



ANNUAL REPORT 2009

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Report of the Supervisory Board Chairman

On behalf of the Supervisory Board of Podravska banka and myself I would like to present you the Financial Reports for 2009. Last year was affected by a severe crisis, not only globally but also for the Croatian economy. In these circumstances the Bank has remained stable with a very high liquidity and has preserved its position in the domestic banking market.

In spite of the difficult and challenging circumstances, the Bank has managed to achieve very good business results and has earned a pre-tax profit to the amount of more than fifteen million kunas. In 2009, the Bank pursued activities aimed at adjusting to new legal regulations and internal organization, new staff with specialist knowledge was employed, and a new, state-of-the-art branch office was opened in the Commercial Centre Zagreb for the needs of commercial activities, including treasury and investment banking.

Through its prudent risk management, market diversification and raising the quality of services, Podravska banka has strengthened its position in the Croatian banking market. Additional strengthening of its market position, the improvement of internal efficiency and the maximization of customer satisfaction are the most important strategic goals of the Bank in the years to come. The Supervisory Board has, in accordance with its legal responsibilities, performed permanent supervision of the Bank's overall operations in 2009 and has found them to comply with legal regulations, internal by-laws and decisions of the Shareholders' Meeting.

Pursuant to article 263 paragraph 3 and article 300.c of the Companies Act, at its session of 28 April 2010, the Supervisory Board submitted the Report to the Shareholders' Meeting of Podravska banka d.d. In 2009, the Supervisory Board held five regular meetings discussing topics related to the Bank's operations and made decisions within its competence. Twenty-one decisions were made by postal ballot when certain issues had to be promptly decided.

The Supervisory Board meetings are regularly attended by the Management Board members, who report to the Supervisory Board on particular issues within their respective business domains and provide the Supervisory Board with any information needed and requested by it in order to be able to thoroughly discuss all items on the agenda and adopt the necessary decisions thereon.

In accordance with its responsibilities, the Supervisory Board has supervised and examined the Bank's business records and documents and found that Podravska banka d.d. operates in compliance with the law, the Articles of Association and other by-laws of the Bank and the decisions of the Shareholders' Meeting.



The Supervisory Board has examined the reports of the auditor from Deloitte d.o.o. Zagreb, Radnička cesta 80, who reviewed the Bank's financial reports for the year ended on 31 December 2009, and accepts the auditor's report.

After examining the Annual Financial Reports for 2009 submitted to it by the Bank's Management Board, the Supervisory Board has concluded that the Annual Financial Reports of Podravska banka d.d. for the year ended on 31 December 2009 were prepared in accordance with the balance in the Bank's business records and show the correct financial and business standing of the Bank and has thus given its consent to them. These Reports are thus, in accordance with article 300.d of the Companies Act, considered approved. The Supervisory Board has given its consent to the Annual Management Board's Report on the results of Podravska banka d.d. for the year that ended on 31 December 2009.

The Supervisory Board has been submitted the Bank's Management Board's proposal about the use of profits made in the year ended on 31 December 2009. This proposal states that Podravska banka d.d. made a profit amounting to HRK 12,124,294.59 in the year ended on 31 December 2009 and that this profit should be allocated to the Bank's reserves. The Supervisory Board agrees with this proposal of the Bank's Management Board about the use of profits and proposes the Bank's Shareholders' Assembly to approve this decision.

Thanks to their professionalism and commitment, the management and the employees have accomplished the Bank's plan in almost all segments and have proven worthy of our confidence. On behalf of the Supervisory Board of Podravska banka, I wish to thank all our clients and shareholders for the trust placed in us, all the Bank's employees and managers on the accomplished results, and the Croatian National Bank for their cooperation and advice. I also thank my colleagues on the Supervisory Board for their active support and contribution to the Bank's development.



