees	30,468	20,535	30,468	20,535
	157,109	138,319	153,295	135,759

At year end, the Group had 1,088 (2007: 1,066) and the Bank 1,074 (2007: 1,056) employees.

8. PROVISIONS AND IMPAIRMENT LOSSES

	Group		Bank	
	2008	2007	2008	2007
Impairment of loans receivables and other assets	27,645	19,881	27,645	19,881
Litigation provisions	130	13,873	130	13,873
Provisions for off-balance sheet items	(468)	2,017	(468)	2,017
	27,307	35,771	27,307	35,771

All amounts are expressed in thousands of HRK

9. TAXATION

a) Income tax expense recognised in the income statement

	Group		Bank	
	2008	2007	2008	2007
Current income tax charge	37,175	23,614	36,461	23,181
Net deferred tax charge	240	3,745	222	4,062
	37,415	27,359	36,683	27,243

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

	Group		Bank	
	2008	2007	2008	2007
Profit before income tax	186,611	134,661	185,231	132,028
Tax calculated at statutory tax rate of 20% (2007: 20%)	37,322	26,932	37,046	26,406
Income not subject to tax net of non-tax deductible expenses	(156)	507	(223)	958
Utilisation of double-dip benefits	(140)	(121)	(140)	(121)
Tax loss in a subsidiary not recognised as deferred tax asset	389	41	-	-
Current Income tax charge	37,415	27,359	36,683	27,243
Effective income tax rate	20.0%	20.3%	19.8%	20.6%

c) Movement in deferred tax asset and (liability)

Group

	Deffered loan origination fees	Unrealised gains/(losses) on available-for-sale securities	Tax losses available for carry forward	Other	Total
Balance at 1 January 2007	7,182	(3,898)	4,126	4,361	11,771
Credited/(charged) to income statement	64	-	(4,126)	317	(3,745)
(Charged) to equity		(4,951)		(4,147)	(9,098)
Balance at 31 December 2007	7,246	(8,849)	-	531	(1,072)
(Charged) to income statement	(222)		-	(17)	(239)
(Charged) to equity	-	(2,078)	-	(2,465)	(4,543)
Balance at 31 December 2008	7,024	(10,927)	-	(1,951)	(5,854)

Bank

	Deffered loan origination fees	Unrealised gains/(losses) on available-for-sale securities	Tax losses available for carry forward	Other	Total
Balance at 1 January 2007	7,182	(3,898)	4,126	-	7,410
Credited/(charged) to income statement	64	-	(4,126)	-	(4,062)
Charged to equity	-	(4,951)	-	-	(4,951)
Balance at 31 December 2007	7,246	(8,849)	-	-	(1,603)
Credited/(charged) to income statement	(222)	-	-	-	(222)
Charged to equity	-	(2,078)	-	-	(2,078)
Balance at 31 December 2008	7,024	(10,927)	-	-	(3,903)

All amounts are expressed in thousands of HRK

d) Current income tax liability

	Group		Bank	
	2008	2007	2008	2007
Current income tax charge	37,415	27,359	36,683	27,243
Paid income tax charge	(11,469)	(3,721)	(11,202)	(4,063)
Current income tax liability	25,946	23,638	25,481	23,180

e) Tax losses

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

Tax losses:

	Group		Bank	
	2008	2007	2008	2007
Tax losses brought forward	4,494	24,919	-	20,631
Tax loss for the year	1,952	206	-	-
Amounts utilised in the year		(20,631)	-	(20,631)
Tax loss not available for carry forward	(647)	-	-	-
Total tax losses available for carry forward	5,799	4,494	-	-
Tax effect from tax losses carried forward (at a rate of 20%)	1,160	899	-	-
Amount not recognised as deferred tax assets	(1,160)	(899)	-	-
Recognised deferred tax assets	-	-	-	-

At 31 December 2008 unutilised gross tax losses that are available for setting off against the future profits amount to HRK nil (2007: nil) for the Bank and HRK 5,799 thousand (2007: HRK 4,494 thousand) for the Group. Based on these losses, no deferred tax asset has been recognised by the Group and the Bank.

At 31 December 2008 and 2007, gross tax losses available for carry forward expire as follows:

	Group		Bank	
	2008	2007	2008	2007
Up to 5 years	1,952	206	-	-
Up to 4 years	206	2,388	-	-
Up to 3 years	2,388	908	-	-
Up to 2 years	908	345	-	-
Up to 1 year	345	647	-	-
Total tax loss available for carry forward	5,799	4,494	-	-

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

All amounts are expressed in thousands of HRK

10. EARNING PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net profit after tax for the period attributable to ordinary shareholders. A reconciliation of the profit after tax attributable to ordinary shareholders is provided below.

	Group	
	2008	**2007**
Profit for the period attributable to equity holders of the Bank	149,674	107,435
Profit attributable to ordinary shareholders	149,674	107,435
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	3,921,671	2,963,897
Earnings per ordinary share - basic and diluted (HRK)	38.17	36.25

	Bank	
	2008	**2007**
Profit for the period	148,548	104,785
Profit attributable to ordinary shareholders	148,548	104,785
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	3,921,671	2,963,897
Earnings per ordinary share - basic and diluted (HRK)	37.88	35.35

11. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	Group		Bank	
	2008	**2007**	**2008**	**2007**
Cash in hand	134,457	124,968	134,457	124,968
Giro account balance	253,907	239,022	253,907	239,022
Current accounts with foreign banks	22,493	39,074	22,493	39,074
Current accounts with domestic banks	4,674	3,537	4,668	3,537
Items in course of collection	4,327	5,514	4,327	5,514
Assets included in cash and cash equivalents (Note 30)	419,858	412,115	419,852	412,115
Obligatory reserve at Croatian National Bank				
- in HRK	632,042	735,756	632,042	735,756
- marginal	-	271,774	-	271,774
- in foreign currency	299,642	357,657	299,642	357,657
Total obligatory reserve at Croatian National Bank	931,684	1,365,187	931,684	1,365,187
	1,351,542	1,777,302	1,351,536	1,777,302

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

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

At 31 December 2008, the required rate of the kuna obligatory reserve with the CNB amounted to 70% (2007: 70%), while the remaining 30% (2007: 30%) must be held in the form of other liquid receivables, excluding cash in the vault and in hand (during 2007 and in the most part of 2008, cash in the vault and in hand was included in the obligatory reserve) . The percentage includes the part of foreign currency obligatory reserve required to be held in HRK (see below).

All amounts are expressed in thousands of HRK

Of the total foreign currency obligatory reserve, 60% (2007: 60%) is maintained with the CNB, while the remaining 40% (2007: 40%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). The portion of the foreign currency obligatory reserve required to be held in HRK is 50% (2007: 50%), and it is added to the kuna obligatory reserve (see above).

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

12. AMOUNTS DUE FROM OTHER BANKS

	Group		Bank	
	2008	**2007**	**2008**	**2007**
Short-term placements with other banks	1,652,599	1,636,188	1,652,599	1,420,339
Loans and advances to other banks in Croatia	16,887	301,914	16,887	301,914
	1,669,486	1,938,102	1,669,486	1,722,253
Less: impairment allowance	(3,734)	(3,708)	(3,734)	(3,708)
	1,665,752	1,934,394	1,665,752	1,718,545

All amounts are expressed in thousands of HRK

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

a) Assets

	Group		Bank	
	2008	2007	2008	2007
Units in open-ended investment funds	8,428	8,064	8,428	8,064
Fair value of derivatives	-	136	-	136
	8,428	8,200	8,428	8,200

The Bank has entered into derivative contracts as noted below.

Group and Bank

	2008 Notional amount	2008 Fair value	2007 Notional amount	2007 Fair value
Derivatives classified as trading - OTC products				
Cross-currency swap	18,311	-	59,825	136
	18,311	-	59,825	136

b) Liabilities

	Group		Bank	
	2008	2007	2008	2007
Fair value of derivatives	84	554	84	554
	84	554	84	554

The Bank has entered into derivative contracts as noted below.

Group and Bank

	2008 Notional amount	2008 Fair value	2007 Notional amount	2007 Fair value
Derivatives classified as trading - OTC products				
Cross-currency swap	18,346	84	60,054	554
	18,346	84	60,054	554

The Bank uses cross-currency swaps to reduce the currency exposures that are inherent in any banking business. Counterparties of the Bank's derivative transactions are financial institutions (including related parties).

All amounts are expressed in thousands of HRK

14. AMOUNTS DUE FROM CUSTOMERS

Analysis by type of product

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
HRK denominated				
Retail customers	5,554,704	4,746,479	5,554,704	4,746,479
Corporate customers	2,888,769	2,662,789	2,892,534	2,686,528
Foreign currency denominated				
Retail customers	139	203	139	203
Corporate customers	382,941	121,738	382,941	121,738
Total loans	8,826,553	7,531,209	8,830,318	7,554,948
Less: allowance for impairment	(341,153)	(436,775)	(341,153)	(436,775)
	8,485,400	7,094,434	8,489,165	7,118,173

Included within Group kuna loans are balances linked to foreign currency, such as Euro (EUR), Swiss franc (CHF) and US dollar (USD), which amount to HRK 5,603,816 thousand (2007: HRK 4,903,33 thousand). Included within the Bank's HRK denominated loans are amounts linked to foreign currency, such as Euro (EUR), Swiss franc (CHF) and US dollar (USD), which amount to HRK 5,603,816 thousand (2007: HRK 4,903,333 thousand). Repayments of principal and interest payments are determined in foreign currency and paid in the kuna equivalent translated at the foreign exchange rate applicable on the date of payment.

