ERSTE & STEIERMÄRKISCHE BANK D.D.

ANNUAL REPORT 2008

ERSTE BANK

General information

ERSTE & STEIERMÄRKISCHE BANK D.D.
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Content

Report on the performed supervision in the year 2008

Pursuant to Article 263, paragraph 3 and Article 300c, paragraph 2 of the Companies Law, and Article 8, paragraph 1 of the Articles of Association of Erste & Steiermärkische Bank d.d. (hereinafter: the Bank), the Supervisory Board of the Bank adopted on March 5, 2009, the following

Report on the performed supervision in the year 2008

I. During 2008 the Supervisory Board fulfilled its tasks and made decisions pursuant to its authorities set by the relevant laws.

The Supervisory Board was regularly informed by the Management Board through written and oral reports regarding the state of the Bank, business policy issues, development plans and financial results of the Bank.

Activities of the Supervisory Board in 2008 were conducted within their regular meetings, by way of the Supervisory Board members' written declarations, without convening a meeting.

During the year 2008 the Supervisory Board held four meetings. Many of the Bank's outstanding issues and operation related issues were tackled at these meetings. Pursuant to the provisions of the Articles of Association and the Supervisory Board's Rules of Procedure, the Supervisory Board also made decisions without convening a meeting, by way of the Supervisory Board members' written declarations. In that manner the Supervisory Board made decisions thirty nine times. Decisions made without convening a meeting were made in written form and verified at the next meeting of the Supervisory Board.

The Supervisory Board paid great attention to the Management Board's reports on the Bank's operations and gave approval to the Bank's Management Board to make decisions and regulations for which the Supervisory Board's approval is required pursuant to the Banking Act and the Bank's Articles of Association.

The Credit Committee and the Audit Committee helped the Supervisory Board in its work. In 2008 the Credit Committee made twenty seven decisions in written form, and the Audit Committee held three meetings and two decisions were reached without convening a meeting. These committees discussed and made decisions according to their authorities and responsibilities provided by the Rules of Procedure of the Supervisory Board and the Charter on the Audit Committee Work. The Committees submitted quarterly reports on their work to the Supervisory Board.

II. In accordance with its legal obligations, the Supervisory Board supervised the Bank's operations and determined that the Bank operates in compliance with the law, the Bank's Articles of Association and other by-laws, and the General Meeting's decisions.

III. The Supervisory Board reviewed the report by the independent auditor Ernst & Young d.o.o., Milana Sachsa 1, 10000 Zagreb, that had audited the Bank's annual financial statements for the year 2008, as well as the consolidated annual financial statements of the Bank's Group, and accepted the auditor's report without remarks.

The Supervisory Board, having inspected the financial statements of the Bank and the Group submitted by the Bank's Management Board, determined that the annual financial statements of the Bank and the Group for the year 2008 were in line with the records in the business books of the Bank and the Group, and accurately presented the assets and operations of the Bank and the Group, and therefore the Supervisory Board approved those statements, whereby, pursuant to Article 300.d of the Company Law, these financial statements are considered to be determined.

Constituent parts of the annual financial statement of the Bank for the year 2008, as well as financial statements of the Group for the year 2008 are:
a) Profit and loss account
b) Balance sheet
c) Statement on changes in shareholders' equity
d) Cash flow statement
e) Notes regarding financial statements.

The Supervisory Board approved the Management Board's Report on the Good Standing of the Bank.

IV. The Supervisory Board received the Management Board's proposal for the distribution of profit earned in 2008, whereby it was determined that in the year 2008 the Bank realized net profit in the amount of HRK 787,676,459.87, which is to be distributed as follows:

- For the legal reserves, in the amount of HRK 4,351,660.00,
- For the retained earnings in the amount of HRK 591,403,622.37,
- For the shareholders' dividends in the amount of HRK 191,921,177.50,

so that the shareholders' dividends amounts to 11.30% of the nominal value of a share, or, HRK 11.30 per share.

The Supervisory Board approved the relevant Management Board proposal for the distribution of profit.

V. The Supervisory Board shall submit this report to the General Meeting with a proposal to the General Meeting to accept the Management Board's proposal for the distribution of profit realized in 2008.

President of the Supervisory Board
Herbert Juranek

Report of the President of the Management Board

I am pleased to present to you the very favorable business results achieved in 2008 by Erste & Steiermärkische Bank d.d. in the pages of this report. Under the conditions of a demanding business environment, especially in the second half of the year, and the continuation of a restrictive monetary policy, the bank continued its upward trend and realized a growth in its market shares in the most important business segments. The quality of our business has not only been recognized by our clients but also by the professional public. For the third time, in 2008, as well as in 2005 and 2006, were given the prestigious award Zlatna Kuna for being the most successful bank in Croatia, for which we are especially proud.

The assets of the bank at the end of 2008 amounted to 45.57 billion kuna, which is 12.9 % more than last year when it was 40.38 billion kuna. The market share of the bank, which was measured by the amount of its assets, rose from 12.0 % at the end of 2007 to 12.4 % on 31 December 2008. At the same time, a net gain of 788 million kuna was realized, which represents 31.6 % more than in 2007, when it was 599 million kuna. The growth in market share was also seen in the segment of total deposits, which was 12.4 % at the end of 2007 and 13.0 % on 31 December 2008. The same situation was seen in the segment of total loans, with 12.3 % in 2007 and 12.5 % at the end of 2008. With its stable business and its realized results the bank held on and additionally strengthened its third place position on the Croatian banking market. According to the indicators of a sucessful business, the bank had a return on assets (ROA) of 1.8 %, and a return on equity (ROE) of 17.4 %, while its cost/income ratio was additionally improved from 45,0 % in 2007 to 41.1 % in 2008. This shows that during the past year the bank continued to pay great attention to cost control or rather to the rationalization and optimization of its business.

During 2008 the bank continued to focus on conducting business with citizens. Four new business offices were opened, one in Slavonski Brod, one in Osijek and two new offices in Zagreb. In accordance with the bank's strategy of attracting younger clients, the Medo Štedo Brlog was opened, which is a specialized office for children. Also, the Erste Club branch office for younger clients was remodeled, which is located at the School of Economics in Zagreb. New products were also introduced like the Diners Medo Štedo credit card, a unique card which connects the spending per card with the savings for children, and the Medo Štedo gift voucher. We also further developed our existing products and services, such as the redesigned Erste Club package and the new models of housing loans. In addition, during 2008, the bank's small business division paid great attention to that segment of the Croatian economy. It is worth mentioning that our clients evaluated Erste Bank and gave the highest average marks in the category of general satisfaction with the bank (Financial Market Data Service, GfK 4th wave 2008).

In the area of business operations, the bank was the one of the most active in terms of using the HBOR (Croatian Bank for Reconstruction and Development). A cross-border package was developed for clients who do business in the other countries where the Erste Group is active. Cooperation with the Erste Card Club was continued, and the range of offers for loans, credit cards and saving products was expanded, primarily for small and medium sized businesses. At the start of 2008 the new real-estate financing sector started to operate, as well as other specialized financing, and the MultiCash service was also created, which enabled users to have access to their bank accounts 24 hours a day, 365 days a year.

The 2008 business year marked a breakthrough for the bank outside of Croatian borders with the aquistion of 100 % of the shares of Opportunity Bank Crna Gora (OBM), one of the most successful branch offices of Opportunity International, an American non-goverment organization which is active in 28 countries on 4 continents. OBM is the leading bank in the Montenegran market in the segment of micro-financing with a market share of around 50 %. The total assets of OBM amounted to 168 million euro on 31 December 2008, while the net gain in 2008 was 4.8 million euro. OBM has a total of 14 offices, 220 employees and 75,000 clients.

Keeping in mind the extenuating market conditions and the goal of adjusting to the new conditions, the bank offered three groups of clients the possibilty of changing the terms of their loans. Pregnant/child-bearing women and persons who lost their jobs were entitled to a grace period before repaying their loans (for all types of loans except for stand-by loans and loans on credit cards) for a maximum period of 12 months, while at the same time having a decreased interest rate during the grace period. The decrease in the interest rate was available for pregnant/child-bearing women that did not use the grace period, while the persons that lost their jobs were allowed to extend their grace period by an additional three month after they started to work at a new job, therefore allowing the client to cover any expenses that accumulated during the unemployment period with his first two paychecks. In addition, all the users of cash, agricultural, tourist and consumer loans with the status of being a client of the bank were allowed to extend the deadline for paying off their loans by two years in relation to the initally agreed upon deadline.

In 2008 the bank also paid great attention to the segment of socially responsible businesses. In terms of sponsorships and donations, a total of more than 9.2 million kuna were realized for cultural-scientific, social-humanitarian and sports projects. In the past year, the fifth annual "Novi Fragmenti" was held, which is a project that supports young painters under the age of 35.

Our successes are the results of the efforts and dedication of our employees. We would like to take this opportunity to thank them for their dedicated work and contribution to the quality business results of the bank, and once again to point out that they are our greatest strength. I would also like to thank all our clients and business partners and tell them that we will continue to do everything in our power to put them first. In the upcoming period, which is characterized by an extenuating economic environment, the bank will primarily orient itself toward its clients and try to continue to be a reliable business partner and mutually find the most optimal and suitable solutions for our clients' needs. Our goal is to keep our clients healthy and stable because that leads to the continued stability and strength of the bank. I am certain that in the future we will continue with quality business realizations, no matter if the market conditions are more difficult, and we will also enter the next year as one of the most successful financial companies on the Croatian market. The bank's strategic orientation towards innovation and the maximum optimization and efficacy of business is a strong foundation for achieving that goal.

Petar Radaković
President of the Management Board

Management Board

PETAR RADAKOVIĆ, Chairman Of The Board

- responsible for Risk Management Division, Property Management Division, Internal Audit Department and Legal Department

TOMISLAV VUIĆ, Deputy Chairman of the Board

- responsible for Retail Division, Multi Channel Management Department, Human Resources Department, Marketing Department and Communication Department

BORISLAV CENTNER, Member of the Board

- responsible for Corporate Division, Treasury Division and Security Custody Department

SLAĐANA JAGAR, Member of the Board

- responsible for Accounting Division, Processing Division, IT Sector, Controlling Division and Organization Department

Retail Division

The main features of the market in the retail operations segment in 2008 were reflected in a pronounced orientation to retail deposits, while loan activity in 2008 was again affected by restrictive measures for limiting placement growth, defined by the Croatian National Bank.

Orientation to clients and an improvement in the quality of business operations are the fundamental values of our work, which also give rise to the activities aimed at achieving the set goals and results. Thus, throughout 2008, the expansion of the network of branch offices and ATMs and the creation of new products and services intended for retail clients and small entrepreneurs were continued.

Last year also saw the continuation of the successful cooperation with the members of the Erste Group in Croatia, in the segment of development and sale of new products and services, as well as cooperation with the Bank's other partners with the purpose of offering comprehensive financial services to clients.

We have adapted to the market conditions and thus reinforced our efforts to provide our clients with adequate financial support, building a long-term partnership based on trust, and our commitment to the quality of service was confirmed by the highest average rating in the category of general satisfaction with the bank, which we received from our clients*.

Business network

In 2008, further expansion of the Retail Division's sales network was continued, and thus, four new business units were opened in the course of the year that offer comprehensive financial services to clients: in Slavonski Brod, in Osijek, and two branch offices in Zagreb.

As a continuation of activities related to long-term development and improvement of the segmented approach to young clients, at the end of 2008, a specialized children's branch office, "Medo Štedo Brlog", was opened, and the branch office "Erste Club" in Zagreb specialized for business operations with young people was completely redesigned.

As of 31 December 2008, the Retail Division's sales network consisted of 119 business units intended for operations with natural persons, and 9 entrepreneurial centers at 31 locations, intended for operations with small entrepreneurs.

** Source: Financial Market Data Service, Gfk 4th wave 2008*

Results achieved

In 2008, the number of clients in the Retail Division increased by almost 34,000, reaching a total of 706,151 at the end of the year. The largest segment, totaling 669,565, is made up of clients – natural persons, while the number of small entrepreneurs was 36,586.

At the same time, the number of retail current accounts in 2008 grew by more than 27,000, and the total number of current accounts, as of 31 December 2008, amounted to 373,930.

Compared to 31 December 2007, retail loans achieved a growth of 2,304 million HRK, and as of 31 December 2008, they amounted to 15,581 million HRK.

In 2008, the retail loan market achieved a growth of 12.07%, while in the same business segment, the Retail Division achieved a growth of 17.46%, which also had a positive effect on the growth in market share which, as of 31 December 2008, was 12.33%.
The highest growth of 27.50% in 2008 was achieved by housing loans, increasing their market share from 9.49% to 10.46% at the end of 2008.

In 2008, retail deposits saw a growth of 1,947 million HRK, and as of 31 December 2008, they amounted to 17,254 million HRK.

In 2008, the retail deposit market achieved a growth of 11.74%, while in the same business segment, the Retail Division had a growth of 12.45%, thereby increasing the market share from 11.98% to 12.05%, as of 31 December 2008.

New products

In March 2008, in cooperation with Diners Club Adriatic d.d., a completely new product was offered to the market, namely the credit card "Diners Medo Štedo kreditna kartica", related to the Erste Bank's new model of children's savings "Medo Super Štedo". This credit card's distinctive feature is the unique loyalty program, within which the card user collects prize points for spending on the credit card, thus acquiring the right to arrange time deposits at special conditions on the "Medo Super Štedo" children's savings account.

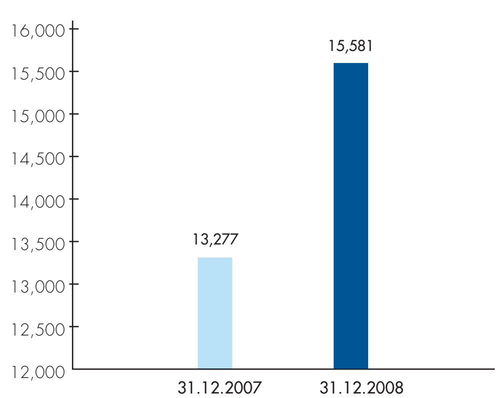
As a continuation of activities for long-term development and an improvement in the approach to the segment of young people and students, in May 2008, the offer of the existing "Erste Club" products and services was transformed. Thus, the Erste Club package has been completely redesigned, and loan conditions for financing tuition costs and other education-related costs, as well as loans for purchasing IT equipment have been improved. Also, a new model of consumer loans, specifically adapted to the above client segment, has been introduced.

In November 2008, another new product was offered to the market, the gift voucher "Medo Štedo poklon bon", intended for everyone wishing to make a payment to children's savings account as a gift for children and their parents, and thus, the range of products intended for the youngest client segment was further expanded.

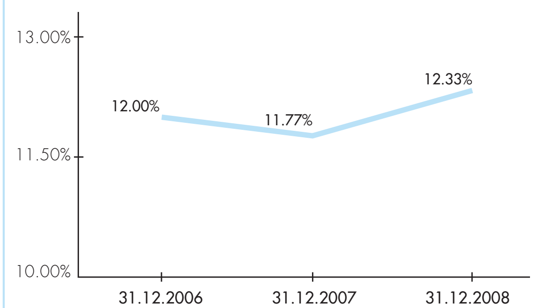
In the domain of stimulating small entrepreneurship, in 2008 the Bank's active cooperation with ministries, counties, local governments and self-governments, cities and development agencies was continued through different crediting programs for small entrepreneurs, in which a total of 28 different business cooperations were realized.
Small entrepreneurs working in freight forwarding were also offered a new product, "Guarantees for Goods in Transit", which allows them to run their business operations smoothly.

In 2008, a new service, "Erste NetPay", was also introduced, and is intended for business agents, allowing payments for products and/or services in Internet shops, through the Erste NetBanking service.

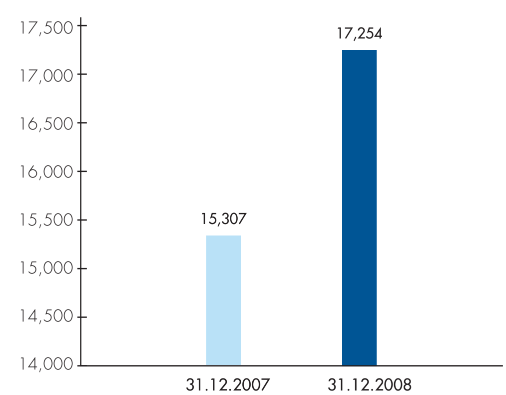
Retail loans - in million HRK



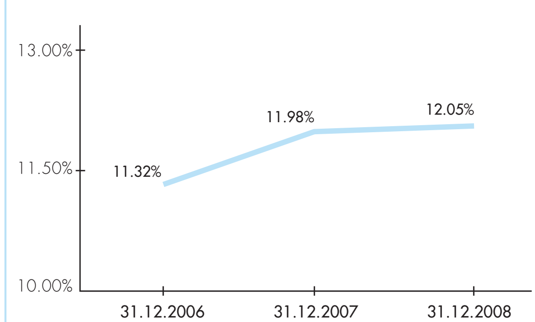
Retail loans - market share



Retail deposits - in million HRK



Retail deposits - market share



Corporate Division

In 2008, the monetary policy and restrictive measures of the Croatian National Bank, as well as the economic slowdown and stricter rules related to financing, had a strong impact on Corporate Division operations.

Fierce market competition targeting corporate deposits continued throughout the year, with a continuous increase in the average interest rate.

The small and medium-sized companies segment accounted for the largest part in financing, which is in accordance with the Bank's orientation to this segment.

Effective cooperation with Erste Group members – S Immorent Leasing d.o.o., Erste Invest d.o.o., Erste nekretnine d.o.o., Diners Club Adriatic d.o.o. and especially Erste Factoring d.o.o. and Erste & Steiermärkische S-Leasing d.o.o. – resulted in outperforming the plan for non-banking products in 2008.

The Division continued to be strategically focused on small and medium-sized companies. As a result, Erste was one of the most active Croatian banks in financing within the facilities provided by the Croatian Bank for Reconstruction and Development. As at 31 December 2008, CBRD loans amounted to HRK 1,654 million, which is an increase of 28% compared to 31 December 2007. Of the total amount of CBRD loans granted, 43% related to export and preparing for export.

The Bank continued its EU Desk activities regarding EU funds: providing information and support to clients with specific calls for project proposals (PHARE call for exporters and SAPARD). With regard to 6 projects successful at the PHARE call for exporters (25% of the total approved projects), the Bank enables its clients to monitor the funds by means of specific purpose sub-accounts.

The Bank participated as co-organiser and presenter at 5 regional SAPARD conferences organised by the Croatian Association of Employers and participated as a sponsor of a conference in Zagreb on the utilisation of EU funds.

In 2008, the International Desk was established. This Desk provides clients and account managers with expert advice on cross-border business, exchanges information with international desks in the Erste Group banks, and coordinates the allocation of new international clients.

The range of financial products for corporate customers in 2008 was extended with a new electronic banking service – MultiCash, a service primarily aimed at large local and international customers, which enables customers 24/7 access to bank accounts.

In cooperation with Diners Club Adriatic d.d., the Bank introduced a structural model of short-term financing, thus extending the financial offer of credit, card and savings products primarily targeted at SME clients. This product represents an innovative Group activity on the banking and card market. 2008 saw the launch of the Cross-Border Package, a product aiming at clients from the countries in which the Erste Group operates. The product comprises Group-wide cross-border loans and cross-border opening of accounts.

Sales Network

At the beginning of 2008, the new Real Estate and Other Specialized Lending Department formally began operations. During the year, a new Profit Centre was opened that provides a wide scope of financial services to clients in the region of Slavonski Brod.

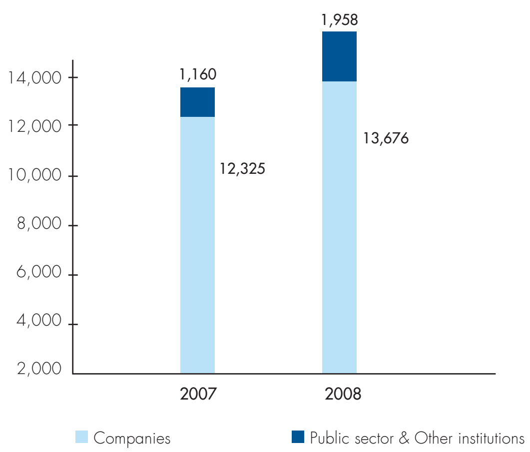
At the end of 2008, the Corporate Division numbered 210 employees, 28 more than at the end of 2007.

Loans

The total gross loan portfolio of the Corporate Division grew in 2008 by 16% within which the Companies loan portfolio grew by 11%. The total corporate loans market share on 31.12.2008 was 12.6%

Small and medium-sized clients accounted for most of the lending growth in 2008 and represented 60% of the total placed amount.

Gross loan portfolio - in HRK million

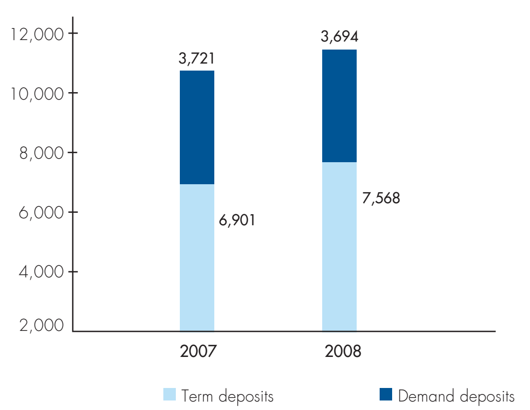


Deposits

Total corporate deposits went up by 6%, with term deposits going up by 10%. Demand deposits slightly decreased by 0.7% in the period between 31 December 2007 and 31 December 2008.

The market share of corporate deposits grew significantly from 13.05% to 15.03% in the period between 31 December 2007 and 31 December 2008.

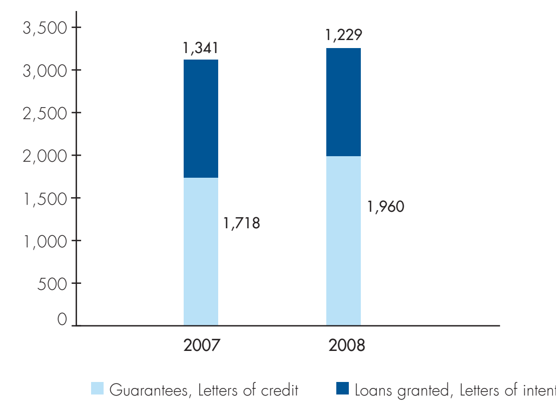
Corporate Deposits - in HRK million



Off-balance sheet items

Total off-balance sheet items rose by 4%, within which L/C and guarantees recorded an increase of 14%.

Off-balance sheet items in the Corporate Division - in HRK million



Treasury Division

The Treasury Division concludes deals in the domestic and international money, FX and capital markets. During the year, we efficiently managed the Bank's liquidity and FX risk while respecting all internal and external regulations.

Through our active participation in the market, we increased our client base, the range of products that clients use, and profitability per individual client and product. Work continued on improving business relations with existing and new clients.

In 2008, the Bank participated as a co-arranger of the issue of commercial papers of Konstruktor inženjering d.d. in the nominal amount of HRK 100 million and several trenches of commercial papers issued by ŠC Višnjik d.o.o.. At the end of the year, the Bank independently arranged the issue of ŠC Višnjik d.o.o corporate bonds in the nominal amount of EUR 9.6 million.

In 2008, the Bank was the second largest Arranger of domestic debt issues, thus improving on its third position in 2007.

Financing the funding needs of the Ministry of Finance was conducted through syndicated loans where the Bank participated as Mandated Lead Arranger and Lender.

Money market

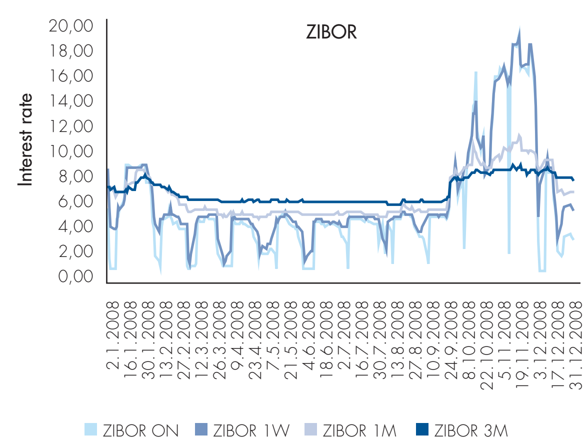
The Kuna money market was marked by increased and highly volatile interest rates. Interest rates were relatively stable in the first half of the year but rose significantly in the middle of the year and remained at high levels until the end of 2008. The Average ZIBOR ON interest rate was 6.02%.

The Croatian National Bank actively participated in the money market and held 47 reverse repo auctions. The marginal repo rate was relatively stable at up to 5% in the first half of the year but rose to a peak of 8.35% in the second half of the year due to increased liquidity demand. As a result, the CNB introduced a fixed repo rate of 6% in December.

Yields on T-bills issued by the Ministry of Finance followed the increase in interest rates on the money market. During 2008, the yield on 91-day T-bills increased by 205bps to 6.00%, the yield on 182-day T-bills increased by 395bps to 7.60%, and the yield on 364-day T-bills increased by 275bps to 7.95%. During the year, the government issued T-bills with a maturity of 2 years and T-bills with a maturity of 364 days with a currency clause due to increased needs for financing.

The CNB actively changed regulations during the year. Firstly, cash in banks' treasuries was excluded from maintaining the obligatory reserve. After the outbreak of the global financial crisis, the CNB abolished the marginal obligatory reserve in order to insure FX liquidity to domestic banks. As the situation worsened, the rate of obligatory reserve was decreased from 17% to 14%, which provided additional kuna liquidity. The CNB decision that limited bank loan growth to 12% yearly remained in force throughout the year.

Graph 1 - Movement of ZIBOR rates



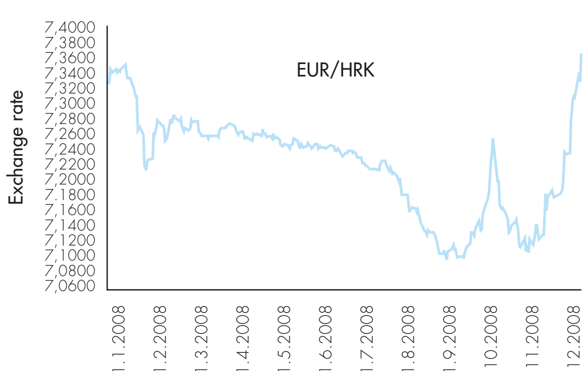
Foreign currency and cash trading markets

In the first sixth months, the nominal exchange rate of the kuna against the euro appreciated slightly by 1.1%, rising from 7.33 kunas to the euro at the end of 2007 to 7.25 in the middle of 2008. In January, the kuna appreciated due to decreased kuna liquidity in the financial system, and the CNB intervened by buying EUR 189.1 million from commercial banks. The kuna also appreciated against the US dollar as a consequence of the dollar's depreciation against the euro on the world FX market. During the next five months, the kuna exchange rate against the euro moved within the narrow range of 7.23 to 7.29 kunas to the euro.

During the third quarter, the exchange rate appreciated mainly due to an increased inflow of foreign currencies from the tourist season and an inflow based on corporate credit activities abroad (EUR 500.1 million). The strong kuna continued to appreciate even after the tourist season was over: in September, the exchange rate of the kuna against the euro fell below 7.11 due to expectations of an inflow of foreign capital connected with MOL's intention to buy shares in INA. In October, the CNB intervened three times, selling EUR 270 million to commercial banks.

Towards the end of the year, the kuna fell to 7.35 to the euro due to an increased demand for foreign currencies from the corporate sector for paying their credit liabilities from abroad and also as a consequence of the Governors statement that the CNB will allow exchange rate fluctuations in the range of 7.25 to 7.35 kunas to the euro.