Miljan Todorović
Chairman of the Supervisory Board



Management Report on the Bank's results

It gives me great pleasure to present the business results of Podravska banka d.d. for 2009. Last year recorded a decrease in business activity all over the world. Growth rates of most economies were almost all negative, which was particularly visible in the first part of the year. In the second half of the year, there was an increase in world production and trade, for the mainly due to fiscal and monetary incentives implemented in the leading and most developed economies. The world economic crisis has had a deep impact on the Croatian economy, too. Due to a decline in personal consumption and investment, the Croatian economy recorded a -6.2% fall in the first three quarters of the last year, and the annual real GDP growth is estimated at -5.8%. It is anticipated that the impact of the crisis will continue in 2010, so that no annual growth of real GDP is expected. In spite of the difficult circumstances above described, the Croatian banking sector has remained stable and has thus significantly contributed to protecting the general stability of the economy. Croatian banks have, however, borne a great part of the burden caused by the disrupted macroeconomic environment, leading predominantly to a growth of provision costs and a decrease in the profitability of the banking sector in the last year. Such a macroeconomic environment was bound to have an impact on the business operations of Podravska banka. Podravska banka is a modern and dynamic financial institution of universal type, particularly focused on retail business, small traders and small and medium-sized enterprises. With the size of its assets at the end of 2009, the Bank is placed 11th out of the 32 Croatian banks in total. The Bank serves more than 150,000 clients through its network of 36 branch offices and other distribution channels - 43 ATMs, 13 day-and-night vaults and 858 EFTPOS terminals. The Bank's total assets at the end of 2009 amounted to HRK 2.76 billion, which is a minor decrease against the end of 2008 - 0.97%. Total deposits equalled HRK 2.04 billion, which represents a year-over-year decrease of 5.8%. In the same period, the Bank's lending portfolio amounted to HRK 1.30 billion, HRK 202 million less than at the end of 2008. The Bank has made up for this decrease in its lending portfolio by investing in financial instruments, which equalled HRK 262 million at the end of 2009, i.e. HRK 170 million more than at the end of the preceding year. Capital adequacy ratio at the end of 2009 was 15.9%, in comparison to 14.5% a year earlier. The Bank's core business revenues amount to HRK 139.5 million. Out of operating revenues, 66.8% amount to net interest income, 19.3% to net fee and commission income and 13.9% to net profit from currency trading and other income. In accordance with the dominant "trend" in the banking system, profit from core business recorded a year-over-year decline of HRK 5.2 million, amounting to HRK 26.3 million, while pre-tax profit equalled HRK 15.4 million. In 2009, the Bank maintained a high level of liquidity and operated as creditor in the international market. As for investment banking, in 2009 the Bank aligned its operations with the new legal regulations and obtained the approval for the provision of new services with a view to offering its clients a full range of services in the capital market, in spite of the significant decline in the volume of these operations caused by the 2009 crisis. According to legal regulations, the Bank is required to implement a system to measure and monitor the risks it is exposed to in its business operations. The most significant risks affecting the Bank's operations are credit risk, liquidity risk, market risk and operating risk.



The Bank has defined its risk management through a system of company by-laws, organization and control mechanisms that involve the concentration, validation and assessment of risks and systems of limits, as well as taking risk by individual business areas. The risks management framework has been implemented in accordance with quantitative and qualitative regulatory requirements. The efficiency of risk management is pursued by a continual improvement of processes, methodologies, models, controls and systems. In 2009, the Bank worked intensively on the project of its information system security with a view to its alignment with regulatory requirements on adequate information system management and IT risk assessment. Last year, the Bank acquired 30 own shares by buying them in the official market in accordance with the authorization based on a decision adopted at the Bank's Shareholders' Meeting. As at 31.12.2009 the Bank had a total of 9,023 treasury shares, representing a 1.38% share in the Bank's shareholders' equity. After the elapse of the business year, there have been no major business events that might materially affect the Bank's business operations. The year ahead will also be challenging and difficult, both for the banking sector and the economy as a whole. Market conditions will continue to be hard and the recovery of the Croatian economy will be gradual and slow. In these circumstances it is to be expected that the demand for retail lending will decline, while the demand for loans to enterprises will increase. In this context the Bank will endeavour to avoid highly concentrated placements and allocate short-term liquidity loans with adequate collateral coverage. The Bank will continue to aim at satisfying the needs of its clients and will consequently develop products and services aimed at maintaining a long-term relationship with its clients. For this purpose, the Bank will optimise its branch network, strengthen its position in the region of Zagreb and develop and implement new services such as asset management services of private banking, factoring, forfeiting and other. The Bank will focus its activities on utilizing all its internal potentials, optimizing costs, adjusting to market trends, advancing its business processes and hiring specialist staff that may respond to the new requirements placed by the development of the financial market and the Bank. The most significant investments will relate to introducing new technologies and optimizing the information system, with a view to fully meeting the needs of our clients and ensuring an even higher security level. All the above mentioned activities, in spite of uncertainty and the expected difficulties, are focused on strengthening our market activities and increasing the share of Podravska banka in the Croatian financial market. Finally, I would like to take this opportunity to express my appreciation for my colleagues in the Management Board and all the employees of the Bank for their efforts and commitment in 2009. I also wish to thank, on behalf of the Bank's Management Board, all our shareholders for their support and all our clients and business partners for their trust and cooperation which commit us to continued advancement of the quality of our services, as well as the Croatian National Bank for their expert support and cooperation. I would also like to thank the members of the Supervisory Board for their wholehearted cooperation and support.