Movements in allowance for impairment were as follows:

GROUP AND BANK

	31.12.2008	31.12.2007
Balance at 1 January	436,775	461,146
Amounts collected	(25,455)	(36,938)
New provisions made	64,513	60,522
Exchange differences	(776)	(726)
Amounts written off	(133,904)	(47,229)
Balance at 31 December	341,153	436,775

At 31 December 2007, the total gross amount of non-performing loans for the Bank and the Group was HRK 320,862 thousand (2007: HRK 374,889 thousand).

All amounts are expressed in thousands of HRK

Concentration of credit risk by industry

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

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Agriculture, forestry and fisheries	302,039	320,336	302,039	320,336
Mining	61,988	14,886	61,988	14,886
Food and beverages	131,002	118,817	131,002	118,817
Leather and textiles	1,269	2,474	1,269	2,474
Publishing and printing	41,934	31,582	41,934	31,582
Production of oil and oil derivatives	55,370	25,464	55,370	25,464
Non-metal mineral and chemical products	6,068	8,471	6,068	8,471
Metal-working industry	25,488	27,319	25,488	27,319
Other manufacturing industries	299,518	206,150	299,518	206,150
Energy, gas and water supply	37,239	11,029	37,239	11,029
Construction	463,775	430,456	463,775	430,456
Trade and commerce	511,203	540,938	511,203	540,938
Hotels and restaurants	414,197	355,453	414,197	355,453
Transport and communications	143,504	224,454	143,504	224,454
Financial intermediation	3,550	30	4,509	1,030
Real estate	340,048	240,142	342,854	262,881
Public administration and defence	232,477	14,914	232,477	14,914
Education, health and social welfare	151,962	148,169	151,962	148,169
Other services and social activities	49,079	40,126	49,079	40,126
Foreign entities	-	23,317	-	23,317
Total corporate loans	3,271,710	2,784,527	3,275,475	2,808,266
Retail customers	5,554,843	4,746,682	5,554,843	4,746,682
	8,826,553	7,531,209	8,830,318	7,554,948
Less: impairment allowance	(341,153)	(436,775)	(341,153)	(436,775)
Total loans	8,485,400	7,094,434	8,489,165	7,118,173

All amounts are expressed in thousands of HRK

15. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Equity securities	8,999	5,785	8,999	5,785
Debt securities	768,269	809,866	768,269	809,866
Units in open-ended investment funds	12,584	26,140	12,583	26,137
	789,852	841,791	789,851	841,788

a) Equity securities

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Equity securities at cost				
- unquoted	14,635	24,158	14,635	24,158
Less: impairment allowance				
	(5,636)	(18,373)	(5,636)	(18,373)
	8,999	5,785	8,999	5,785

b) Debt securities

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Quoted				
Bonds of the Ministry of Finance	15,516	17,076	15,516	17,076
CBRD bonds	16,762	22,123	16,762	22,123
Bonds of foreign governments	-	7,473	-	7,473
Subtotal: Quoted debt securities	32,278	46,672	32,278	46,672
Treasury bills of the Ministry of Finance	284,330	160,784	284,330	160,784
DAB bonds for the restructuring of Dubrovačka Bank	-	170,194	-	170,194
Replacement bonds of the Croatian Ministry of Finance	451,661	432,216	451,661	432,216
Subtotal: Unquoted debt securities	735,991	763,194	735,991	763,194
	768,269	809,866	768,269	809,866

RHMF-0-103A bonds of the Republic of Croatia were issued in 2005. They are denominated in Croatian kuna and bear interest at a rate of 6.75 %, which is paid semi-annually. The bonds mature in 2010 and are quoted on the Zagreb Stock Exchange.
RHMF-0-172A bonds of the Republic of Croatia were issued in 2007. They are denominated in Croatian kuna and bear interest at a rate of 4.75%, which is paid semi-annually. The bonds mature in 2017and are quoted on the Zagreb Stock Exchange.
The bonds of the Croatian Bank for Reconstruction and Development ("CBRD") are issued with the guarantee of the Ministry of Finance on behalf of the Croatian Government. The bonds are denominated in Euro and the interest rate on these bonds is 5.75% and interest is paid annually. The bonds mature on 4 December 2012. These bonds are quoted on the Luxembourg Stock Exchange.
Foreign government bonds were issued by the Federal Republic of Germany in the amount of EUR 1,000,000 at an interest rate of 4.125%, with interest paid annually. Principle matures on 4 July 2008.
The rehabilitation bonds represent bonds issued by the State Agency for Deposit Insurance and Bank Rehabilitation (''DAB'') as part of the rehabilitation of Dubrovačka Bank. The rehabilitation bonds were issued in two series, denominated in Croatian Kuna and linked to Euro under currency clauses. The total amount of A-series bonds was HRK 1,002 million, and they mature on 15 November 2007 (when they were redeemed); the total amount of B-series bonds is HRK 1,600 million, and they mature on 15 November 2008. The rehabilitation bonds were issued at fixed annual rates of 6% and 7%, respectively.
Replacement bonds were issued by the Croatian Government to replace economic

All amounts are expressed in thousands of HRK

restructuring bonds based on the Government decision of 6 April 2000. The replacement bonds are denominated in Croatian Kuna and are indexed to the industrial price index. Every six months the principal amount of the bond is revalue based on changes in the index and the revaluation gains/(losses) are recognized directly in equity. The interest rate on these bonds is 5% annually, and the interest is paid on a semi-annual basis. The principal is due in 2011.

The replacement bonds of the Croatian Ministry of Finance are not traded publicly. Included in the Bank's portfolio are Treasury Bills of the Ministry of Finance, with a maturity of 364 days. They are denominated in Croatian kuna and bear interest at market rates.

16. INVESTMENTS HELD TO MATURITY

	Group		Bank	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
Bonds of the Croatian Ministry of Finance	16,053	16,055	16,053	16,055
Corporate bills of exchange	55,178	68,867	55,178	68,867
	71,231	84,922	71,231	84,922

The bonds of the Ministry of Finance were received as compensation for flats purchased by the Government of Croatia. Pending the clarification of the terms, the Bank has not recognised accrued interest on these bonds. The investments held-to-maturity are not traded publicly.

17. INVESTMENTS IN SUBSIDIARIES

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

Name	Business activity	Effective share	
		31.12.2008	**31.12.2007**
OTP Invest d.o.o.	Investment fund management	74.33%	74.33%
OTP Nekretnine d.o.o.	Real estate	100%	100%
Kratos nekretnine d.o.o	Real estate	100%	100%
Kvirinal nekretnine d.o.o	Real estate	-	100%

In July 2007 OTP Invest d.o.o., then a fully owned subsidiary of the Bank, underwent a process of legal division into three separate companies, each fully owned by the Bank. As a result of this process, the Bank became the owner of two new subsidiaries, Kratos nekretnine d.o.o. and Kvirinal nekretnine d.o.o., each with an issued share capital of HRK 20 thousand. During 2008, the company Kvirinal nekretnine d.o.o. was merged into the Bank.

As of 31 December, total investment in subsidiaries was 77,242 thousand HRK. Investment in OTP Nekretnine d.o.o. is HRK 72,762 thousand (2007: HRK 72,762 thousand), OTP Invest d.o.o. HRK 4,460 thousand (2007: HRK 4,460 thousand) and in Kratos Nekretnine d.o.o. HRK 20 thousand (2007: HRK 20 thousand).

The Bank assessed the recoverability of its investments in subsidiaries and determine that there is no impairment on these investments.

All amounts are expressed in thousands of HRK

18. INVESTMENT PROPERTY

	Group	Bank
At 1 January 2007	33,490	-
Transfer from property and equipment (previously owner-occupied)	24,154	-
Transfer from property and equipment under construction	2,075	-
Additions	7,811	
Disposals	-	
At 31 December 2007	67,530	-
Transfer from property and equipment (previously owner-occupied)	14,918	-
Transfer from property and equipment under construction	-	
Additions	3,269	-
Disposals	-	-
At 31 December 2008	85,717	-

Investment property includes property previously held by the Group as property and equipment, measured at amortised cost. Upon the change of use of such property into investment property, the Group recognised the difference between the fair value and amortised cost at the date of change of use as a revaluation gain directly in a revaluation reserve in equity.