Graph 2 - Middle exchange rate EUR/HRK



Capital market

2008 was a particularly unfavourable year for capital markets. It saw the collapse of the US real estate market and the mortgage market and enormous losses and bankruptcies of many financial institutions which were directly or indirectly exposed to bad loans through financial derivatives.

The bankruptcy of big financial institutions caused a loss of trust among the participants in the financial system, resulting in an interbank market freeze and strong growth in interest rates. Due to global economic flows and the weight of the US economy in the global economy, the crisis quickly spilled over to other economies and the real sector. State governments started to guarantee interbank loans and clients' deposits, additional liquidity was injected into banks, and central banks decreased their reference interest rates. These actions resulted in a fall in interest rates. Countries such as Iceland, Hungary and Ukraine were strongly affected by the crisis and had to take IMF help.

The Croatian bond market was not spared the global trends. Weaker liquidity and a revaluation of credit risk resulted in wider interest rate spreads. The start of the crisis saw strong selling of government bonds with lower credit ratings, resulting in the spread widening in the last quarter from 100 bps to 525 bps in December. This almost completely paralyzed bond trading.

The stock market also experienced strong selling, resulting in a decrease in the Zagreb Stock Exchange Index, CROBEX, of 67%. Capital began to look for a safe haven, and assets under the management of investment funds decreased from HRK 30.000 million at the beginning of the year to HRK 9.900 million at the end of the year (67% decrease).

IT Sector and Organisation Department

In June 2008, the IT Sector and IT Solutions HR d.o.o. successfully finalised the project of relocating the bank's main offices in Zagreb to a new central location in Zagreb. Simultaneously, the backup data centre was relocated from Bjelovar to Zagreb.

Internal reengineering of applications and of central data base resulted in higher speed-rate in monthly and daily processing, and stipulated activities proceed as earlier.

Newly acquired IBM p570 AIX servers have been installed and put into operation.

The processor capacity of the bank's central computer has been increased by 50 %.

Sharing IT structure with Erste Group member companies (Erste Invest, Erste vrijednosni papiri Zagreb (Securities), Diners, MBU, s-Osiguranje, Erste nekretnine, (Real Estate), Erste Factoring) resulted in significant synergy effects of better utilisation of capacities and human resources as well as cost reductions.

Switching to an IP network from a FR communication network (Metro Ethernet) has resulted in substantial savings, while simultaneously increasing the capacity of communication links.

Introduction of server resources virtualisation concept also obtained substantial savings.

In 2008, the IT Sector successfully finished the group project GPF (Group Payments Function) and the SWIFT infrastructure centralisation project (Swift centralization). The project regarding the introduction of Konica Minolta multifunctional devices is proceeding as planned.

Corporate clients were also provided with the opportunity to use MultiCash services.

During the first phase of establishing the DataWarehousing system, the issue of meeting the regulatory requirements set by the Croatian National Bank for the new reporting system was resolved.

In cooperation with the Human Resources Sector, the IT Sector has independently developed and implemented a programme solution for performance management (Performance management tool).

In 2008, the Organization Department was constituted and its strategy, main goals and tasks, and role within the Bank were defined.

The results of the last year's work are very satisfying. The set targets were met and substantial changes were seen both in the Department's internal organization and in its relations with other parts of the Bank and IT entities.

The Department's main goals in 2008 were to actively support the Bank's business targets (through requests and business unit projects), to create the basis for high quality management of business processes (BPM project), to design a new IT architecture (project MIA) and to appropriately manage the information system (ISMS).

The organization of the Department's activities is harmonized with the Bank's business areas and Group functions and is carried out by a young, experienced and dynamic team of workers.

The Organization Department's business goals and activities are aimed at developing experts in business areas, constant cooperation in the creation of business and IT strategy, enhancing its reputation as a partner in business development and becoming a competence centre in as many group and local functions as possible.

Change Request Management

The Change Request Management application has been managed in MS Team System since December 2007 and has made the whole process, or "life cycle", of requests more transparent for all participants, which has improved the management of requests and the monitoring of their realization.

The Organization Department not only handles requests from Bank business units but also provides request management and project management for companies within Erste Group in Croatia.

Local and Group projects and project activities

Business Process Management (BPM)

The project of introducing Business Process Management in the Bank started in June 2008. ARIS tools and methodology were used in the project, along with the implementation of Group-defined conventions.

The establishment of the complete system of process management will ensure the process infrastructure necessary for current and future projects. The final goal of this project is to find and use all the process potential of the Bank and the Group as a whole in the best possible way.

The focus on business process management, process organization and defining the process owner in management, main and support processes is recognized by all management lines as the basis for the future success, quality and high efficiency of our Bank in all business areas, including the domain of change management (requests and projects).

ISMS - Information Security Management System

Towards the end of 2007, the ISMS (Information Security Management System) project was started with the goal of harmonization with the CNB decision on appropriate management of the information system, IT risk assessment and compliance with reports by internal and external auditors.

An analysis of the information flow of key business processes was carried out, which served as the basis for risk assessment for each business unit.

Project management

The Organization Department led 14 projects and 8 project activities in the course of 2008.

Projects from previous years which continued in 2008 were Basel II, DinGo – migration of card business, Group Capital Market – centralisation of Risk Division activities, Collection – applicative support for the collection process, GPI – centralization of the foreign payment system, and the introduction of ISMS – information security management system.

New projects were initiated in 2008, such as DWH project, Business Processes Management (BPM), IT processes in Retail (support to the reorganization of Retail business activities), redesigning NetBanking and IVR (NirWana), IP contact centre, GI AML (a group initiative for enforcing EU guidelines for anti-money laundering), constant supervision of ATMs, InfoPay cubes (introduction of self-service and info zones in Bank branches), MIA project.

Local and Group project activities that were managed included NGA BI/LDWH, RICOS, Group Card Analysis, Capital Web portal, and Group Card Business Transformation.

In the next year, the most important project for the Department, as well as for the Bank itself, is MIA – modernization of the IBIS architecture. Major resources of the Organization and IT Division, and of the whole Bank, will be engaged on the MIA project. However, since regular business activities, harmonization with the legal regulations, and achievement of business goals should not be neglected, we have planned the introduction of a set of changes pursuant to new Credit Institutions Act (ZOKI), the Document Management System, continuation of Basel II project activities (Rating Methods, IRB), improvement of the payment system and other projects.

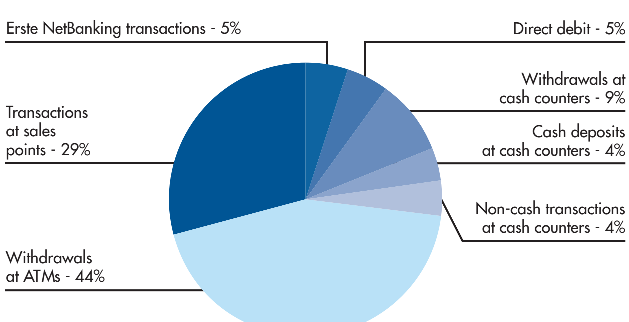
Multi Channel Management Department

In 2008, the Multi Channel Management Department: signed the ATM on wheels project, which was the first ATM on wheels in Croatia; the Erste SMS service for citizens was completely redesigned; we ensured our users the possibility of purchasing GSM vouchers of all mobile operators through Erste NetBanking, Erste mBanking and Erste Fon for citizens, and offered the possibility of opening standing orders via the Erste NetBanking service for citizens; we ensured the purchase of tickets for the World Handball Championship via the Erste NetPay service; as well as migrated the Contact Centre to an IP technology platform.

Erste & Steiermärkische Bank d.d. boasts 77,745 credit card and 638,353 debit card users, 96,342 SMS users, 13,332 telephone banking users, 77,409 NetBanking users, and 10,953 mBanking users.

Distribution channels consist of 466 ATMs, 6,200 POS terminals, SMS services (Erste SMS), Internet (Erste NetBanking), mobile (Erste mBanking) and telephone (Erste Fon) banking.

Number of retail client transaction by distribution channel in 2008



In 2008, there were on average 15,701 visitors per day to the bank's Internet portal www.erstebank.hr, and the visitors opened 45,000,000 pages on the bank's Internet portal. The Internet pages enable visitors to make transactions, use calculators, submit orders to the Bank, and download the "DOH" tax return form.

In 2008, the Contact Centre realized over 1 million contacts, of which 62% went through IVR (automated phone answering system), and 38% were handled by live representatives in the Contact Centre.

During 2008, the MCM department held many internal and external educations, workshops for 16 bank affiliate members and a feedback forum at the group level with participants from 7 banks, all of which were members of the Erste group.

Corporate management code

ANNUAL QUESTIONNAIRE

All the questions contained in this questionnaire refer to the one-year period covered by annual financial statements.

Company: Erste & Steiermärkische Bank d.d.

	YES /NO	DETAILS
1. Does the company have a web site?		
if yes, at which address?	YES	www.erstebank.hr
if not, why?	-	-
2. Are bi-annual, annual and quarterly reports available to shareholders?		
at company's seat (if not, why?)	YES	-
at company's website (if not, why?)	YES	-
in English (if not, why?)	YES	-
3. Has the company created a calendar of major events? (if not, why?) If yes,	YES	-
has the calendar been posted at the company's website? (if not, why?),	NO	The major events calendar is available to investors in company's business premises.
has the calendar of major events been updated properly and in a timely manner (if not, why?)	YES	-
4. Does the company release a list of shareholders and is this list updated at least twice a month? (if not, why?)	NO	The company gets an updated list of shareholders from the Central Depository Agency once a month and the data on the ten largest shareholders are posted at www.sda.hr.
5. Is the company involved in cross shareholding with another company or companies? If yes,	NO	-
which are these companies?	-	-
are the information on cross shareholding publicly announced and how? (if not, why?)	-	-
6. Does the company in its annual statement present information on securities issued by the company that are owned by Supervisory or Management Board members of the company? (if not, why?)	YES	-
7. Does the company post at its website information on securities issued by the company that are owned by Supervisory or Management Board members and is this information updated regularly (within 48h?) (if not, why?)	YES	The information is included in the annual financial statement, which is posted at the website, and there were no changes during 2008.
8. Does the company identify and publicly announce risk factors? (if not, why?)	YES	-

	YES /NO	DETAILS
9. Has the company established mechanisms providing for:		
explaining the persons disposing of or coming into contact with confidential information the nature of such information and restrictions in that regard? (if not, why?)	YES	-
supervision over flow of confidential information and their possible abuse (if not, why?)	YES	-
10. Is each company's stock worth one vote? If not,	YES	-
have all relevant data on content of rights of stocks without voting rights been made public in a timely manner? (if not, why?)	-	-
how have these explanations been made public?	-	-
11. Does the company's website contain candidacies of all the candidates for Supervisory Board membership (with their CVs) who are chosen at the Annual General Meeting or are being appointed? (if not, why?)	NO	Because this is not set forth by Erste Bank Group's business practice.
12. Are all the shareholders treated by the company in the same way? (if not, why?)	YES	-
13. Has the company issued new stocks? If yes,	YES	-
were all the shareholders allowed to take part in increasing the company's capital stock, in proportion to their shares in the company's capital stock up till then, in the form of transferrable securities with such a pre-emptive right, in order to protect interests of those shareholders who cannot subscribe for and buy new stocks at the moment of the issue? (if not, why?)	YES	-
was the intent of issuing new stocks publicly announced at least 10 days before the day set as the date used for relevant determining the status in the stock registry that was to be for establishing which shareholders have pre-emptive rights for acquiring newly issued stocks? (if not, why?)	YES	-
14. Has the company acquired or released its own stocks (treasury stocks)? If yes, was this acquisition or release executed	NO	-
in the open market? (if not, why?)	-	-
in such a way that would not prefer specific shareholders or investors or groups of shareholders/investors? (if not, why?)	-	-
15. Was the issuing of power of attorney for voting at the AGM fully simplified and without strict formal requirements? (if not, why?)	YES	In line with the company's Articles of Association, the power of attorney must be in a written form and certified by a public notary.

	YES /NO	DETAILS
16. Has the company provided those shareholders who were not able to vote at the AGM, for whatever reasons, with authorized persons, without any special fees, who agree to vote in line with their instructions? (if not, why?)	NO	There were no such demands. In line with the company's Articles of Association, every shareholder can be represented at the AGM by their representative.
17. When calling for AGM, did the company set a date for establishing the status in the shareholders registry, to be relevant for exercising the right to vote at the company's AGM, in such a way that this date was prior to the AGM and not more than 7 days before the AGM? (if not, why?)	NO	Because another deadline is set forth in the Articles of Association.
18. Does the decision on paying out a dividend or advance dividend include the date on which a shareholder acquires the right to a dividend and the date or a timeframe when the dividend is paid out? (if not, why?)	YES	-
19. Is the date on which a shareholder acquires the right to a dividend or advance dividend at least 10 days after the decision date? (if no, why?)	NO	Because otherwise was set forth by the AGM decision, in line with the Company Act.
20. Is the dividend or advance dividend payment date at least 12 and at most 30 days after the decision date? (if not, why?)	YES	-
21. Did the dividend or advance dividend payment period last for more than 10 days? (if yes, why?)	NO	-
22. Were specific shareholders favored during dividend or advance dividend payment? (if yes, why?)	NO	-
23. Has the decision on the payment of dividend or advance of the dividend which determines already mentioned dates been made public and delivered to the stock exchange at least two days after it was made?	NO	-
24. Have the AGM agenda, as well as all relevant information and documents from the explanation referring to the agenda, been posted at the company's website and made available to shareholders in the company's premises since the day of the first publication of the agenda? (if no, why?)	NO/YES	The agenda was published in the Official Gazette and delivered to all the shareholders. All the relevant information have been made available to shareholders in the company's permises since the day of publishing the agenda.
25. Have the AGM agenda and relevant information and documents been posted at the company's website and in English? (if no, why?)	NO	The agenda in English and all the relevant information have been delivered to all the shareholders who do not speak Croatian.

	YES /NO	DETAILS
26. Were the terms and conditions for taking part in the AGM and use of voting rights been set (regardless of whether allowed in line with the law or Articles of Association), such as participation registration in advance, power of attorney certification etc? (if yes, why?)	YES	Because such terms and conditions are set forth in the company's Articles of Association.
27. Apart from the report content prescribed by the law, does the report submitted by the Supervisory Board to the AGM also contain an evaluation of the company's overall performance, management's performance, and a special review of its collaboration with the Management Board? (if no, why?)	NO	The Supervisory Board's report contains parts set forth by positive regulations. The Supervisory Board had submitted an oral opinion on the company's Management Board performance and the collaboration with the Management Board at a session.
28. Were shareholders at the company's AGM allowed to participate and especially vote by using modern communication technology? (if no, why?)	YES	The AGM passes decisions by votes of shareholders present at the AGM in person or through their legal representatives.
29. Has the company's Management Bord publicly presented decisions of the AGM, as well as information on possible appeals to such decisions? (if no, why?)	YES	-
30. Has the Supervisory Bord passed a decision on the framework plan of its operation that includes the list of regular sessions and information that should be made available to Supervisory Board members regularly and in a timely manner? (if no, why?)	YES	-
31. Has the Supervisory Bord adopted internal rules of operation? (if no, why?)	YES	-
32. Please list names of Supervisory Board members.	-	Herbert Juranek, Franz Kerber, Peter Nemschak, Gerhard Maier, Kristijan Schellander, Reinhard Ortner
33. For each Supervisory Board member, please list other companies in which they are Supervisory or Management Board members. Please also note if some of these companies is considered competition to the Company.	-	Supervisory Board membership: *Herbert Juranek* - Banca Comerciala Romana SA, Ceska sporitelna, a.s., Dezentrale IT-Infrastruktur Services GmbH, ecetra Central European e-Finance AG, ecetra Internet Services AG, Informations-Technologie Austria GmbH, s IT Solutions AT Spardat GmbH, s IT Solutions SK, spol. s r.o., Slovenska sporitelna, a. s.; *Franz Kerber* - Banka Sparkasse d.d., ABS Banka d.d. Sarajevo, CEE PROPERTY-INVEST Immobilien AG, Sparkassen Immobilien AG, Bankhaus

	YES /NO	DETAILS
		Krentschker & Co AG, Sparkasse Hartberg-Vorau AG, Erste Bank ad Novi Sad, Investbanka a.d. Skoplje; ***Peter Nemschak*** - CEE PROPERTY-INVEST Immobilien AG, Erste Private Equity Limited, IMMORENT AG, Sparkassen Immobilien AG; ***Kristijan Schellander*** - Erste Card Club d.d., ABS Banka d.d. Sarajevo, Investbanka a.d. Skoplje; ***Reinhard Ortner*** - Oesterreichische Kontrollbank AG, Oesterreichische Lotterien GmbH, Steiermärkische Bank und Sparkassen AG; ***Gerhard Maier*** - Erste & Steiermaerkische S-Leasing d.o.o. Zagreb **Management Board membership:** ***Herbert Juranek*** - Erste Group Bank AG ; ***Franz Kerber*** - Steiermärkische Bank und Sparkassen AG, Höller-Privatstiftung; ***Peter Nemschak*** - ERSTE BANK AD Novi Sad; ***Gerhard Maier*** - ABS Banka d.d. Sarajevo
34. Is the company's Supervisory Board composed mostly from independent members? (if no, why?)	NO	Because the majority of Supervisory Board members are representatives of the majority shareholder.
35. Which Supervisory Board members are independent?	-	An independent member will be appointed at the next AGM.
36. Does the company have a long-term succession plan? (if no, why?)	YES	-
37. Is the bonus or a fee received by Supervisory Board members in full or in part determined by the contribution to company's performance? (if no, why?)	NO	The fee is determined by an AGM decision as a lump sum.
38. Is the fee to Supervisory Board members:		
set by an AGM decision	YES	-
determined in the company's Articles of Association	NO	-
set in some other way (if yes, how?)	NO	-
39. Have the detailed information about all the fees and other income by the company or persons affiliated with it of each Supervisory Board member, including the structure of the fee, been made public? (if no, why?) (if yes, where?)	YES	In the Official Gazette.
40. Does each Supervisory Board member report to the company all the changes regarding their ownership of company's stocks, the next workday at the latest after such a change occurs? (if no, why?)	NO	Because Supervisory Board members have not acquired company's stocks.

	YES /NO	DETAILS
41. Please list all the deals in which Supervisory Board members or persons affiliated with them took part on one side, and the company or persons affiliated with it on the other	-	There were no such deals.
42 . Were all the deals in which Supervisory Board members or persons affiliated with them and the company or persons affiliated with it:	-	-
based on the market conditions (especially regarding deadlines, interest rates, guarantees etc)? (if no, why and which?)	-	There were no such deals.
clearly stated in company's reports? (if no, why and which?)	-	There were no such deals.
confirmed by an independent evaluation by professionals independent of participants in the specific deal? (if no, why and which?)	-	There were no such deals.
43. Are there contracts or agreements between a Supervisory Board member and the company? If yes,	NO	-
had they been previously approved by the Supervisory Board? (if no, why?)	-	-
are all the key elements of such contracts or agreements contained in the annual statement? (if no, why?)	-	-
44. Has the Supervisory Bord formed an appointment commission? (if no, why?) If yes,	NO	Because the Supervisory Bord performs the jobs the Appointment Commission would be performing if it had been formed.
has the commission evaluated the composition, size, membership and quality of performance of the Supervisory Board and Management Board and submitted appropriate recommendations to the Supervisory Board? (if no, why?)	-	-
has the Commission made evaluation of knowledge, skills and experience of specific Supervisory Board members and submitted the findings to the Supervisory Board? (if no, why?)	-	-
has the Commission considered te problems regarding the planning of continuity of the Supervisory and Management Boards? (if no, why?)	-	-
has the Commission considered the Management Board's policy regarding hiring senior managers? (if no, why?)	-	-
45. Has the Supervisory Bord formed a commission for bonuses? If yes,	NO	-
are most commission members independent members of the Supervisory Board? (if no, why?)	-	-
has the commission proposed to the Supervisory Board the management's bonus policy that has to refer to all types of awards, especially a fixed part, a variable part connected with performance, a pension plan and severance pays? (if not, why?)	-	-

	YES /NO	DETAILS
with regards to the variable part of the bonus that is connected with performance, did the commission's proposal include recommendations for setting objective success criteria? (if no, why?)	-	-
has the commission proposed to the Supervisory Board a bonus for certain Management Board members, in line with the company's bonus policy and evaluation of performance of a specific executive? (if no, why?)	-	-
has the commission proposed to the Supervisory Bord an adequate form and content of the contract with Management Board members? (if no, why?)	-	-
has the commission tracked the amount and structure of senuor management bonuses and made general recommendation in that regard to the Management Board? (if no, why?)	-	-
regarding an incentive part of the bonus to the Management Board, when it consists of stock options or other arrangemetns zasnovanih na stjecanju dionica, razmatrala opću politiku based on stock acqusition, has the commission considered the general policy of such type of awards and proposed adequate solutions to the Supervisory Board, and analyzed the data posted on that in the annual statement, prior to publication?	-	-
46. Has the Supervisory Board formed the audit commission? (if no, why?) If yes,	YES	-
are most members of the commission independent Supervisory Board members? (if no, why?)	NO	Because this is not set forth in line with Erste Bank Group's business practice.
has the commission monitored the integrity of the company's financial information, especially correctness and consistency of the accounting methods used by the company and the Group it belongs to, including the criteria for consolidating financial statements of companies that belong to the Group? (if no, why?)	YES	This type of supervision was done at the same time and as a part of executing the analysis/adoption of financial reports.
has the commission evaluated the quality of the internal control and risk management systems, with an aim of adequately identifying and presenting the major risks that the company is exposed to (including the risks relating to compliance), and adequately managing them? (if no, why?)	YES	This type of supervision was done at the same time and as a part of executing the analysis/adoption of the report on Internal Audit Department's performance.
has the commission worked on providing for efficiency of the internal audit system, especially through making recommendatons during selection, appointment, reappointment and dismissal of the manager of the internal audit department and regarding funds at their disposal, as well as evaluation of the manager's actions based on findings and recommendations of the internal audit? (if no, why?)	YES	The Audit Committee Ordinance includes provisions on the Audit Committee's authority in the process of appointing/dismissing/decision making/ management relating to the Internal Audit Department Director post.

	YES /NO	DETAILS
if an internal audit function in the company does not exist, has the commission evaluated the need of establishing such a function? (if no, why?)	YES	There is an internal audit function in the company.
has the commission submitted to the Supervisory Bord redommendation relating to selection, appointment, reappointment or change of an external auditor and terms and conditions of their engagement? (if no, why?)	YES	-
has the commission supervised independence and objectivity of the external auditor, especially regarding rotation of authorized auditors inside the auditing firm and fees the company pays for external audit services? (if no, why?)	YES	-
has the commission supervised the nature and quantity of non-audit services that the company has been receiving from the auditing firm or persons affiliated with it? (if no, why?)	YES	-
has the commission created rules on the services an external auditing firm and persons affiliated with it must not provide to the company, the services it can provide only with a prior consent by the commisson, and the services it can provide without prior consent? (if no, why?)	NO	Because these issues have been regulated by positive regulations.
has the commission looked into efficiency of external audit and actions by senior managers considering the recommendations given by the external auditor? (if no, why?)	YES	-
has the commission investigated the circumstances regarding a dismissal of an external auditor and submitted appropriate recommendations to the Supervisory Board (if such a dismissal has occurred)? (if no, why?)	NO	There was no dismissal of an external auditor.
does the commission have an open and unlimited communication with the Management and Supervisory Boards? (if no, why?)	YES	-
who the commission answers to for its operation?		To the Supervisory Board
does the commission have an open and unlimited communication with the internal and external auditor? (if no, why?)	YES	
Has the Management Bord delivered to the audit commission:		
timely and periodical overviews of financial statements and related documents prior to their publication (if not, why?);	YES	-
information about changes in the accounting principles and criteria (if not, why?);	YES	-
accounting procedures accepted for most actions (if not, why?);	YES	-
every major discrepancy between the book and real value by specific items (if not, why?);	YES	-
all correspondence with the Internal Audit Department or independent auditors (if not, why?).	YES	-

	YES /NO	DETAILS
Has the Management Board inform the Audit Commission on the methods used for boking major and unusual transactions and business events when a book overview of such events can be approached in different ways? (if not, why?)	YES	-
Has the Audit Commission discussed with an independent auditor issued relating to:		
changes or keeping of the accounting principles and criteria, (if not, why?)	YES	-
implementation of regulations, (if not, why?)	YES	-
major projections and conclusions in preparing the financial statements, (if not, why?)	YES	-
risk evaluation methods and results, (if not, why?)	YES	-
high-risk areas of operation, (if not, why?)	YES	-
noticed major flaws and defects in internal audit, (if not, why?)	YES	-
effect of external factors (economic, legal and industrial) on financial statements and auditor's actions. (if not, why?)	YES	-
has the Audit Commission provided for delivery of quality information by foreign dependant and affiliated companies, and third persons (such as expert consultants)? (if not, why?)	YES	-
47. Has the documentation relevant for the operation of the Supervisory Board been delivered to all the members in a timely manner? (if not, why?)	YES	-
48. Do minutes from Supervisory Board sessions include all the decisions with voting results and specific votes of each member? (if no, why?)	YES	-
49. Has the Supervisory Board created an evaluation of its operation in the past period, which includes valuation of the contributon and competence of each single member, as well as a joint work of the Board, performance evaluation of commissions founded by the Supervisory Board, and evaluation of the achieved compared against the set objectives of the company?	YES	-
50. Please list names of Management Board members.	-	Petar Radaković, Tomislav Vuić, Slađana Jagar, Borislav Centner
51. Are there rules for Management Board's operation that regulate issues concerning:		
the area of operation and aims,	YES	-
rules of conduct,	YES	-
rules for resolving conflict of interest,	-	-
secretariat of the Management Board,	YES	-

	YES /NO	DETAILS
holding of sessions, decision making, agenda, drafting and content of the minutes, and documents delivery,	YES	-
cooperation with the Supervisory Board. (if no, why?)	YES	-
52. Has the company published a statement on the Management and Supervisory Bord bonus policy as a part of the annual statement? (if not, why?)	NO	The fee paid to Supervisory Board members has been set by the AGM decision (reply No. 37), and the issue of Management Board members' bonuses has been regulated through individual work contracts, whcih are signed with the president and Board members by the Supervisory Board.
53. If it exists, does the Statement on Bonus Policy contain the following parts:		
major changes in relation to the bonus policy compared with the previous year, (if no, why?)	-	-
explanation of a relative share and importance of fixed and variable award components, (if no, why?)	-	-
sufficient information on success criteria used as basis for rights to acquire stock options, stocks or some other form of a variable part of the bonus, (if no, why?)	-	-
sufficient information about the link between the bonus amount and performance, (if no, why?)	-	-
basic indicators for granting annual bonuses or non-cash benefits, (if no, why?)	-	-
summary overview of the contracts with Management Board members that needs to include data on contract duration, notice periods and especially severance pays. Every form of rewarding Management and Supervisory Board members that consists of stock options or other rights to acqire stocks, or if a bonus is based on the price of company's stocks, should be confirmed by the company's AGM in order to come into force. This confirmation refers to award principles, not approving bonuses to specific Management or Supervisory Board members. (if no, why?)	-	-
54. Has the Statement on Management Board Bonus Policy been constantly posted at the company's web site? (if not, why?)	-	-
55. Have detailed information on all the income and fees received by every Management Board member from the company publicly presented in the company's annual statement? (if no, why?)	YES	Combined data for Management Board members were made public.