Julio Kuruc

Chairman of the Management Board





1.] Description of Business operations

Summary of the Croatian economy in 2009

The year behind us was extremely challenging not only for the global economy but also for the Croatian economy, especially for the financial sector. The first half of the year recorded a year-over-year decline in economic activities of 6.5%. Private spending and capital expenditures decreased in the first three quarters, suggesting a continued low level of domestic demand at the beginning of 2010.

According to some estimates, personal spending declined by 8.5% in 2009, leading to a slow-down in the growth of retail lending. Uncertainty caused by growing unemployment, increase of the VAT rate by 1 percentage point and the introduction of solidarity tax on net income of citizens additionally contributed to the decline in the demand for loans.

At the end of 2009, the registered number of unemployed persons reached 291.5 thousand, which was 21.2% more than at the end of 2008. Retail trade turnover recorded a real decline of more than 15% last year, investment activities fell by almost 12% only in the first three quarters and industrial production declined by 9.2% against the preceding year.

The second half on 2009 saw a slow-down in infrastructural investment, mainly because some large projects were completed, but also because some projects were dropped in order to decrease the fiscal deficit.

Foreign direct investment is estimated at EUR 1.2 billion or 2.7% of GDP. Gross international indebtedness grew by EUR 3 billion, equalling 94.9% of GDP at the end of 2009. The global recession also affected 2009 trade flows, leading to a 19-percent decline in the exports of goods and a 24.8-percent decline in imports.

At the beginning of 2009, the Croatian National Bank increased foreign exchange liquidity of banks by decreasing the FX asset/FX liabilities ratio from 28.5% to 20% and lifting special reserve requirements.

The National Bank also tightened the conditions for HRK liquidity by increasing the share of FX reserve requirements deposited in HRK from 50% to 75%. The reason for this measure was the elimination of depreciation pressures against the HRK that were the strongest in the beginning of the preceding year.



In order to improve HRK liquidity, the Croatian National Bank intervened on the FX market by buying foreign currencies, leading to a significant decline in the interest rate in the money market at the end of the year.

By maintaining restrictive conditions in the interbank market for the major part of 2009, the Croatian National Bank managed to maintain the stability of the HRK/EUR exchange rate, which was 7.34 on average. Low domestic demand combined with the stable exchange rate had an effect on the inflation rate, which equalled 2.4% on the annual level.

Consequences of the economic crisis that affected the real sector were also reflected in banking business indicators in 2009. According to unrevised preliminary data, out of 39 banks/savings banks as many as nine reported operating losses. Pre-tax profit of the banking sector as a whole was one fourth lower than a year earlier.

Provision costs at the same time grew by almost HRK 2.3 billion as a consequence of the growth of the share of problem loans in banks' assets. Problem loans in 2009 almost doubled and at the end of the year amounted to more than 7.6% of the total placements of banks.

Further growth of problem loans is to be expected given the fact that at the end of 2009 delay in repayment was recorded for almost one third of all loans on the level of the Croatian banking sector. In spite of the described negative trends, the high average capital adequacy ratio of the banking system of 15.7% in 2009 is a guarantee of the stability of the banking sector.

Foreign financial institutions continue to hold 90% of the Croatian financial market, which leads to the expectation that competition will be very severe in 2010. Out of 32 banks, 2 savings banks and 5 housing savings banks that operated in the Croatian banking market at the end of 2009, six big banks continue to hold the largest market share (more than 81%), the two leading banks together covering more than 40% of the market.

At the end of 2009, the assets of banks grew by 3% against the year before, which represents the lowest growth rate in the last ten years.



Total deposits in banks stagnated, while loans grew by 2%, mostly due to the increase in government borrowing in the domestic banking market. Retail loans fell by 3% against the end of 2008, while corporate loans grew by only 2%.

Deposits of citizens increased by 4%, of which only foreign exchange deposits recorded a growth while HRK deposits declined, which is a consequence of the HRK weakening during the year. Corporate deposits saw a year-over-year fall of 9% as a consequence of deterioration of the real sector liquidity.