19. PROPERTY AND EQUIPMENT

Group	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Assets under construction	Total
Cost:							
At 1 January 2007	205,481	51,688	106,468	3,563	960	14,973	383,133
Transfer from assets under construction	2,398	10,156	10,480	-	-	(23,034)	-
Revaluation of buildings prior to change in use and transfer to investment property	20,732				-		20,732
Transfer to investment property due to change in use	(24,154)						(24,154)
Transfer to investment property upon completion						(2,075)	(2,075)
Additions	-	159	1,459	-	-	25,897	27,515
Disposals	(837)	(935)	(4,510)	(330)	-	-	(6,612)
At 31 December 2007	203,620	61,068	113,897	3,233	960	15,761	398,539
At 1 January 2008	203,620	61,068	113,897	3,233	960	15,761	398,539
Transfer from assets under construction	24,040	7,763	17,568	7	-	(71,822)	(22,444)
Revaluation of buildings prior to change in use and transfer to investment property	12,897	-	-	-	-	-	12,897
Transfer to investment property due to change in use	(14,918)	-	-	-	-	-	(14,918)
Additions	-	48	349	198	-	87,762	88,357
Disposals	(5,634)	(2,458)	(3,505)	(885)	-	-	(12,482)
At 31 December 2008	220,005	66,421	128,309	2,553	960	31,701	449,949
Accumulated depreciation/amortisation and impairment							
At 1 January 2007	83,373	39,336	76,760	3,475	3	-	202,947
Charge for the year	4,619	7,985	7,727	-	-	-	20,331
Disposals	4	(935)	(3,902)	(330)	-	-	(5,163)
At 31 December 2007	87,996	46,386	80,585	3,145	3	-	218,115
At 1 January 2008	87,996	46,386	80,585	3,145	3	-	218,115
Charge for the year	4,803	7,240	9,351	74	-	-	21,468
Disposals	(2,069)	(2,457)	(3,500)	(885)	-	-	(8,911)
At 31 December 2008	90,730	51,169	86,436	2,334	3	-	230,672
Net book value:							
At 1 January 2008	115,624	14,682	33,312	88	957	15,761	180,424
At 31 December 2008	129,275	15,252	41,873	219	957	31,701	219,277

All amounts are expressed in thousands of HRK

Bank	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Assets under construction	Total
Cost:							
At 1 January 2007	176,654	51,423	106,345	3,170	961	12,698	351,251
Transfer from assets under construction	2,398	10,156	10,480	-	-	(23,034)	-
Additions	-	79	1,429	-	-	26,097	27,605
Disposals	-	(935)	(4,510)	(330)	-	-	(1,716)
At 31 December 2007	179,052	60,723	113,744	2,840	961	15,761	373,081
At 1 January 2008	195,019	60,723	113,744	2,840	961	15,761	389,048
Transfer from assets under construction	24,040	7,763	17,568	7	-	(71,822)	(22,444)
Additions	-	-	-	-	-	87,762	87,762
Disposals	(5,621)	(2,458)	(3,505)	(885)	-	-	(12,469)
At 31 December 2008	213,438	66,028	127,807	1,962	961	31,701	441,897
Accumulated depreciation/amortisation and impairment							
At 1 January 2007	87,729	39,122	76,644	3,170	-	-	206,665
Charge for the year	4,046	7,945	7,689	-	-	-	19,680
Disposals	4	(935)	(3,902)	(330)	-	-	(5,163)
At 31 December 2007	91,779	46,132	80,431	2,840	-	-	221,182
At 1 January 2008	91,779	46,132	80,431	2,840	-	-	221,182
Charge for the year	4,230	7,186	9,318	1	-	-	20,735
Disposals	(2,069)	(2,457)	(3,491)	(885)	-	-	(8,902)
At 31 December 2008	93,940	50,861	86,258	1,956	-	-	233,015
Net book value:							
At 1 January 2008	103,240	14,591	33,313	-	961	15,761	167,866
At 31 December 2008	119,498	15,167	41,549	6	961	31,701	208,882

20. INTANGIBLE ASSETS

	Group Intangible assets	Bank Intangible assets
Cost:		
At 1 January 2007	37,854	37,788
Additions	27,419	8,378
At 31 December 2007	65,273	46,166
Transfer from assets under construction	22,444	22,444
Additions	540	-
Disposals	(20,782)	(2,060)
At 31 December 2008	67,475	66,550
Accumulated amortisation		
At 1 January 2007	33,297	33,249
Charge for the year	3,400	3,301
At 31 December 2007	36,697	36,550
Charge for the year	3,696	3,538
Disposals	(1,844)	(1,844)
At 31 December 2008	38,549	38,244
Net book value:		
At 1 January 2008	28,576	9,616
At 31 December 2008	28,926	28,306

Intangible assets relate to the software and leasehold improvements.

All amounts are expressed in thousands of HRK

21. GOODWILL

Goodwill reported on the Bank's balance sheet represents goodwill originally arisen on the acquisition of Istarska Bank d.d., Pula and Sisačka Bank d.d. Sisak (which is included in the Bank's accounts following the merger with these banks on 30 June 2002), and Dubrovačka Bank d.d., Dubrovnik (which is included in the Bank's accounts following the merger with this bank on 30 September 2004). The value of goodwill as of 31 December 2008 amounts to HRK 42,966 thousand (2007: HRK 42,966 thousand). The Group assessed the recoverability of the goodwill and determine that there is no impairment on goodwill as of 31 December 2008 and 2007.

22. OTHER ASSETS

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Accrued fees and commissions	11,611	19,534	11,381	18,546
Accounts receivable	16,809	20,386	15,906	16,918
Foreclosed assets	178	208	178	208
Receivables in respect of credit card operations	19,866	17,548	19,866	17,548
Due from insurance company	17,099	15,028	17,099	15,028
Receivables for prepaid taxes and contributions	228	195	195	195
Prepaid expenses	8,122	6,879	8,122	6,879
Other	2,287	3,552	3,224	2,471
	76,200	83,330	75,971	77,793
Less: impairment allowance	(14,191)	(21,761)	(14,191)	(21,761)
	62,009	61,569	61,780	56,032

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

	2008	2007
Balance as at 1 January	21,761	18,995
New provisions made/(provisions released)	(7,570)	2,766
Balance as at 31 December	14,191	21,761

23. AMOUNTS DUE TO OTHER BANKS

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Demand deposits				
HRK denominated	132	118	132	118
Foreign currency denominated	15,111	10,191	15,111	10,191
Time deposits				
HRK denominated	-	-	-	-
Foreign currency denominated	420,061	190,932	420,061	190,932
	435,304	201,241	435,304	201,241

All amounts are expressed in thousands of HRK

24. AMOUNTS DUE TO CUSTOMERS

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Retail customers				
Demand deposits				
HRK denominated	974,617	1,057,654	974,617	1,057,654
Foreign currency denominated	956,464	1,018,073	956,464	1,018,073
Time deposits				
HRK denominated	1,232,528	1,061,029	1,232,528	1,061,029
Foreign currency denominated	4,363,714	4,018,578	4,363,714	4,018,578
Corporate customers				
Demand deposits				
HRK denominated	655,722	733,828	655,722	733,828
Foreign currency denominated	166,229	108,936	166,229	108,936
Time deposits				
HRK denominated	233,733	541,851	233,733	541,851
Foreign currency denominated	284,085	429,308	284,085	429,308
Current accounts and deposits of subsidiaries	-	-	842	4,949
	8,867,092	8,969,257	8,867,934	8,974,206

25. OTHER BORROWED FUNDS

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Domestic creditors:				
CBRD	807,889	687,173	807,889	687,173
Ministry of Finance	2,802	3,836	2,802	3,836
Other borrowings from domestic banks	2	15,551	2	15,551
Foreign creditors:				
Refinanced foreign currency borrowings	4,450	8,093	4,450	8,093
Commercial banks	980,683	910,777	980,683	691,023
Government agencies	40,231	41,258	40,231	41,258
	1,836,057	1,666,688	1,836,057	1,446,934

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

Other funds borrowed from CBRD are designated for approving loans to end users - corporate and retail customers - under the SMEs, tourist trade and agriculture incentive programme supported by the CBRD, at an average interest rate of 2.15 % (2007: 2.04%). No short-term repo borrowings existed as of 31 December 2008 (2007: short-term repo borrowings amounted to HRK 91,198 thousand).

(b) Other borrowings from domestic banks

At 31 December 2008, the Group and the Bank had no other borrowings from domestic banks, whereas at 31 December 2007, HRK 15,650 thousand represents a loan from a Croatian bank with a currency clause and at an interest rate of 6-month EURIBOR + 1.9%.

(c) Refinanced foreign currency loans

London Club

At 31 December 2008, the liabilities to the London Club amount to HRK 1,542 thousand (2007: HRK 2,200 thousand) for the Group and for the Bank. Based on the Information Memorandum of 9 May 1999 and the Notification of Offer of 14 June 1996, the Croatian Government assumed at 31 July 1996 the obligation in respect of 29.5% of reprogrammed debt of the former Yugoslavia to commercial banks under the New Financial

Agreement by issuing own A- and B-series bonds on 31 July 1996 to replace the debt under the New Financial Agreement. The financial debt is USD denominated and has been reprogrammed over 14 years, at an interest rate of six-month LIBOR for USD + 13/16% margin annually.

Paris Club

At 31 December 2008, the liabilities to the Paris Club amount to HRK 2,882 thousand (2007: HRK 5,666 thousand) for the Group and for the Bank. The loans repayable between 1984 and 1988 were refinanced and reprogrammed by means of several agreements, concluding with the Paris Club Agreement of 21 March 1995. Under the Agreement, principal is repayable in 24 semi-annual instalments, commencing on 31 January 1998. During 1997 and 1998, further individual negotiations with Paris Club members took place and bilateral consolidation agreements were concluded. In addition, on 16 December 2005, the Government of Croatia and the Government of Italy reached an agreement on the consolidation of the debt of Croatia.

(d) Amounts due to commercial banks

Major portions of total amounts due to commercial banks relates to the:

a) Loans from OTP Bank Rt. Hungary extended to the Group in the total amount of HRK 956,821 thousand (2007: HRK 881,624 thousand) and to the Bank in the total amount of HRK 956,821 thousand (2007: HRK 661,870 thousand), with a variable interest of 1-month and 3-month CHFLIBOR and 1-month and 3-month EURIBOR, plus margin. In year 2009, CHF 50 mil and EUR 20 mil mature, and in 2011, CHF 115 mil will mature.

b) A World Bank (IBRD) loan, with the balance outstanding in the amount of HRK 21,067 thousand (2007: HRK 26,335 thousand), both for the Group and for the Bank. The interest on the borrowings is determined at a variable rate in the amount of 6-month EURIBOR + 0.50% margin annually. The loan is repayable in semi-annual instalments and matures in 2012.