	YES /NO	DETAILS
56. Have all forms of bonuses to Management and Supervisory Boards members, including options and other Management's benefits, been publicly presented by specific detailed items and persons in the company's annual statement? (if no, why?)	YES	See answerss under 37 and 55.
57. Does the Statement on Management Board Members Bonuses contain the following elements for each Management Board member who was performing this duty in the year the Statement refers to:		
total salary amount, regardless of whether it is already paid or not, (if no, why?)	-	-
fees or benefits received from affiliated companies, (if no, why?)	-	-
compensations in the form of sharing profit or bonuses and reasons why they have been paid, (if no, why?)	-	-
any additional bonuses paid to Management Bord members for jobs performed for the company outside the usual scope of Board members' duties, (if no, why?)	-	-
compensation paid or to be paid to a former Management Board member in relation to stopping performing the duty during the year the statement refers to, (if no, why?)	-	-
total estimated value of non-cash benefits that are considered a compensation and are not listed in above items, (if no, why?)	-	-
bonuses in stocks or stock options or other forms of awarding based on stock acquisition: - number of options or stocks approved by the company in the year the statement refers to and terms and conditions of their use, (if no, why?)	-	-
the number of options used in the year the statement refers to and, for each of them, the number of stocks and the price at which it was used, or the value of stocks involved in the allocation to Board members at the end of the year, (if no, why?)	-	-
the number of options not used at the end of the year, the price at which they can be used, date of execution and key terms and conditions concerning the execution, (if no, why?)	-	-
every change relating to a change of terms and conditions for using the existing options that occurred in the company in the year the statement refers to, (if no, why?)	-	-
every loan (including the status of debt and interest rate), advance payment or guarantee in favor of Management Board members by companies affiliated with the Company that are included in the consolidated financial statement. (if no, why?)	-	-
58. Did every Management Board member inform the Supervisory Board about all the changes regarding their ownerwhip over company's stocks the next workday after such a change occurred at the latest, with the company's obligation to make such a change public as soon as possible? (if no, why?)	NO	Because no such acquisition occurred.

	YES /NO	DETAILS
59. List all the jobs in which Management Board members or persons affiliated with them participated on one side, and the company or persons affiliated with it on the other.	-	Loans, deposits, payment transactions, card business.
60. Were all the jobs in which Management Board members or persons affiliated with them and the company or persons affiliated with them participated in:		
closed based on market conditions (especially regarding deadlines, interest rates, guarantees etc.)? (if no, why and which?)	YES	-
clearly stated in company's reports? (if no, why and which?)	YES	-
confirmed by an independent evaluation by professionals independent of participants in the specific deal? (if no, why and which?)	YES	-
61. Do Management Board members have considerable shares in companies that can be considered competition to the Company? (if yes, which, where and how much?)	NO	-
62. Are Management Bord members members in supervisory boards of other companies? (if yes, please list the names of such Management Board members, companies in which they are supervisory board members and positions they have in such supervisory boards)	YES	Petar Radaković: Erste nekretnine d.o.o. - chairman, MBU d.o.o. - chairman; Tomislav Vuić: MBU d.o.o. - member, Erste Card Club d.d. - chairman; Borislav Centner: Erste nekretnine d.o.o. - vice chairman, Tržište novca d.d. - member
63. Does the company have an external auditor? (if no, why?)	YES	-
64. Is the company's external auditor:		
connected with the company through ownership or interest (if yes, please state in which way)	NO	-
provides the company, independently or through affiliated persons, with other services? (if yes, please state which services and how much this costs the company)	NO	-
65. Have independent auditors directly reported to the Audit Commission on the following matters:		
discussion on the main accounting policy,	YES	-
major flaws and deficiencies in internal control,	NO	Because no major flows were detected.
alternative accounting procedures,	YES	-
disagreement with the Management Board, risk estimate, and	YES	-
possible analyses of fraud and/or abuse. If not, why?	NO	Because possibilities of a fraud/abuse were not detected as a special problem.

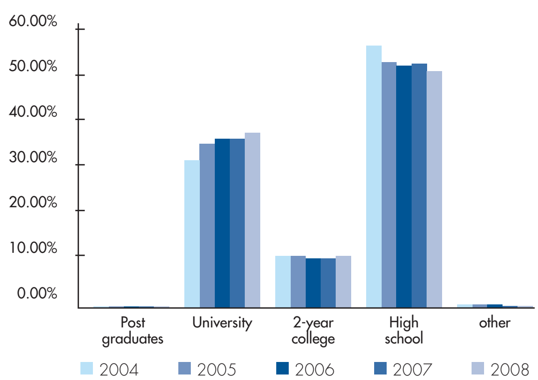
	YES /NO	DETAILS
66. Has the company made public amounts of fees paid to independent external auditors for the audit performed and other services provided? (if not, why)	NO	The fee was set forth in line with the Audit Services Tariff.
67. Does the company have internal auditors and an organized internal control system? (if no, why?)	YES	-
68. Do investors have the opportunity to request in a written form and promptly recieve relevant data from the company's Management Board or a person in charge of investor relations? (if no, why?)	YES	-
69. How many meetings with investors has the company's Management Board held?	-	The Management Board maintains a continuous communication with the investors.
70. Has anyone suffered negative consequences for pointing to the relevant bodies in the company or outside it at flaws in enforcement of regulations or ethical norms inside the company? (if yes, why?)	NO	-
71. Do all Management and Supervisory Board members agree that the statements given in answers to this questionnaire are completely true, to the best of their knowledge? (If not, please state which Management and Supervisory Board members disagree, which answers they disagree with, and why)	YES	-

Human Resources Department

In 2008, the bank had 1,842 FTEs and the Group had 1,975 FTEs.

The educational structure shows the trend of increased number of employees with higher education and decreased number of employees with high school diplomas.

Educational structure



At the end of 2008 the average employee age was 37.

In April 2008 the HR Department was reorganised into four groups (Recruitment, Training & Development, Compensation & Benefits, and Administration). There were12.10 FTEs in the department (not including the employees who are responsible for payroll).

Recruitment

In the period from 1st January to 31st December, we employed 282 persons and 116 persons left the bank. The employee voluntary fluctuation rate amounted to 2.71% (compared to 3.48 in 2007) and the employee fluctuation rate in the Erste Group amounted to 0.6% (compared to 2.9 in 2007).

In the recruitment process, primacy in filling open positions had employees through our internal job market, which definitely proved to be a positive practice and opportunity for promotion and pursuing lateral career paths.

Training & Development

One of the key activities related to training and development in 2008 was implementing and integrating a new Competency Model in the processes of Human Resources which was developed at the level of the Erste Group. It became a part of the Performance Management system with the goal of developing and monitoring performance and the way of working of the employees.

Further activities were:
- Development and implementation of the Trainee program
- Development and implementation of the Leadership Development Program for the potential successors of the 2nd line managers (succession planning)
- Improvement of retail training programs
- Improvements in internal and external training programs for the corporate sector
- Active participation in Erste University activities
- Participation in the Group Junior Trainee Program
- Organization of the “Banking school” simulation game for potential managers in the retail and corporate sectors
- talent management programs:
    - final event of Group Expert Talent Management Program
- Active monitoring of the execution of the 2008 Training Plan and providing support to all organisational units of the bank in all trainings and educational activities

The total investment in external training increased by 13% compared to 2007. Total man days for external and internal training (cost related) amounted to 8,303, which is 37.7% more than the previous year.

Performance Management System

In the year 2008 we continued to use the Performance Management System.

During the year we intensively worked on the development and upgrading of the system. The plan for the next year is to introduce two new functions in the system:
- Development plan
- Self service for the managers.

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ('IFRS') as published by the International Accounting Standards Board which give a true and fair view of the state of affairs and results of Erste & Steiermärkische Bank d.d. (the 'Bank') and its subsidiaries (the 'Group') for that period.

After making enquiries, the Management Board has a reasonable expectation that the Group and the Bank 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;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and the Bank will continue in business.

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

Signed on behalf of the Management Board

Petar Radaković   Slađana Jagar

Erste & Steiermärkische Bank d.d.
Jadranski trg 3a
51 000 Rijeka
Republic of Croatia

2 March 2009

Independent auditors' report

Ernst & Young d.o.o.
Milana Sachsa 1, 10 000 Zagreb
Croatia
M.B. 1646281

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To the Shareholders of Erste & Steiermärkische Bank d.d.

We have audited the accompanying consolidated and separate financial statements ('the financial statements') of Erste & Steiermärkische Bank d.d. (the 'Bank') and its subsidiaries (together, the 'Group') which comprise Consolidated and Separate balance sheet as at 31 December 2008 and Consolidated and Separate income statement, Consolidated and Separate statement of changes of equity and Consolidated and Separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 34 to 113).

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

Auditor's Responsibility
Our responsibility is to express an 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 judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to the 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 entity'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 the basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Bank and of the Group as at 31 December 2008 and of the results of their operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

Other Legal and Regulatory Requirements
In accordance with the By-law on the structure and content of the annual financial statements (National Gazette no 62/08) (hereinafter „the By-Law) the Bank's management has prepared forms which are presented on pages 114 to 136, and which contain a balance sheet as at 31 December 2008,

profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with notes on reconciliation of the form „Balance sheet“ and the Form „Profit and loss” with the primary financial statements of the Bank and the Group. This financial information is the responsibility of the Bank's management and is, pursuant to IFRS, not a required part of the financial statements, but is required by the Bylaw. These financial information presented in the forms have been properly derived from the primary financial statements which were prepared in accordance with International Financial Reporting Standards as presented on pages 34 to 113 or are based on underlying accounting records of the Bank and the Group.

Ernst & Young d.o.o.

Željko Faber

Zagreb, 2 March 2009

Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

	Notes	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Interest income	3	2,703	2,312	2,693	2,304
Interest expense	4	(1,561)	(1,224)	(1,552)	(1,217)
Net interest income		**1,142**	**1,088**	**1,141**	**1,087**
Fee and commission income	5	513	464	460	421
Fee and commission expense	6	(110)	(101)	(134)	(120)
Net fee and commission income		**403**	**363**	**326**	**301**
Net trading income	7	377	232	377	232
Other operating income	8	99	28	99	28
Operating income		**2,021**	**1,711**	**1,943**	**1,648**
Personnel expenses	9	(408)	(385)	(370)	(358)
Other operating expenses	10	(382)	(326)	(353)	(306)
Depreciation of tangible fixed assets	24	(67)	(76)	(65)	(69)
Amortization of intangible fixed assets	25	(13)	(16)	(10)	(8)
Operating Expense		**(870)**	**(803)**	**(798)**	**(741)**
PROFIT BEFORE PROVISION FOR IMPAIRMENT LOSSES, SHARE OF RESULTS OF ASSOCIATES AND INCOME TAX		**1,151**	**908**	**1,145**	**907**
Provision for impairment losses on loans and advances	11	(150)	(161)	(150)	(161)
Provision for impairment losses on financial investments	12	-	4	-	4
Other provisions	13	(10)	4	(10)	4
PROVISION FOR LOAN AND FINANCIAL INVESTMENT LOSSES AND OTHER PROVISIONS		**(160)**	**(153)**	**(160)**	**(153)**
Share of profit of associates	23	**21**	**4**	**-**	**-**
PROFIT BEFORE INCOME TAX		**1,012**	**759**	**985**	**754**
Income taxes	14	(199)	(156)	(197)	(155)
NET PROFIT FOR THE PERIOD		**813**	**603**	**788**	**599**
Attributable to:					
Equity holders of the Bank		**812**	**603**		
Minority interests		**1**	**-**		
EARNINGS PER SHARE					
Basic and diluted (HRK)	34	**48.45**	**38.57**		

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

Balance sheet

AS AT 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

	Notes	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
ASSETS					
Cash and balances with the Croatian National Bank	15	6,303	6,294	6,303	6,294
Amounts due from other banks	16	5,510	5,444	5,496	5,245
Reverse repurchase agreements	17	322	81	322	81
Receivables on financial derivative transactions	18	68	67	68	67
Financial assets held for trading	19	5	538	-	530
Financial assets at fair value through profit or loss	19	-	20	-	20
Loans and advances to customers	20	29,970	25,652	29,966	25,651
Financial investments available for sale	21	2,367	1,315	2,367	1,315
Financial investments held to maturity	22	351	464	351	464
Investments in subsidiaries and associates	23	60	28	54	46
Property and equipment	24	426	529	410	512
Intangible assets	25	44	35	36	31
Deferred tax assets	14	115	46	115	46
Other assets	26	78	77	79	76
Total assets		**45,619**	**40,590**	**45,567**	**40,378**
LIABILITIES					
Amounts due to other banks	27	493	2,494	493	2,494
Repurchase agreements	17	478	289	478	289
Payables on financial derivative transactions	18	362	60	362	60
Financial liabilities held for trading	19	-	7	-	7
Financial liabilities at fair value through profit or loss	19	-	20	-	20
Amounts due to customers	28	28,358	25,919	28,516	25,929
Other borrowed funds	29	10,200	7,355	10,051	7,163
Current tax liabilities	14	120	63	120	62
Deferred tax liabilities	14	-	2	-	2
Other liabilities	30	372	362	359	356
Provisions	31	83	68	83	68
Total liabilities		**40,466**	**36,639**	**40,462**	**36,450**

Balance sheet

AS AT 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

	Notes	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Shareholders' equity					
Share capital	32	1,698	1,611	1,698	1,611
Share premium	32	1,802	1,164	1,802	1,164
Retained earnings		1,459	951	1,424	940
Available for sale reserves		(29)	6	(29)	6
Other capital reserves	33	210	207	210	207
Equity attributable to equity holders of the Bank		**5,140**	**3,939**	**5,105**	**3,928**
Minority interest		13	12	-	-
Total equity		**5,153**	**3,951**	**5,105**	**3,928**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**45,619**	**40,590**	**45,567**	**40,378**
FINANCIAL COMMITMENTS AND CONTINGENCIES		**4,200**	**4,092**	**4,200**	**4,092**

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

Signed on behalf of Erste & Steiermärkische Bank d.d. on 2 March 2009:

President of the Management Board Petar Radaković	Member of the Management Board Slađana Jagar

Consolidated Statement of changes in shareholders' equity

FOR THE YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

GROUP	Attributable to the equity holders of the Bank							
	Share capital	Share premium	Retained earnings	Available for sale reserves	Statutory and legal reserves	Total	Minority interest	Total equity
Balance as at 1 January 2008	**1,611**	**1,164**	**951**	**6**	**207**	**3,939**	**12**	**3,951**
Changes in equity for 2008								
Loss on assets available for sale	-	-	-	(43)	-	(43)	-	(43)
Related income tax	-	-	-	8	-	8	-	8
Actuarial losses	-	-	-	-	(2)	(2)	-	(2)
Net expense recognized directly in equity	**-**	**-**	**-**	**(35)**	**(2)**	**(37)**	**-**	**(37)**
Net profit for the period	-	-	812	-	-	812	1	813
Total recognized income and expenses for the period	**-**	**-**	**812**	**(35)**	**(2)**	**775**	**1**	**776**
Share capital increase	87	638	-	-	-	725	-	725
Distribution of income for 2007:								
Transfer to reserves	-	-	(5)	-	5	-	-	-
Dividends	-	-	(299)	-	-	(299)	-	(299)
Balance as at 31 December 2008	**1,698**	**1,802**	**1,459**	**(29)**	**210**	**5,140**	**13**	**5,153**
Balance as at 1 January 2007	**1,513**	**568**	**627**	**(6)**	**130**	**2,832**	**12**	**2,844**
Changes in equity for 2007								
Gains on assets available for sale	-	-	-	15	-	15	-	15
Related income tax	-	-	-	(3)	-	(3)	-	(3)
Net income recognized directly in equity	**-**	**-**	**-**	**12**	**-**	**12**	**-**	**12**
Net profit for the period	-	-	603	-	-	603	-	603
Total recognized income for the period	**-**	**-**	**603**	**12**	**-**	**615**	**-**	**615**
Share capital increase	98	596	-	-	-	694	-	694
Distribution of income for 2006:								
Transfer to reserves	-	-	(77)	-	77	-	-	-
Dividends	-	-	(202)	-	-	(202)	-	(202)
Balance as at 31 December 2007	**1,611**	**1,164**	**951**	**6**	**207**	**3,939**	**12**	**3,951**

The accompanying notes form an integral part of these financial statements

Statements of changes in shareholders' equity

FOR THE YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

BANK	Share capital	Share premium	Retained earnings	Available for sale reserves	Statutory and legal reserves	Total equity
Balance as at 1 January 2008	1,611	1,164	940	6	207	3,928
Changes in equity for 2008						
Losses on assets available for sale	-	-	-	(43)	-	(43)
Related income tax	-	-	-	8	-	8
Actuarial losses	-	-	-	-	(2)	(2)
Net expense recognized directly in equity	-	-	-	(35)	(2)	(37)
Net profit for the period	-	-	788	-	-	788
Total recognized income and expenses for the period	-	-	788	(35)	(2)	751
Share capital increase	87	638	-	-	-	725
Distribution of income for 2007:						
Transfer to reserves	-	-	(5)	-	5	-
Dividends	-	-	(299)	-	-	(299)
Balance as at 31 December 2008	1,698	1,802	1,424	(29)	210	5,105
Balance as at 1 January 2007	1,513	568	620	(6)	130	2,825
Changes in equity for 2007						
Gains on assets available for sale	-	-	-	15	-	15
Related income tax	-	-	-	(3)	-	(3)
Net income recognised directly in equity	-	-	-	12	-	12
Net profit for the period	-	-	599	-	-	599
Total recognised income for the period	-	-	599	12	-	611
Share capital increase	98	596	-	-	-	694
Distribution of income for 2006:						
Transfer to reserves	-	-	(77)	-	77	-
Dividends	-	-	(202)	-	-	(202)
Balance as at 31 December 2007	1,611	1,164	940	6	207	3,928

The accompanying notes form an integral part of these financial statements

Cash flow statement

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

	Notes	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Operating Activities					
Loss from operating activities before changes in operating assets and liabilities	37	*369*	*(101)*	*360*	*(115)*
Changes in operating assets and liabilities:					
Obligatory reserves with the Croatian National Bank		1,232	10	1,232	10
Amounts due from other banks		137	(14)	146	(128)
Reverse repurchase agreements		(241)	51	(241)	51
Net increase/(decrease) in financial assets held for trading		531	(360)	528	(363)
Net increase/(decrease) in assets at fair value through profit and loss		20	(20)	20	(20)
Loans and advances to customers, net of write-offs		(4,413)	(3,972)	(4,409)	(3,971)
Other assets		(1)	(8)	(3)	(8)
Amounts due to the Croatian National Bank		-	-	-	-
Amounts due to other banks		(1,997)	132	(1,997)	132
Repurchase agreements		186	289	186	289
Financial liabilities held for trading		(7)	7	(7)	7
Financial liabilities at fair value through profit or loss		(20)	20	(20)	20
Amounts due to customers		5,235	3,898	5,427	3,863
Other liabilities		11	23	5	23
Cash generated/(used in) from operations		*1,042*	*(45)*	*1,227*	*(210)*
Interest paid		(1,514)	(1,168)	(1,506)	(1,160)
Interest received		2,666	2,261	2,656	2,251
Income taxes paid		(203)	(136)	(201)	(135)
NET CASH PROVIDED BY OPERATING ACTIVITIES		**1,991**	**912**	**2,176**	**746**
Investing Activities					
Purchase of property and equipment		(121)	(86)	(115)	(80)
Disposals of property and equipment		158	54	153	51
Purchase of intangible assets		(33)	(32)	(33)	(30)
Disposals of intangible assets		12	13	18	13
Purchase/(disposal) of investments available for sale		(783)	251	(783)	251
Increase in investments in associates		(45)	(2)	(42)	(2)
Sales of investments in associates		35	23	34	23
Redemption of investments held to maturity		112	105	112	105
NET CASH (USED IN)/PROVIDED BY INVESTING ACTIVITIES		**(665)**	**326**	**(656)**	**331**
Financing Activities					
Subordinated borrowings		-	(698)	-	(698)
Share capital increase		87	98	87	98
Share premium increase		638	596	638	596
Dividends paid		(299)	(202)	(299)	(202)

Cash flow statement

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

	Notes	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		426	(206)	426	(206)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,752	1,032	1,946	871
CASH AND CASH EQUIVALENTS AT 1 JANUARY	37	7,153	6,121	6,954	6,083
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	37	8,905	7,153	8,900	6,954

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

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

1. GENERAL

History and incorporation
Erste & Steiermärkische Bank d.d. (the 'Bank') was established in 1954 and was entered into the Court Register as a joint stock company on 24th January 1990. The Bank's registered head office is at Jadranski trg 3a, Rijeka, the Republic of Croatia.

Principal activities of the Bank
The Bank is licensed to conduct commercial banking activities in the Republic of Croatia. The Bank's main operations are as follows:
- accepting deposits from the clients and placing of deposits,
- granting loans, issuing guarantees and letters of credit to the individuals, companies, public and other clients,
- treasury operations in the interbank market,
- trust management and investment banking services,
- performing domestic and international payments,
- providing banking services through an extensive branch network in the Republic of Croatia.

Supervisory Board

Herbert Juranek	President from 7th of July 2008
Mag. Franz Kerber	Deputy President
Mag. Reinhard Ortner	Member from 24th of June 2008
Mag. Gerhard Maier	Member
Mag. Peter Nemschak	Member
Dr. Kristijan Schellander	Member
Johannes Kinsky	President until 7th of July 2008
Péter Kisbenedek	Member until 24th of June 2008
Mag. Peter Weiss	Member until 24th of June 2008

Management Board
The Bank is represented jointly by two members of the Management Board, or by one member of the Management Board together with the procurator.

Petar Radaković	President
Tomislav Vuić	Deputy President
Borislav Centner	Member
Slađana Jagar	Member

Procurators:
Damir Bronić
Marko Krajina
Zdenko Matak

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

1. GENERAL (CONTINUED)

The shareholding structure of the Bank is as follows:

	2008		2007	
	Number of shares	Ownership in %	Number of shares	Ownership in %
Erste Group Bank AG, Wien	9,359,107	55,1%	8,848,301	54,9%
Steiermärkische Bank und Sparkassen AG, Graz	6,960,849	41,0%	6,604,149	41,0%
Member of Management Board - Slađana Jagar	235	0,0%	235	0,0%
Other shareholders	663,984	3,9%	661,158	4,1%
Total	16,984,175	100,0%	16,113,843	100,0%

The Bank's ordinary shares are listed on the Zagreb Stock Exchange as a public stock company.

Definition of the consolidated group

The Bank is a parent company of the banking group (the 'Group') which includes the following subsidiaries consolidated in the financial statements:

Name of subsidiary	Ownership interest	Principal activity	Audited by	Registered office
Erste DMD d.o.o. za upravljanje dobrovoljnim mirovinskim fondom	100%	Management company for voluntary pension fund	Ernst & Young d.o.o.	Ivana Lučića 2a, Zagreb
Erste nekretnine d.o.o.	90%	Real estate business	Ernst & Young d.o.o.	Ivana Lučića 2a, Zagreb
MBU d.o.o. za informatički inženjering i međubankarske usluge	55,88%	IT engineering and interbank services	Ernst & Young d.o.o.	Andrije Žaje 61, Zagreb

The Group considers that it operates in a single business segment, and a single geographical segment, that is the provision of banking services in the Republic of Croatia.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of presentation

The financial statements are presented for the Group ('consolidated financial statements') and the Bank only ('separate financial statements').

The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') and International Accounting Standards ('IAS') as published by the International Accounting Standards Board ('IASB'), under the historical cost convention, as modified by the revaluation of appropriate financial assets and liabilities.

The financial statements are presented in millions of Local Currency – Croatian Kuna ('HRK'), unless otherwise indicated.

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

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

The Bank maintains its books of accounts in accordance with the regulations of the Croatian National Bank ('CNB'). The accompanying financial statements are based on the accounting records of the Bank and its subsidiaries, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

2.2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and 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 other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified within equity, separately from the equity attributable to the shareholders of the Bank. 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.

Accounting for investments in subsidiaries in the separate financial statements of the Bank

Investments in subsidiaries are accounted at cost in the separate financial statements of the Bank.

2.3. Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2.3. Business combinations (continued)

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

2.4. Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Accounting for investments in associates in the separate financial statements of the Bank

Investments in associates are accounted at cost in the separate financial statements of the Bank.

2.5. Goodwill

Goodwill arising on the acquisition of a subsidiary 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 recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

2.6. Adoption of new and revised International Financial Reporting Standards

The accounting policies adopted are consistent with those of the previous financial year except as follows.

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have significant effect on the financial statements of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

Amendments to IAS 39 *Financial instruments: Recognition and Measurement, and* IFRS 7 *Financial instruments: Disclosures*

An amendment to the Standards, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available for sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2.6. Adoption of new and revised International Financial Reporting Standards (continued)

hold that financial asset for the foreseeable future. The Group amended its accounting policy accordingly although it has not used permitted option to reclassify.

IFRIC 8 Scope of IFRS 2 *Share-based Payment*
This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value.

IFRIC 11 IFRS 2 *Group and Treasury Share Transactions*
This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The Group amended its accounting policies accordingly.

IFRIC 12 *Service Concession Arrangements*
No member of the Group is an operator and hence this interpretation has no impact on the Group. This interpretation was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.

IFRIC 13 *Customer Loyalty Programmes*
This interpretation was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation has no impact on the Group's financial statements as no such schemes currently exist.

IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 *Employee Benefits*. The Group amended its accounting policy accordingly, although the adoption of this interpretation had no impact on the financial position or performance of the Group.

Certain new standards, amendments and interpretations to existing standards have been published and will be mandatory for the Group in periods beginning on or after 1 January 2009 or later periods. The management anticipates that the adoption of these standards and interpretations in future periods will have no material financial impact on the financial statements of the Group and the Bank. The Group and the Bank has not early adopted any of these standards or interpretations.

The following standards, amendments and interpretations to existing standards are not applicable to the Group or the Bank and are therefore not expected to have any influence on the financial statements of the Group and the Bank:

IFRS 1 *First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (use of* IAS 27 *or use of deemed cost for determination of the cost of investments, dividends to be recognised in* IAS 27*)*

IFRS 2 *Share-based Payment (clarifications of the vesting conditions)*

IAS 23 *Borrowing Costs (amendment requiring capitalization of borrowing costs on qualifying assets)*

IAS 32 *Financial Instruments: Presentation and* IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (puttable instruments to be classified as equity if they fulfil a number of specified features)*

IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items (the designation of a one-sided risk in a hedged item)*

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2.6. Adoption of new and revised International Financial Reporting Standards (continued)

IFRIC 15 *Agreements for construction of Real Estates (revenue recognition from the sale of real estate before construction completion)*

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation (provides guidance on the accounting for a hedge of a net investment)*

IFRIC 17 *Distribution of Non-Cash Assets to owners (non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners)*

The following standards, amendments and interpretations to existing standards are or are expected to be applicable to the Group or the Bank:

IFRS 3 revised *Business Combinations* and IAS 27 *revised Consolidated and Separate Financial Statements*
The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 revised introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 revised requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. The changes by IFRS 3 revised and IAS 27 revised will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early applied. However, the Group does not intend to take advantage of this possibility.

IFRS 8 *Operating Segments*
The IASB issued IFRS 8 in November 2006. IFRS 8 replaces IAS 14 Segment Reporting upon its effective date. The Group has concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. Furthermore, as already mentioned in the definition of the consolidated group (note 1), the Group operates in a single geographical segment.

IAS 1 Revised *Presentation of Financial Statements*
The revised standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

Improvements to IFRS

In May 2008 the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording, as part of the ‘Improvements to IFRSs’ project’. There are separate transitional provisions for each standard. The Group has not yet early adopted the following amendments to standards and anticipates that these changes (unless specified below) will have no material effect on the financial statements.

IFRS 7 *Financial Instruments: Disclosures:* Removal of the reference to ‘total interest income’

IAS 1 *Presentation of Financial Statements:*
Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet. The Group plans to analyse whether Management Board’s expectation of the period of realisation of financial assets and liabilities will differ from the classification of the instrument. Per current profile of held for trading assets, the Group does not expect any re-classification of financial

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2.6. Adoption of new and revised International Financial Reporting Standards (continued)

instruments between current and non-current in the balance sheet in the future.

