

CROATIAN NATIONAL BANK

CONDENSED FINANCIAL STATEMENTS

in compliance with IAS 34

as at 30 June 2009

Croatian National Bank
Condensed Financial Statements as at 30 June 2009

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STATEMENT OF INCOME

| <i>(All amounts are expressed in thousands of kunas)</i> | 1 January – 30 June 2009 | 1 January – 30 June 2008 |
|--|-------------------------------------|-------------------------------------|
| Interest and similar income | 466,712 | 1,159,332 |
| Interest and similar expense | (107,435) | (305,409) |
| | <hr/> | <hr/> |
| Net interest income | 359,277 | 853,923 |
| | | |
| Fee and commission income | 2,678 | 3,229 |
| Fee and commission expense | (2,210) | (1,616) |
| | <hr/> | <hr/> |
| Net fee and commission income | 468 | 1,613 |
| | | |
| Net result from financial operations | 171,601 | 164,774 |
| Net foreign exchange differences | 54,569 | (1,261,165) |
| Other income | 2,291 | 13,191 |
| | <hr/> | <hr/> |
| Operating income/(expenditure) | 588,206 | (227,664) |
| | | |
| Operating expenses | (169,295) | (159,762) |
| Decrease in provisions | 70,380 | 5,139 |
| | <hr/> | <hr/> |
| Operating surplus/(deficit) | 489,291 | (382,287) |

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BALANCE SHEET

| <i>(All amounts are expressed in thousands of kunas)</i> | 30/6/2009 | 31/12/2008 |
|--|-------------------|-------------------|
| Assets | | |
| Cash and current accounts with other banks | 1,466,832 | 1,473,516 |
| Deposits with other banks | 14,436,224 | 13,186,457 |
| Trading securities | 50,386,134 | 52,136,879 |
| Loans | 2,412,067 | 111 |
| Balances with the International Monetary Fund | 2,953,988 | 2,904,533 |
| Equity investments | 58,126 | 57,441 |
| Accrued interest and other assets | 155,322 | 174,046 |
| Tangible and intangible assets | 588,586 | 581,531 |
| TOTAL ASSETS | 72,457,279 | 70,514,514 |
| Liabilities | | |
| Banknotes and coins in circulation | 20,369,192 | 20,479,274 |
| Due to banks and other financial institutions | 39,508,648 | 37,298,672 |
| Due to the State and State institutions | 914,929 | 249,323 |
| Due to the International Monetary Fund | 2,948,226 | 2,897,961 |
| Accrued interest and other liabilities | 114,856 | 1,477,831 |
| Total liabilities | 63,855,851 | 62,403,061 |
| Equity | | |
| Initial capital | 2,500,000 | 2,500,000 |
| Reserves | 5,612,137 | 5,611,453 |
| Operating surplus | 489,291 | - |
| Total equity | 8,601,428 | 8,111,453 |
| TOTAL EQUITY AND LIABILITIES | 72,457,279 | 70,514,514 |

The Condensed Financial Statements on the pages 3 to 12 were approved on 30 July 2009 by

Accounting Department Director

Ivan Branimir Jurković



Governor

Željko Rohatinski, D.Sc.

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STATEMENT OF CHANGES IN EQUITY

| <i>(All amounts are expressed in thousands of kunas)</i> | Initial capital | General reserves | Revaluation reserves | Unrealised gains/losses | Operating surplus/(deficit) | Total equity |
|---|------------------------|-------------------------|-----------------------------|--------------------------------|------------------------------------|---------------------|
| Balance as at 1 January 2008 | 2,500,000 | 3,199,309 | 371,103 | (3,795) | 0 | 6,066,617 |
| Exchange differences on available-for-sale financial assets | | | | (1,849) | | (1,849) |
| Operating deficit | | | | | (382,287) | (382,287) |
| Balance as at 30 June 2008 | 2,500,000 | 3,199,309 | 371,103 | (5,644) | (382,287) | 5,682,481 |
| Balance as at 1 January 2009 | 2,500,000 | 5,250,086 | 364,851 | (3,484) | 0 | 8,111,453 |
| Exchange differences on available-for-sale financial assets | | | | 684 | | 684 |
| Operating surplus | | | | | 489,291 | 489,291 |
| Balance as at 30 June 2009 | 2,500,000 | 5,250,086 | 364,851 | (2,800) | 489,291 | 8,601,428 |