(e) Amounts due to government agencies

The major portion of this debt relates to the debt to the Deutsche Investitions und Entwicklungsgeselschaft ("DEG"), which amounts to HRK 37,449 thousand (2007: HRK 37,453 thousand). The loan was approved for a period of 6 years, at a variable interest rate (6-month EURIBOR + 1.3%); these funds are included in the Bank's supplementary capital in accordance with CNB regulations. The entire loan is due on 15 November 2015. HRK 2,519 thousand (2007: HRK 3,527 thousand) of the total debt to government agencies represents a loan from MEDIOCREDITO, which is repayable in equal semi-annual instalments until 2011, at a fixed interest rate of 1.75%.

All amounts are expressed in thousands of HRK

26. PROVISIONS

a) Analysis of provisions

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Provisions for off-balance sheet items	10,444	10,911	10,444	10,911
Litigation provision	22,168	30,654	22,168	30,654
	32,612	41,565	32,612	41,565

b) Movements in provisions for risks and charges

Provisions for off-balance sheet items	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Balance at 1 January	10,911	8,894	10,911	8,894
Additional provisions established	-	2,017	-	2,017
Amounts utilised	(467)	-	(467)	-
Balance at 31 December	10,444	10,911	10,444	10,911

Litigation provisions	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Balance at 1 January	30,654	31,998	30,654	31,998
Additional provisions established	130	13,873	130	13,873
Amounts utilised	(8,616)	(15,217)	(8,616)	(15,217)
Balance at 31 December	22,168	30,654	22,168	30,654

Litigation provision relates to the legal disputes in relation to the loan agreements between the Bank and its clients. The Bank has provided for these legal cases where it is expected that outcome of the legal case will result in an outflow from the Bank of resources embodying economic benefits.

27. OTHER LIABILITIES

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Provisions for retirement benefits and bonuses to employees	13,229	10,671	13,229	10,671
Liability under guarantee issued for client	2,877	4,713	2,877	4,713
Amounts due to suppliers	28,137	16,604	27,159	13,486
Salaries and contributions payable	20,744	22,080	20,391	22,080
Due to DAB for saving deposits insurance	5,335	4,761	5,335	4,761
Deferred income	1,003	1,372	1,003	1,372
Liabilities under credit card operations	4,772	9,199	4,772	9,199
Liabilities under currency dealings	(36)	22	(36)	22
Income tax-liabilities from previous years	6,711	6,711	6,711	6,711
Liabilities under opening accounts	3,605	5,129	3,605	5,129
Other liabilities	14,516	15,419	12,184	12,567
	100,893	96,681	97,230	90,711

All amounts are expressed in thousands of HRK

28. SHAREHOLDERS' EQUITY

ISSUED SHARE CAPITAL

As at 31 December 2008 the share capital of the Bank comprised 4,111,398 ordinary shares (2007: 3,026,398 ordinary shares), with a par value of HRK 200 each. All the ordinary shares are ranked equally and carry one vote per share.

Upon the decision made at the Annual General Meeting held on 20 February 2008, the issued share capital of the Bank was increased by HRK 217,000 thousand. The Bank issued 1,085,000 ordinary shares, with par value of HRK 200 each. The new issue was fully subscribed and paid in cash by the Bank's parent company at par.

RESERVES

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Legal reserve	30,264	30,264	30,264	30,264
Statutory reserve	30,264	30,264	30,264	30,264
Total legal and statutory reserves	60,528	60,528	60,528	60,528
Fair value reserve	33,316	35,394	33,316	35,394
General banking risks reserve	105,819	105,819	105,819	105,819
Other	73,775	53,071	37,325	26,939
Total other reserves	212,910	194,284	176,460	168,152

Legal and statutory reserves

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

Reserve for general banking risks

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

The general banking risk reserve is not transferrable to retained earnings or other reserves, or otherwise distributable until the expiry of a consecutive three-year period from the period in which the Bank has recorded an annual growth over 15%.

Fair value reserve

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

Other reserves

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

Retained earnings

Retained earnings include accumulated profits from prior years.

All amounts are expressed in thousands of HRK

29. CONTINGENCIES AND COMMITMENTS

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

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Payment guarantees	116,136	124,806	116,136	124,806
Performance guarantees	120,205	147,796	120,205	147,796
Letters of credit	20,034	33,063	20,034	33,063
Approved unused loans	968,718	967,713	969,913	969,050
Other	2,349	8,960	2,349	8,960
	1,227,442	1,282,338	1,228,637	1,283,675

30. CASH AND CASH EQUIVALENTS

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

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Cash and cash equivalents (excluding mandatory reserve with Croatian National Bank - Note 11)	419,863	412,115	419,852	412,115
Amounts due from other banks	1,664,838	1,787,550	1,664,843	1,714,541
	2,084,701	2,199,665	2,084,695	2,126,656

31. CREDIT RISK

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

All amounts are expressed in thousands of HRK

Concentration of assets and liabilities related to the Croatian state and its institutions.

		Group		Bank	
		31.12.2008	31.12.2007	31.12.2008	31.12.2007
Current account with the Croatian National Bank	11	253,907	239,022	253,907	239,022
Obligatory reserve with the Croatian National Bank	11	931,684	1,365,187	931,684	1,365,187
Ministry of Finance- Treasury bills	15b)	284,330	160,784	284,330	160,784
Republic of Croatia bonds	15b)	15,516	17,076	15,516	17,076
Loans provided by Croatian Bank for Reconstruction and Develeopment and State		219,733	-	219,733	-
Replacement bonds	15b)	451,661	432,216	451,661	432,216
Other assets		313	258	280	258
Liabilities to the Ministry of Finance in respect of rescheduled foreign borrowings		(4,450)	(8,093)	(4,450)	(8,093)
Current income tax payable	9d)	(25,946)	(23,638)	(25,481)	(23,180)
Other liabilities		(5,021)	(4,655)	(4,592)	(4,538)
		2,121,727	2,178,157	2,122,588	2,178,732

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

	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
DAB bonds for the restructuring of Dubrovačka banka and other assets	735	170,876	735	170,876
	735	170,876	735	170,876

32. CURRENCY RISK

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

OTP banka Hrvatska d.d. has made VaR analysis (Value at Risk). This analysis is defined as worst possible scenario in time frame in normal market conditions. For the calculation, 10 days frame is taken and reliability of 99%. Possibility that OTP banka Hrvatska d.d. will loose more that VaR calculated in normal market conditions is 1%. VaR calculated as of 31 December 2008 is HRK 93 thousand,

All amounts are expressed in thousands of HRK

Group	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
At 31 December 2008							
Assets							
Cash and balances with the Croatian National Bank	46,299	-	46,299	309,762	977,157	18,324	1,351,542
Amounts due from other banks	1,113,583	-	1,113,583	438,290	23,703	90,176	1,665,752
Financial assets at fair value through profit or loss	-	-	-	-	8,428	-	8,428
Amounts due from customers	322,652	4,667,940	4,990,592	99,560	2,505,577	889,671	8,485,400
Financial assets available for sale	16,885	5,925	22,810	5,560	761,482	-	789,852
Held-to-maturity investments	16,053	-	16,053	-	55,178	-	71,231
Property and equipment and intangible assets	-	-	-	-	291,169	-	291,169
Investment property	-	-	-	-	85,717	-	85,717
Other assets	159	-	159	76	61,749	25	62,009
Total assets	1,515,631	4,673,865	6,189,496	853,248	4,770,160	998,196	12,811,100
Liabilities							
Amounts due to other banks	434,509	-	434,509	142	132	521	435,304
Amounts due to customers	4,769,830	93,987	4,863,817	847,126	2,990,379	165,770	8,867,092
Other borrowed funds	209,071	681,246	890,317	2,557	129,447	813,736	1,836,057
Financial liabilities at fair value through profit or loss	-	-	-	-	84	-	84
Provisions	-	-	-	-	32,612	-	32,612
Deferred tax liability	-	-	-	-	5,854	-	5,854
Other liabilities and current income tax liability	4,858	-	4,858	2,214	119,641	126	126,839
Total liabilities	5,418,268	775,233	6,193,501	852,039	3,278,149	980,153	11,303,842
Net FX position	(3,902,637)	3,898,632	(4,005)	1,209	1,492,011	18,043	1,507,258
At 31 December 2007							
Total assets	1,677,561	4,102,495	5,780,056	726,404	4,620,097	995,551	12,122,108
Total liabilities	5,144,311	625,200	5,769,511	784,818	3,512,679	933,688	11,000,696
Net FX position	(3,466,750)	3,477,295	10,545	/58,414)	1,107,418	61,863	1,121,412