IAS 8 *Accounting Policies, Change in Accounting Estimates and Errors:* (clarifications)
IAS 10 *Events after the Reporting Period:* (treatment of dividends declared)
IAS 16 *Property, Plant and Equipment:* (change of 'net selling price' to 'fair value less costs to sell')
IAS 16 *Property, Plant and Equipment:* (classification of rental property to inventory)
IAS 18 *Revenue:* (Change of the term 'direct costs' to 'transaction costs' as defined in IAS 39)
IAS 19 *Employee Benefits:* (terminology changes and accounting for plan amendments)
IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance:* (treatment of interest)
IAS 23 *Borrowing Costs:* (revised definition of borrowing costs)
IAS 27 *Consolidated and Separate Financial Statements:* (accounting for subsidiary at fair value)
IAS 28 *Investment in Associates:* (disclosures if accounting for associate at fair value)
IAS 29 *Financial Reporting in Hyperinflationary Economies:* (exceptions in measurement principle)
IAS 31 *Interest in Joint Ventures:* (disclosure of commitments of the venturer and the joint venture)
IAS 34 *Interim Financial Reporting:* (disclosure of EPS in interim financial reports)
IAS 36 *Impairment of Assets:* (additional disclosure about the discount rate)
IAS 38 *Intangible Assets:* (treatment of expenditure on advertising and promotional activities)
IAS 39 *Financial Instruments: Recognition and Measurement:* (clarification that changes in circumstances relating to derivatives are not reclassifications)
IAS 40 *Investment Property:* (property under construction or development for future use as an investment property is classified as investment property and revised the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability)

2.7. Leasing

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.

The Group and the Bank as lessee

Assets held under finance leases are recognized as assets of the Group and the Bank 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 income statement. Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease.

2.8. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

2.9. 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.

When loans become impaired, they are written down to their

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2.9. Interest income and expense (continued)

recoverable amounts and interest income thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

2.10. Fee and commission income and expense

Fees and commissions consist mainly of fees on domestic and foreign payments, guarantees, letters of credit, card business and other credit instruments issued by the Group and the Bank. Such fees and commissions are generally recognized as income when due.

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.

2.11. Taxation

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The Bank and its subsidiaries are subject to various indirect taxes which are included in Other operating expenses.

2.12. Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include 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, and treasury bills with residual maturity up to 3 months.

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

2.13. Financial assets

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

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

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2.13. Financial assets (continued)

When a financial asset or financial liability is recognized initially, the Group and the Bank measure it at its 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.

a) Assets at fair value through profit or loss

Financial assets are classified as at FVTPL where the financial assets are held for trading.
A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group and the Bank manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Measurement:

Subsequent to the initial recognition, financial assets at fair value through profit or loss are accounted for and stated at fair value which approximates the price quoted on recognized stock exchanges or acceptable valuation models. The Group and the Bank include realized and unrealized gains and losses in 'Net trading income'. Interest earned on assets at fair value through profit or loss representing coupons on debt securities is accrued on a daily basis and reported within 'Net trading income' in the Income statement.

Dividends on trading securities are recorded when declared and included as a receivable in the balance sheet line 'Other assets' and in 'Net trading income' in the Income statement.

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

b) Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group and the Bank have the positive intent and ability to hold to maturity. This portfolio comprises fixed income debt securities. Held to maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

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

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

c) Assets available for sale

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

This portfolio comprises equity and debt securities. Subsequent to initial recognition, available for sale financial investments are re-measured at fair value based on quoted prices or

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2.13. Financial assets (continued)

amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect specific circumstances of the issuer.

For available for sale investments, gains and losses arising from changes in fair value are recognized directly in equity under the caption 'AfS reserves', until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available for sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available for sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

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

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

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

d) Loans and receivables

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

This portfolio comprises loans provided to customers.

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

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

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

Loans together with the associated allowance are written off

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2.13. Financial assets (continued)

when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. Subsequent recoveries are credited to the 'Impairment losses on loans and advances' line in the income statement.

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

2.14. Financial liabilities

Financial liabilities of the Group and the Bank such as 'Amounts due to other banks', 'Amounts due to customers', 'Other borrowed funds' are stated at amortized cost using the effective interest rate method. Interest expense arising on the issue of certificated debts is included in the income statement line 'Interest expense'.

2.15. Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

2.16. Derivative financial instruments

In the normal course of business the Group and the Bank enter into derivative financial instruments to manage currency, liquidity and interest rate risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Group and the Bank include forwards, foreign currency and equity options and futures.

Derivative financial instruments are initially recorded at cost (including transaction costs) and subsequently re-measured at their fair value. Fair values are principally obtained from discounted cash flow models and option pricing models as appropriate. The results of the valuation of derivatives are reported in assets (aggregate of positive fair values) or liabilities (aggregate of negative fair values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise in the income statement line 'Net trading income'.

In case of equity options, when the underlying equity instrument is not publicly traded and its fair value can not be measured reliably, the fair value of the options is not determined and such options are measured in the financial statements at cost.

Certain derivative transactions, while providing effective economic hedges under the Group's and the Bank's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in the income statement line 'Net trading income'.

2.17. Sale and repurchase agreements

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

Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the balance sheet according to the original classification or the Group and the Bank reclassify 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 'Repurchase agreements'.

Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets in the balance sheet line 'Reverse repurchase agreements', 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 repurchase agreement using the effective interest rate.

2.18. Tangible and intangible fixed assets

Fixed and intangible assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on a

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2.18. Tangible and intangible fixed assets (continued)

straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. Land and assets in the course of construction are not depreciated.

The estimated economic useful lives are set out below:

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

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss, the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

2.19. Foreign currency translation

Transactions denominated in foreign currencies are translated into HRK at the prevailing exchange rates on the date of the transaction.

Monetary items denominated in foreign currencies are retranslated into HRK at the appropriate spot rates of exchange prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period in 'Net trading income'. Exchange differences arising on the retranslation of non-monetary assets carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary assets available for sale in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

The Group and the Bank have assets and liabilities originated in HRK, which are linked to foreign currency with a one-way currency clause. Due to this clause, the Group and the Bank have an option to revalue the asset by the higher of the foreign exchange rate valid as of the date of maturity, or the foreign exchange rate valid as of the date of origination of the financial instrument. In case of a liability linked to this clause, the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia, the fair value of this option cannot be calculated, as the forward rates for HRK for periods over 6 months are not available. As such, the Group and the Bank value their assets and liabilities related to this clause by the agreed contract rate valid at the date of the balance sheet or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2.19. Foreign currency translation (continued)

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

31. December 2008	1 EUR = HRK 7.324425	1 USD = HRK 5.155504	1 CHF = HRK 4.911107
31. December 2007	1 EUR = HRK 7.325131	1 USD = HRK 4.985456	1 CHF = HRK 4.412464

2.20. Off-balance-sheet commitments

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

2.21. Provisions

Provisions are recognized when the Group and the Bank have a present obligation as a result of a past event, and it is probable that the Group and the Bank 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.

2.22. Long-term employee benefits

For defined retirement benefit and jubilees, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains or losses in respect of pension and severance benefit provisions are recognized in full in the period in which they occur.

Actuarial gains or losses in provisions for jubilee benefits are recognised in profit or loss in the period in which they occur.
Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

2.23. Fiduciary activities

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

2.24.Critical accounting judgments and key sources of estimation uncertainty

In the application of the accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

While it is possible that in particular periods the Group and the Bank may sustain losses, which are substantial, relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Due to the absence of recently observed market prices for the derivative financial instruments, the management has decided to measure the derivatives using discounted cash flow models. Discount factors used in these models are derived from the smooth interest rates and volatility curves constructed with predefined interpolation methods and market interest rates from Reuters which are valid as at 31 December 2008 for each currency and corresponding maturity dates.

In the ordinary course of business, the Group and the Bank are subject to legal actions and complaints. The management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial situation or the results of future operations of the Group and the Bank. As of 31 December 2008 the management established, based on advice of legal counsel, provisions for these risks amounting to HRK 12 million. For the rest of the legal cases where the Bank or its subsidiaries act as a defendant, no provisions were created as the management, based on the advice of legal counsel, is of the opinion that the Bank's and the subsidiaries' cases will prevail and the probability of an adverse outcome of the litigations is remote.

2.25. Reclassification

Certain reclassifications have been made to the financial statements as at 31 December 2007 and for the year then ended to conform to the presentation as at 31 December 2008 and for the year then ended.

2.26. Regulatory requirements

The Bank is subject to the regulatory requirements of the Croatian National Bank. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and forming allowances to cover credit risk, liquidity risk, interest rate risk and foreign currency risk.

2.27. Share-based payments

Erste Group Bank AG grants shares and share options to employees and managers as compensation for their services under employee share ownership and management share option plans. These share-based payments are recognised and measured in accordance with IFRS 2 *Share-based Payment*. Shares and share options granted under Employee Share Ownership Plan (ESOP) and the Management Share Option Plan (MSOP) of 2002 and 2005 (partially vested in 2006) are measured at fair value at the grant date. Any expense incurred in granting shares at a discounted price (the difference between issue price and fair value) under ESOP is recognised immediately in profit or loss under personnel expenses. Any expense resulting from option grants under MSOP is spread over vesting period (the period between the grant date and first permitted exercise date) and recognised in personnel expenses (Note 9).

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

3. INTEREST INCOME

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Interest on loans and advances to customers	2,324	1,970	2,324	1,970
Interest on amounts due from other banks	217	185	207	177
Interest income on financial investments	97	86	97	86
Interest on balances due from the Croatian National Bank	38	36	38	36
Interest income on impaired financial assets - loans and advances to customers	16	29	16	29
Interest on reverse repurchase agreements	9	4	9	4
Other interest income	2	1	2	1
	2,703	**2,311**	**2,693**	**2,303**
Interest on financial assets designated at fair value through profit or loss	-	1	-	1
	2,703	**2,312**	**2,693**	**2,304**

4. INTEREST EXPENSE

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Interest on customer deposits	905	686	905	686
Interest on other borrowed funds	478	368	477	369
Interest on amounts due to other banks	156	140	148	132
Interest on subordinated debt	-	17	-	17
Interest on repurchase agreements	19	12	19	12
Other interest expense	3	-	3	-
	1,561	**1,223**	**1,552**	**1,216**
Interest on financial liabilities designated at fair value through profit or loss	-	1	-	1
	1,561	**1,224**	**1,552**	**1,217**

5. FEE AND COMMISSION INCOME

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Payments and money transfers	209	201	206	199
Bank cards services	167	139	124	102
Portfolio, management, brokerage and other asset management fees	70	68	71	69
Credit related fees and commission	42	34	43	34
Other fee and commission income	25	22	16	17
	513	**464**	**460**	**421**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

6. FEE AND COMMISSION EXPENSE

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Payments and money transfers	55	54	54	54
Bank cards services	47	41	72	60
Credit related fees and commission	6	3	6	3
Other fee and commission expense	2	3	2	3
	110	101	134	120

7. NET TRADING INCOME

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Net foreign exchange gain	130	127	130	127
Gains on derivative financial instruments	228	93	228	93
Net gain on financial assets at fair value through profit or loss	19	12	19	12
	377	232	377	232

8. OTHER OPERATING INCOME

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Income from sale of tangible fixed assets	42	1	42	1
Gains on sale of investments	35	25	34	25
Realized gain/(loss) on financial investments available for sale	7	(11)	7	(11)
Rental income	4	3	4	3
Dividend income	4	1	4	1
Other	7	9	8	9
	99	28	99	28

9. PERSONNEL EXPENSES

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Employee related costs				
- Wages, salaries and compensations	208	197	203	193
- Payroll taxes and contributions	130	124	104	106
- Pension costs	67	63	60	58
Pension provisions	3	-	3	-
Jubilee provisions	-	1	-	1
	408	385	370	358

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

9. PERSONNEL EXPENSES (CONTINUED)

As at 31 December 2008, expense resulting from option grants under MSOP recognised in personnel expense amounts to HRK 1 million.

The Group and the Bank do not have pension arrangements separate from the State pension system of Croatia. This system requires that current contributions by the employer be calculated as a percentage of current gross salary payments; these expenses are charged to the profit and loss statement in the period the related compensation is earned by the employee.

The number of employees as full time equivalents of the Group was 1,975 and 1,827 as at 31 December 2008 and 2007, respectively. The number of employees as full time equivalents of the Bank was 1,842 and 1,723 as at 31 December 2008 and 2007, respectively.

10. OTHER OPERATING EXPENSES

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Materials and services	270	219	244	198
Marketing and advertising costs	44	40	43	40
Savings insurance premiums	40	35	40	35
Other taxes and contributions	7	8	7	7
Other	21	24	19	26
	382	326	353	306

11. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Provisions for impairment losses on loans and advances charge for 2008 and 2007, comprises:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Provision for impairment loss on amounts due from banks	(1)	7	(1)	7
Provision for impairment loss on loans and advances	149	152	149	152
Provision for impairment loss on other assets	2	2	2	2
Total	150	161	150	161

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

12. PROVISION FOR IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

Provisions for impairment losses on financial investments charge for 2008 and 2007, comprises:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Provision for impairment loss on financial investments held to maturity	-	(4)	-	(4)
Total	-	(4)	-	(4)

13. OTHER PROVISIONS

Other provisions charge for 2008 and 2007, comprises:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Provision for litigations	8	3	8	3
Provision for impairment guarantees and credit commitments	2	(7)	2	(7)
Total	10	(4)	10	(4)

14. INCOME TAXES

The Group and the Bank provide for taxes based on the tax accounts maintained and prepared in accordance with the local tax regulations and which differ from International Financial Reporting Standards.

The Bank and subsidiaries are subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred 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 tax purposes. Temporary differences as at 31 December 2008 and 2007 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

14. INCOME TAXES (CONTINUED)

Relationship between tax expenses and accounting profit for the years ended 31 December 2008 and 2007 are explained as follows:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Profit before income tax	**1,012**	**759**	**985**	**754**
Theoretical tax calculated at a tax rate of 20% (2007: 20%)	202	152	197	151
Tax effect of permanent differences	(3)	4	-	4
Tax effect of temporary differences	62	10	62	10
Current income tax expense	**261**	**166**	**259**	**165**
Current income tax expense	(261)	(166)	(259)	(165)
Change in deferred tax assets recognized in income statement	62	10	62	10
Income tax expense reported in the consolidated income statement	**(199)**	**(156)**	**(197)**	**(155)**

Deferred tax assets and liabilities are attributable to the following temporary differences:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Deferred assets				
Loans origination fees	203	188	203	188
Unrealized losses on investments available for sale	36	1	36	1
Unrealized losses on investments held for trading	-	1	-	1
Negative valuation of derivative financial instruments	306	21	306	21
Employment benefits provisions	16	11	16	11
Other temporary differences	13	10	13	10
Total deferred assets	**574**	**232**	**574**	**232**
Deferred liabilities				
Unrealized gains on financial investments available for sale	-	8	-	8
Borrowings origination fees	-	3	-	3
Total deferred liabilities	**-**	**11**	**-**	**11**
Deferred tax asset at the statutory tax rate (20%)	**115**	**46**	**115**	**46**
Deferred tax liabilities at the statutory tax rate (20%)	**-**	**2**	**-**	**2**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

14. INCOME TAXES (CONTINUED)

The movement in deferred tax balances is as follows:

	GROUP AND BANK 2008		
	Deferred tax assets	Income statement	Charge to equity
Deferred loan origination fees	41	3	-
Unrealized losses/(gains) available for sale securities	7	-	(7)
Unrealised losses on derivative financial instruments	61	57	-
Long term employment provisions	3	1	-
Other temporary differences	3	-	(1)
Total	**115**	**61**	**(8)**

	GROUP AND BANK 2007			
	Deferred tax assets	Deferred tax liabilities	Income statement	Credit to equity
Deferred loan origination fees	38	-	5	-
Unrealized gains on available for sale securities	-	(2)	-	2
Unrealised losses on derivative financial instruments	4	-	3	-
Long term employment provisions	2	-	-	-
Other temporary differences	2	-	2	1
Total	**46**	**(2)**	**10**	**3**

Income tax assets and liabilities consist of the following:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Current income tax liabilities	(120)	(63)	(120)	(62)
Deferred tax assets	115	46	115	46
Deferred tax liabilities	-	(2)	-	(2)
Income tax liabilities	**(5)**	**(19)**	**(5)**	**(18)**

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

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

15. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Cash on hand	589	484	589	484
Cash on clearing account	2,282	1,145	2,282	1,145
Obligatory reserves with the Croatian National Bank	3,432	4,665	3,432	4,665
	6,303	**6,294**	**6,303**	**6,294**

As at 31 December 2008 and 2007, obligatory reserves with the Croatian National Bank of HRK 3,432 million and HRK 4,665 million, respectively, represent the minimum reserve deposits, which the Bank is required to maintain at all times.

16. AMOUNTS DUE FROM OTHER BANKS

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Current accounts with other banks	193	46	193	42
Term deposits with banks	5,308	5,243	5,300	5,052
Loans and advances with banks	25	174	19	168
Less: Allowance for possible placement losses	(16)	(19)	(16)	(17)
	5,510	**5,444**	**5,496**	**5,245**

The movement in the allowances for impairment losses on amounts due from other banks is summarized as follows:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Balance at 1 January	**19**	**11**	**17**	**11**
Release of previously established allowances	(1)	(110)	(1)	(110)
Additional allowances	-	117	-	117
Collection/reversal of specific allowances due to write-offs	(2)	1	-	(1)
Balance at 31 December	16	19	16	17

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

17. REVERSE REPURCHASE / REPURCHASE AGREEMENTS

	GROUP AND BANK - ASSETS		GROUP AND BANK - LIABILITIES	
	2008	2007	2008	2007
Banks	322	-	-	289
Other	-	81	478	-
	322	**81**	**478**	**289**

Reverse repurchase agreements are secured with debt securities of the Republic of Croatia with a fair value of HRK 353 million and HRK 82 million as at 31 December 2008 and 2007, respectively. As at 31 December 2008 repurchase agreements are secured with bonds issued by Federal Republic of Germany included in 'Financial investments available for sale' with a fair value of HRK 495 million. As at 31 December 2007 repurchase agreements are secured with treasury bills issued by the Croatian Ministry of Finance included in 'Financial assets held for trading' with a fair value of HRK 292 million.

18. DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP AND BANK 2008			GROUP AND BANK 2007		
		Fair Value			*Fair Value*	
	Notional Amount	Assets	Liabilities	Notional Amount	Assets	Liabilities
Foreign currency instruments:						
Currency swaps						
Purchase	*588*	*12*	*-*	*2,602*	*3*	*-*
Sell	*587*	*-*	*(13)*	*2,608*	*-*	*(11)*
Forwards						
Purchase	*7,497*	*54*	*-*	*6,486*	*45*	*-*
Sell	*7,783*	*-*	*(347)*	*6,469*	*-*	*(30)*
Call options	-	-	-	-	-	-
Put options	1	-	-	-	-	-
Subtotal - Foreign currency instruments	*16,456*	*66*	*(360)*	*18,165*	*48*	*(41)*
Other instruments:						
Call options for stock index	60	2	-	57	19	-
Put options for stock index	57	-	(2)	57	-	(18)
Call options for equity instruments	-	-	-	9	-	-
Put options for equity instruments	-	-	-	9	-	-
Forward bonds - purchase	-	-	-	232	-	-
Forward bonds - sell	-	-	-	232	-	(1)
Subtotal - Other instruments	*117*	*2*	*(2)*	*596*	*19*	*(19)*
	16,573	**68**	**(362)**	**18,761**	**67**	**(60)**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of these transactions reflects the credit risk and other types of economic risks for the Group and the Bank. The fair value of derivative financial instruments is based on valuation techniques where all model inputs are observable in the market, except for the put option for equity instruments, whose fair value is shown at cost.

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

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Financial assets held for trading:				
Treasury bills of Ministry of Finance	5	367	-	367
Bonds of the Republic of Croatia	-	101	-	93
Shares	-	8	-	8
Bonds of commercial customers	-	60	-	60
Commercial bills	-	2	-	2
	5	538	-	530
Financial assets designated at fair value through profit or loss:				
Amounts due from other banks	-	20	-	20
	5	558	-	550

Bonds of the Republic of Croatia are fixed income debt securities denominated in HRK and EUR and listed on stock exchanges. These bonds have maturities between 2009 and 2019 and bear a coupon interest from 3.5% to 7.25% p.a.

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Financial liabilities held for trading:				
Short position in government debt securities	-	7	-	7
	-	7	-	7
Financial liabilities designated at fair value through profit or loss:				
Amounts due to other Banks	-	20	-	20
	-	20	-	20

Financial assets and liabilities held for trading are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of those securities is estimated using the present value of future cash flows.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

20. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 December 2008 and 2007 are summarized as follows:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Companies	13,682	12,326	13,676	12,325
Individuals	15,581	13,277	15,581	13,277
Public sector	1,901	1,133	1,901	1,133
Other institutions	57	27	57	27
Total loans before allowances for impairment	31,221	26,763	31,215	26,762
Less: Allowance for loan impairment	*(1,251)*	*(1,111)*	*(1,249)*	*(1,111)*
	29,970	**25,652**	**29,966**	**25,651**

Loans and advances to customers are made principally within Croatia.

The movement in the allowances for impairment losses on loans and advances to customers is summarized as follows:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Balance at 1 January	**1,111**	**1,038**	**1,111**	**1,036**
Release of previously established allowances	(208)	(231)	(208)	(231)
Additional allowances	357	383	357	383
Collection/reversal of specific allowances due to write-offs	3	(49)	3	(48)
Exchange rate differences attributable to allowances	4	(1)	2	-
Interest accrued on impaired loans and advances	*(16)*	(29)	(16)	(29)
Balance at 31 December	**1,251**	**1,111**	**1,249**	**1,111**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

21. FINANCIAL INVESTMENTS AVAILABLE FOR SALE

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Equity shares and participations:	33	49	33	49
Investments in companies	*18*	*36*	*18*	*36*
Investments in financial institutions	*15*	*13*	*15*	*13*
Debt securities:	2,306	1,224	2,306	1,224
Treasury bills	*1,363*	*841*	*1,363*	*841*
Listed debt securities	*911*	*337*	*911*	*337*
Unlisted debt securities - commercial bills of exchange	*32*	*46*	*32*	*46*
Units in open investment funds	31	45	31	45
Total assets available for sale	*2,370*	*1,318*	*2,370*	*1,318*
Less: Allowance for impairment of available for sale investments	(3)	(3)	(3)	(3)
	2,367	**1,315**	**2,367**	**1,315**

Debt securities available for sale allocated by the issuer comprise:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Debt securities available for sale issued by:				
State institutions in Croatia	1,720	1,149	1,720	1,149
Companies in Croatia	32	75	32	75
Foreign states	554	-	554	-
	2,306	**1,224**	**2,306**	**1,224**

Debt securities issued by the State institutions in Croatia include bonds and treasury bills issued by the Croatian Ministry of Finance.

Treasury bills of the Croatian Ministry of Finance are HRK denominated debt securities issued at a discount to nominal. These securities are issued with original maturities of 91, 181 and 364 days.

During 2008, the average interest yields on the treasury bills were 4.14% for treasury bills with a maturity of 91 days, 3.83% for treasury bills with a maturity of 181 days, and 5.30% for treasury bills with a maturity of 364 days. During 2007, the average interest yields on the treasury bills were 3.40% for treasury bills with a maturity of 91 days, 3.54% for treasury bills with a maturity of 181 days, and 4.13% for treasury bills with a maturity of 364 days.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

21. FINANCIAL INVESTMENTS AVAILABLE FOR SALE (CONTINUED)

Bonds of the Republic of Croatia are HRK, EUR and USD denominated fixed income debt securities listed at stock exchanges. These bonds have maturities from 2010 to 2019 and bear coupon interest from 4.250% to 6.875% p.a.

Bonds of foreign states are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2009 and bear a coupon interest of 3.75% p.a.

Financial investments available for sale are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of these securities is estimated using the present value of future cash flows.

22. FINANCIAL INVESTMENTS HELD TO MATURITY

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Fixed income debt securities:	342	446	342	446
Listed debt securities				
- Bonds issued by the Republic of Croatia	212	280	212	280
Unlisted debt securities				
- Bonds issued by the Republic of Croatia	130	166	130	166
Factoring	10	19	10	19
Total investments held to maturity before allowance on impairment	352	465	352	465
Less: Allowance for impairment on investments held to maturity	(1)	(1)	(1)	(1)
	351	**464**	**351**	**464**

Listed bonds issued by the Republic of Croatia are fixed income debt securities denominated in EUR and HRK. These bonds have maturities from 2009 to 2014 and bear coupon interest from 5.500% to 6.875%. These bonds are traded on an active market.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

22. FINANCIAL INVESTMENTS HELD TO MATURITY (CONTINUED)

Unlisted bonds issued by the Republic of Croatia are foreign currency denominated bonds issued in 1997 and 2002 and repayable in twenty semi-annual instalments at interest rates ranging from 6.0% p.a. to 7.2% p.a. The bonds have maturities from 2009 to 2011.

The fair value of assets held to maturity is approximately HRK 7.4 million lower than their value as at 31 December 2008.

The movement in the allowances for impairment losses on financial assets held to maturity is summarized as follows:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Balance at 1 January	**1**	**5**	**1**	**5**
Release of previously established allowances	-	(5)	-	(5)
Additional allowances	-	1	-	1
Balance at 31 December	**1**	**1**	**1**	**1**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

23. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Ownership Interest	Activity	Group's Share of net assets		Investment at cost	
			2008	2007	2008	2007
Associates						
S Immorent Zeta d.o.o.	49.00%	Real estate business	1	-	-	-
Erste vrijednosni papiri d.o.o.	49.00%	Financial markets intermediation	17	-	18	-
Erste Factoring d.o.o.	44.00%	Other credit intermediation	24	5	2	2
Erste d.o.o.	27.88%	Management company for obligatory pension fund	18	17	12	12
Erste Sparkassen d.d.	26.00%	Life insurance	-	5	-	10
S IT Solutions HR d.o.o.	20.00%	IT engineering	-	1	-	-
Total associates:			**60**	**28**	**32**	**24**
Subsidiaries						
Erste nekretnine d.o.o.	90.00%	Real estate business	1	1	1	1
Erste DMD d.o.o.	100.00%	Management company for voluntary pension fund	15	15	15	15
MBU d.o.o.	55.88%	IT engineering and interbank services	14	14	6	6
Total subsidiaries:			**30**	**30**	**22**	**22**
Total:			**90**	**58**	**54**	**46**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

23. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (CONTINUED)

The following table illustrates summarised financial information of the Group's investment in associates:

	GROUP 2008	GROUP 2007
Current assets	1,720	1,137
Non current assets	93	70
Current liabilities	(1,735)	(1,138)
Non current liabilities	(18)	(41)
Net asset, carrying amount of associates	**60**	**28**
Share of associates revenue and profit		
Revenue	50	30
Net profit	21	4

As at 31 December 2007 the Bank owned 5,850 regular shares of the company Erste Sparkassen osiguranje d.d. za životno osiguranje, each with a nominal value of HRK 1,000 per share, which makes 26% of the share capital of Erste Sparkassen osiguranje d.d.

As at 15 September 2008 the Bank sold 4,725 shares of Erste Sparkassen osiguranje d.d., in a manner that
- 3,600 shares (or 16% of the share capital) were sold to Wiener Städtische Versicherung AG Vienna Insurance Group for the price of HRK 26 million and
- 1,125 shares (or 5% of the share capital) were sold to Kvarner Vienna Insurance d.d., for the price of HRK 8 million (Note 8).