In 2009, the following macroeconomic indicators were recorded:

	Value
Gross domestic product, growth rate, % of year-over-year change	-5.8
Industrial production, growth rate, % of year-over-year change	-9.2
Consumer prices, % of year-over-year change	2.4
Producer prices, % of year-over-year change	-0.4
Trade balance (USD billion)	-10.73
Exports of goods, USD billion	10.5
Imports of goods, USD billion	21.2
Foreign debt of the Republic of Croatia, EUR billion	43.1
Average net salary in HRK	5,311
Unemployment rate,%	14,9
No. of unemployed persons, Croatian Employment Service	291,545
HRK/USD exchange rate, average	5.28
HRK/EUR exchange rate, average	7.34

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Source: Central Bureau of Statistics, Croatian National Bank, Ministry of Finance



SUMMARY OF BUSINESS OPERATIONS

Products and services

Being focused on the requirements and needs of its clients, the Bank has continuously worked on advancing its existing offer and the development of new products and services, making efforts to always achieve and maintain quality and competitiveness in the market. In 2009, the Bank expanded its standard offer of savings products by occasional campaigns aimed at stimulating time savings of citizens and businesses. Various types of cash loans earmarked for both citizens and businesses have been adjusted to the targeted client groups. In this respect efforts were always made to meet the expectations of the existing clients and to win over new clients, at the same time ensuring risk minimization and increasing the security of placements. Special offers of housing loans targeting particular client segments have been created. During 2009, the existing offer of loans against pledged securities was adjusted to the new market conditions.

The Bank services corporate clients with a wide range of short-term loans for financing production, ensuring liquidity and collection of receivables. Long-term investments are financed predominantly through the participation in programmes supported by regional administrations, various ministries, Croatian Agency for SMEs (HAMAG), Development and Employment Fund (FRZ) and the Croatian Bank for Reconstruction and Development (HBOR).

Holders of debit and credit cards get occasional special offers related to the use of Maestro, MasterCard and Visa cards and EFTPOS terminals. In order to simplify and improve the use of Internet banking for our clients, the POBAklik service has been upgraded with new features. Within its treasury operations in 2009, the Bank offered businesses the possibility to contract various currency dealing transactions and use derivative instruments of foreign exchange risk hedging. The Bank is also active in the field of bankassurance. A range of combined products have been developed with partner insurance companies and are sold through the Bank's retail network.

Deposit operations

In 2009, a growth in retail deposits was recorded, primarily of time deposits, which grew by HRK 57 million or 4.3% against the end of 2008. Retail time deposits denominated in foreign currency increased by HRK 126 million, which is a year-over-year growth of 14.4%.



The growth of retail deposits is a result of the expansion of our retail network and the increase in the number of clients who have placed confidence in Podravska banka. On the other hand, due to the general economic situation which has had a great negative impact on the liquidity of business entities, corporate deposits declined by HRK 156 million, contributing to a 5.8-percent fall in total deposits of clients. As at 31.12.2009, total deposits of the Bank's clients amounted to as much as HRK 2.09 billion. The structure of deposits changed compared to 2008: retail deposits accounted for as much as 83% and corporate deposits for 17% of the total client deposits. A year earlier, this ratio was 77% to 23%. The predominant share of citizens in the total client deposits helps avoid the concentration of deposits and ensures stable sources of assets for the Bank's operations. In terms of maturity, time deposits of clients account for a significant 76% of total deposits. As for currency structure, HRK deposits make 40% and deposits in foreign currencies, mostly EUR, 60% of deposits. The share of client deposits in the total sources equals 74%.

Total deposits - amounts in HRK 000	CHANGES		
	31.12.2009	31.12.2008	2009/08
Retail	1,696,366	1,666,649	1.8%
Total deposits	2,043,071	2,169,842	-5.8%

Time deposits - amounts in HRK 000	CHANGES		
	31.12.2009	31.12.2008	2009/08
Retail	1,381,042	1,323,781	4.3%
Total time deposits	1,555,431	1,556,245	-0.1%

Lending operations

The Bank is strategically focused on lending to individuals, small traders and SMEs, thus ensuring a satisfactory level of credit risk dispersion. Like in the preceding years, lending operations of Podravska banka were primarily focused on individuals, particularly on general-purpose loans (cash credits, credit lines and other credits), and on short-term lending to enterprises, which has a special place in the Bank's strategy.

The Bank attaches particular importance to cooperation with business entities, for which it provides a full range of banking and financial services, endeavouring to gain the status of a stable and reliable long-term partner.

The year 2009 saw a general economic crisis, lack of liquidity and a steady growth in unemployment. The first part of the year witnessed a particularly severe problem of the lack of corporate liquidity. At the same time, due to the growth of outstanding claims, banks strongly tightened their lending criteria, leading to a significant growth in interest rates and forcing companies to use their last liquidity reserves. In 2009, the Bank focused on the lending security, with a high concentration in its own clients. The year 2009 was characterized by the Bank's efforts to concentrate primarily on clients with a positive business future and to consolidate its lending portfolio.