Bank	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
At 31 December 2008							
Assets							
Cash and balances with the Croatian National Bank	46,293	-	46,293	309,762	977,157	18,324	1,351,536
Amounts due from other banks	1,113,583	-	1,113,583	438,290	23,703	90,176	1,665,752
Financial assets at fair value through profit or loss	-	-	-	-	8,428	-	8,428
Amounts due from customers	322,652	4,667,940	4,990,592	99,560	2,509,342	889,671	8,489,165
Financial assets available for sale	16,885	5,925	22,810	5560	761,481	-	789,851
Held-to-maturity investments	16,053	-	16,053	-	55,178	-	71,231
Investments in subsidiaries	-	-	-	-	77,242	-	77,242
Property and equipment and intangible assets	-	-	-	-	280,154	-	280,154
Other assets	159	-	159	76	61,520	25	61,780
Total assets	1,515,625	4,673,865	6,189,490	853,248	4,754,205	998,196	12,795,139
Liabilities							
Amounts due to other banks	434,509	-	434,509	142	132	521	435,304
Amounts due to customers	4,769,835	93,987	4,863,822	847,126	2,991,216	165,770	8,867,934
Other borrowed funds	209,071	681,246	890,317	2,557	129,447	813,736	1,836,057
Financial liabilities at fair value through profit or loss	-	-	-	-	84	-	84
Provisions	-	-	-	-	32,612	-	32,612
Deferred tax liability	-	-	-	-	3,903	-	3,903
Other liabilities and current income tax liability	4,858	-	4,858	2,214	115,513	126	122,711
Total liabilities	5,418,273	775,233	6,193,506	852,039	3,272,907	980,153	11,298,605
Net FX position	(3,902,648)	3,898,632	(4,016)	1,209	1,481,298	18,043	1,496,534
At 31 December 2007							
Total assets	1,461,712	4,102,495	5,564,207	726,404	4,616,510	995,551	11,902,672
Total liabilities	4,925,307	625,200	5,550,507	784,818	3,510,981	933,688	10,779,994
Net FX position	(3,463,595)	3,477,295	13,700	(58,414)	1,105,529	61,863	1,122,678

All amounts are expressed in thousands of HRK

33. INTEREST RATE RISK

Interest rate sensitivity of assets and liabilities

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

OTP banka Hrvatska d.d. has calculated impact of change in interest rates for 200 bps. In this case, bank will gain additional 1,16% in net amount on their liable capital.

Group	**Up to 1 month**	**1 do 3 months**	**3 months to 1 year**	**Over 1 year**	**Non-interest bearing**	**Total**
At 31 December 2008						
Assets						
Cash and balances with the Croatian National Bank	478,703	152,718	295,606	17,616	406,899	1,351,542
Amounts due from other banks	1,665,370	-	-	-	382	1,665,752
Financial assets at fair value through profit or loss	-	-	-	-	8,428	8,428
Amounts due from customers	5,607,242	263,371	778,811	1,781,574	54,402	8,485,400
Financial assets available for sale	-	62,408	226,093	480,962	20,389	789,852
Held-to-maturity investments	20,328	15,245	19,603	-	16,055	71,231
Property and equipment and intangible assets	-	-	-	-	291,169	291,169
Investment property	-	-	-	-	85,717	85,717
Other assets	-	-	-	-	62,009	62,009
Total assets	7,771,643	493,742	1,320,113	2,280,152	945,450	12,811,100
Liabilities						
Amounts due to other banks	434,925	-	-	-	379	435,304
Amounts due to customers	3,251,474	993,173	2,961,926	1,594,883	65,636	8,867,092
Other borrowed funds	12,456	78,615	492,707	1,244,869	7,410	1,836,057
Provisions	-	-	-	-	32,612	32,612
Deferred tax liability	-	-	-	-	5,854	5,854
Other liabilities and current corporate income tax liability	-	-	-	-	126,923	126,923
Total liabilities	3,698,855	1,071,788	3,454,633	2,839,752	238,814	11,303,842
On-balance-sheet interest rate gap	4,072,788	(578,046)	(2,134,520)	(559,600)	706,636	1,507,258

All amounts are expressed in thousands of HRK

Bank	**Up to 1 month**	**1 do 3 months**	**3 months to 1 year**	**Over 1 year**	**Non-interest bearing**	**Total**
At 31 December 2008						
Assets						
Cash and balances with the Croatian National Bank	478,697	152,718	295,606	17,616	406,899	1,351,536
Amounts due from other banks	1,665,370	-	-	-	382	1,665,752
Financial assets at fair value through profit or loss	-	-	-	-	8,428	8,428
Amounts due from customers	5,608,192	263,371	781,616	1,781,574	54,412	8,489,165
Financial assets available for sale	-	62,408	226,093	480,962	20,388	789,851
Held-to-maturity investments	20,328	15,245	19,603	-	16,055	71,231
Investments in subsidiaries	-	-	-	-	77,242	77,242
Property and equipment and intangible assets	-	-	-	-	280,154	280,154
Other assets	-	-	-	-	61,780	61,780
Total assets	7,772,587	493,742	1,322,918	2,280,152	925,740	12,795,139
Liabilities						
Amounts due to other banks	434,925	-	-	-	379	435,304
Amounts due to customers	3,252,316	993,173	2,961,926	1,594,883	65,636	8,867,934
Other borrowed funds	12,456	78,615	492,707	1,244,869	7,410	1,836,057
Provisions	-	-	-	-	32,612	32,612
Deferred tax liability	-	-	-	-	3,903	3,903
Other liabilities and current income tax liability	-	-	-	-	122,795	122,795
Total liabilities	3,699,697	1,071,788	3,454,633	2,839,752	232,735	11,298,605
On-balance-sheet interest rate gap	4,072,890	(578,046)	(2,131,715)	(559,600)	693,005	1,496,534

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

All amounts are expressed in thousands of HRK

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

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

	Group			
	31.12.2008	Interest rate %	31.12.2008	interest rate %
Cash and balances with the Croatian National Bank	1,351,542	0.5	1,777,302	0.7
Amounts due from other banks	1,665,752	1.7	1,934,394	4.3
Amounts due from customers	8,485,400	7.5	7,094,434	7.2
Held-to-maturity investments	71,231	5.4	84,922	5.4
Financial assets available for sale	789,852	5.5	841,791	5.1
	12,363,777		11,732,843	
Amounts due to other banks	435,304	5.0	201,241	5.9
Amounts due to customers	8,867,092	3.1	8,969,257	2.9
Other borrowed funds	1,836,057	2.6	1,666,688	3.0
	11,138,453		10,837,186	

	Bank			
	31.12.2008	Interest rate %	31.12.2008	interest rate %
Cash and balances with the Croatian National Bank	1,351,536	0.5	1,777,302	0.7
Amounts due from other banks	1,665,752	1.7	1,718,545	4.3
Loans and other financial assets created by the Bank	8,489,165	7.5	7,118,173	7.2
Held-to-maturity investments	71,231	5.4	84,922	5.4
Financial assets available for sale	789,851	5.5	841,788	5.1
	12,367,535		11,540,730	
Amounts due to other banks	435,304	5.0	201,241	5.9
Amounts due to customers	8,867,934	3.1	8,974,206	2.9
Other borrowed funds	1,836,057	2.6	1,446,934	3.0
	11,139,295		10,622,381	

All amounts are expressed in thousands of HRK

34. LIQUIDITY RISK

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

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

Group	Up to 1 month	1 do 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
At 31 December 2008						
Assets						
Cash and balances with the Croatian National Bank	885,602	152,718	295,606	3,558	14,058	1,351,542
Amounts due from other banks	1,664,843	-	-	-	909	1,665,752
Financial assets at fair value through profit or loss	-	-	8,428	-	-	8,428
Amounts due from customers	939,750	351,283	1,235,095	1,809,787	4,149,485	8,485,400
Financial assets available for sale	20,389	62,408	226,093	455,087	25,875	789,852
Held-to-maturity investments	20,330	15,245	19,603	-	16,053	71,231
Property and equipment and intangible assets	-	-	-	-	291,169	291,169
Investment property	-	-	-	-	85,717	85,717
Other assets	61,831	-	178	-	-	62,009
Total assets	3,592,745	581,654	1,785,003	2,268,432	4,583,266	12,811,100
Liabilities						
Amounts due to other banks	435,304	-	-	-	-	435,304
Amounts due to customers	4,459,758	1,474,600	2,803,153	33,652	95,929	8,867,092
Other borrowed funds	19,866	78,615	492,707	709,244	535,625	1,836,057
Financial liabilities at fair value through profit or loss	84	-	-	-	-	84
Provisions	-	-	-	-	32,612	32,612
Deferred tax liability	-	-	-	5,854	-	5,854
Other liabilities and current income tax liability	113,610	-	-	-	13,229	126,839
Total liabilities	5,028,622	1,553,215	3,295,860	748,750	677,395	11,303,842
Net liquidity gap	(1,435,877)	(971,561)	(1,510,857)	1,519,682	3,905,871	1,507,258
At 31 December 2007						
Total assets	4,172,825	607,812	1,845,085	1,377,415	4,118,971	12,122,108
Total liabilities	5,261,962	1,653,335	2,952,768	173,789	958,842	11,000,696
Net liquidity gap	(1,089,137)	(1,045,523)	(1,107,683)	1,203,626	3,160,129	1,121,412

All amounts are expressed in thousands of HRK

Bank	Up to 1 month	1 do 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
At 31 December 2008						
Assets						
Cash and balances with the Croatian National Bank	885,596	152,718	295,606	3,558	14,058	1,351,536
Amounts due from other banks	1,664,843	-	-	-	909	1,665,752
Financial assets at fair value through profit or loss	-	-	8,428	-	-	8,428
Amounts due from customers	939,760	351,283	1,238,850	1,809,787	4,149,485	8,489,165
Financial assets available for sale	20,388	62,408	226,093	455,087	25,875	789,851
Held-to-maturity investments	20,330	15,245	19,603	-	16,053	71,231
Investments in subsidiaries	-	-	-	-	77,242	77,242
Property and equipment and intangible assets	-	-	-	-	280,154	280,154
Other assets	61,602	-	178	-	-	61,780
Total assets	3,592,519	581,654	1,788,758	2,268,432	4,563,776	12,795,139
Liabilities						
Amounts due to other banks	435,304	-	-	-	-	435,304
Amounts due to customers	4,460,600	1,474,600	2,803,153	33,652	95,929	8,867,934
Other borrowed funds	19,866	78,615	492,707	709,244	535,625	1,836,057
Financial liabilities at fair value through profit or loss	84	-	-	-	-	84
Provisions	-	-	-	-	32,612	32,612
Deferred tax liability	-	-	-	3,903	-	3,903
Other liabilities and current income tax liability	109,482	-	-	-	13,229	122,711
Total liabilities	5,025,336	1,553,215	3,295,860	746,799	677,395	11,298,605
Net liquidity gap	(1,432,817)	(971,561)	(1,507,102)	1,521,633	3,886,381	1,496,534
At 31 December 2007						
Total assets	4,190,021	535,806	1,702,245	1,377,415	4,097,185	11,902,672
Total liabilities	5,255,575	1,581,329	2,809,928	174,320	958,842	10,779,994
Net liquidity gap	(1,065,554)	(1,045,523)	(1,107,683)	1,203,095	3,138,343	1,122,678