After the above disposals, as at 31 December 2008 the Bank holds 1,125 shares (or 5% of the share capital) of the Erste Sparkassen osiguranje d.d.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

24. PROPERTY AND EQUIPMENT

	GROUP 2008				
	Land and buildings	Computers	Furniture and other equipment	Construction in progress	Total
COST					
At 1 January 2008	520	287	156	20	983
Additions	28	8	18	68	122
Disposals	(121)	(104)	(13)	(54)	(292)
At 31 December 2008	**427**	**191**	**161**	**34**	**813**
ACCUMULATED DEPRECIATION					
At 1 January 2008	140	215	99	-	454
Depreciation	11	37	19	-	67
Eliminated on disposals	(19)	(102)	(13)	-	(134)
At 31 December 2008	**132**	**150**	**105**	**-**	**387**
NET BOOK VALUE					
31 December 2008	**295**	**41**	**56**	**34**	**426**
31 December 2007	**380**	**72**	**57**	**20**	**529**

	BANK 2008				
	Land and buildings	Computers	Furniture and other equipment	Construction in progress	Total
COST					
At 1 January 2008	507	285	150	20	962
Additions	28	6	17	65	116
Disposals	(121)	(102)	(9)	(51)	(283)
At 31 December 2008	**414**	**189**	**158**	**34**	**795**
ACCUMULATED DEPRECIATION					
At 1 January 2008	140	214	96	-	450
Depreciation	11	36	18	-	65
Eliminated on disposals	(19)	(102)	(9)	-	(130)
At 31 December 2008	**132**	**148**	**105**	**-**	**385**
NET BOOK VALUE					
31 December 2008	**282**	**41**	**53**	**34**	**410**
31 December 2007	**367**	**71**	**54**	**20**	**512**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

24. PROPERTY AND EQUIPMENT (CONTINUED)

	GROUP 2007				
	Land and buildings	Computers	Furniture and other equipment	Construction in progress	Total
COST					
At 1 January 2007	514	292	152	31	989
Additions	14	22	13	38	87
Disposals	(8)	(27)	(9)	(49)	(93)
At 31 December 2007	**520**	**287**	**156**	**20**	**983**
ACCUMULATED DEPRECIATION					
At 1 January 2007	132	197	88	-	417
Depreciation	13	44	19	-	76
Eliminated on disposals	(5)	(26)	(8)	-	(39)
At 31 December 2007	**140**	**215**	**99**	**-**	**454**
NET BOOK VALUE					
31 December 2007	**380**	**72**	**57**	**20**	**529**
31 December 2006	**382**	**95**	**64**	**31**	**572**

	BANK 2007				
	Land and buildings	Computers	Furniture and other equipment	Construction in progress	Total
COST					
At 1 January 2007	500	289	147	31	967
Additions	14	20	12	35	81
Disposals	(7)	(24)	(9)	(46)	(86)
At 31 December 2007	**507**	**285**	**150**	**20**	**962**
ACCUMULATED DEPRECIATION					
At 1 January 2007	132	197	87	-	416
Depreciation	12	40	17	-	69
Eliminated on disposals	(4)	(23)	(8)	-	(35)
At 31 December 2007	**140**	**214**	**96**	**-**	**450**
NET BOOK VALUE					
31 December 2007	**367**	**71**	**54**	**20**	**512**
31 December 2006	**368**	**92**	**60**	**31**	**551**

As at 31 December 2008, the Group and the Bank had contracted capital commitments of HRK 14 million (HRK 10 million as at 31 December 2007) in respect of current capital investment projects.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

25. INTANGIBLE ASSETS

	GROUP 2008			BANK 2008		
	Intangible assets	Construction in progress	Total	Intangible assets	Construction in progress	Total
COST						
At 1 January 2008	78	5	83	69	5	74
Additions	18	15	33	18	15	33
Disposals	(5)	(18)	(23)	(3)	(18)	(21)
At 31 December 2008	**91**	**2**	**93**	**84**	**2**	**86**
ACCUMULATED DEPRECIATION						
At 1 January 2008	48	-	48	43	-	43
Depreciation	13	-	13	10	-	10
Eliminated on disposals	(12)	-	(12)	(3)	-	(3)
At 31 December 2008	**49**	**-**	**49**	**50**	**-**	**50**
NET BOOK VALUE						
31 December 2008	**42**	**2**	**44**	**34**	**2**	**36**
31 December 2007	**30**	**5**	**35**	**26**	**5**	**31**

	GROUP 2007			BANK 2007		
	Intangible assets	Construction in progress	Total	Intangible assets	Construction in progress	Total
COST						
At 1 January 2007	68	3	71	58	3	61
Additions	13	15	28	13	15	28
Disposals	(3)	(13)	(16)	(2)	(13)	(15)
At 31 December 2007	**78**	**5**	**83**	**69**	**5**	**74**
ACCUMULATED DEPRECIATION						
At 1 January 2007	38	-	38	37	-	37
Depreciation	16	-	16	8	-	8
Eliminated on disposals	(6)	-	(6)	(2)	-	(2)
At 31 December 2007	**48**	**-**	**48**	**43**	**-**	**43**
NET BOOK VALUE						
31 December 2007	**30**	**5**	**35**	**26**	**5**	**31**
31 December 2006	**30**	**3**	**33**	**21**	**3**	**24**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

26. OTHER ASSETS

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Assets acquired in lieu of uncollected receivables	27	12	27	12
Receivables from fees and commissions	32	40	33	41
Checks	3	4	3	4
Prepaid expenses	4	7	4	6
Other	23	23	23	22
Total gross other assets	*89*	*86*	*90*	*85*
Less: Allowance for impairment of other asset	(11)	(9)	(11)	(9)
	78	**77**	**79**	**76**

The movement in the allowances for impairment on other assets is summarized as follows:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Balance at 1 January	**9**	**7**	**9**	**7**
Release of previously established allowances	(4)	(10)	(4)	(10)
Additional allowances	6	12	6	12
Balance at 31 December	**11**	**9**	**11**	**9**

27. AMOUNTS DUE TO OTHER BANKS

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Demand deposits:	66	128	66	128
In HRK	*36*	*54*	*36*	*54*
In foreign currencies	*30*	*74*	*30*	*74*
Term deposits:	427	2,366	427	2,366
In HRK	*277*	*796*	*277*	*796*
In foreign currencies	*150*	*1,570*	*150*	*1,570*
	493	**2,494**	**493**	**2,494**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

28. AMOUNTS DUE TO CUSTOMERS

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Demand deposits from	7,545	7,703	7,557	7,713
Individuals	*3,863*	*3,992*	*3,863*	*3,992*
Companies	*3,321*	*3,318*	*3,333*	*3,328*
Public sector	*227*	*276*	*227*	*276*
Other institutions	*134*	*117*	*134*	*117*
Term deposits from	20,813	18,216	20,959	18,216
Individuals	*13,391*	*11,315*	*13,391*	*11,315*
Companies	*6,960*	*6,637*	*7,106*	*6,637*
Public sector	*405*	*164*	*405*	*164*
Other institutions	*57*	*100*	*57*	*100*
	28,358	**25,919**	**28,516**	**25,929**

29. OTHER BORROWED FUNDS

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Borrowings in HRK - short-term:	390	219	390	219
Domestic borrowings	*390*	*219*	*390*	*219*
Borrowings in HRK - long-term:	7,450	5,943	7,448	5,943
Domestic borrowings	*288*	*309*	*288*	*309*
Foreign borrowings	*7,162*	*5,634*	*7,160*	*5,634*
Total borrowings in HRK	**7,840**	**6,162**	**7,838**	**6,162**
Borrowings in foreign currencies - short-term:	4	4	4	4
Foreign borrowings	*4*	*4*	*4*	*4*
Borrowings in foreign currencies - long-term:	2,356	1,189	2,209	997
Domestic borrowings	*978*	*796*	*978*	*796*
Foreign borrowings	*1,325*	*295*	*1,178*	*103*
Refinanced borrowings	*53*	*98*	*53*	*98*
Total borrowings in foreign currencies	**2,360**	**1,193**	**2,213**	**1,001**
	10,200	**7,355**	**10,051**	**7,163**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

30. OTHER LIABILITIES

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Prepayments received from borrowers	197	190	197	190
Salaries and bonuses payable	86	92	83	90
Amounts due to suppliers	41	30	37	30
Payables to State Agency for deposit insurance	12	9	12	10
Other	36	41	30	36
	372	**362**	**359**	**356**

31. PROVISIONS

	GROUP				BANK			
	Litigations	Guarantees and credit commitments	Long-term employee benefits	Total	Litigation	Guarantees and credit commitments	Long-term employee benefits	Total
At 1 January 2007	**1**	**60**	**10**	**71**	**1**	**60**	**10**	**71**
Additional provisions	3	(7)	1	(3)	3	(7)	1	(3)
At 1 January 2008	**4**	**53**	**11**	**68**	**4**	**53**	**11**	**68**
Additional provisions	8	2	5	15	8	2	5	15
At 31 December 2008	**12**	**55**	**16**	**83**	**12**	**55**	**16**	**83**

The provision for guarantees and other loan commitments and contingent liabilities primarily relates to commitments from guarantees and credit lines issued by the Bank.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

32. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2008 the share capital of the Bank comprises 16,984,175 ordinary shares with a par value of HRK 100 each (31 December 2007: 16,113,843 ordinary shares). All the ordinary shares are ranked equally and bear one vote.

On 27 March 2008 General Assembly of the Bank approved increase of share capital by issue of 870,332 new ordinary shares with a par value of HRK 100 and price of 833.00 HRK each thus increasing the share capital by HRK 87 million and generating additional share premium of HRK 638 million.

33. OTHER CAPITAL RESERVES

The Bank's distributable and non-distributable reserves are determined by regulations of the Croatian National Bank. As at 31 December 2008, the statutory and legal reserves of the Bank disclose non-distributable reserves of HRK 210 million (HRK 207 million as at 31 December 2007). Such reserves include the reserve for general banking risk of HRK 126 million as of 31 December 2008 and 31 December 2007. The reserve for general banking risk is formed out of prior years annual net profits and is not distributable within the three years following the year in which the reserve was first formed. The reserve becomes distributable if the growth rate of the Bank's assets does not exceed 15% in the three years following the year in which they were initially formed.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

34. EARNINGS PER ORDINARY SHARE

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

	GROUP 2008	GROUP 2007
Net profit for the year (in HRK)	812,903,762	602,965,524
Profit attributable to ordinary shareholders (in HRK)	812,903,762	602,965,524
Weighted average number of shares of 100 HRK each (for basic and diluted earnings per share)	16,779,671	15,633,445
Earnings per ordinary share –basic and diluted (in HRK)	**48.45**	**38.57**

35. DIVIDENDS

The dividends are subject to approval by shareholders at the Annual General Assembly which has not been held as of the date when these consolidated financial statements were authorized for issue.

The dividends declared by the Bank for the years 2007 and 2006 were HRK 18.58 per share (total dividend HRK 299 million) and HRK 13.32 per share (total dividend HRK 202 million), respectively.

36. ESTIMATED FAIR VALUE 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 the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing techniques as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

36. ESTIMATED FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

It is the opinion of the management of the Group that the fair value of the Group's financial assets and liabilities are not materially different from the amounts stated in the balance sheets as at 31 December 2008 and 2007.

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

a) Cash and balances with the central bank

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

b) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are calculated based on market quotations. The fair values of held to maturity investments are disclosed in Note 22.

c) Due from banks

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

d) Loans and advances to customers

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

e) Amounts due to banks and customers

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

As the fixed rate long term deposits represent only a fraction of the entire deposit base, the Management believes that their fair value approximates the carrying values as at the balance sheet date.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

37. INFORMATION FOR CASH FLOW STATEMENT

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Operating Activities				
Profit before income tax	1,012	759	985	754
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization expense	80	92	75	77
Impairment losses on loans and advances	150	161	150	161
Impairment losses on financial investments	-	(4)	-	(4)
Personnel expenses resulting from MSOP option	1	-	1	-
Net change in valuation of derivatives	300	7	300	7
Provisions for off balance commitments	10	(4)	10	(4)
Interest expense	1,561	1,224	1,552	1,217
Interest income	(2,724)	(2,332)	(2,713)	(2,323)
Share of results of associates	(21)	(4)	-	-
Loss from operating activities before changes in operating assets and liabilities	*369*	*(101)*	*360*	*(115)*

Analysis of cash and cash equivalents:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Cash on hand	589	484	589	484
Cash on clearing account with the Croatian National Bank	2,282	1,146	2,281	1,146
Current accounts with other banks	193	46	193	42
Placements with banks with maturity up to 3 months	5,289	5,219	5,285	5,024
Treasury bills with maturity up to 3 months	552	258	552	258
	8,905	**7,153**	**8,900**	**6,954**
Change in cash and cash equivalents	**1,752**		**1,946**	

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the Croatian National Bank. The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Those assets and liabilities that do not have a contractual maturity date are grouped together under 'Maturity undefined' category.

Investments available for sale are classified in accordance with their secondary liquidity characteristics as maturing within one month.

The Group is exposed to daily calls on its 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 does 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 Group 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.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

	GROUP 2008								
	Up to 1 month	**1-3 months**	**3-12 months**	**Subtotal less than 12 months**	**1-5 years**	**Over 5 years**	**Subtotal over 12 months**	**Maturity unde-fined**	**Total**
ASSETS									
Cash and balances with the Croatian National Bank	2,891	1,563	837	5,291	945	67	1,012	-	6,303
Amounts due from other banks	5,394	86	22	5,502	8	-	8	-	5,510
Reverse repurchase agreements	322	-	-	322	-	-	-	-	322
Receivables on financial derivative transactions	68	-	-	68	-	-	-	-	68
Financial assets held for trading	5	-	-	5	-	-	-	-	5
Loans and advances to customers	3,714	1,182	4,064	8,960	12,100	8,910	21,010	-	29,970
Financial investments available for sale	1,193	1,158	16	2,367	-	-	-	-	2,367
Financial investments held to maturity	209	24	24	257	94	-	94	-	351
Investments in subsidiaries and associates	-	-	-	-	-	-	-	60	60
Property and equipment	-	-	-	-	131	295	426	-	426
Intangible assets	-	-	-	-	44	-	44	-	44
Deferred tax assets	66	6	15	87	20	8	28	-	115
Other assets	39	9	-	48	27	3	30	-	78
Total assets	**13,901**	**4,028**	**4,978**	**22,907**	**13,369**	**9,283**	**22,652**	**60**	**45,619**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	403	42	48	493	-	-	-	-	493
Repurchase agreements	475	3	-	478	-	-	-	-	478
Payables on financial derivative transactions	362	-	-	362	-	-	-	-	362
Amounts due to customers	7,672	5,426	11,129	24,227	3,415	716	4,131	-	28,358
Other borrowed funds	152	304	599	1,055	8,795	350	9,145	-	10,200
Current tax liabilities	-	-	120	120	-	-	-	-	120
Other liabilities	290	12	67	369	3	-	3	-	372
Provisions	23	4	31	58	24	1	25	-	83
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	5,140	5,140
Minority interest	-	-	-	-	-	-	-	13	13
Total liabilities and shareholder's equity	**9,377**	**5,791**	**11,994**	**27,162**	**12,237**	**1,067**	**13,304**	**5,153**	**45,619**
Net liquidity gap	**4,524**	**(1,763)**	**(7,016)**	**(4,255)**	**1,132**	**8,216**	**9,348**	**(5,093)**	**-**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

	BANK 2008								
	Up to 1 month	1-3 months	3-12 months	Subtotal less than 12 months	1-5 years	Over 5 years	Subtotal over 12 months	Maturity unde-fined	Total
ASSETS									
Cash and balances with the Croatian National Bank	2,891	1,563	837	5,291	945	67	1,012	-	6,303
Amounts due from other banks	5,382	86	20	5,488	8	-	8	-	5,496
Reverse repurchase agreements	322	-	-	322	-	-	-	-	322
Receivables on financial derivative transactions	68	-	-	68	-	-	-	-	68
Loans and advances to customers	3,709	1,182	4,064	8,955	12,101	8,910	21,011	-	29,966
Financial investments available for sale	1,193	1,158	16	2,367	-	-	-	-	2,367
Financial investments held to maturity	209	24	24	257	94	-	94	-	351
Investments in subsidiaries and associates	-	-	-	-	-	-	-	54	54
Property and equipment	-	-	-	-	127	283	410	-	410
Intangible assets	-	-	-	-	36	-	36	-	36
Deferred tax assets	66	6	15	87	20	8	28	-	115
Other assets	39	10	-	49	27	3	30	-	79
Total assets	**13,879**	**4,029**	**4,976**	**22,884**	**13,358**	**9,271**	**22,629**	**54**	**45,567**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	403	42	48	493	-	-	-	-	493
Repurchase agreements	478	-	-	478	-	-	-	-	478
Payables on financial derivative transactions	362	-	-	362	-	-	-	-	362
Amounts due to customers	7,830	5,426	11,129	24,385	3,415	716	4,131	-	28,516
Other borrowed funds	149	304	453	906	8,795	350	9,145	-	10,051
Current tax liabilities	-	-	120	120	-	-	-	-	120
Other liabilities	284	12	60	356	3	-	3	-	359
Provisions	23	4	31	58	24	1	25	-	83
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	5,105	5,105
Total liabilities and shareholders' equity	**9,529**	**5,788**	**11,841**	**27,158**	**12,237**	**1,067**	**13,304**	**5,105**	**45,567**
Net liquidity gap	**4,350**	**(1,759)**	**(6,865)**	**(4,274)**	**1,121**	**8,204**	**9,325**	**(5,051)**	**-**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

	GROUP 2007								
	Up to 1 month	1-3 months	3-12 months	Subtotal less than 12 months	1-5 years	Over 5 years	Subtotal over 12 months	Maturity unde-fined	Total
ASSETS									
Cash and balances with the Croatian National Bank	1,665	2,008	966	4,639	1,571	84	1,655	-	6,294
Amounts due from other banks	4,973	469	-	5,442	2	-	2	-	5,444
Reverse repurchase agreements	81	-	-	81	-	-	-	-	81
Receivables on financial derivative transactions	67	-	-	67	-	-	-	-	67
Financial assets held for trading	538	-	-	538	-	-	-	-	538
Financial assets at fair value through profit or loss	-	20	-	20	-	-	-	-	20
Loans and advances to customers	2,713	1,435	3,665	7,813	10,773	7,066	17,839	-	25,652
Financial investments available for sale	1,315	-	-	1,315	-	-	-	-	1,315
Financial investments held to maturity	273	24	22	319	145	-	145	-	464
Investments in subsidiaries and associates	-	-	-	-	-	-	-	28	28
Property and equipment	-	-	-	-	149	380	529	-	529
Intangible assets	-	-	-	-	35	-	35	-	35
Deferred tax assets	6	2	13	21	25	-	25	-	46
Other assets	43	19	-	62	15	-	15	-	77
Total assets	**11,674**	**3,977**	**4,666**	**20,317**	**12,715**	**7,530**	**20,245**	**28**	**40,590**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	930	87	1,477	2,494	-	-	-	-	2,494
Repurchase agreements	289	-	-	289	-	-	-	-	289
Payables on financial derivative transactions	60	-	-	60	-	-	-	-	60
Financial liabilities held for trading	7	-	-	7	-	-	-	-	7
Financial liabilities at fair value through profit or loss	-	20	-	20	-	-	-	-	20
Amounts due to customers	8,850	6,060	7,666	22,576	2,752	591	3,343	-	25,919
Other borrowed funds	93	127	508	728	6,319	308	6,627	-	7,355
Current tax liabilities	-	-	63	63	-	-	-	-	63
Deferred tax liabilities	2	-	-	2	-	-	-	-	2
Other liabilities	275	-	87	362	-	-	-	-	362
Provisions	23	5	24	52	15	1	16	-	68
Equity attributable to equity holders of the Bank	-	-	300	300	-	-	-	3,639	3,939
Minority interest	-	-	-	-	-	-	-	12	12
Total liabilities and shareholders' equity	**10,529**	**6,299**	**10,125**	**26,953**	**9,086**	**900**	**9,986**	**3,651**	**40,590**
Net liquidity gap	**1,145**	**(2,322)**	**(5,459)**	**(6,636)**	**3,629**	**6,630**	**10,259**	**(3,623)**	**-**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

	BANK 2007								
	Up to 1 month	1-3 months	3-12 months	Subtotal less than 12 months	1-5 years	Over 5 years	Subtotal over 12 months	Maturity unde-fined	Total
ASSETS									
Cash and balances with the Croatian National Bank	1,665	2,008	966	4,639	1,571	84	1,655	-	6,294
Amounts due from other banks	4,963	279	1	5,243	2	-	2	-	5,245
Reverse repurchase agreements	81	-	-	81	-	-	-	-	81
Receivables on financial derivative transactions	67	-	-	67	-	-	-	-	67
Financial assets held for trading	530	-	-	530	-	-	-	-	530
Financial assets at fair value through profit or loss	-	20	-	20	-	-	-	-	20
Loans and advances to customers	2,711	1,435	3,666	7,812	10,773	7,066	17,839	-	25,651
Financial investments available for sale	1,315	-	-	1,315	-	-	-	-	1,315
Financial investments held to maturity	274	24	22	320	144	-	144	-	464
Investments in subsidiaries and associates	-	-	-	-	-	-	-	46	46
Property and equipment	-	-	-	-	145	367	512	-	512
Intangible assets	-	-	-	-	31	-	31	-	31
Deferred tax assets	6	2	13	21	25	-	25	-	46
Other assets	42	19	-	61	15	-	15	-	76
Total assets	**11,654**	**3,787**	**4,668**	**20,109**	**12,706**	**7,517**	**20,223**	**46**	**40,378**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

	BANK 2007								
	Up to 1 month	1-3 months	3-12 months	Subtotal less than 12 months	1-5 years	Over 5 years	Subtotal over 12 months	Maturity undefined	Total
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	930	87	1,477	2,494	-	-	-	-	2,494
Repurchase agreements	289	-	-	289	-	-	-	-	289
Payables on financial derivative transactions	60	-	-	60	-	-	-	-	60
Financial liabilities held for trading	7	-	-	7	-	-	-	-	7
Financial liabilities at fair value through profit or loss	-	20	-	20	-	-	-	-	20
Amounts due to customers	8,855	6,063	7,667	22,585	2,753	591	3,344	-	25,929
Other borrowed funds	48	126	508	682	6,173	308	6,481	-	7,163
Current tax liabilities	-	-	62	62	-	-	-	-	62
Deferred tax liabilities	2	-	-	2	-	-	-	-	2
Other liabilities	268	-	88	356	-	-	-	-	356
Provisions	23	5	24	52	15	1	16	-	68
Equity attributable to equity holders of the Bank	-	-	300	300	-	-	-	3,628	3,928
Total liabilities and shareholders' equity	**10,482**	**6,301**	**10,126**	**26,909**	**8,941**	**900**	**9,841**	**3,628**	**40,378**
Net liquidity gap	**1,172**	**(2,514)**	**(5,458)**	**(6,800)**	**3,765**	**6,617**	**10,382**	**(3,582)**	**-**

The maturity analysis is prepared in accordance with the internal Asset Liability Management policy.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

39. RELATED-PARTY TRANSACTIONS

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The parent company (which is also the ultimate parent entity of the entire group) is Erste Group Bank AG, Vienna ('EGB').

As at 31 December 2008 and 31 December 2007, balances outstanding with related parties comprised:

	GROUP					
	31 December 2008			31 December 2007		
	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Other receivables	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Other receivables
Parent company	452	39	-	268	38	-
Entity with significant influence on the Group	-	15	-	18	5	-
Associates	6	-	-	48	-	-
Key management personnel	19	-	-	14	-	-
Other EGB companies	17	1	-	135	-	-
Other	15	-	-	112	-	16
Total assets	**509**	**55**	**-**	**595**	**43**	**16**

	GROUP					
	31 December 2008			31 December 2007		
	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables
Parent company	6,697	270	-	5,587	16	2
Entity with significant influence on the Group	1,716	79	-	1,719	10	-
Associates	885	-	-	37	-	1
Key management personnel	64	-	-	54	-	-
Other EGB companies	999	2	3	66	-	4
Other	61	-	1	245	-	-
Total liabilities	**10,422**	**351**	**4**	**7,708**	**26**	**7**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

39. RELATED-PARTY TRANSACTIONS (CONTINUED)

	BANK					
	31 December 2008			31 December 2007		
	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Other receivables	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Other receivables
Parent company	452	39	-	267	38	-
Entity with significant influence on the Group	-	15	-	18	5	-
Associates	6	-	-	37	-	-
Key management personnel	19	-	-	14	-	-
Other EGB companies	12	1	-	145	-	-
Other	15	-	-	112	-	19
Total assets	**504**	**55**	**-**	**593**	**43**	**19**

	BANK					
	31 December 2008			31 December 2007		
	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables
Parent company	6,548	270	-	5,439	16	2
Entity with significant influence on the Group	1,716	79	-	1,719	10	-
Associates	885	-	-	37	-	1
Key management personnel	64	-	-	54	-	-
Other EGB companies	1,156	2	6	76	-	6
Other	61	-	1	245	-	-
Total liabilities	**10,430**	**351**	**7**	**7,570**	**26**	**9**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

39. RELATED-PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties comprised:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Interest income				
Parent company	330	250	330	250
Entity with significant influence on the Group	121	88	121	88
Associates	2	-	2	-
Other EGB companies	8	8	8	8
Other	1	12	1	12
Fee income				
Parent company	6	4	3	2
Associates	19	14	19	14
Other EGB companies	59	19	42	7
Other	12	35	12	35
Other operating income				
Parent company	-	-	-	-
Associates	-	1	-	1
Other EGB companies	4	5	4	5
Other	-	-	-	-
Total income	**562**	**436**	**542**	**422**

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Interest expense				
Parent company	520	461	511	454
Entity with significant influence on the Group	190	150	190	150
Associates	7	-	7	-
Other EGB companies	14	-	14	-
Other	3	2	3	2
Fee expense				
Parent company	7	4	7	4
Other EGB companies		-	20	22
Administrative expenses				
Parent company	1	2	1	2
Associates	37	13	37	13
Other EGB companies	35	15	35	19
Other	2	4	2	2
Total expenses	**816**	**651**	**827**	**668**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

39. RELATED-PARTY TRANSACTIONS (CONTINUED)

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Commitments and contingent liabilities				
Guarantees issued				
Other EGB companies	9	34	9	34
Other	3	29	3	29
Other				
Associates	31	1	31	1
Key management personnel	2	4	2	4
Other EGB companies	111	22	114	25
Other	-	1	-	1
	156	**91**	**159**	**94**

As at 31 December 2008, the Group and the Bank had cash deposit as collateral from the parent company of HRK 1,518 million (HRK 1,588 million as at 31 December 2007).

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

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Wages and salaries	11	13	8	8
Bonuses	10	11	8	11
- thereof pension costs	*2*	*1*	*1*	*1*
	21	**24**	**16**	**19**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

40. EVENTS AFTER THE BALANCE SHEET DATE

On 3th December 2008 the Bank entered into purchase agreement with the owners of Opportunity Bank a.d. Podgorica, Montenegro for the purchase of 100% of its share capital. The purchase transaction is subject to approval by the Croatian National Bank, Central Bank of Montenegro and Department for Protection of Competition (Ministry of Economic Development, Montenegro). Up to the date of completion of these Financial Statements, all approvals were obtained (final one having been obtained on the 10th February 2009). The Management of the Bank expects that the sale transaction will be completed during first half 2009.

An extract from financial statements of Opportunity Bank a.d. as at 31 December 2008:

	2008
Assets	1,220
Liabilities	1,051
Contingent liabilities	57

On 30th January 2009 the Bank entered into a purchase agreement to acquire 100% of S Immorent Delta d.o.o. The share capital of the company S Immorent Delta d.o.o. amounts to HRK 26,000.00 and includes two tranches of paid-in capital, each totaling HRK 13,000.00 held by Immorent International Holding GmbH and Steiermärkische Bank und Sparkassen AG. On 30th January 2009, after the approval of the Croatian National Bank, the transaction was completed and cash consideration amounted to HRK 26,000.00.