In order to hedge against credit risk, the Bank strives to avoid highly concentrated placements and focus on short-term liquid placements with adequate decrease in maturity and strengthening of collateral coverage. Given this objective and due to adjusting to new circumstances, gross credits to clients in 2009 amounted to HRK 1.44 billion. Corporate loans recorded a fall of 5.6% and retail loans a fall of 18%. At the end of 2009, corporate HRK placements amounted to HRK 646.9 million, against HRK 685.8 million in 2008. At the same time, the Bank recorded a yoy growth of FX placements from HRK 130.3 million to HRK 296.3 million.

The industry structure of lending portfolio somewhat changed against the preceding period: the share of trade decreased and amounted to 9.1%, while other industries individually accounted for less than 5%.

In 2009, the Bank continued its cooperation with the Ministry of Economy, Labour and Entrepreneurship and local government and self-government units on financing SME development programmes and farms. The Bank thus contributes to the development of SME economic activities in manufacturing and service industries and greatly increases the number of clients using the full range of the Bank's financial services. For years the Bank has been cooperating with the Croatian Bank for Reconstruction and Development on implementing a dozen of specialized financing programmes.

Using very favourable lending conditions, the Bank provides its clients with sources of funds for entrepreneurial projects, exports of goods and services, self-employment and financial restructuring.



Treasury operations

Loans in HRK 000	CHANGES		
	2009	2008	2009/08
Total gross loans	1,438,719	1,634,792	-12.0%
Total reserves on loans	133,642	127,411	4.9%
Total net loans	1,305,077	1,507,381	-13.4%

The year 2009 saw the continuation and upsurge of the global financial crisis, both in the world and in Croatia, which greatly affected the real sector firstly and then the Croatian financial and banking market.

The year was characterized by high volatility in exchange rates and above all by significant amplitudes in the movement of short-term interbank interest rates. In the first quarter of 2009, with interbank interest rates reaching levels above 40%, the liquidity crisis culminated. Adhering to the liquidity and security principle the Treasury Division ensured a very high primary and secondary liquidity of the Bank throughout 2009, which enabled uninterrupted operations of the Bank in all segments. Besides, at the beginning of the financial crisis and throughout 2009 the Bank was recognized as one of the most liquid banks in the Croatian market, where it constantly operated as the bidding participant in domestic and international money markets. Interest on maturities up to one month stabilized in the second part of the year at levels up to 10.00%, gradually decreasing towards the year end and with usual oscillations related to periods of meeting reserve requirements.

Beside the growth in lending interest rates, fierce competition of banks in attracting deposits affected a strong growth of the rate interest payable in the domestic money market.

Given the extremely attractive rates of interest payable during the year and the crisis in the Croatian capital market, the majority of individuals and legal entities with excess liquidity decided to channel their funds into short-term HRK and FX deposits. This was greatly facilitated by the new legislation from late 2008 increasing the limit for government insurance of deposits from HRK 100,000 to HRK 400,000. Consequently, throughout the year, the Bank pursued an adequately designed special offer of interest payable aimed at attracting new savings.



Unlike the domestic market, international financial market interest rates constantly decreased and stabilized at the end of the year at a level below 0.50% for maturities below one month.

Podravska banka actively participated in financing pension disbursements and the purchase of treasury bills at rates from 7.35% to 7.80% for EUR and from 5.50% to 6.00% for HRK, depending on maturity and the time of issue.

After the interest rates in the interbank market started decreasing at the year end, the Bank began to channel its free funds into domestic and international government and corporate debt securities by purchases in the open market and participating in primary auctions.

Moreover, early 2009 saw the continued growth of the EUR/HRK rate that started in December 2008. Culmination of HRK depreciation and an extremely high EUR/HRK rate above 7.500 was recorded at the end of February. After the subsequent longer period of HRK appreciation when EUR/HRK rate fell to 7.2 kunas for a euro, the last two months of the last year recorded a recovery of the EUR/HRK rate and its growth above 7.300 at the end of December.

Last year's movements of the USD/HRK rate showed a higher volatility than the EUR/HRK rate, but also some similarity. The downward trend of the USD/HRK rate was closely correlated to the growth of the EUR/HRK rate in the international FX market. The last two months recorded a strengthening and recovery of the dollar, levelling off at 5.09 kunas for a dollar at the end of December.

The Treasury Division has successfully complied with all regulatory rules of the Croatian National Bank and the Bank's internal rules. The Bank optimally managed currency and interest rate risks and adequately managed the maturity and currency structure of its assets and liabilities.

Throughout the period, the Treasury provided a high-quality service for the needs of legal entities and individuals with foreign currency cash and FX. In 2009, more than EUR 110 million were traded and the total net income on accrued exchange differences and FX dealing for 2009 increased by 5.23% against 2008 and equalled more than HRK 11 million.