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

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

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

All amounts are expressed in thousands of HRK

35. RELATED PARTY TRANSACTIONS

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

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

	31.12.2008		31.12.2007	
	Receivables	Payables	Receivables	Payables
OTP Bank Rt. Hungary	105,836	1,009,086	47,939	664,068
OTP Nekretnine d.o.o.	3,840	185	22,747	2,220
OTP Invest d.o.o.	959	789	1,107	2,361
Kratos nekretnine d.o.o.	-	48	-	134
Kvirinal nekretnine d.o.o.	-	-	-	234
	110,635	1,010,108	71,793	669,017

	31.12.2008		31.12.2007	
	Income	Expenses	Income	Expenses
OTP Bank Rt. Hungary	2,237	31,979	796	29,028
OTP Nekretnine d.o.o.	2,003	27,703	346	963
OTP Invest d.o.o.	328	4	593	2
Kratos nekretnine d.o.o.	1	44	-	148
Kvirinal nekretnine d.o.o.	179	-	-	286
	4,748	59,730	1,735	30,427

Remuneration paid to key management personnel amounted to HRK 9,437 thousand and relates to short-term employee benefits (2007: HRK 5,515 thousand). Included in key management personnel are Management Board members.

Remuneration paid to Supervisory Board members amounted to HRK 386 thousand (2007: HRK 364 thousand).

36. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Group manages funds on behalf of third parties placed mainly as loans between enterprises through the Group as agent. These assets are accounted for separately from those of the Group and no liability falls on the Group in connection with these transactions. The Group charges a fee for these services. At 31 December 2008, Funds managed by the Group and the Bank as an agent on behalf of third parties amounted to HRK 92,697 thousand (2007: HRK 100,528 thousand). Additionally, assets under the management of OTP Invest, a subsidiary of the Bank, amounted to HRK 162,333 thousand (2007: HRK 353,245 thousand).

37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

38. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment losses on loans and receivables

The Group monitors the creditworthiness of its customers on an ongoing basis. In accordance with regulations, the need for impairment of the Group's on- and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans to and receivables from corporate and retail customers (summarised in note 14), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees, letters of credit and unused credit card limits (summarised in note

All amounts are expressed in thousands of HRK

27). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

		Group		Bank	
	Notes	2008	2007	2008	2007
Summary of impairment losses on customers					
Impairment allowance on loans to and receivables from customers	14	341,153	436,775	341,153	436,775
Provisions for off-balance-sheet exposures	24	10,444	10,911	10,444	10,911
		351,597	447,686	351,597	447,686

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

The Group estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers; and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults. The Group takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgement in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Group also has regard to the ranges of specific impairment loss rates prescribed by the CNB.

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

Group and Bank			**2008**			**2007**
	Corporate	**Retail**	**Total**	**Corporate**	**Retail**	**Total**
Gross value of						
Exposure of impaired loans	120,080	200,782	320,862	237,017	137,872	374,889
Impairment rate	72.95%	74.99%	74.23%	86.90%	97.48%	90.79%

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2008 would lead to the recognition of an additional impairment loss of HRK 32,086 thousand for the Group and the Bank.

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

The amount of impairment allowance at 31 December 2008 calculated on a portfolio basis in accordance with local regulations amounted to HRK 115,314 thousand (2007: HRK 109,143 thousand) of the relevant on- and off-balance-sheet exposure for the Group and Bank. The total of these portfolio based impairment losses amounted to 0.85% (2007: 0.85%) of eligible loans to and receivables from customers and commitments and contingencies of the Group and the Bank respectively, in both cases net of amounts individually assessed as impaired.

At the maximum rate prescribed by the CNB, portfolio based impairment losses would be HRK 47,482 thousand (2007: HRK 44,941 thousand) higher than the amount recognised by the Group and Bank.

Impairment of available-for-sale equity investments

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

Held-to-maturity investments

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

Taxation

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

Regulatory requirements

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

Legal actions

In the ordinary course of business, the Group is subject to various legal actions and complaints, the outcome of which is uncertain. As of 31 December 2008, based on the advice of legal counsel, management created provisions for the related risks amounting to HRK 22,168 thousand (2007: HRK 30,654 thousand).

39. APPROVAL OF FINANCIAL STATEMENTS

The consolidated and unconsolidated financial statements are signed by and approved for issuing by the Management Board of OTP banka Hrvatska d.d. Zadar on 30 March 2009:

Damir Odak	**Zorislav Vidović**
President of the Management Board	*Member of the Management Board*

All amounts are expressed in thousands of HRK

Pursuant to the Croatian Accounting Law (Official Gazette 146/05) 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 consolidated financial statements in accordance to the above mentioned decision:

Consolidated Income statement

	2008	2007
1. Interest income	741,262	636,112
2. (Interest expenses)	(364,686)	(310,082)
3. Net interest income	376,576	326,030
4. Commission and fee income	149,444	125,800
5. (Commission and fee expenses)	(37,361)	(38,536)
6. Net commission and fee income	112,083	87,264
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. Gain/(loss) from trading activities	25,144	29,473
9. Gain/(loss) from embedded derivatives	23	13
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	434	287
11. Gain/(loss) from financial assets available for sale	2,432	40
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	176	692
16. Gain/(loss) from foreign exchange differences	6,305	3,876
17. Other income	13,040	29,256
18. Other expenses	(22,424)	(41,296)
19. General and administrative expenses, depreciation and amortization	(298,685)	(284,594)
20. Net income before value adjustments and provisions for losses	215,104	151,041
21. Expenses from value adjustments and provisions for losses	(26,401)	(22,344)
22. Profit/(loss) before tax	188,703	128,697
23. Income tax	(37,397)	(27,637)
24. Current year profit/(loss)	151,306	101,060
25. Earnings per share	38,71	34,14
26. Current year profit/(loss)	151,306	101,060
27. Distributable to the parent company shareholders	151,306	104,173
28. Minority participation	-	(3,113)

All amounts are expressed in thousands of HRK

Consolidated balance sheet

Assets	2008	2007
1. Cash and deposits with the CNB	1,323,878	1,733,922
1.1. Cash	138,785	130,482
1.2. Deposits with the CNB	1,185,093	1,603,440
2. Deposits with banking institutions	1,677,478	1,674,319
3. Treasury bills of Ministry of Finance and treasury bills of the CNB	284,330	160,784
4. Securities and other financial instruments held for trading	-	-
5. Securities and other financial instruments available for sale	496,895	668,863
6. Securities and other financial instruments held to maturity	71,229	84,672
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	8,428	8,064
8. Derivative financial assets	53	218
9. Loans to financial institutions	15,950	301,000
10. Loans to other clients	8,596,930	7,351,701
11. Investments in subsidiaries, affiliated companies and joint ventures	5,301	52,926
12. Repossessed assets	177	208
13. Tangible and intangible assets (minus depreciation and amortization)	293,791	376,531
14. Interests, fees and other assets	221,269	230,926
15. Special reserves for identified losses	(104,870)	(98,232)
A. Total assets	12,890,839	12,545,902
Liabilities and equity		
1. Borrowings from financial institutions	807,741	702,820
2. Deposits	9,215,689	9,091,380
2.1. Deposits on giro-accounts and current accounts	1,628,954	1,734,359
2.2. Savings deposits	1,115,896	1,169,690
2.3. Term deposits	6,470,839	6,187,331
3. Other borrowings	983,457	1,260,667
3.1. Short-term borrowings	-	73,383
3.2. Long-term borrowings	983,457	1,187,284
4. Derivative financial liabilities and other trading financial liabilities	221	767
5. Issued debt securities	-	-
6. Issued subordinated instruments	37,449	37,453
7. Issued Subordinated debt	-	-
8. Interests, fees and other liabilities	337,190	343,953
B. Total liabilities	11,381,747	11,437,040
1. Share capital	989,607	772,607
2. Current year gain/loss	151,306	104,173
3. Retained earnings/(loss)	114,487	44,865
4. Legal reserves	30,264	30,273
5. Statutory and other capital reserves	179,721	121,550
6. Unrealised gain /(loss) from available for sale fair value adjustment	43,707	35,394
C. Total equity	1,509,092	1,108,862
D. Total liabilities and equity	12,890,839	12,545,902
8. Total equity	1,509,092	1,108,862
9. Equity distributable to parent company shareholders	1,509,092	1,108,862
10. Minority participation	-	-