An extract from financial statements of S Immorent Delta d.o.o. as at 31 December 2008:

	2008
Assets	262
Liabilities	283

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41. RISK MANAGEMENT

41.1. Introduction

Financial risk is in certain areas managed primarily on the Bank level (particularly related to legal requirements which apply only to the Bank), while in some other areas it is also managed and monitored on a Group wide basis as deemed appropriate by the Management. The disclosures included in this note are clearly marked as the Group or the Bank, based on actual level on which the risk is managed or monitored.

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits for certain types of risk exposure. The Bank has a set up risk management system aimed at attaining an optimal trade-off between risk and profit. The risk management system has been established as an ongoing management process of credit, market, liquidity, operational and other risk management which can arise through the Bank's daily business.

Risk management structure

Supervisory board
The Supervisory Board has the responsibility to monitor the overall risk process within the Bank.

Management Board
The Management Board, with Supervisory Board consent if needed, is empowered to determine procedures and is responsible for their enforcement through approving and passing acts which define and regulate the Bank's business.

One of the Management Board members is responsible for the control and monitoring of all the Bank's risks through being responsible for the business activity of the Risk Management Division.

Risk Management Division
The Risk Management Division is entrusted with ensuring the foundations for effective risk management, as well as the management and control of decisions related to the Bank's risk exposure.

The Risk Management Division is responsible for the development of risk strategy and management principles, frameworks, policies and limits, and is liable for the implementation and the maintenance of procedures which enable independent control processes.

Also, responsibilities of the Risk Management Division are the revision of internal acts within its competence, carrying out appropriateness controls and impact analyses, and if deemed necessary, any alignments for the upcoming period.

Asset Liability Management ('ALM') Department
The ALM Department is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit
Risk Management processes throughout the Bank are audited regularly by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management and also reports its findings and recommendations.

Risk measurement and reporting system

The Bank risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment, as well as to test their validity on a regular basis.

Monitoring and controlling risk is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.1. Introduction (continued)

The Management Board and the Supervisory Board regularly receive reports on the quality of credit portfolio from different risk aspects ensuring all vital information for the overview of credit risk to which the Bank is exposed. The report includes detailed information on exposures, ratings, concentration and risk profile changes. The Risk Management Division compiles additional reports which provide information necessary for a proactive approach in the risk management of the credit portfolio.

A daily briefing is given to the relevant members of the Board on the utilization of market limits, analysis of Value at Risk ('VaR'), plus any other risk developments. These risk developments are presented in the form of an aggregated report.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposure resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forward transactions.

The Bank actively uses collateral to reduce its credit risk.

Risk concentration

Concentration arises when a number of counterparties are engaged in similar business activities or have similar economic features that would influence their ability to meet their contractual obligation if external factors change. Concentration indicates the relative sensitivity of the Bank's performance to developments affecting a particular segment. Risk is managed through avoiding excessive concentration of risk, through specific guidelines to focus on maintaining a diversified portfolio.

41.2. Credit risk

Credit risk is the risk that the Group and the Bank will incur a loss because its customers or counterparties failed to fulfil their contractual obligations.

The credit risk management system encompasses all measures and rules determined by external legal regulations in force, internal acts as well as a proactive approach of harmonization with the guidelines and best practices of the Basel II Accord.

The role of the Risk Management Division is the control through all parts of the credit exposure approval process and further credit portfolio monitoring. This includes overview and assessment of the quality of the credit portfolio and identification and revision of adequate provisions for the loans and losses respectively, per client and for the overall portfolio.

For this purpose, the classification of credit assets into risk classes based on internal ratings of customers is in place, which follows best business practices of credit risk management.

Internal rating systems consist of eight rating grades for individuals not in default and one grade for customers in default. For all other customers, the internal rating systems consists of thirteen rating grades for customers not in default and one rating grade for those in default. Credit exposure is divided into the following risk classes: low risk, management attention, substandard, and non-performing.

Risk class – low risk: The borrower demonstrates a strong repayment capacity.

Risk class – management attention: The borrower's financial situation is in effect good, but his repayment ability may be negatively affected by unfavourable economic conditions. New business with clients in this risk class requires adequate structuring of the credit risks, e.g. by way of collateral.

Risk class – substandard: The borrower is vulnerable to negative financial and economic impacts; such loans are managed with special care in the Risk Management Division.

Risk class – non-performing: at least one of the default criteria under Basel II occurred, e.g. total repayment unlikely, interest or principal payment more than 90 days past due, restructuring resulting in a loss to lender, realisation of a loan loss, or opening of bankruptcy proceedings.

The Bank also offers financial instruments which represent a potential obligation such as guarantees and letters of credit. These instruments expose the Bank to similar risks to loans and are mitigated by the same processes and policies.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.2. Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown net, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Cash and balances with the Croatian National Bank (without cash on hand)	15	5,714	5,810	5,714	5,810
Amounts due from other banks	16	5,510	5,444	5,496	5,245
Reverse repurchase agreements	17	322	81	322	81
Receivables on financial derivative transactions	18	68	67	68	67
Financial assets held for trading	19	5	538	-	530
Financial assets at fair value through profit or loss	19	-	20	-	20
Loans and advances to customers	20	29,970	25,652	29,966	25,651
Financial investments available for sale	21	2,367	1,315	2,367	1,315
Financial investments held to maturity	22	351	464	351	464
Investments in subsidiaries and associates	23	60	28	54	46
Other assets (included only fees and other)	26	44	54	45	54
Total assets		**44,411**	**39,473**	**44,383**	**39,283**
Contingent liabilities and commitments		4,200	4,092	4,200	4,092
Total credit risk exposure		**48,611**	**43,565**	**48,583**	**43,375**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.2. Credit risk (continued)

Risk concentration of maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty without exposure to the Republic of Croatia as of 31 December 2008 was HRK 554 million (2007: HRK 368 million) before and after taking account of collateral or other credit enhancements.

The Group's and the Bank's financial assets, before and after taking into account any collateral held, or other credit enhancements, can be analysed by the following geographical regions:

	GROUP					
	31 December 2008			31 December 2007		
	Banking activities	Trading activities	Total	Banking activities	Trading activities	Total
Croatia	43,019	5	43,024	37,701	638	38,339
EU Countries	4,386	-	4,386	4,034	-	4,034
Other European countries	1,086	-	1,086	849	-	849
Latin America	28	-	28	249	-	249
United States of America	42	-	42	10	-	10
Other countries	45	-	45	84	-	84
Total	**48,606**	**5**	**48,611**	**42,927**	**638**	**43,565**

	BANK					
	31 December 2008			31 December 2007		
	Banking activities	Trading activities	Total	Banking activities	Trading activities	Total
Croatia	42,996	5	43,001	37,519	630	38,149
EU Countries	4,382	-	4,382	4,034	-	4,034
Other European countries	1,085	-	1,085	849	-	849
Latin America	28	-	28	249	-	249
United States of America	42	-	42	10	-	10
Other countries	45	-	45	84	-	84
Total	**48,578**	**5**	**48,583**	**42,745**	**630**	**43,375**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.2. Credit risk (continued)

An industry sector analysis of the Group's and the Bank's financial assets, before and after taking into account collateral held or other credit enhancements, is as follows:

	GROUP			
	2008		2007	
	Gross maximum exposure	Net maximum exposure	Gross maximum exposure	Net maximum exposure
Agriculture and forestry	490	307	387	254
Fishing	140	91	88	57
Mining	65	59	50	43
Manufacturing	3,481	2,011	3,211	1,864
Energy and water supply	176	167	194	187
Construction	2,932	1,668	2,753	1,786
Trade	4,059	2,023	3,974	2,312
Hotels and restaurants	1,744	586	1,830	795
Transport and communication	852	448	951	546
Banking and insurance	11,986	11,310	11,729	11,225
Real estate and other business activities	2,977	1,568	2,194	1,187
Public administration	4,418	4,356	3,203	3,146
Education services	27	17	33	21
Health and social work	134	61	131	62
Other service activities	431	245	267	190
Individuals	14,699	9,211	12,570	8,436
	48,611	**34,128**	**43,565**	**32,111**

	BANK			
	2008		2007	
	Gross maximum exposure	Net maximum exposure	Gross maximum exposure	Net maximum exposure
Agriculture and forestry	490	307	386	254
Fishing	140	91	88	57
Mining	65	59	50	43
Manufacturing	3,481	2,011	3,212	1,864
Energy and water supply	176	167	194	187
Construction	2,932	1,668	2,753	1,786
Trade	4,059	2,023	3,974	2,311
Hotels and restaurants	1,744	586	1,830	795
Transport and communication	852	448	951	546
Banking and insurance	11,966	11,330	11,545	11,040
Real estate and other business activities	2,980	1,566	2,201	1,190
Public administration	4,407	4,367	3,191	3,134
Education services	27	17	33	21
Health and social work	134	61	131	62
Other service activities	431	245	265	189
Individuals	14,699	9,211	12,571	8,435
	48,583	**34,157**	**43,375**	**31,914**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.2. Credit risk (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptance of types of collateral and valuation parameters. Monitoring of the market value of collateral is performed on a regular basis. When calculating collateral coverage, the amount of coverage is adjusted through corrective factors defined by the Bank's Internal regulations depending on the collateral type. Coverage by collateral disclosed in the financial statements is capped to the amount of relevant exposure.

The types of collateral obtained are mortgages over residential or real estate properties, cash deposits, securities and guarantees issued by the Republic of Croatia or banks.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Bank's credit rating system.

	GROUP 2008					
	Notes	Not impaired			Impaired	Total
		Low risk	Management attention	Sub-standard		
Amounts due from other banks	16	5,443	71	-	12	5,526
Loans and advances to customers		20,379	8,601	982	1,259	31,221
Companies	*20*	*7,583*	*5,303*	*203*	*593*	*13,682*
Individuals	*20*	*10,884*	*3,259*	*779*	*659*	*15,581*
Public sector	*20*	*1,861*	*36*	-	*4*	*1,901*
Other institutions	*20*	*51*	*3*	-	*3*	*57*
Financial investments		2,677	6	1	5	2,689
Treasury bills	*21*	*1,363*	-	-	-	*1,363*
Listed debt securities	*21,22*	*1,123*	-	-	-	*1,123*
Unlisted debt securities	*21,22*	*150*	*6*	*1*	*5*	*162*
Units in open investment funds	*21*	*31*	-	-	-	*31*
Factoring	*22*	*10*	-	-	-	*10*
Total		**28,499**	**8,678**	**983**	**1,276**	**39,436**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.2. Credit risk (continued)

Credit quality per class of financial assets (continued)

	BANK 2008					
	Notes	Not impaired			Impaired	Total
		Low risk	Management attention	Sub-standard		
Amounts due from other banks	16	5,431	70	-	11	5,512
Loans and advances to customers		20,374	8,600	982	1,259	31,215
Companies	*20*	*7,578*	*5,302*	*203*	*593*	*13,676*
Individuals	*20*	*10,884*	*3,259*	*779*	*659*	*15,581*
Public sector	*20*	*1,861*	*36*	-	*4*	*1,901*
Other institutions	*20*	*51*	*3*	-	*3*	*57*
Financial investments		2,677	6	1	5	2,689
Treasury bills	*21*	*1,363*	-	-	-	*1,363*
Listed debt securities	*21,22*	*1,123*	-	-	-	*1,123*
Unlisted debt securities	*21,22*	*150*	*6*	*1*	*5*	*162*
Units in open investment funds	*21*	*31*	-	-	-	*31*
Factoring	*22*	*10*	-	-	-	*10*
Total		**28,482**	**8,676**	**983**	**1,275**	**39,416**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.2. Credit risk (continued)

Credit quality per class of financial assets (continued)

	GROUP 2007					
	Notes	Not impaired			Impaired	Total
		Low risk	Management attention	Sub-standard		
Amounts due from other banks	16	5,226	225	-	12	5,463
Financial assets at fair value through profit or loss:						
Amounts due from other banks	19	20	-	-	-	20
Loans and advances to customers		17,493	7,284	936	1,050	26,763
Companies	*20*	*7,482*	*4,098*	*252*	*494*	*12,326*
Individuals	*20*	*8,936*	*3,103*	*683*	*555*	*13,277*
Public sector	*20*	*1,057*	*75*	*-*	*1*	*1,133*
Other institutions	*20*	*18*	*8*	*1*	*-*	*27*
Financial investments		1,685	44	-	5	1,734
Treasury bills	*21*	*841*	*-*	*-*	*-*	*841*
Listed debt securities	*21,22*	*588*	*29*	*-*	*-*	*617*
Unlisted debt securities	*21,22*	*193*	*15*	*-*	*4*	*212*
Units in open investment funds	*21*	*45*	*-*	*-*	*-*	*45*
Factoring	*22*	*18*	*-*	*-*	*1*	*19*
Total		**24,424**	**7,553**	**936**	**1,067**	**33,980**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.2. Credit risk (continued)

Credit quality per class of financial assets (continued)

		BANK 2007				
	Notes	Not impaired			Impaired	Total
		Low risk	Management attention	Sub-standard		
Amounts due from other banks	16	5,027	224	-	11	5,262
Financial assets at fair value through profit or loss:						
Amounts due from other banks	19	20	-	-	-	20
Loans and advances to customers		17,493	7,283	936	1,050	26,762
Companies	*20*	*7,482*	*4,097*	*252*	*494*	*12,325*
Individuals	*20*	*8,936*	*3,103*	*683*	*555*	*13,277*
Public sector	*20*	*1,057*	*75*	-	*1*	*1,133*
Other institutions	*20*	*18*	*8*	*1*	-	*27*
Financial investments		1,685	44	-	5	1,734
Treasury bills	*21*	*841*	-	-	-	*841*
Listed debt securities	*21,22*	*588*	*29*	-	-	*617*
Unlisted debt securities	*21,22*	*193*	*15*	-	*4*	*212*
Units in open investment funds	*21*	*45*	-	-	-	*45*
Factoring	*22*	*18*	-	-	*1*	*19*
Total		**24,225**	**7,551**	**936**	**1,066**	**33,778**

As at 31 December 2008, the Group's and the Bank's total impaired exposures had been secured with collateral of HRK 862 million (HRK 621 million as at 31 December 2007).

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.2. Credit risk (continued)

Aging analysis of past due but not impaired loans per class of financial assets

	GROUP AND BANK 2008				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Companies	1,117	797	168	489	2,571
Individuals	409	144	9	14	576
Public sector	64	2	2	4	72
Other institutions	4	0	1	0	5
	1,594	**943**	**180**	**507**	**3,224**

As at 31 December 2008, the Group's and the Bank's past due but not impaired loans had been secured with collateral of HRK 2,818 million (HRK 1,069 million as at 31 December 2007).

	GROUP AND BANK 2007				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Companies	1,117	627	119	70	1,933
Individuals	306	83	13	12	414
Public sector	44	31	2	36	113
Other institutions	1	3	-	-	4
	1,468	**744**	**134**	**118**	**2,464**

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets.

	GROUP AND BANK	
	2008	2007
Loans and advances to customers		
Companies	67	30
Individuals	6	7
Total renegotiated financial assets	**73**	**37**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.3. Liquidity risk and funding management

The Bank manages assets and liabilities, including cash flows as well as concentration, all with the aim of harmonizing the Bank's money inflow/outflow. In order to achieve this, the Bank monitors and plans liquidity, which will enable the evaluation of future needs for liquid resources, bearing in mind the changes in economic, political, regulatory and other business effecting variables. This type of planning includes the identification of known, expected and potential money outflows and creation of strategies in order to ensure the Bank's needs for money inflows in respective currencies.

The Bank's strategy is orientated towards ensuring an adequate liquidity level, which satisfies expected and unexpected money demand. In case of unexpected need for liquidity, the Bank takes measures necessary for liquidity management, such as tighter control over loan origination activities, maximising liquid assets, selling/collateralising of securities, the withdrawal of credit lines and all other necessary measures.

In order to fulfil all legal restrictions and internal rules, following the principles of safety and stability and considering the realization of the planned profitability of the business, a system of limits measurement and liquidity risk reporting is implemented in the Bank.

Legal restrictions

With respect to the Decision on Reserve Requirement imposed by the CNB, the Bank is obliged to calculate and maintain an obligatory reserve for HRK and FX sources of funding. The calculation period lasts from the first to the last day of a calendar month. The reserve requirement rate for calculation periods January 2007-November 2008 amounted to 17%, which was decreased to 14% in December 2008, following the CNB's Decision. Furthermore, starting from the calculation period for December 2008, 75% of the calculated FX reserve requirement is included in the calculated HRK reserve requirement and allocated in HRK (in period January-November the percentage was 50%). The average percentage for allocating reserve requirements on special account with the CNB amounts to 70% of the total obligatory reserve, while the remaining portion of the amount of 30% may be maintained through average daily balances of other liquid fund balances as defined by the CNB.

Following the Decision on the Marginal Reserve Requirement that was in force up until October 2008, the Bank was obliged to calculate and allocate the entire marginal reserve requirement in foreign currency to the foreign exchange accounts of the Croatian National Bank. The basis for calculation was the positive difference between the average daily balance of specific sources of funds (non-residents and legal persons with a special relationship with the Bank) specific off-balance sheet items (contingent liabilities) in a particular calculation period, and the average daily balance of these sources of funds and contingent liabilities in the initial calculation periods. The marginal reserve requirement rate was 40%, or 55%, depending of the initial calculation period for the specific basis. The Croatian National Bank did not pay any interest on the allocated marginal reserve requirement.

Following the Decision on the Purchase of Compulsory CNB Bills, the Bank will have to purchase non-material, non-transferable compulsory CNB bills denominated in HRK, with a maturity of 1 year, if the growth of placements exceeds the permissible growth as stipulated by the Decision. The basis is composed of certain on-balance and off-balance sheet components. By strictly monitoring the placements' growth, the Bank did not exceed that limit in 2008 or 2007.

Following the Decision on minimal required FX claims, The Bank is obliged to daily maintain a minimum of 28.5% of foreign currency and HRK with currency clause liabilities in short-term assets.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.3.Liquidity risk and funding management (continued)

The actual figures were as follows:

2008	%	2007	%
'28.5% ratio' (at year end)	33.42	'32% ratio' (at year end)	40.55
Average	36.47	Average	34.99
Maximum	42.84	Maximum	45.42
Minimum	29.17	Minimum	27.92

Note: The Croatian National Bank changed the Decision in May 2008 and decreased required ratio from 32% to 28.5% (NN 58/08). In period from January 1, 2008 to May 23, 2008 the Bank maintained 37.15% on average, for 5.15% above the required limit (32%), while in period from May 26, 2008 to December 31, 2008 average maintained ratio was 35.98%, for 7.48% above required (28.5%) (Note that per Croatian National Bank decision dated on 4 February 2009 regulatory minimum for this ratio further decreased to 25%).
The Croatian National Bank broadened the base for the 32% calculation in September 2006, on the Banks' liabilities to include both HRK deposits and credit with foreign currency clause, no matter whether resident or non-resident (NN 104/06) resulting in a situation where this ratio was for many banks below 32% at the start, however allowing time until they reach the required level of 32% at the pace of 2% per month. The Bank reached the required level of 32% as at 28 February 2007 by restructuring the balance sheet.

Internal regulations

Apart from the aforementioned regulatory requirements, following internal regulations, the Bank is obliged to monitor structural indicators of liquidity risk level and concentration indicators.
Structural indicators show ratios of different assets and liabilities items such as: share of liquid assets in total assets, received deposits and total assets ratio, share of total received term deposits in total received deposits of the Bank, placed loans and total assets ratio, total placed loans and total received deposits, interbank financing and total assets ratio, share of held to maturity long-term debt securities in total assets, share of securities in the available for sale portfolio in total assets, share of long-term debt securities in the trading portfolio in total assets and the share of short-term debt securities in the trading portfolio in total assets.

Concentration indicators monitor the concentration of depositors (the biggest depositors being individuals, legal entities and financial institutions as percent of total deposits of the Bank and as percent of specific segment) and the concentration of sources of funding (the ten biggest individuals, legal entities and financial institutions in total liabilities, the share of interbank deposits in total liabilities, and the share of received loans and deposits in total liabilities).

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.3.Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Bank's financial liabilities at 31 December 2008 and 31 December 2007 based on contractual undiscounted repayment obligations.

	GROUP 2008					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to other banks	404	42	50	-	-	496
Repurchase agreements	482	-	-	-	-	482
Payables on financial derivative transactions	1,197	-	-	-	-	1,197
Amounts due to customers	7,851	5,465	11,379	3,584	987	29,266
Other borrowed funds	149	306	462	9,633	3,169	13,719
Total undiscounted financial liabilities	**10,083**	**5,813**	**11,891**	**13,217**	**4,156**	**45,160**

	BANK 2008					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to other banks	404	42	50	-	-	496
Repurchase agreements	482	-	-	-	-	482
Payables on financial derivative transactions	1,197	-	-	-	-	1,197
Amounts due to customers	7,852	5,465	11,379	3,584	987	29,267
Other borrowed funds	149	306	462	9,595	3,169	13,681
Total undiscounted financial liabilities	**10,084**	**5,813**	**11,891**	**13,179**	**4,156**	**45,123**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.3.Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

	GROUP 2007					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to other banks	933	88	1,531	-	-	2,552
Repurchase agreements	290	-	-	-	-	290
Payables on financial derivative transactions	3,077	-	-	-	-	3,077
Financial liabilities held for trading	7	-	-	-	-	7
Financial liabilities at fair value through profit or loss	-	20	-	-	-	20
Amounts due to customers	8,871	6,103	7,842	2,908	807	26,531
Other borrowed funds	48	126	517	6,243	2,561	9,495
Total undiscounted financial liabilities	**13,226**	**6,337**	**9,890**	**9,151**	**3,368**	**41,972**

	BANK 2007					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to other banks	933	88	1,531	-	-	2,552
Repurchase agreements	290	-	-	-	-	290
Payables on financial derivative transactions	3,077	-	-	-	-	3,077
Financial liabilities held for trading	7	-	-	-	-	7
Financial liabilities at fair value through profit or loss	-	20	-	-	-	20
Amounts due to customers	8,871	6,103	7,842	2,908	807	26,531
Other borrowed funds	48	126	517	6,210	2,561	9,462
Total undiscounted financial liabilities	**13,226**	**6,337**	**9,890**	**9,118**	**3,368**	**41,939**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.3.Liquidity risk and funding management (continued)

The table below shows the remaining contractual expiry by maturity of the Group's and the Bank's contingent liabilities and commitments.

	GROUP AND BANK					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2008						
Contingent liabilities	151	376	1,045	309	127	2,008
Commitments	1,183	146	728	135	-	2,192
Total	**1,334**	**522**	**1,773**	**444**	**127**	**4,200**
2007						
Contingent liabilities	130	401	807	280	138	1,756
Commitments	1,540	178	519	99	-	2,336
Total	**1,670**	**579**	**1,326**	**379**	**138**	**4,092**

Lease commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on premises and vehicles. These leases have average life of between three and five years with no renewal option included in the contracts.

Future minimum lease payments under non-cancellable operating leases are as follows:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Within one year	60	42	53	39
After one but not more than five years	210	270	195	248
More than five years	92	4	92	4
	362	**316**	**340**	**291**

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.3.Liquidity risk and funding management (continued)

Operating lease commitments – Group as lessor

The Group has entered into commercial leases on premises and equipment.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Within one year	5	4	5	4
After one but not more than five years	16	16	16	16
More than five years	2	2	2	2
	23	**22**	**23**	**22**

41.4.1. Market risk

Market risks represent the potential effects which external variables have on the assets, liabilities and off-balance sheet items of the Bank, which are caused by price fluctuations, i.e. financial market fluctuations and as such include:
- Interest rate risk
- Foreign exchange risk
- Securities risk

Measurement and control of the exposure as well as the limits set up are defined by internal acts, policies and manuals from the Risk Management Department. Control of the exposure to market risks is being performed by the Risk Management Department through its VaR limit system as well as through a sensitivity limits system (PVBP, FX Delta and Equity Delta).

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.4.1.1. Market risk - trading

Value at Risk

Value at Risk ('VaR') is the maximum expected loss, which is not exceeded during a defined period with a certain probability. For the purpose of the VaR calculation, the Bank is using the one-day, 99% historical VaR method, on 730 days basis. For the computation of the VaR with this method, a time series is needed for each market parameter in the portfolio and it is assumed that the past rate changes represent a good approximation for the future changes.

The following risk factors are taken into consideration: interest rate, currency, commodity, price and volatility. Furthermore, the Bank has VaR limits individually for money market, fixed income and foreign currency business as well as for the total trading book.

VaR figures, in total and per risk factor for the Trading Book, are as follows:

2008	Interest rate	Currency	Effects of correlation	Total VaR
year end	9	3	(3)	9
average	6	2	(2)	6
high	10	4	(4)	10
low	3	-	-	3

2007	Interest rate	Currency	Effects of correlation	Total VaR
year end	5	4	(2)	7
average	4	1	(1)	4
high	8	4	(4)	8
low	1	-	-	1

Effect of correlation reflects the fact that the total VaR on a given day will be lower then the sum of VaRs relating to the individual risk factors. Simply adding the VaR figures of the individual risk classes would imply the assumption that the losses in all risk categories occur simultaneously.

Back testing results ('BT') of VaR calculations show statistically acceptable level of confidence, with 4 outliers on 250 days basis.

Date	TOTAL	
	VaR	BT
05.05.2008	5	(7)
18.07.2008	4	(7)
05.08.2008	3	(5)
22.08.2008	6	(8)

Apart from the aforementioned VaR calculations, the Bank is also using a sensitivity analysis in accordance with its portfolio structure, namely PVBP, FX Delta and Equity Delta.

PVBP (Price Value of a Basis Point) shows the sensitivity that the portfolio has on the change in the interest rate, namely a portfolio value change when the yield curve shifts by 1 basis point. For the purpose of monitoring this type of exposure, the Bank has PVBP limits individually for money market, fixed income and foreign currency business.

FX Delta shows the delta exposure of the total Bank position (spot plus delta position in options) for various currencies. The Bank has FX Delta limits set in place on the total FX position as well as individually for significant currencies.

Equity Delta represents the total open position of the trading book of the Bank in equities and equity derivatives. The Bank has set in place a limit system per share and for the total trading book.

Legal restrictions

The key legal ratio related to FX position of the Bank is the Croatian National Bank Decision on the limitation of the Bank 's exposure to foreign exchange risk by which the Bank is liable to adjust its total open FX position in the way that the position (increased by the position in gold) does not exceed 20% of the total capital, according to the Croatian National Bank regulations.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.4.1.1. Market risk - trading (continued)

Legal restrictions (continued)

2008	Without options	With options
year end	0.66%	1.50%
average	1.51%	2.05%
high	6.19%	7.32%
low	0.23%	0.34%

2007	Without options	With options
year end	0.63%	1.39%
average	2.73%	2.59%
high	16.99%	15.16%
low	0.27%	0.24%

41.4.1.2. Market risk - non trading

Interest rate risk management includes implementation of measures and decisions with the aim of minimizing potential negative influence on the balance sheet items caused by changes in interest rates (with a short-term horizon). Besides that, the Bank is analyzing the interest rate changes influence on the market value of equity (long-term horizon).

Net interest income simulation refers on the simulation of net interest income of the Bank in the case of parallel and nonparallel shifts in interest rates by +/- 100 and 200 basis points (bp). This simulation is conducted for the total Bank's position, and for the all-major currencies (EUR, CHF, HRK and USD).