Investment banking

After the turbulent 2008 when regular share transactions on the Zagreb Stock Exchange amounted to HRK 16.8 billion with a fall of the CROBEX share index of as much as 67%, in 2009 regular share transactions fell by more than one half. Turnover was only HRK 7.4 billion, with a growth of the CROBEX index of 16.4% against 2008. Abrupt rises and falls in prices in 2009 were most visible in the difference between the lowest and the highest CROBEX of almost 90% (it moved between 1,079 and 2,318 points).

A noticeable feature of the Croatian capital market in 2009 was also a concentration of liquidity in a very small number of shares, which is best shown in the fact that the turnover of the four most traded shares was cumulatively higher than for all other listed shares combined.

Since 2009 was an extremely difficult year for all capital market participants, it recorded a significant decrease in the Bank's investment banking operations. The total turnover through the trading system of the Zagreb Stock Exchange was HRK 98,736,053.00, representing a 0.62-percent share in the total ZSE turnover.

This is largely a consequence of a decrease in placements against pledged securities and a significant decrease in client investment activities on the capital market.

Besides the service related to investment in the Croatian capital market, the Bank offers its clients mediation in trading in the Montenegrin capital market.

In 2009, custody operations the Bank recorded a certain stabilization trend as a consequence of a partial stabilization of the capital market. As at 31.12.2009 the Bank provided custody of a securities portfolio worth HRK 118.4 million.

Payments

The slowdown of the global economy, the overall economic environment in the Republic of Croatia and the fall of consumer purchasing power have confirmed that in 2009 security, reliability and availability of a bank are the most important elements in providing payment services. The speed and cost of payments are particularly important to clients. In 2009, the Bank ensured excellent daily liquidity, competitive prices for payment services and professional, technical and technological support in rendering services. Clients have recognized this, and the number of transaction accounts of legal entities opened increased by 3% against 2008.



Retail network and distribution channels

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Data on the increase in the number of internet banking users is even more representative: growing by 11% for legal entities and 13% for individuals. As for FX payments, a 14-percent growth in the number of newly opened accounts of individuals against last year was recorded. The number of accounts of non-resident individuals grew by 31%.

A significant increase in the transactions of non-resident legal entities and a 15-percent increase in the segment of letter of credit operations were recorded.

In late 2009, the Bank launched processes aimed at a further technical and technological upgrade of payment services. The existing business cooperation with international financial services has been additionally improved thanks to the use of modern web-based technology.

The Bank's retail network consisted of 36 branch offices at the end of 2009. Besides through its wide retail network, the Bank is accessible to its clients through other distribution channels - ATMs, day-and-night vaults and EFTPOS terminals. All ATMs are equipped with a chip technology protecting clients against misuse and theft of card data.

At the end of 2009, the Bank had 858 EFTPOS terminals installed. In 2009, the number of transactions through the Bank's EFTPOS terminals grew by 1.3% against 2008. The number of users of internet banking (POBAklik service) and POBASms service increased by 5%. The number of orders effected through POBAklik internet banking in 2009 grew by 3.6% against a year earlier.

Users of Podravska banka services can access business information through the Information Centre, which records a steadily increasing number of calls.

Particular attention is given to retail network management and the design and equipment of branch offices, with a view to offering the best quality service to our clients. Podravska banka will continue to make efforts to be as close as possible to its clients - either through its branch offices, internet, ATMs or telephone. In 2009, a new modern and functional Commercial Centre in Zagreb - Nova galerija was opened.

Treasury operations with investment banking and a part of central bank services were moved and a new branch office was opened there.

Organization and staff

Podravska banka had 313 employees on 31.12.2009, 4% less than on 31.12.2008. Out of this number, 65% work directly with clients (front office). The average age of the Bank's employees is 40.

The Bank adjusted its organizational structure to its business development and introduced some organizational changes aimed at increasing efficiency and achieving the best utilization of technical and human resources.

Ongoing training and upgrading of staff skills is a primary goal of the Bank. In 2009, almost two thirds of the employees attended in-house and external training courses in various areas relevant for the Bank's business.

At the same time, the Bank hired young, skilled people who will contribute quality to the Bank's development. Since human capital represents the main competitive advantage, Podravska banka attaches special importance to motivating and rewarding its employees and developing their competences.

Capital

The Bank's capital without profit earned in 2009 equalled HRK 351.5 million. In relation to the year earlier capital increased by 6.4% based on allocating the profit made in 2008 to the Bank's reserves.