All amounts are expressed in thousands of HRK

Consolidated statement of change sin equity

Change in equity	**Share capital**	**Legal statutory and other reserves**	**Retained earning /(losses)**	**Current year profit /loss**	**Unrealised gain/(losses) from available for sale financial assets fair value adjustement**	**Total capital and reserves**
1. Balance at 1 January 2008	772.607	151.824	44.865	104.173	35.394	1.108.863
2. Changes of Accounting policies and error corrections	-	(9)	3.179	2.075	-	5.245
3. Restated balance at 1 January 2008(1+2)	772.607	151.815	48.044	106.248	35.394	1.114.108
4 . Sale of financial assets available for sale	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	10.391	10.391
6. Tax on items directly recognised or transferred from capital and reserves	-	(2.580)		-	(2.078)	(4.658)
7. Other gains or losses directly recognised in capital and reserves	-	12.897	8.051	-	-	20.948
8. Net gains/losses directly recognised in capital and reserves (4+5+6+7)	-	10.317	8.051	-	8.313	26.681
9. Current year gain/(loss) 2008.				151.306		151.306
10. Total income and expenses recognised for the current year 2008.	-	10.317	8.051	151.306	8.313	177.987
11. Increase/ (decrease) in share capital	217.000	-	-	-	-	217.000
12. Buying/(sale) of treasury shares	-	-	-	-	-	-
13. Other changes	-	(4)	58.392	(1.463)	-	56.925
14. Transfer to reserves	-	47.857	-	(104.785)	--	(56.928)
15. Dividends paid	-		-		-	
16. Distribution of profit (14+15)	-	47.857	-	(104.785)	-	(56.928)
17. Balance at 31 December 2008. (3+10+11+12+13+16)	989.607	209.985	114.487	151.306	43.707	1.509.092

Changes in equity	**Share capital**	**Legal statutory and other reserves**	**Retained earning /(losses)**	**Current year profit /loss**	**Unrealised gain/(losses) from available for sale financial assets fair value adjustement**	**Total capital and reserves**
1. Balance at 1 January 2007.	622,607	52,724	65,497	98,449	15,591	854,868
2. Changes of Accounting policies and error corrections	0	9,548	(45,902)	2,962	0	(33,392)
3. Restated balance at 1 January 2007. (1+2)	622,607	62,272	19,595	101,411	15,591	821,476
4 . Sale of financial assets available for sale	-	-	-	-	-	-
.5. Fair value changes of financial assets available for sale	-	-		-	24,754	24,754
6. Tax on items directly recognised or transferred from capital and reserves	-	(4,147)		-	(4,951)	(9,098)
7. Other gains or losses directly recognised in capital and reserves	-	20,732		-	-	20,732
8. Net gains/losses directly recognised in capital and reserves (4+5+6+7)	-	16,585	-	-	19,803	36,388
9. Current year gain/(loss) 2007.	-	-	-	104,173	-	104,173
10. Total income and expenses recognised for the current year 2007.	-	16,585	-	104,173	19,803	140,561
11. Increase/ (decrease) in share capital	150,000	-	-	-	-	150,000
12. Buying/(sale) of treasury shares	-	-	-	-	-	-
13. Other changes	-	5	25,270	-	-	25,275
14. Transfer to reserves	-	72,962	-	(101,411)	-	(28,449)
15. Dividends paid	-		-		-	-
16. Distribution of profit (14+15)	-	72,962	-	(101,411)	-	(28,449)
17. Balance at 31 December 2007. (3+10+11+12+13+16)	772,607	151,824	44,865	104,173	35,394	1,108,863

All amounts are expressed in thousands of HRK

Consolidated Cash flow statement

	2008	2007
Operating activities		
1,1, Gain/(loss) before tax	188,703	128,679
1,2, Value adjustments and provisions for losses	6,638	13,151
1,3, Depreciation and amortization	25,164	21,434
1,4, Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	(434)	(277)
1,5, Gain/(loss) from tangible assets sale	(1,957)	(2,438)
1,6, Other (gains)/losses	-	-
1, Operating cash flow before operating assets movements	218,114	160,549
2.1. Deposits with CNB	417,792	(162,321)
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	(360,323)	118,598
2.3. Deposits with banking institutions and loans to financial institutions	(12,640)	16,820
2.4. Loans to other clients	(960,179)	(1,730,378)
2.5. Securities and other financial instruments held for trading	-	1,765
2.6. Securities and other financial instruments available for sale	182,354	131,920
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	70	-
2.8. Other operating assets	13,023	(46,024)
2. Net (increase)/decrease in operating assets	(719,903)	(1,669,620)
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	(105,045)	337,080
3.2. Savings and term deposits	229,354	479,417
3.3. Derivative financial liabilities and other trading liabilities	(546)	(234)
3.4. Other liabilities	(33,181)	56,076
3. Net increase/(decrease) in operating liabilities	90,582	872,339
4. Net cash flow form operating activities before profit tax paying	(411,207)	(636,732)
5. Paid profit tax	(10,979)	
6. Net inflows/(outflows) of cash from operating activities	(422,186)	(636,732)
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	77,901	(167,127)
7.2. Receipts from sale /(payments for buying) investments in subsidiaries, affiliated companies and joint ventures	47,625	(51,525)
7.3. Receipts from collection/(payments for buying) securities and other financial instruments held to maturity	13,443	(27,825)
7.4. Received dividends	-	-
7.5. Other receipts/(payments) form investment activities	-	-
7. Net cash flow from investing activities	138,969	(246,477)
Financial activities		
8.1. Net increase/(decrease) in borrowings	(172,289)	793,397
8.2. Net increase/(decrease) in issued debt securities	-	-
8.3. Net increase/(decrease) in subordinated and Subordinated debt	(4)	(102)
8.4. Receipts from issued share capital	217,000	150,000
8.5. (Dividends paid)	-	-
8.6. Other receipts/(payments) from financial activities	-	-
8. Net cash flow from financial activities	44,707	943,295
9. Net increase/(decrease) in cash and cash equivalents		
10. Effects from foreign exchange rates changes on cash and cash equivalents	(5,226)	91,229
11. Net increase/(decrease) in cash and cash equivalents	(243,736)	(151,315)
12. Cash and cash equivalents at the beginning of the year	2,199,665	2,139,579
13. Cash and cash equivalents at the and of the year	2,084,701	2,199,665

All amounts are expressed in thousands of HRK

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.

Comparative consolidated income statement for 2008 and 2007

	Croatian National Bank decision 2008	Accounting Requirements for banks in Croatia for 2008	Difference 2008	Croatian National Bank decision 2007	Accounting Requirements for banks in Croatia for 2007	Difference 2007
1. Interest income	741,262	740,955	307	636,112	630,955	5,157
2. (Interest expenses)	(364,686)	(344,803)	(19,883)	(310,082)	(286,169)	(23,913)
3. Net interest income	376,576	396,152	(19,576)	326,030	344,786	(18,756)
4. Commission and fee income	149,444	149,132	312	126,800	132,137	(6,337)
5. (Commission and fee expenses)	(37,361)	(37,362)	1	(38,536)	(37,497)	(1,039)
6. Net commission and fee income	112,083	111,770	313	87,264	94,640	(7,376)
8. Gain/(loss) from trading activities	25,144	25,144	-	29,473	29,473	-
9. Gain/(loss) from embedded derivatives	23	-	23	13	-	13
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	434	-	434	287	-	287
11. Gain/(loss) from financial assets available for sale	2,432	2,432	-	40	40	-
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	176	-	176	692	-	692
16. Gain/(loss) from foreign exchange differences	6,305	7,191	(886)	3,876	4,997	(1,121)
17. Other income	13,040	18,310	(5,270)	29,256	11,703	17,553
18. Other expenses	(22,424)	-	(22,424)	(41,296)	-	(41,296)
19. General and administrative expenses, depreciation and amortization	(298,685)	(347,081)	48,396	(284,594)	(315,207)	30,613
20. Net income before value adjustments and provisions for losses	215,104	213,918	1,186	151,041	170,432	(19,391)
21. Expenses from value adjustments and provisions for losses	(26,401)	(27,307)	906	(22,344)	(35,771)	13,427
22. Profit/(loss) before tax	188,703	186,611	2,092	128,697	134,661	(5,964)
23. Income tax	(37,397)	(37,415)	18	(27,637)	(27,359)	(278)
24. Current year profit/(loss)	151,306	149,196	2,110	101,060	107,302	(6,242)
25. Earnings per share	38,71	38,17	0,54	34,14	36,25	-2,11
26. Current year profit/(loss)	151,306	149,196	2,110	101,060	107,302	(6,242)
27. Distributable to the parent company shareholders	151,306	159,674	1,632	104,173	107,435	(3,262)
28. Minority participation	-	(478)	478	(3,113)	(133)	(2,980)

Reconciliations between the balance sheet items disclosed in the Annual Report and those specified by the CNB Decision relate to the following categories:

Reconciliation notes to the 2008 Consolidated Income Statement

The departures of the income statement items as published in the Annual Report from the standard prescribed by the CNB Decision comprise the following:

The difference between the total interest income as per the CNB accounting standards for banks and the Annual Report are net exchange differences on interest income, which are presented in the Annual Report within “Net gains and losses on foreign currency dealings, equities and translation of monetary assets and liabilities”

The difference between the total interest income as per the CNB accounting standards for banks and the Annual Report is in the savings deposit premiums, which are presented in the Annual Report under “Operating expenses”, as well as in the position “Net exchange differences on interest expense” that are reported within “Net gains and losses on foreign currency dealings, equities and translation of monetary assets and liabilities”.

“Trading gains/losses”, “Gains/losses on embedded derivatives”, “Gains/losses on activities involving assets available for sale”, and “Gains/losses on accrued exchange differences” are items that are presented separately under the CNB accounting standards for banks, whilst in the Annual Report they are included within “Net gains and losses on foreign currency dealings, equities and translation of monetary assets and liabilities”.