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.4.1.2. Market risk - non trading (continued)

Net interest income simulation for the year 2009 based on data as at 31 December 2008:

	EUR	CHF	HRK	TOTAL
immediate parallel shock plus 200 bp	(25.5)	(40.6)	36.2	(29.9)
immediate parallel shock plus 100 bp	(10.9)	(19.6)	18.2	(12.3)
immediate parallel shock minus 100 bp	9.5	-	(20.2)	(10.7)
immediate parallel shock minus 200 bp	19.1	-	(39.3)	(20.2)

Net interest income simulation for the year 2008 based on data as at 31 December 2007:

	EUR	CHF	HRK	USD	TOTAL
immediate parallel shock plus 200 bp	(89.4)	(69.1)	31.7	(0.8)	(127.6)
immediate parallel shock plus 100 bp	(44.6)	(34.6)	15.9	(0.8)	(64.1)
immediate parallel shock minus 100 bp	53.0	35.6	(16.1)	2.1	74.6
immediate parallel shock minus 200 bp	110.3	71.9	(25.5)	4.0	160.7

Position analysis is made for all major currencies, in the way that all assets and liabilities (balance sheet and off-balance sheet ones) are separated according to the type of interest rates. For this analysis, all assets and liabilities items are separated, depending on the stipulated interest rate, as follows:
- Items with money market interest rates,
- Items with fixed interest rates,
- Items with administrative interest rates.

Bank's market value of equity (MVE) report is the basic report on the Bank's long-term exposure to interest rate risk. It is based on the approximate market value of assets and liabilities, and therefore the approximated market value of equity. In that case, the aim of that analysis is to follow the Basel II limit or the influence of 200 basis points shocks on the market value of equity.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.4.1.2. Market risk - non trading (continued)

The structure of 2% shocks effects of MVE as at 31 December 2008:

	EUR	CHF	HRK	USD	TOTAL
immediate parallel shock plus 200 bp	53	8	57	14	132
immediate parallel shock plus 100 bp	31	3	30	8	72
immediate parallel shock minus 100 bp	(40)	(4)	(32)	(8)	(84)
immediate parallel shock minus 200 bp	(49)	(35)	(67)	(6)	(157)

The analysis shows that the Bank does not have substantial exposure to interest rate risk and the market value risk is well within the Basel II limit. Prior to 2008, the Bank did not prepare such analyses.

41.5. Operational risk

Operational risk includes the risk of unexpected direct or indirect loss resulting from inadequate or failed internal processes, people, system failures and external events.

The definition of operational risk includes legal risk, but excludes strategic and reputation risk.

Since the operational risk definition is very broad, loss data events need to be categorised and connected to the relevant information. In this way, more focused operational risk management is possible.

Operational risk events are classified into three categories, which are:
- Loss event type
- Business line unit
- Business line function

To ensure consistent identification and classification of operational risk events in accordance with Basel II guidelines, the Bank collected groups of primary and secondary loss event types. All operational risk loss events are classified according to the first level cause of loss and further broken down to the second and third levels.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

41.5. Operational risk (continued)

Reasons for loss event type classification:
- Establishing priority events and necessary actions
- Improved possibility of analysing risk
- Enables standardised database design
- Harmonisation with Basel II guidelines and EU Directives

Operational risk events are collected into a unique database, using the ORCA application.

Basel II guidelines enable institutions to use several risk assessment and risk identification tools. The Bank uses tools such as Risk Mapping, Risk Assessment, Scenario Analysis and Key Risk Indicators.

Under Basel II guidelines and EU directives, there are 3 methods to measure operational risk: Basic Indicator Approach, The Standardised Approach and the Advanced Measurement Approach. The Bank decided to use the Advanced Measurement Approach starting in 2010.

Insurance

Under the Operational Risk Insurance Program, the Bank is insured against classical risk and specific banking risks.

Classical risk includes property damage, burglaries, robberies, vandalism (valuable assets risk) and general liability. Specific risk includes internal and external frauds and technology risks.

The operational risk insurance program is also an operational risk mitigation measure.

Managing operational risk

Within the operational risk framework the Bank has adopted, there is an Operational risk Policy describing how operational risk is managed. The policy contains a ‘check list’ used for the prevention of operational risk events while implementing new Bank products and services. Other operational risk mitigation/control activities include regular risk mapping workshops which serves for identification of existing operational risk in the Bank, BCM (business continuity management) project under which the Bank adopted BCM plans for identified critical activities, self-assessment workshops undertaken during outsourcing projects, Scenario Analysis which refers to future potential operational risk events and continuous monitoring and reporting of operational risk events. The Bank is planning the introduction of key risk indicators which would, together with above mentioned conducted activities, represent an overall operational risk framework.

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

42. CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Croatian National Bank.

During past years, the Bank had complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise value for shareholders.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory capital

	Actual 2008	Required capital	Actual 2007	Required capital
Tier 1 capital	4,704	1,925	3,619	1,520
Tier 2 capital	-	1,925	150	1,520
Deduction according to Article 2.4 CNB Capital Adequacy Decision	(48)	-	(30)	-
Total Capital	**4,656**	**3,850**	**3,739**	**3,040**
Risk weighted assets	38,267	38,267	29,942	29,942
Position, Foreign Exchange, Settlement and Counterparty Risks	229	229	448	448
Total Risks	**38,496**	**38,496**	**30,390**	**30,390**
Tier 1capital Ratio	12.2%	5.0%	11.9%	5.0%
Total capital Ratio	12.1%	10.0%	12.3%	10.0%

Notes to the financial statements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK MILLION)

42. CAPITAL (CONTINUED

Capital management (continued)

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including non-distributable current year profit, capital gains and other reserves. The other component of regulatory capital is Tier 2 capital which includes Portfolio Provisions up to 0.5 percent of total risk weighted assets for the year 2007. In the year 2008 the amount of Portfolio Provisions is entirely excluded from Tier 2 capital.

Minimum capital adequacy ratio at the end of both balance sheet dates was 10%. Note that from the second half of 2009 and onwards, the regulatory minimum for the capital adequacy ratio is increased to 12%. Apart from the increase of the minimum ratio percentage, the new regulations require a change of methodology for the calculation of capital adequacy. The Bank doesn’t expect any adverse effects on its capital adequacy as result of introduction of this new regulation.

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

"Pursuant to the Decision of the Croatian National Bank's on structure and content of bank's annual financial statements from 19th of May 2008 bellow we present the required forms for the Group and the Bank for the year ended 31 December 2008 in the form required by the decision. Information about the basis of presentation as well as a summary of accounting policies are given in the notes to the financial statements. Information important for better understanding of certain positions of the balance sheet, profit and loss account, changes in equity as well as cash flow statement are also included in the notes.

Reconciliation between forms presented below on pages 115 to 136 and primary financial statements is presented in appendix 2 titled 'reconciliation of prescribed forms presented in appendix 1 with primary financial statements prepared in accordance with IFRS'."

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM „BALANCE SHEET"

as at 31 December 2008

ASSETS

		GROUP 2008	GROUP 2007
1.	CASH AND DEPOSITS WITH CNB (1.1.+1.2.)	6,303,563,246.51	6,295,100,249.77
1.1.	Cash	592,062,431.46	487,634,724.71
1.2.	Deposits with CNB	5,711,500,815.05	5,807,465,525.06
2.	DEPOSITS WITH BANKING INSTITUTIONS	5,480,566,033.20	5,274,608,414.07
3.	TREASURY BILLS WITH MINISTRY OF FINANCE AND BILLS OF EXCHANGE WITH CNB	1,362,610,166.74	1,206,856,309.44
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR SALE	4,537,746.44	168,453,498.15
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	980,668,606.95	470,421,085.34
6	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	345,990,607.57	457,884,339.12
7.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS NOT ACTIVELY TRADED, MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-
8.	DERIVATIVE FINANCIAL ASSETS	68,389,556.57	66,968,165.74
9.	LOANS TO FINANCIAL INSTITUTIONS	497,052,312.99	194,181,768.39
10.	LOANS TO OTHER CUSTOMERS	29,453,783,279.67	25,395,826,976.01
11.	INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	59,190,918.94	27,855,821.01
12.	REPOSSESED ASSETS	26,914,767.46	11,888,502.84
13.	TANGIBLE ASSETS (MINUS DEPRECIATION)	425,595,280.00	542,662,678.00
14.	INTEREST, FEES AND OTHER ASSETS	610,071,875.13	477,245,618.71
A	**TOTAL ASSETS (1+2+3 up to 14)**	**45,618,934,398.17**	**40,589,953,426.59**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM „BALANCE SHEET" (CONTINUED)

as at 31 December 2008

LIABILITIES AND EQUITY

		GROUP 2008	GROUP 2007
1.	LOANS FROM FINANCIAL INSTITUTIONS (1.1. + 1.2.)	2,285,138,339.53	1,673,136,364.43
1.1.	Short-term loans	863,281,875.00	554,345,786.00
1.2.	Long-term loans	1,421,856,464.53	1,118,790,578.43
2.	DEPOSITS (2.1. + 2.2. + 2.3.)	33,943,328,640.55	31,919,245,889.41
2.1.	Deposits of giro and current accounts	4,660,002,565.42	4,749,252,133.91
2.2.	Savings deposits	2,965,456,104.14	2,989,265,340.87
2.3.	Term deposits	26,317,869,970.99	24,180,728,414.63
3.	OTHER LOANS	2,922,862,415.84	2,031,403,376.42
3.1.	Short-term loans	4,083,348.19	3,957,573.74
3.2.	Long-term loans	2,918,779,067.65	2,027,445,802.68
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER LIABILITIES HELD FOR SALE	361,930,716.50	67,507,672.62
5.	ISSUED DEBT SECURITIES (5.1. + 5.2.)	-	-
5.1.	Short-term issued debt securities	-	-
5.2.	Long-term issued debt securities	-	-
6.	ISSUED SUBORDINATED INSTRUMENTS	-	-
7.	ISSUED HYBRID INSTRUMENTS	-	-
8.	INTEREST, FEES AND OTHER LIABILITIES	952,889,964.88	948,172,700.22
B	**TOTAL LIABILITIES (1+2+3+4+5+6+7+8)**	**40,466,150,077.30**	**36,639,466,003.10**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM „BALANCE SHEET" (CONTINUED)

as at 31 December 2008

SHAREHOLDERS' EQUITY

		GROUP 2008	GROUP 2007
1.	SHARE CAPITAL	3,499,756,704.36	2,774,770,148.36
2.	PROFIT (LOSS) OF THE CURRENT YEAR	812,903,761.89	602,965,524.44
3.	RETAINED PROFIT (LOSS)	656,311,298.01	357,584,279.54
4.	LEGAL RESERVES	80,569,215.00	75,671,300.00
5.	STATUTORY AND OTHER CAPITAL RESERVES	139,182,570.36	132,337,283.41
6.	UNREALISED PROFIT/LOSS FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS HELD FOR SALE	(35,939,228.75)	7,158,887.74
C	**TOTAL EQUITY (1+2+3+4+5+6+7)**	**5,152,784,320.87**	**3,950,487,423.49**
D	**TOTAL LIABILITIES AND EQUITY (B+C)**	**45,618,934,398.17**	**40,589,953,426.59**

Balance sheet appendix

		GROUP 2008	GROUP 2007
8.	TOTAL EQUITY	5,152,784,320.87	3,950,487,423.49
9.	Equity attributable to equity holders of the Bank	5,139,574,744.92	3,938,749,444.20
10.	Minority interest	13,209,575.95	11,737,979.29

Signed on behalf of Erste & Steiermärkische Bank d.d. on
2 March 2009:

President of the
Management Board
Petar Radaković

Member of the
Management Board
Slađana Jagar

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'INCOME STATEMENT'

for the year ended 31 December 2008

		GROUP 2008	GROUP 2007
1.	Interest income	2,702,917,022.48	2,312,733,455.76
2.	(Interest expense)	1,561,698,673.43	1,224,374,033.14
3.	**Net interest income (1-2)**	**1,141,218,349.05**	**1,088,359,422.62**
4.	Fee and commission income	513,738,569.39	464,914,862.66
5.	(Fee and commission expense)	110,383,726.30	102,498,650.31
6.	**Net fee and commission income (4-5)**	**403,354,843.09**	**362,416,212.35**
7.	Profit/(loss) from investments in subsidiaries, associates and joint ventures	21,433,485.85	3,954,397.52
8.	Profit/(loss) from trading	(294,116,488.34)	304,467,876.97
9.	Profit/(loss) from embedded derivatives	12,496,912.46	(7,219,546.79)
10.	Profit/(loss) from assets not actively traded measured at fair value through P&L	-	-
11.	Profit/(loss) from assets available for sale	1,400,167.63	(11,051,002.08)
12.	Profit/(loss) from assets held to maturity	-	-
13.	Profit/(loss) from hedging	-	-
14.	Income from investments in subsidiaries, associates and joint ventures	32,433,776.88	27,527,975.38
15.	Income from other ownership investments	9,181,209.91	979,936.97
16.	Profit/loss from foreign currency differences	659,607,552.57	(65,817,878.95)
17.	Other income	54,949,263.66	10,173,175.00
18.	Other expenses	50,554,882.90	69,494,287.37
19.	General administration expenses and depreciation	820,512,425.36	732,768,204.06
20.	**Net income from business before value adjustment and loan loss provisions (3+6+7+8+9+10+11+12+13+14+15+16+17-18-19)**	**1,170,891,764.50**	**911,528,077.56**
21.	Expense of value adjustment and loss provisions	159,377,621.00	152,689,649.44
22.	**Profit/(loss) before taxation (20-21)**	**1,011,514,143.50**	**758,838,428.12**
23.	Taxes	198,610,381.61	155,872,903.68
24.	**Profit/(loss) of the current year (22-23)**	**812,903,761.89**	**602,965,524.44**
25.	Earnings per share	48.45	38.57

Annex to income statement

		GROUP 2008	GROUP 2007
26.	Profit/(loss) of the current year	812,903,761.89	602,965,524.44
27.	Assign to equity holders of the Bank	811,416,693.31	603,266,178.55
28.	Minority interest	1,487,068.58	(300,654.11)

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'CASH FLOW STATEMENT'

year ended 31 December 2008

OPERATING ACTIVITIES

		GROUP 2008	GROUP 2007
1.1.	Profit/(loss) before income tax	1,011,514,143.50	758,838,428.12
1.2.	Alowances and loss provisions	159,377,621.00	152,689,649.44
1.3.	Depreciation	79,849,315.65	91,961,055.88
1.4.	Net unrealized (profit)/loss from financial assets and liabilities through profit and loss	-	-
1.5.	(Profit)/loss from sale of tangible assets	40,130,352.48	1,996,796.26
1.6.	Other (profits)/losses	(1,127,778,765.35)	(1,079,373,710.99)
1.	**Cash flow from operating activities before changes of operating assets (1.1. to 1.6.)**	**163,092,667.28**	**(73,887,781.29)**
2.1.	Deposits with Central National Bank	1,232,848,480.96	9,778,641.91
2.2.	Treasury bills of Ministry of Financial and Central National Bank bills	(155,753,857.30)	(447,157,334.00)
2.3.	Deposits with banks and loans to financial institutions	(3,521,348.68)	13,418,412.70
2.4.	Loans to other customers	(4,468,934,371.45)	(3,971,129,993.05)
2.5.	Securities and other financial instruments held for trading	163,915,752.00	(2,960,421.74)
2.6.	Securities and other financial instruments available for sale	(243,062,762.10)	323,738,000.18
2.7.	Securities and other financial instruments not traded actively measured at fair value through P&L	-	-
2.8.	Other operating assets	2,766,089,003.33	2,215,310,794.60
2.	**Net (increase)/decrease of operating assets (2.1. to 2.8.)**	**(708,419,103.25)**	**(1,859,001,899.39)**
	Increase/(decrease) of operating liabilities		
3.1.	Demand deposits	(320,643,342.35)	985,633,384.26
3.2.	Savings and term deposits	2,096,813,320.45	5,054,821,666.50
3.3.	Financial derivative liabilities and other liabilities actively traded	261,639,997.00	26,076,282.93
3.4.	Other liabilities	(1,393,465,561.20)	(873,903,478.30)
3.	**Net increase/(decrease) of operating liabilities (3.1. to 3.4.)**	**644,344,413.90**	**5,192,627,855.39**
4.	**Net cash flow from operating activities before income taxes (1+2+3)**	**99,017,977.93**	**3,259,738,174.70**
5.	**(Income taxes paid)**	**202,816,294.61**	**135,038,963.53**
6.	**Net inflow/(outflow) of cash from operating activities (4-5)**	**(103,798,316.68)**	**3,124,699,211.17**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'CASH FLOW STATEMENT' (CONTINUED)

year ended 31 December 2008

INVESTING ACTIVITIES

		GROUP 2008	GROUP 2007
7.1.	Receipt from sale/(payment for buying) tangible and intangible assets	754,994.09	(80,597,018.83)
7.2.	Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	-	-
7.3.	Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	-	-
7.4.	Dividend income	33,828,965.28	27,527,975.38
7.5.	Other receipts/(payments) from investing activities	(105,294,415.69)	9,281,144.08
7.	**Net cash flow from investing activities (7.1. to 7.5.)**	**(70,710,456.32)**	**(43,787,899.37)**

FINANCIAL ACTIVITIES

		GROUP 2008	GROUP 2007
8.1.	Net increase/(decrease) of borrowings	1,500,939,921.51	(1,820,272,181.84)
8.2.	Net increase/(decrease) issued debt securities	-	-
8.3.	Net increase/(decrease) subordinated and hybrid instruments	-	(691,818,556.66)
8.4.	Receipts from transmited share capital	724,986,556.00	693,809,548.36
8.5.	(Dividends paid)	(299,199,593.87)	(201,586,065.48)
8.6.	Other receipts/(payments) from operating activities	-	-
8.	**Net cash flow from operating activities (8.1. to 8.6.)**	**1,926,726,883.64**	**(2,019,867,255.62)**
9.	**Net increase/(decrease) of cash and cash equivalents**	**1,752,218,110.64**	**1,061,044,056.18**
10.	Effects of changes in foreign exchange rates on cash and cash equivalents		
11.	**Net increase/(decrease) cash and cash equivalents (9+10)**	**1,752,218,110.64**	**1,061,044,056.18**
12.	**Cash and cash equivalents at beginning of the year**	**7,152,781,525.69**	**6,091,737,469.51**
13.	**Cash and cash equivalents at the end of the year**	**8,904,999,636.34**	**7,152,781,525.69**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY'

for the year ended 31 December 2008

GROUP		Attributable to the equity holders of the Bank							
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/loss for the period	Unrealized profit/loss from the basis of value adjustment of financial assets available for sale	Minority interest	Total capital and reserves
1.	**Balance as at 1 January**	**2,774,770,148.36**	**-**	**208,008,583.41**	**345,545,646.14**	**603,266,178.55**	**7,158,887.74**	**11,737,979.29**	**3,950,487,423.49**
2.	Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3.	**Corrected balance as at 1 January (1+2)**	**2,774,770,148.36**	**-**	**208,008,583.41**	**345,545,646.14**	**603,266,178.55**	**7,158,887.74**	**11,737,979.29**	**3,950,487,423.49**
4.	Sale of financial assets available for sale	-	-	-	-	-	1,400,167.63	-	1,400,167.63
5.	Change of fair value financial assets available for sale	-	-	-	-	-	(44,498,284.12)	-	(44,498,284.12)
6.	Tax on items directly recognized or transfered from capital and reserves	-	-	9,191,623.30	-	-	-	-	9,191,623.30
7.	Other profits or losses directly recognized in capital and reserves	-	-	(2,255,922.07)	-	-	-	-	(2,255,922.07)
8.	**Net profit/losses directly recognized in capital and reserves (4+5+6+7)**	**-**	**-**	**6,935,701.23**	**-**	**-**	**(43,098,116.49)**	**-**	**(36,162,415.26)**
9.	Profit/loss for the period	-	-	-	-	811,432,165.23	-	1,471,596.66	812,903,761.89

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY' (CONTINUED)

for the year ended 31 December 2008

GROUP	Attributable to the equity holders of the Bank							
Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/loss for the period	Unrealized profit/loss from the basis of value adjustment of financial assets available for sale	Minority interest	Total capital and reserves
10. Total recognized income and expenses for the period (8+9)	**-**	**-**	**6,935,701.23**	**-**	**811,432,165.23**	**(43,098,116.49)**	**1,471,596.66**	**776,741,346.63**
11. Increase/decrease of share capital	724,986,556.00	-	-	-	-	-	-	724,986,556.00
12. Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	-	-	-	-	-	-
14. Transfer to reserves	-	-	4,807,500.72	299,043,144.50	(303,850,645.22)	-	-	-
15. Dividends paid	-	-	-	-	(299,431,005.25)	-	-	(299,431,005.25)
16. Distribution on income (14+15)	**-**	**-**	**4,807,500.72**	**299,043,144.50**	**(603,281,650.47)**	**-**	**-**	**(299,431,005.25)**
17. Balance as at 31 December (3 + 10 + 11 + 12+13+16)	**3,499,756,704.36**	**-**	**219,751,785.36**	**644,588,790.64**	**811,416,693.31**	**(35,939,228.75)**	**13,209,575.95**	**5,152,784,320.87**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY'

for the year ended 31 December 2007

GROUP

	Attributable to the equity holders of the Bank							
Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/loss for the period	Unrealized profit/loss from the basis of value adjustment of financial assets available for sale	Minority interest	Total capital and reserves
1. Balance as at 1 January	**2,080,960,600.00**	**-**	**133,814,648.18**	**214,896,693.23**	**403,349,706.03**	**(7,401,253.37)**	**-**	**2,825,620,394.07**
2. Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3. Corrected balance as at 1 January (1+2)	**2,080,960,600.00**	**-**	**133,814,648.18**	**214,896,693.23**	**403,349,706.03**	**(7,401,253.37)**	**-**	**2,825,620,394.07**
4. Sale of financial assets available for sale	-	-	-	-	-	(11,051,002.08)	-	(11,051,002.08)
5. Change of fair value financial assets available for sale	-	-	-	-	-	25,611,143.19	-	25,611,143.19
6. Tax on items directly recognized or transfered from capital and reserves	-	-	(2,851,228.22)	-	-	-	-	(2,851,228.22)
7. Other profits or losses directly recognized in capital and reserves	-	-	(304,000.00)	-	-	-	-	(304,000.00)
8. Net profit/losses directly recognized in capital and reserves (4+5+6+7)	**-**	**-**	**(3,155,228.22)**	**-**	**-**	**14,560,141.11**	**-**	**11,404,912.89**
9. Profit/loss for the period	-	-	-	-	599,029,364.05	-	4,236,814.50	603,266,178.55

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY' (CONTINUED)

for the year ended 31 December 2007

GROUP

	Type of change	Attributable to the equity holders of the Bank							
		Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/loss for the period	Unrealized profit/loss from the basis of value adjustment of financial assets available for sale	Minority interest	Total capital and reserves
10.	**Total recognized income and expenses for the period (8+9)**	**-**	**-**	**(3,155,228.22)**	**-**	**599,029,364.05**	**14,560,141.11**	**4,236,814.50**	**614,671,091.44**
11.	Increase/decrease of share capital	693,809,548.36	-	-	-	-	-	-	693,809,548.36
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13.	Other changes	-	-	90,414.28	6,146,339.25	4,236,814.50	-	7,501,164.79	17,974,732.82
14.	Transfer to reserves	-	-	77,258,749.17	124,502,613.66	(201,761,362.83)	-	-	-
15.	Dividends paid	-	-	-	-	(201,588,343.20)	-	-	(201,588,343.20)
16.	**Distribution on income (14+15)**	**-**	**-**	**77,258,749.17**	**124,502,613.66**	**(403,349,706.03)**	**-**	**-**	**(201,588,343.20)**
17.	**Balance as at 31 December (3 + 10 + 11 + 12+13+16)**	**2,774,770,148.36**	**-**	**208,008,583.41**	**345,545,646.14**	**603,266,178.55**	**7,158,887.74**	**11,737,979.29**	**3,950,487,423.49**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'OFF BALANCE SHEET ITEMS'

as at 31 December 2008

		GROUP 2008	GROUP 2007
1.	Guarantees	1,353,928,003.55	1,357,167,893.95
2.	Letters of credit	164,904,553.02	154,502,793.52
3.	Bills of exchange	408,957,404.65	100,472,624.31
4.	Undrawn credit and loan commitments	2,192,443,077.78	2,335,676,611.66
5.	Other risk off-balance items	79,778,925.59	143,764,108.70
6.	Futures	-	-
7.	Options	118,401,400.75	132,872,307.10
8.	Swap	1,175,048,697.74	5,210,074,281.33
9.	Forwards	15,279,780,024.19	13,418,392,005.04
10.	Other derivatives	311,124,771.90	394,073,505.44

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'BALANCE SHEET'

as at 31 December 2008

ASSETS

		BANK 2008	BANK 2007
1.	CASH AND DEPOSITS WITH CNB (1.1.+1.2.)	6,303,559,286.64	6,295,097,063.29
1.1.	Cash	592,058,471.59	487,631,538.23
1.2.	Deposits with CNB	5,711,500,815.05	5,807,465,525.06
2.	DEPOSITS WITH BANKING INSTITUTIONS	5,472,713,632.10	5,079,344,305.63
3.	TREASURY BILLS WITH MINISTRY OF FINANCE AND BILLS OF EXCHANGE WITH CNB	1,362,610,166.74	1,206,856,309.44
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR SALE	35,714.30	161,314,812.45
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	980,668,606.95	470,421,085.34
6	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	345,990,607.57	457,884,339.12
7.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS NOT ACTIVELY TRADED, MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-
8.	DERIVATIVE FINANCIAL ASSETS	68,389,556.57	66,968,165.74
9.	LOANS TO FINANCIAL INSTITUTIONS	497,052,312.99	194,181,768.39
10.	LOANS TO OTHER CUSTOMERS	29,453,783,279.67	25,395,826,976.01
11.	INVESTMENT IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	54,463,396.82	45,956,973.14
12.	REPOSSESED ASSETS	26,914,767.46	11,888,502.84
13.	TANGIBLE ASSETS (MINUS DEPRECIATION)	409,049,544.14	524,341,691.71
14.	INTEREST, FEES AND OTHER ASSETS	591,286,073.36	467,548,559.72
A	**TOTAL ASSETS (1+2+3 up to 14)**	**45,566,516,945.31**	**40,377,630,552.82**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'BALANCE SHEET' (CONTINUED)

as at 31 December 2008

LIABILITIES AND EQUITY

		BANK 2008	BANK 2007
1.	LOANS FROM FINANCIAL INSTITUTIONS (1.1. + 1.2.)	2,138,237,716.09	1,628,773,454.99
1.1.	Short-term loans	863,281,875.00	510,395,000.00
1.2.	Long-term loans	1,274,955,841.09	1,118,378,454.99
2.	DEPOSITS (2.1. + 2.2. + 2.3.)	34,100,856,431.96	31,928,571,197.38
2.1.	Deposits of giro and current accounts	4,665,134,397.21	4,753,650,884.08
2.2.	Savings deposits	2,971,473,168.06	2,994,191,898.67
2.3.	Term deposits	26,464,248,866.69	24,180,728,414.63
3.	OTHER LOANS	2,922,862,415.84	1,884,900,756.42
3.1.	Short-term loans	4,083,348.19	3,957,573.74
3.2.	Long-term loans	2,918,779,067.65	1,880,943,182.68
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER LIABILITIES HELD FOR SALE	361,930,716.50	67,507,672.62
5.	ISSUED DEBT SECURITIES (5.1. + 5.2.)	-	-
5.1.	Short-term issued debt securities	-	-
5.2.	Long-term issued debt securities	-	-
6.	ISSUED SUBORDINATED INSTRUMENTS	-	-
7.	ISSUED HYBRID INSTRUMENTS	-	-
8.	INTEREST, FEES AND OTHER LIABILITIES	937,284,193.39	939,601,595.24
B	**TOTAL LIABILITIES (1+2+3+4+5+6+7+8)**	**40,461,171,473.78**	**36,449,354,676.65**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'BALANCE SHEET' (CONTINUED)

as at 31 December 2008

SHAREHOLDERS' EQUITY

		BANK 2008	BANK 2007
1.	SHARE CAPITAL	3,499,756,704.36	2,774,770,148.36
2.	PROFIT (LOSS) OF THE CURRENT YEAR	787,676,459.87	599,029,364.05
3.	RETAINED PROFIT (LOSS)	634,099,750.69	339,399,306.89
4.	LEGAL RESERVES	80,569,215.00	75,671,300.00
5.	STATUTORY AND OTHER CAPITAL RESERVES	139,182,570.36	132,246,869.13
6.	UNREALISED PROFIT/LOSS FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS HELD FOR SALE	(35,939,228.75)	7,158,887.74
C	**TOTAL EQUITY (1+2+3+4+5+6+7)**	**5,105,345,471.53**	**3,928,275,876.17**
D	**TOTAL LIABILITIES AND EQUITY (B+C)**	**45,566,516,945.31**	**40,377,630,552.82**