The Bank's guarantee capital was increased from HRK 332.0 million at the end of 2008 to HRK 336.8 million at the end of 2009, leading to the rise of the Bank's capital adequacy from 14.5% to 15.95%.

On 31.12.2009 the nominal value of share capital amounted to HRK 267.5 million. Share capital consists of 668.749 ordinary registered shares, each at a nominal value of HRK 400.00.

Foreign persons own 87% of equity capital, while the remaining capital is owned by domestic legal and natural persons.

Profit and loss account

The Bank made a pre-tax profit of HRK 15.4 million and a net profit of HRK 12.1 million in 2009.

In line with the tendency in the Croatian banking market, a decrease in lending activities and a significant decline in trading for the account of clients on the capital market, income from core business recorded a fall of 9.1% and equalled HRK 139.5 million.



Interest income against last year decreased by 1.3% and amounted to HRK 178.1 million, due to decreased lending activity. Net interest income accounted for 66.8% of core business income, while the share of other income was 33.2%.

Core business costs including amortization amounted to HRK 124.1 million, 4.2% lower. The decrease in costs is a result of cutting administration costs.

Assessment of credit risks and allocation of reserves for problem loans and contingent liabilities are based on the prudence principle and the application of current regulations. On this basis, the Bank allocated HRK 11.0 million for depreciation in value and provisions in 2009.

Use of profit

The Bank's Management Board proposes to the Supervisory Board to make a joint proposal to the Shareholders' Assembly to allocate the total profits made in 2009 to the Bank's reserves.



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THE MANAGEMENT AND THE GOVERNANCE ORGANIZATION

Declaration on the application of the Croatian Corporate Governance Code

In accordance with the rules of the Zagreb Stock Exchange, the Management and the Supervisory Boards of Podravska banka d.d. hereby declare that Podravska banka d.d. is applying the Croatian Corporate Governance Code drafted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange. An integral part of this Declaration is the completed Annual Questionnaire for 2009 containing the answers to the questions and necessary explanations. Data on the implementation of internal supervision and risk management and the data on the holders of the Bank's shares are contained in the Notes to the financial statements.

Rules on the appointment and revocation of the Management Board members are defined in the Bank's Articles of Association. The number of the Bank's Management Board members is defined by the Supervisory Board. According to its decision the Management Board has three members. In its decision the Supervisory Board determines candidates for the members and the chairman of the Bank's Management Board who have to meet the requirements set by the law regulating banking operations and by other relevant regulations.

After obtaining consent from the Croatian National Bank, the Supervisory Board appoints the chairman and the members of the Management Board to a term up to five years with the possibility of reappointment. The Supervisory Board may revoke its decision on the appointment of the chairman or a member of the Management Board if there is a material reason for this under current legislation.

Authorities of the Bank's Management Board are defined in the Bank's Articles of Association. Distribution of competences among the individual Management Board members is defined by a separate decision. With a decision of the Bank's Shareholders' Meeting the Management Board was authorized to acquire own shares on the organized securities market until 3 July 2009. The Bank's Management Board has not been authorized to issue new shares of the Bank.

Data on the composition and activities of the Bank's Management and Supervisory Boards is given in the attached Annual Questionnaire.

Rules on amending the Bank's Articles of Association are defined in the Articles themselves. A decision on amending the Articles of Association is adopted at the Bank's Shareholders' Meeting in accordance with legislation and the Articles of Association, by votes representing at least three fourths of the share capital represented on the Shareholders' Meeting when passing the decision. Amendments to the Articles of Association are proposed by the Supervisory Board, the Management Board or the Bank's shareholders.

In order to protect the interests of all investors, shareholders, clients, employees and other stakeholders, the Bank has implemented high standards of corporate governance.







2.] Corporate governance code Annual questionnaire

All questions contained in this questionnaire relate to the period of one year which the annual financial statements also relate to.

1. Does the Company have its web pages on the Internet?

If yes, on which address?

YES, at www.poba.hr

If not, why?

2. Are the semi-annual, annual and quarterly reports made available to the shareholders?

at the Company's headquarters (If not, why?)

YES

on the Company's web pages on the Internet (If not, why?)

YES

in the English language (If not, why?)

YES

3. Has the Company prepared the calendar of important events? (If not, why?)

NO, but the Bank announces major events on its web pages

If yes,

has the calendar of important events been published on the Company's web pages on the Internet? (If not, why?)

has the calendar of important events been orderly and timely updated? (If not, why?)

4. Does the Company announce the list of its shareholders and update it at least twice a month? (If not, why?)

YES

5. Is the Company in a relationship of cross-ownership of shares with any other company or companies? If yes,

NO

with which companies?

is the data on cross-ownership publicly announced and how?