“Gains/losses on assets at fair value through profit or loss not actively traded”, “Income from other equity investments”, “Other income” and “Extraordinary income” are items that are presented separately under the CNB accounting standards for banks, while in the Annual Report they are included in “Other operating income”.

“Other expenses”, “Extraordinary expenses”, and “General and administrative expenses, and depreciation and amortisation” are items items that are presented separately under the CNB accounting standards for banks, while in the Annual Report they are included in “Operating expenses”.

All amounts are expressed in thousands of HRK

Comparatives for consolidated balance sheet as at 31 December 2008 and 2007

Assets	Croatian National Bank decision 2008	Accounting Requirements for banks in Croatia for 2008	Difference 2008	Croatian National Bank decision 2007	Accounting Requirements for banks in Croatia for 2007	Difference 2007
1. Cash and deposits with the CNB	1,324,878	1,351,542	(27,664)	1,733,922	1,777,302	(43,380)
1.1. Cash	139,785	419,858	(280,073)	130,482	412,115	(281,633)
1.2. Deposits with the CNB	1,185,093	931,684	253,409	1,603,440	1,365,187	238,253
2. Deposits with banking institutions	1,677,478	1,665,752	11,726	1,674,319	1,934,394	(260,075)
3. Treasury bills of Ministry of Finance and treasury bills of the CNB	284,330	-	284,330	160,784	-	160,784
4. Securities and other financial instruments held for trading	-	8,428	(8,428)	-	8,200	(8,200)
5. Securities and other financial instruments available for sale	496,895	789,852	(292,957)	668,863	841,791	(172,928)
6. Securities and other financial instruments held to maturity	71,229	71,231	(2)	84,672	84,922	(250)
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	8,428	-	8,428	8,064	-	8,064
8. Derivative financial assets	53	-	53	218	-	218
9. Loans to financial institutions	15,950	-	15,950	301,000	-	301,000
10. Loans to other clients	8,596,930	8,485,400	111,530	7,351,701	7,094,434	257,267
11. Investments in subsidiaries, affiliated companies and joint ventures	5,301	-	5,301	52,926	-	52,926
12. Repossessed assets	177	-	177	208	-	208
13. Tangible and intangible assets (minus depreciation and amortization)	293,791	376,886	(83,095)	376,531	319,496	57,035
14. Interests, fees and other assets	221,269	62,009	159,260	230,926	61,569	169,357
15.Specif reserves for indentified losses	(104,870)	-	(104,870)	(98,232)	-	(98,232)
A. Total assets	12,890,839	12,811,100	79,739	12,545,902	12,122,108	423,794

Liabilities and equity	Croatian National Bank decision 2008	Accounting Requirements for banks in Croatia for 2008	Difference 2008	Croatian National Bank decision 2007	Accounting Requirements for banks in Croatia for 2007	Difference 2007
1. Borrowings from financial institutions	807,741	1,836,057	(1,028,316)	702,820	1,666,688	(963,868)
2. Deposits	9,215,689	-	9,215,689	9,091,380	-	9,091,380
2.1. Deposits on giro-accounts and current accounts	1,628,954	-	1,628,954	1,734,359	-	1,734,359
2.2. Savings deposits	1,115,896	-	1,115,896	1,169,690	-	1,169,690
2.3. Term deposits	6,470,839	-	6,470,839	6,187,331	-	6,187,331
3. Other borrowings	983,457	-	983,457	1,260,667	-	1,260,667
3.1. Short-term borrowings	-	-	-	73,383	-	73,383
3.2. Long-term borrowings	983,457	-	983,457	1,187,284	-	1,187,284
4.Due to other banks and deposits from customers	-	435,304	(435,304)	-	201,241	(201,241)
5. Due to customers	-	8,867,092	(8,867,092)	-	8,969,257	(8,969,257)
6. Derivative financial liabilities and other trading financial liabilities	221	-	221	767	-	767
8. Issued subordinated instruments	37,449	-	37,449	37,453	-	37,453
9. Financial liabilities through fair value	-	84	(84)	-	554	(554)
10. Provisions	-	32,612	(32,612)	-	41,565	(41,565)
11. Deferred tax liabilities	-	5,854	(5,854)	-	1,072	(1,072)
12. Income tax liabilities	-	25,946	(25,946)	-	23,638	(23,638)
13. Interests, fees and other liabilities	337,190	100,893	236,297	343,953	96,681	247,272
B. Total liabilities	11,381,747	11,303,842	77,905	11,437,040	11,000,696	436,344
1. Share capital	989,607	822,280	167,327	772,607	605,280	167,327
Share premium	-	171,260	(171,260)	-	171,260	(171,260)
2. Current year gain/loss	151,306	-	151,306	104,173	-	104,173
3. Retained earnings/(loss)	114,487	249,580	(135,093)	44,865	89,792	(44,927)
4. Legal reserves	30,264	-	30,264	30,273	-	30,273
Statutory and other capital reserves	-	60,528	(60,528)	-	60,528	(60,528)
5. Statutory and other capital reserves	179,721	-	179,721	121,550	-	121,550
Other reserves	-	212,910	(212,910)	-	194,284	(194,284)
6. Unrealised gain /(loss) from available for sale fair value adjustment	43,707	-	43,707	35,394	-	35,394
C. Total equity	1,509,092	1,516,558	2,534	1,108,862	1,121,144	(12,282)
D. Total liabilities and equity	12,890,839	12,810,400	80,439	12,545,902	12,121,840	424,062
8. Total equity	1,509,092	1,507,258	1,834	1,108,862	1,121,412	(12,550)
9.Equity distributable to parent company shareholders	1,509,092	1,506,558	2,534	1,108,862	1,121,144	(12,282)
10. Minority participation	-	700	(700)	-	268	(268)

Reconciliations between the balance sheet items disclosed in the Annual Report and those specified by the CNB Decision relate to the following categories:

Reconciliation notes to the 2008 Consolidated Balance Sheet

ASSETS

“Cash and deposits with CNB” and “Deposits with, and loans to banking institutions” are items that are presented separately under the CNB accounting standards for banks, while in the Annual Report they are included in “Cash and amounts due from banks”, “Mandatory reserve with CNB” and “Loans to other banks”.
Treasury bills of the Ministry of Finance and treasury bills of the CNB are reported separately according to the CNB accounting standards for banks, while in the Annual Report they are included in “Financial assets available for sale”. Securities and other financial instruments at fair value through profit or loss not actively traded are reported separately under the CNB accounting standards, while in the Annual Report they are included under the caption “Finanial assets at fair value through profit or loss”.
Repossessed i.e. foreclosed assets are items reported separately according to the CNB accounting standards, while in the Annual Report they are included under “Other assets”.
Interest and fees due and not yet due and intangible assets are included under “Interest, fees and other assets” according to the CNB accounting standards for banks, while in the Annual Report, intangible assets are reported separately, and interest and fees are presented within the corresponding loan principal and securities due and not yet due.

LIABILITIES AND EQUITY

Short- and long-term loans from financial institutions, other short-term and long-term loans and issued subordinated debt instruments are items that are reported separately under the CNB accounting standards for banks, whereas in the Annual Report they are included within “Other borrowed funds”.
Current and giro account balances, savings deposits and term deposits are separately under the CNB accounting standards for banks, whereas in the Annual Report they are presented under the captions “Amounts due to other banks” and “Amounts due to customers”.
Provisions, deferred tax liabilities and income tax liability are included within “Interest, fees and other liabilities” according to the CNB accounting standards for banks, while they are reported separately in the Annual Report.
Accrued interest and fees due and not yet due are presented in the Annual report within the corresponding principal due and not yet due, while under the CNB standards they are included in “Interest, fees and other liabilities”.

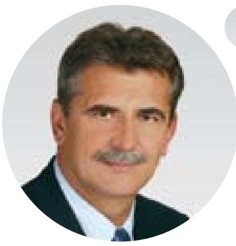
BASIS OF CONSOLIDATION

The Consolidated Financial Statements for the year ended 31 December 2008, prepared in accordance with the Croatian National Bank Decision, include OTP banka d.d. and OTP Nekretnine d.o.o., while the consolidated financial statements under International Financial Reporting Standards include OTP banka d.d., OTP Nekretnine d.o.o., OTP Invest d.o.o. and Kratos nekretnine d.o.o.

Supervisory Board and Management Board

otpbanka

Supervisory Board



Antal György Kovács

Executive Director for South Transdanubian region in OTP Bank Rt

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

Gábor Czikora

Managing Director of the IT Development Department in OTP Bank Rt

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

Balázs Fekete

Deputy Director of the Syndicated Loan Department in OTP Bank Rt

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

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

László Kecskés

Managing Director of the Internal Audit Department in OTP Bank Rt

Gábor Kovács was born in 1973 in Pécs. He received the degree in geography and library history in 1996, but continues education and obtains Professional Master of Business Administration Training on Faculty of Economics Pécs. In 1996 he begins his career in Nationale Netherlanden, where he was in charge of life insurance segment. He transfered to OTP Bank Pécs in 1997 and advanced within Sales and Branch Management Department

. In June 2004 he moved to Budapest, where he became a part of OTP Bank START project in Marketing and Sales Division. As of October 2004 he holds the position of OTP Bank Marketing and Sales Division Head of Deparment.

Gábor Kovács

Head of the Marketing and Sales Department in OTP Bank Rt

Management Board

Damir Odak

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

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

Zorislav Vidović

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

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

Balázs Békeffy

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

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

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