Signed on behalf of Erste & Steiermärkische Bank d.d. on
2 March 2009:

President of the
Management Board
Petar Radaković

Member of the
Management Board
Slađana Jagar

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'INCOME STATEMENT'

for the year ended 31 December 2008

		BANK 2008	BANK 2007
1.	Interest income	2,693,130,099.73	2,304,432,389.35
2.	(Interest expense)	1,553,212,223.60	1,217,158,707.11
3.	**Net interest income (1-2)**	**1,139,917,876.13**	**1,087,273,682.24**
4.	Fee and commission income	460,145,600.54	421,037,275.64
5.	(Fee and commission expense)	134,169,343.61	119,714,876.69
6.	**Net fee and commission income (4-5)**	**325,976,256.93**	**301,322,398.95**
7.	Profit/(loss) from investments in subsidiaries, associates and joint ventures	-	-
8.	Profit/(loss) from trading	(294,127,233.70)	304,465,559.09
9.	Profit/(loss) from embedded derivatives	12,496,912.46	(7,219,546.79)
10.	Profit/(loss) from assets not actively traded measured at fair value through P&L	-	-
11.	Profit/(loss) from assets available for sale	1,400,167.63	(11,051,002.08)
12.	Profit/(loss) from assets held to maturity	-	-
13.	Profit/(loss) from hedging	-	-
14.	Income from investments in subsidiaries, associates and joint ventures	33,828,965.28	24,595,520.41
15.	Income from other ownership investments	9,181,209.91	979,936.97
16.	Profit/loss from foreign currency differences	659,819,553.56	(65,633,330.07)
17.	Other income	54,411,695.83	14,283,371.00
18.	Other expenses	51,660,855.63	68,762,983.54
19.	General administration expenses and depreciation	746,986,533.00	673,807,457.62
20.	**Net income from business before value adjustment and loan loss provisions (3+6+7+8+9+10+11+12+13+14+15+16+17-18-19)**	**1,144,258,015.40**	**906,446,148.56**
21.	Expense of value adjustments and loss provisions	159,377,621.00	152,689,649.44
22.	**Profit/(loss) before taxation (20-21)**	**984,880,394.40**	**753,756,499.12**
23.	Taxes	197,203,934.53	154,727,135.07
24.	**Profit/(loss) of the current year (22-23)**	**787,676,459.87**	**599,029,364.05**
25.	Earnings per share	46.94	28.77

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'CASH FLOW STATEMENT'

year ended 31 December 2008

OPERATING ACTIVITIES

		BANK 2008	BANK 2007
1.1.	Profit/(loss) before income tax	984,880,394.40	753,756,499.12
1.2.	Alowances and loss provisions	159,377,621.00	152,689,649.44
1.3.	Depreciation	75,004,308.21	77,686,303.78
1.4.	Net unrealized (profit)/loss from financial assets and liabilities through profit and loss	-	-
1.5.	(Profit)/loss from sale of tangible assets	40,130,352.48	1,996,796.26
1.6.	Other (profits)/losses	(1,126,478,292.43)	(1,077,540,010.55)
1.	**Cash flow from operating activities before changes of operating assets (1.1. to 1.6.)**	**132,914,383.66**	**(91,410,761.95)**
2.1.	Deposits with Central National Bank	1,234,704,616.42	10,651,721.81
2.2.	Treasury bills of Ministry of Financial and Central National Bank bills	(155,333,574.65)	(447,577,616.65)
2.3.	Deposits with banks and loans to financial institutions	6,368,332.63	5,932,824.74
2.4.	Loans to other customers	(4,476,035,761.38)	(3,964,028,603.12)
2.5.	Securities and other financial instruments held for trading	161,279,098.44	4,178,263.96
2.6.	Securities and other financial instruments available for sale	(243,062,762.10)	323,738,000.18
2.7.	Securities and other financial instruments not traded actively measured at fair value through P&L	-	-
2.8.	Other operating assets	2,761,033,210.49	2,213,069,318.55
2.	**Net (increase)/decrease of operating assets (2.1. to 2.8.)**	**(711,046,840.16)**	**(1,854,036,090.52)**
	Increase/(decrease) of operating liabilities		
3.1.	Demand deposits	(319,910,260.73)	990,032,134.43
3.2.	Savings and term deposits	2,244,282,722.27	5,059,748,224.30
3.3.	Financial derivative liabilities and other liabilities actively traded	261,639,997.00	26,076,282.93
3.4.	Other liabilities	(1,392,055,440.56)	(893,136,835.91)
3.	**Net increase/(decrease) of operating liabilities (3.1. to 3.4.)**	**793,957,017.98**	**5,182,719,805.75**
4.	**Net cash flow from operating activities before income taxes (1+2+3)**	**215,824,561.48**	**3,237,272,953.27**
5.	**(Income taxes paid)**	**201,368,186.14**	**135,038,963.53**
6.	**Net inflow/(outflow) of cash from operating activities (4-5)**	**14,456,375.34**	**3,102,233,989.74**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'CASH FLOW STATEMENT' (CONTINUED)

year ended 31 December 2008

INVESTING ACTIVITIES

		BANK 2008	BANK 2007
7.1.	Receipt from sale/(payment for buying) tangible and intangible assets	8,402,232.62	(44,583,677.41)
7.2.	Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	-	-
7.3.	Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	-	-
7.4.	Dividend income	33,828,965.28	24,595,520.41
7.5.	Other receipts /(payments) from investing activities	(82,465,741.44)	(5,887,553.08)
7.	**Net cash flow from investing activities (7.1. to 7.5.)**	**(40,234,543.54)**	**(25,875,710.08)**

FINANCIAL ACTIVITIES

		BANK 2008	BANK 2007
8.1.	Net increase/(decrease) of borrowings	1,544,904,827.51	(2,011,137,711.28)
8.2.	Net increase/(decrease) issued debt securities	-	-
8.3.	Net increase/(decrease) subordinated and hybrid instruments	-	(691,818,556.66)
8.4.	Receipts from transmited share capital	724,986,556.00	693,809,548.36
8.5.	(Dividends paid)	(299,199,593.87)	(201,586,065.48)
8.6.	Other receipts/(payments) from operating activities	-	-
8.	**Net cash flow from operating activities (8.1. to 8.6.)**	**1,970,691,789.64**	**(2,210,732,785.06)**
9.	**Net increase/(decrease) of cash and cash equivalents**	**1,944,913,621.44**	**865,625,494.60**
10.	Effects of changes in foreign exchange rates on cash and cash equivalents		
11.	**Net increase/(decrease) cash and cash equivalents (9+10)**	**1,944,913,621.44**	**865,625,494.60**
12.	**Cash and cash equivalents at beginning of the year**	**6,957,362,964.11**	**6,091,737,469.51**
13.	**Cash and cash equivalents at the end of the year**	**8,902,276,585.55**	**6,957,362,964.11**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY'

for the year ended 31 December 2008

BANK

	Attributable to the equity holders of the Bank						
Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/loss for the period	Unrealized profit/ loss from the basis of value adjustment of financial assets available for sale	Total capital and reserves
1. Balance as at 1 January	**2,774,770,148.36**	**-**	**207,918,169.13**	**339,399,306.89**	**599,029,364.05**	**7,158,887.74**	**3,928,275,876.17**
2. Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-
3. Corrected balance as at 1 January (1+2)	**2,774,770,148.36**	**-**	**207,918,169.13**	**339,399,306.89**	**599,029,364.05**	**7,158,887.74**	**3,928,275,876.17**
4. Sale of financial assets available for sale	-	-	-	-	-	1,400,167.63	**1,400,167.63**
5. Change of fair value financial assets available for sale	-	-	-	-	-	(44,498,284.12)	**(44,498,284.12)**
6. Tax on items directly recognized or transfered from capital and reserves	-	-	9,191,623.30	-	-	-	**9,191,623.30**
7. Other profits or losses directly recognized in capital and reserves	-	-	(2,255,922.07)	-	-	-	**(2,255,922.07)**
8. Net profit/losses directly recognized in capital and reserves (4+5+6+7)	**-**	**-**	**6,935,701.23**	**-**	**-**	**(43,098,116.49)**	**(36,162,415.26)**
9. Profit/loss for the period	-	-	-	-	787,676,459.87	-	**787,676,459.87**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY' (CONTINUED)

for the year ended 31 December 2008

BANK

		Attributable to the equity holders of the Bank						
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/loss for the period	Unrealized profit/loss from the basis of value adjustment of financial assets available for sale	Total capital and reserves
10.	**Total recognized income and expenses for the period (8+9)**	**-**	**-**	**6,935,701.23**	**-**	**787,676,459.87**	**(43,098,116.49)**	**751,514,044.61**
11.	Increase/decrease of share capital	724,986,556.00	-	-	-	-	-	**724,986,556.00**
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-
13.	Other changes	-	-	-	-	-	-	-
14.	Transfer to reserves	-	-	4,897,915.00	294,700,443.80	(299,598,358.80)	-	-
15.	Dividends paid	-	-	-	-	(299,431,005.25)	-	**(299,431,005.25)**
16.	**Distribution on income (14+15)**	**-**	**-**	**4,897,915.00**	**294,700,443.80**	**(599,029,364.05)**	**-**	**(299,431,005.25)**
17.	**Balance as at 31 December (3 + 10 + 11 + 12+13+16)**	**3,499,756,704.36**	**-**	**219,751,785.36**	**634,099,750.69**	**787,676,459.87**	**(35,939,228.75)**	**5,105,345,471.53**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY'

for the year ended 31 December 2007

BANK		Attributable to the equity holders of the Bank						
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/loss for the period	Unrealized profit/ loss from the basis of value adjustment of financial assets available for sale	Total capital and reserves
1.	**Balance as at 1 January**	**2,080,960,600.00**	**-**	**133,814,648.18**	**214,896,693.23**	**403,349,706.03**	**(7,401,253.37)**	**2,825,620,394.07**
2.	Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-
3.	**Corrected balance as at 1 January (1+2)**	**2,080,960,600.00**	**-**	**133,814,648.18**	**214,896,693.23**	**403,349,706.03**	**(7,401,253.37)**	**2,825,620,394.07**
4.	Sale of financial assets available for sale	-	-	-	-	-	(11,051,002.08)	**(11,051,002.08)**
5.	Change of fair value financial assets available for sale	-	-	-	-	-	25,611,143.19	**25,611,143.19**
6.	Tax on items directly recognized or transfered from capital and reserves	-	-	(2,851,228.22)	-	-	-	**(2,851,228.22)**
7.	Other profits or losses directly recognized in capital and reserves	-	-	(304,000.00)	-	-	-	**(304,000.00)**
8.	**Net profit/losses directly recognized in capital and reserves (4+5+6+7)**	**-**	**-**	**(3,155,228.22)**	**-**	**-**	**14,560,141.11**	**11,404,912.89**
9.	Profit/loss for the period	-	-	-	-	599,029,364.05	-	**599,029,364.05**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY' (CONTINUED)

for the year ended 31 December 2007

BANK		Attributable to the equity holders of the Bank						
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/loss for the period	Unrealized profit/ loss from the basis of value adjustment of financial assets available for sale	Total capital and reserves
10.	**Total recognized income and expenses for the period (8+9)**	**-**	**-**	**(3,155,228.22)**	**-**	**599,029,364.05**	**14,560,141.11**	**610,434,276.94**
11.	Increase/decrease of share capital	693,809,548.36	-	-	-	-	-	**693,809,548.36**
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-
13.	Other changes	-	-	-	-	-	-	-
14.	Transfer to reserves	-	-	77,258,749.17	124,502,613.66	(201,761,362.83)	-	**-**
15.	Dividends paid	-	-	-	-	(201,588,343.20)	-	**(201,588,343.20)**
16.	**Distribution on income (14+15)**	**-**	**-**	**77,258,749.17**	**124,502,613.66**	**(403,349,706.03)**	**-**	**(201,588,343.20)**
17.	**Balance as at 31 December (3 + 10 + 11 + 12+13+16)**	**2,774,770,148.36**	**-**	**207,918,169.13**	**339,399,306.89**	**599,029,364.05**	**7,158,887.74**	**3,928,275,876.17**

Appendix 1 - Forms according to local requirements

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN HRK)

FORM 'OFF BALANCE SHEET ITEMS'

as at 31 December 2008

		BANK 2008	BANK 2007
1.	Guarantees	1,353,928,003.55	1,357,167,893.95
2.	Letters of credit	164,904,553.02	154,502,793.52
3.	Bills of exchange	408,957,404.65	100,472,624.31
4.	Undrawn credit and loan commitments	2,192,443,077.78	2,335,676,611.66
5.	Other risk off-balance items	79,778,925.59	143,764,108.70
6.	Futures	-	-
7.	Options	118,401,400.75	132,872,307.10
8.	Swap	1,175,048,697.74	5,210,074,281.33
9.	Forwards	15,279,780,024.19	13,418,392,005.04
10.	Other derivatives	311,124,771.90	394,073,505.44

Appendix 2 - Overview of differences between Balance sheet as presented in IFRS Financial statements and Form 'Balance sheet' prepared in accordance with Decision of CNB

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN MILLION HRK)

GROUP

ANNUAL REPORT (AR)	in mln HRK	Form 'Balance sheet' (CNB)	in mln HRK	DIFFER-ENCE		EXPLANATION
Cash and balances with the central bank	6,303	Cash and deposits with CNB	6,303	-		
Amounts due from other banks	5,510	Deposits with banking institutions	5,482	28	13	loans to financial insitutions
					15	interest on deposits within other assets
Reverse repurchase agreements	322			322	322	no separate position - presented within loans to other customers
Receivables on financial derivative transactions	68	Derivative financial assets	68	-		
Financial assets held for trading	5	Securities and other financial instruments held for trading	5	-		
Financial assets at fair value through profit or loss	-			-		
Loans and advances to customers	29,970	Loans to financial institutions	497	20	(6)	portfolio provisions for other assets
		Loans to other customers	29,453		(322)	reverse repurchase agreement
					361	interest, other receivables, presented within other assets
					(13)	loans to banks, presented within amounts due to banks
Financial investments available for sale	2,367	Treasury bills with ministry of finance and bills of exchange with CNB	1,363	24	24	interest on AFS - presented within other assets
		Securities and other financial instruments available for sale	980			
Financial investments held to maturity	351	Securities and other financial instruments held to maturity	346	5	5	interest on HtM - presented within other assets
Investments in subsidiaries and associates	60	Investment in associates, subsidiaries and joint ventures	59	1	1	difference in presentation

Appendix 2 - Overview of differences between Balance sheet as presented in IFRS Financial statements and Form 'Balance sheet' prepared in accordance with Decision of CNB (continued)

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN MILLION HRK)

GROUP

ANNUAL REPORT (AR)	in mln HRK	Form 'Balance sheet' (CNB)	in mln HRK	DIFFER-ENCE		EXPLANATION
Property and equipment	426	Tangible assets (minus depreciation)	426	-		
Intangible fixed assets	44		-	44	44	intangible fixed assets - presented within other assets and repossesed assets
Deferred tax assets	115		-	115	115	defered tax asset - presented within other assets
Other assets	78	Interest, fees and other assets	610	(559)	(115)	deferred tax assets
		Repossesed assets	27		(44)	intangible fixed assets
					6	portfolio provisions for other assets
					(1)	difference in presentation
					(405)	interest on loans, deposits, AFS
TOTAL ASSETS	**45,619**	**TOTAL ASSETS**	**45,619**	**-**		

AR = Annual report position
CNB = Croatian National Bank statement

Appendix 2 - Overview of differences between Balance sheet as presented in IFRS Financial statements and Form 'Balance sheet' prepared in accordance with Decision of CNB (continued)

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN MILLION HRK)

GROUP

ANNUAL REPORT (AR)	in mln HRK	Form 'Balance sheet' (CNB)	in mln HRK	DIFFER-ENCE		EXPLANATION
Amounts due to other banks	493			493	461	no separate position - principal presented within deposits
					32	interest presented within interest, fees and other liabilities
Repurchase agreements	478			478	3	interest presented within interest, fees and other liabilities
					475	principal presented within loans due to financial institutions
Payables on financial derivative transactions	362	Derivative financial liabilities and other liabilities held for trading	362	-		
Amounts due to customers	28,358	Deposits	33,943	(5,585)	(461)	amounts due to other banks
					(5,413)	deposits reclassified from other borrowed funds
					289	Interest presented within interest, fees and other liabilities
Other borrowed funds	10,200	Other loans	2,923	4,992	5,413	long term deposits from Banks presented within deposits
		Loans from financial institutions	2,285		54	accrued interest presented within interest, fees and other liabilities
					(475)	repurchase agreements
Current tax liabilities	120		-	120	120	no separate position - presented within interest, fees and other liabilities
Deferred tax liabilities	-		-			
Other liabilities	372	Interest, fees and other liabilities	953	(581)	(3)	interest income of repurchase agreements; AR: repurchase agreements
					(32)	accrued interest on amounts due to banks
					(54)	accrued interest on borrowed funds
					(289)	accrued interest on amounts due to customers
					(45)	provisions for guarantees and other loan commitments
					(21)	provisions for litigations
					(17)	provisions for long-term employee benefits
					(120)	tax liabilities; AR: current tax liabilities

Appendix 2 - Overview of differences between Balance sheet as presented in IFRS Financial statements and Form 'Balance sheet' prepared in accordance with Decision of CNB (continued)

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN MILLION HRK)

GROUP

ANNUAL REPORT (AR)	in mln HRK	Form 'Balance sheet' (CNB)	in mln HRK	DIFFER-ENCE		EXPLANATION
Provisions	83		-	83	83	CNB: within other liabilities
Total shareholders equity	5,140	Total equity	5,153	(13)	(13)	minority interest
Minority interest	13		-	13	13	minority interest
TOTAL LIABILITIES AND EQUITY	**45,619**	**TOTAL LIABILITIES AND EQUITY**	**45,619**	**-**		

AR = Annual report position
CNB = Croatian National Bank statement

Appendix 2 - Overview of differences between Income statement as presented in the Annual Report and Form 'Income statement' prepared in accordance with CNB

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN MILLION HRK)

GROUP

ANNUAL REPORT (AR)	in mln HRK	Form 'Income statement' (CNB)	in mln HRK	DIFFER-ENCE		EXPLANATION
Interest income	2,703	Interest and similar income	2,703	-		
Interest expense	(1,561)	Interest and similar expenses	(1,561)	-		
Fee and commission income	513	Fee and commission income	513	-		
Fee and commission expense	(110)	Fee and commission expenses	(110)	-		
Net trading income	377	Net trading result	(294)	-		
		Embaded derivatives gain	12			
		Foreign exchange gain	659			
Other operating income	99	Other operating results	55	-		
		Results of financial assets available for sale	2			
		Income of investment in associates	33			
		Income of other investments	9			
Personnel expenses	(408)		-	(408)	(408)	CNB: general administrative expenses and depreciation
Other operating expenses	(382)	General administrative expenses and depreciation	(820)	488	408	personnel expenses; AR: personnel expenses
					68	depreciation on tangible fixed assets (AR)
					12	depreciation of intangible assets (AR)
		Other expenses	(50)			
Depreciation of tangible fixed assets	(68)			(68)	(68)	CNB: general administrative expenses and depreciation
Depreciation of intangible assets	(12)			(12)	(12)	CNB: general administrative expenses and depreciation
Provision for loan and investment losses	(160)	Risk provisions for loans and advances	(160)	-		

Appendix 2 - Overview of differences between Income statement as presented in the Annual Report and Form 'Income statement' prepared in accordance with CNB (continued)

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN MILLION HRK)

GROUP

ANNUAL REPORT (AR)	in mln HRK	Form 'Income statement' (CNB)	in mln HRK	DIFFER-ENCE	EXPLANATION
Share of result of associates	21	Results from investments measured at equity	21	-	
Profit before income tax	1,012	Pre - tax profit	1,012	-	
Income tax expense	(199)	Taxes on income	(199)	-	
NET PROFIT FOR THE PERIOD	**813**	**NET PROFIT FOR THE PERIOD**	**813**	**-**	

AR = Annual report position
CNB = Croatian National Bank statement

Appendix 2 - Overview of differences between Balance sheet as presented in IFRS Financial statements and Form 'Balance sheet' prepared in accordance with Decision of CNB

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN MILLION HRK)

BANK

ANNUAL REPORT (AR)	in mln HRK	Form 'Balance sheet' (CNB)	in mln HRK	DIFFER-ENCE		EXPLANATION
Cash and balances with the central bank	6,303	Cash and deposits with CNB	6,303	-		
Amounts due from other banks	5,496	Deposits with banking institutions	5,473	23	8	loans to financial insitutions
					15	interest on deposits within other assets
Reverse repurchase agreements	322		-	322	322	no separate position - presented within loans to other customers
Receivables on financial derivative transactions	68	Derivative financial assets	68	-		
Financial assets held for trading	-	Securities and other financial instruments held for trading	-	-		
Financial assets at fair value through profit or loss	-					
Loans and advances to customers	29,966	Loans to financial institutions	497	15	(6)	portfolio provisions for other assets
		Loans to other customers	29,454		(322)	reverse repurchase agreement
					351	interest, other receivables, presented within other assets
					(8)	loans to banks, presented within amounts due to banks
Financial investments available for sale	2,367	Treasury bills with ministry of finance and bills of exchange with CNB	1,363	23	23	interest on AFS - presented within other assets
		Securities and other financial instruments available for sale	981			
Financial investments held to maturity	351	Securities and other financial instruments held to maturity	346	5	5	interest on HtM - presented within other assets
Investments in subsidiaries and associates	54	Investment in associates, subsidiaries and joint ventures	54	-		

Appendix 2 - Overview of differences between Balance sheet as presented in IFRS Financial statements and Form 'Balance sheet' prepared in accordance with Decision of CNB (continued)

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN MILLION HRK)

BANK

ANNUAL REPORT (AR)	in mln HRK	Form 'Balance sheet' (CNB)	in mln HRK	DIFFER-ENCE		EXPLANATION
Property and equipment	410	Tangible assets (minus depreciation)	410	-		
Intangible fixed assets	36		-	36	36	intangible fixed assets - presented within other assets and repossesed assets
Deferred tax assets	115		-	115	115	deferred tax assets - presented within other assets
Other assets	79	Interest, fees and other assets	591	(539)	(115)	deferred tax assets
		repossesed assets	27		(36)	intangible fixed assets
					6	portfolio provisions for other assets
					(394)	interest on loans, deposits, AFS
TOTAL ASSETS	**45,567**	**TOTAL ASSETS**	**45,567**	-		

AR = Annual report position
CNB = Croatian National Bank statement

Appendix 2 - Overview of differences between Balance sheet as presented in IFRS Financial statements and Form 'Balance sheet' prepared in accordance with Decision of CNB (continued)

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN MILLION HRK)

BANK

ANNUAL REPORT (AR)	in mln HRK	Form 'Balance sheet' (CNB)	in mln HRK	DIFFER-ENCE		EXPLANATION
Amounts due to other banks	493			493	461	no separate position - principal presented within deposits
					32	interest presented within interest, fees and other liabilities
Repurchase agreements	478			478	3	interest presented within interest, fees and other liabilities
					475	principal presented within loans due to financial institutions
Payables on financial derivative transactions	362	Derivative financial liabilities and other liabilities held for sale	362	-		
Amounts due to customers	28,516	Deposits	34,101	(5,585)	(461)	amounts due to other banks
					(5,413)	deposits reclassified from other borrowed funds
					289	various special accounts presented within interest, fees and other liabilities
Other borrowed funds	10,051	Other loans	2,923	4,989	5,413	long term deposits from Banks presented within deposits
		Loans from financial institutions	2,139		51	accrued interest presented within interest, fees and other liabilities
					(475)	repurchase agreements
Current tax liabilities	120			120	120	no separate position - presented within interest, fees and other liabilities
Deferred tax liabilities	-		-	-		
Other liabilities	359	Interest, fees and other liabilities	937	(578)	(3)	interest income of repurchase agreements; AR: repurchase agreements
					(32)	accrued interest on amounts due to banks
					(51)	accrued interest on borrowed funds
					(289)	accrued interest on amounts due to customers
					(45)	provisions for guarantees and other loan commitments
					(21)	provisions for litigations
					(17)	provisions for long-term employee benefits
					(120)	tax liabilities; AR: current tax liabilities

Appendix 2 - Overview of differences between Balance sheet as presented in IFRS Financial statements and Form 'Balance sheet' prepared in accordance with Decision of CNB (continued)

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN MILLION HRK)

BANK

ANNUAL REPORT (AR)	in mln HRK	Form 'Balance sheet' (CNB)	in mln HRK	DIFFER-ENCE	EXPLANATION
Provisions	83		-	83	83 CNB: within other liabilities
Total shareholders equity	5,105	Total equity	5,105	-	
TOTAL LIABILITIES AND EQUITY	***45,567***	**TOTAL LIABILITIES AND EQUITY**	***45,567***	**-**	

AR = Annual report position
CNB = Croatian National Bank statement

Appendix 2 - Overview of differences between Income statement as presented in the Annual Report and Form 'Income statement' prepared in accordance with CNB

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN MILLION HRK)

BANK

ANNUAL REPORT (AR)	in mln HRK	Form 'Income statement' (CNB)	in mln HRK	DIFFER-ENCE		EXPLANATION
Interest income	2,693	Interest and similar income	2,693	-		
Interest expense	(1,552)	Interest and similar expenses	(1,552)	-		
Fee and commission income	460	Fee and commission income	460	-		
Fee and commission expenses	(134)	Fee and commission expenses	(134)	-		
Net trading income	377	Net trading result	(294)	-		
		Embeded derivatives gain	12			
		Foreign exchange gain	659			
Other operating income	99	Other operating results	54	-		
		Results of financial assets available for sale	2			
		Income of investment in associates	34			
		Income of other investments	9			
Personnel expenses	(370)		-	(370)	(370)	CNB: general administrative expenses and depreciation
Other operating expenses	(353)	General administrative expenses and depreciation	(747)	445	370	personnel expenses; AR: personnel expenses
					65	depreciation on tangible fixed assets (AR)
					10	depreciation of intangible assets (AR)
		Other expenses	(51)			
Depreciation of tangible fixed assets	(65)		-	(65)	(65)	CNB: general administrative expenses and depreciation
Depreciation of intangible assets	(10)		-	(10)	(10)	CNB: general administrative expenses and depreciation
Provision for loan and investment losses	(160)	Risk provisions for loans and advances	(160)	-		

Appendix 2 - Overview of differences between Income statement as presented in the Annual Report and Form 'Income statement' prepared in accordance with CNB (continued)

YEAR ENDED 31 DECEMBER 2008 (ALL AMOUNTS ARE EXPRESSED IN MILLION HRK)

BANK

ANNUAL REPORT (AR)	in mln HRK	Form 'Income statement' (CNB)	in mln HRK	DIFFER-ENCE	EXPLANATION
Share of result of associates	-	Results from investments measured at equity	-	-	
Profit before income tax	985	Pre - tax profit	985	-	
Income tax expense	(197)	Taxes on income	(197)	-	
NET PROFIT FOR THE PERIOD	**788**	**NET PROFIT FOR THE PERIOD**	**788**	**-**	

AR = Annual report position
CNB = Croatian National Bank statement