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STATEMENT OF CASH FLOWS

| <i>(All amounts are expressed in thousands of kunas)</i> | 1 January – 30 June 2009 | 1 January – 30 June 2008 |
|---|-------------------------------------|-------------------------------------|
| Cash flows from operating activities | | |
| Interest received | 542,438 | 1,161,039 |
| Interest paid | (110,981) | (314,895) |
| Fees and commissions received | 2,724 | 3,271 |
| Fees and commissions paid | (2,281) | (1,647) |
| Other receipts | 4,838 | 7,975 |
| Expenses paid | <u>(138,646)</u> | <u>(130,504)</u> |
| | <u>298,092</u> | <u>725,239</u> |
| Changes in operating assets and liabilities | | |
| (Increase)/Decrease in deposits with other banks | (1,543,762) | 6,872,140 |
| (Increase)/Decrease in loans | (2,352,152) | 2,511,204 |
| Sale/(Purchases) of trading securities | 2,323,129 | (12,623,570) |
| Decrease/(Increase) in other assets | 29,031 | (23,765) |
| Increase/(Decrease) in other liabilities | 1,296 | (1,243) |
| (Decrease) in amounts due to the International Monetary Fund | (28) | (24) |
| (Decrease)/Increase of currency in circulation | (110,082) | 935,955 |
| Increase in amounts due to banks and other financial institutions | 2,362,394 | 3,363,347 |
| Increase in amounts due to the State | <u>681,322</u> | <u>371,213</u> |
| | <u>1,391,148</u> | <u>1,405,257</u> |
| Net cash from operating activities | <u>1,689,240</u> | <u>2,130,496</u> |
| Cash flows from investing activities | | |
| Purchase of property and equipment | <u>(34,948)</u> | <u>(34,906)</u> |
| Net cash from investing activities | <u>(34,948)</u> | <u>(34,906)</u> |
| Cash flows from financing activities | | |
| Net issuance of CNB bills | (320,227) | (1,556,433) |
| Payments to the State Budget | <u>(1,342,562)</u> | <u>(484,860)</u> |
| Net cash from financing activities | <u>(1,662,789)</u> | <u>(2,041,293)</u> |
| Effect of exchange differences | <u>980</u> | <u>(52,368)</u> |
| Net (decrease)/increase in cash | <u>(7,517)</u> | <u>1,929</u> |
| Cash at beginning of period | <u>1,478,843</u> | <u>13,788</u> |
| Cash at end of period | <u>1,471,326</u> | <u>15,717</u> |

Croatian National Bank
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Basis for the Preparation of the Condensed Financial Statements

The Condensed Financial Statements are prepared in accordance with the Act on the Croatian National Bank and the International Accounting Standard (IAS) 34 — Interim Financial Reporting.

The Condensed Financial Statements are prepared in accordance with the same accounting policies, balance sheet principles and evaluation methods for assets, liabilities, equity and reserves, income, expenditures and the financial result as those applied in the preparation of the latest Annual Financial Statements of the Croatian National Bank.

In this reporting period, the Croatian Financial Reporting Standards Committee adopted the Decision on the release of International Financial Reporting Standard 8 — Operating Segments (Official Gazette No. 150 of 6 March 2009). The release of this Standard led to no changes in Croatian National Bank accounting policies and made no impact on the statements either for this or for the previous periods.

The Croatian National Bank engaged neither in seasonal nor in cyclical operations in the reporting period. All the activities were carried out according to the subject and time of realization under the principle of continuity for indefinite time period.

Reporting Currency

The Financial Statements are presented in the national currency of the Republic of Croatia — the kuna. The Financial Statements are presented in thousands of kunas.

Croatian National Bank
Condensed Financial Statements as at 30 June 2009

Interest and Similar Income

| <i>(All amounts are expressed in thousands of kunas)</i> | 1 January – 30 June 2009 | 1 January – 30 June 2008 |
|--|-------------------------------------|-------------------------------------|
| Deposits | 75,241 | 805,941 |
| Trading securities | 285,788 | 323,923 |
| International Monetary Fund | 1 | 32 |
| Loans to domestic banks | 105,311 | 29,090 |
| Other | 371 | 346 |
| | <u>466,712</u> | <u>1,159,332</u> |

The decrease in interest income from the investment of international reserves in deposits and securities in the reporting period compared with the previous period resulted from a decrease in Fed and ECB benchmark interest rates, a drop in total international reserves and a fall in investments in deposits in favour of safer forms of investment less exposed to credit risk.

An Overview of Development in Fed and ECB Benchmark Interest Rates:

| | USD | EUR |
|--------------------------|---------------|--------------|
| 1 January – 30 June 2009 | 0.00% – 0.25% | 2.5% – 1.00% |
| 1 January – 30 June 2008 | 4.25% – 2.00% | 4.00% |

Interest and Similar Expense

| <i>(All amounts are expressed in thousands of kunas)</i> | 1 January – 30 June 2009 | 1 January – 30 June 2008 |
|--|-------------------------------------|-------------------------------------|
| Kuna reserve requirements | 87,252 | 84,658 |
| Foreign currency reserve requirements | 10,842 | 82,957 |
| Compulsory CNB bills in kuna | 326 | 46 |
| Repurchase arrangements | 7,866 | 136,844 |
| Other | 1,149 | 904 |
| | <u>107,435</u> | <u>305,409</u> |

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Operating Expenses

| <i>(All amounts are expressed in thousands of kunas)</i> | 1 January – 30 June 2009 | 1 January – 30 June 2008 |
|--|---------------------------------|---------------------------------|
| Staff costs (Note on staff costs) | 81,154 | 81,800 |
| Materials, services and administrative expenses | 42,212 | 38,963 |
| Costs of production of banknotes and coins in Croatian kunas | 26,298 | 23,701 |
| Depreciation and amortisation | 19,631 | 15,298 |
| | 169,295 | 159,762 |

Staff Costs

| <i>(All amounts are expressed in thousands of kunas)</i> | 1 January – 30 June 2009 | 1 January – 30 June 2008 |
|--|---------------------------------|---------------------------------|
| Net salaries | 34,715 | 34,828 |
| Contributions from and on salaries | 20,188 | 20,498 |
| Taxes and local taxes | 9,541 | 10,657 |
| Other staff costs | 16,710 | 15,817 |
| | 81,154 | 81,800 |

The average number of employees in the 2009 reporting period was 615 (2008: 597).

Decrease in Provisions

| <i>(All amounts are expressed in thousands of kunas)</i> | 1 January – 30 June 2009 | 1 January – 30 June 2008 |
|--|---------------------------------|---------------------------------|
| a) Loans | | |
| Amounts collected | (59,804) | - |
| b) Accrued interest and receivables | | |
| Amounts collected | (7,639) | - |
| c) Provisions for risks and charges | | |
| Provisions released | (2,937) | (5,139) |
| | (70,380) | (5,139) |

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Deposits with Other Banks

| <i>(All amounts are expressed in thousands of kunas)</i> | 30/6/2009 | 31/12/2008 |
|--|-------------------|-------------------|
| Deposits with foreign central banks | 4,460,648 | 4,475,949 |
| Deposits with foreign commercial banks | 9,962,360 | 8,696,933 |
| Deposits with domestic commercial banks | 13,216 | 13,575 |
| | 14,436,224 | 13,186,457 |

The Croatian National Bank manages the international reserves of the Republic of Croatia by investing them into the types of assets specified by the Act on the Croatian National Bank, applying the principles of liquidity and investment safety. The bulk of international reserves consist of debt securities payable in the convertible currency of the debtor, and the second largest category comprises Croatian National Bank deposit balances with foreign banks with high credit rating.

Trading Securities

| <i>(All amounts are expressed in thousands of kunas)</i> | 30/6/2009 | 31/12/2008 |
|--|-------------------|-------------------|
| Securities denominated in EUR | 40,281,316 | 37,839,659 |
| Securities denominated in USD | 10,104,818 | 14,297,220 |
| | 50,386,134 | 52,136,879 |

The nominal value of the above-stated securities at 30 June 2009 was HRK 49,570,145 (31 December 2008: HRK 51,088,116).

Loans

a) By Type of Loan

| <i>(All amounts are expressed in thousands of kunas)</i> | 30/6/2009 | 31/12/2008 |
|--|------------------|-------------------|
| Loans to domestic banks | | |
| – Repo loans | 2,411,960 | - |
| – Intervention loans | - | 59,804 |
| Other loans | 788 | 792 |
| Gross loans | 2,412,748 | 60,596 |
| Less: provisions for loan impairment | (681) | (60,485) |
| | 2,412,067 | 111 |

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Balances with the International Monetary Fund

(All amounts are expressed in thousands of kunas)

| | 30/6/2009 | 31/12/2008 |
|---|------------------|------------------|
| Membership quota | 2,949,494 | 2,899,206 |
| Special Drawing Rights (XDR) and deposits | 4,494 | 5,327 |
| | <u>2,953,988</u> | <u>2,904,533</u> |

Banknotes and Coins in Circulation

(All amounts are expressed in thousands of kunas)

| | 30/6/2009 | 31/12/2008 |
|------------------------------------|-------------------|-------------------|
| Banknotes and coins in circulation | <u>20,369,192</u> | <u>20,479,274</u> |

Due to Banks and Other Financial Institutions

(All amounts are expressed in thousands of kunas)

| | 30/6/2009 | 31/12/2008 |
|--|-------------------|-------------------|
| Kuna reserve requirements | 23,493,433 | 19,222,748 |
| Foreign currency reserve requirements | 4,668,463 | 8,005,097 |
| Other deposits of domestic banks | 11,194,470 | 9,590,210 |
| Foreign banks and other financial institutions | 8,254 | 16,622 |
| Court-mandated deposits | 3,651 | 3,391 |
| Compulsory CNB bills in kuna | 140,377 | 460,604 |
| | <u>39,508,648</u> | <u>37,298,672</u> |

An amendment to the Decision on reserve requirements (of 2 January 2009) provides for the calculation and allocation of banks' reserve requirements by including 75% of the calculated foreign exchange component of reserve requirements into the calculated kuna component of reserve requirements and allocating it in kuna (instead of the previously allocated 50%).

Due to the International Monetary Fund

(All amounts are expressed in thousands of kunas)

| | 30/6/2009 | 31/12/2008 |
|--------------------------------------|------------------|------------------|
| Bills of exchange denominated in HRK | 2,940,835 | 2,890,695 |
| Other IMF's accounts | 7,391 | 7,266 |
| | <u>2,948,226</u> | <u>2,897,961</u> |

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Accrued Interest and Other Liabilities

The accrued interest and other liabilities as at 31 December 2008 included the liabilities related to the allocation of a part of the operating surplus for 2008 (HRK 1,342,495) to the State Budget, with the payment executed on 6 March 2009.

Equity

The equity funds of the Croatian National Bank consist of the initial capital and reserves, including the accumulated operating surplus comprised within the reserves.

Risk Management

The Croatian National Bank manages international reserves of the Republic of Croatia based on the principles of liquidity and safety. The Bank maintains high liquidity of international reserves and appropriate risk exposure and within defined limits aims to realize adequate returns for its investments.

Risks which exist within international reserves management are primarily financial risks such as credit risk, interest rate risk and foreign exchange risk. However, attention is given also to liquidity and operating risk.

Capital Commitments and Off-balance Sheet Items

Capital Commitments: As at 30 June 2009, the Croatian National Bank had capital commitments in the amount of HRK 21,389 (31 December 2008: HRK 27,124).

Off-balance Sheet Items

| <i>(All amounts are expressed in thousands of kunas)</i> | 30/6/2009 | 31/12/2008 |
|--|-------------------|-------------------|
| Non-issued banknotes and coins | 82,748,579 | 85,606,614 |
| Stamp duties and bills of exchange | 309,659 | 406,879 |
| | 83,058,238 | 86,013,493 |