(If not, why?)

6. Does the Company announce in its annual report the data on securities issued by the Company which are owned by members of the Supervisory Board or the Management Board? (If not, why?)

YES

7. Does the Company publish on its web pages on the Internet the data on securities issued by the Company which are owned by members of the Supervisory Board or the Management Board, and is this data regularly (within 48 hours) updated? (If not, why?)

NO, any changes are published through the Zagreb Stock Exchange in accordance with the legally prescribed content and within the legally prescribed time limit.

8. Does the Company determine and publicly announce the risk factors? (If not, why?)

YES, they are published in the annual audited report

9. Has the Company established mechanisms to ensure: that persons who control or come into contact with privileged information understand the nature and importance of this information and restrictions with regard to it? (If not, why?)

YES

the supervision over the flow of privileged information and any misuse thereof (If not, why?)

YES

10. Is every share of the Company entitled to one vote?

YES

If not,

have all relevant disclosures pertaining to non-voting shares been publicly and timely released? (If not, why?)

how are these explanations released?

11. Have the candidacies of all candidates for membership on the Supervisory Board being elected at the Shareholders' Meeting or being appointed, including their CVs, been announced on the Company's web pages on the Internet? (If not, why?)

NO, the Bank publicly announces the Shareholders' Meeting together with the proposed agenda and draft decisions not containing CVs, thanks to the stable ownership structure of the Bank and very rare changes to the membership of the Supervisory Board.

12. Does the Company treat all shareholders in the same way? (If not, why?)

YES

13. Has the Company issued new shares?

NO



If yes,

has a participation in the increase of the Company's share capital been made possible to all shareholders, in proportion to their shares in the up-to-then share capital of the Company, this participation being in form of transferable shares with pre-emption right, in order to protect the interests of shareholders who at the time of issuance may not register and purchase new shares? (If not, why?)

was the intention of new share issuance publicly announced at least 10 days prior to the date determined as the date for establishing the status in the register of shares which will be relevant for determining which shareholders are entitled to pre-emption right in regard to the purchase of newly issued shares? (If not, why?)

14. Has the Company acquired or released new shares (treasury shares)?

YES

If yes, has this acquisition or release been performed in the open market? (If not, why?)

YES

in a manner not giving any privileges to any single shareholders or investors or groups of shareholders and/or investors? (If not, why?)

YES

15. Has the issuance of powers of attorney for voting at the Shareholders' Meeting been simplified to the greatest possible extent not involving any strict formal requirements? (If not, why?)

YES

16. Has the Company provided for shareholders, who due to whatever reason are not in a position to personally vote at the Shareholders' Meeting, without additional expenses, proxies who are obliged to vote in compliance with the instructions of such shareholders'? (If not, why?)

NO, there has been no such request by shareholders

17. Has the Management Board of the Company, when convening the Shareholders' Meeting, set the date according to which the status in the register of shares will be established which will be relevant for determining the exercise of voting rights at the Company Shareholders' Meeting in such manner that such date will precede the Meeting and may not be more than 7 days before the Meeting? (If not, why?)

YES

18. Does the decision on dividend or dividend advance disbursement include the date on which the person being the shareholder becomes entitled to dividend disbursement and the date or period when the dividends will be disbursed? (If not, why?)

NO, no dividends have been disbursed. Net profit has been retained in the Bank's reserves.

19. Does the date on which the person being the shareholder becomes entitled to dividend or dividend advance disbursement fall at least 10 days after the date of passing the decision? (If not, why?)

please see the answer to question 18

20. Does the date of dividend or dividend advance disbursement fall at least 12 and not more than 30 days after the date of passing the decision? (If not, why?)

please see the answer to question 18

21. Did the period of dividend or dividend advance disbursement last more than 10 days? (If yes, why?)

please see the answer to question 18

27



22. Were any shareholders favoured at dividend or dividend advance disbursement? (If yes, why?)

please see the answer to question 18

23. Was the decision on the dividend or dividend advance disbursement which determined the aforementioned dates announced and submitted to the stock exchange no more than 2 days after it was passed?

please see the answer to question 18

24. Have the agenda of the Shareholders' Meeting and all relevant data and documents with explanations referring to the agenda been published on the Company's web pages on the Internet and been placed at the disposal of the shareholders on the Company's premises from the date of the first public announcement of the agenda? (If not, why?)

YES

25. Have the agenda of the Shareholders' Meeting and the relevant data and documents been published on the Company's web pages on the Internet also in the English language? (If not, why?)

NO, the English pages are under construction



26. Have the conditions been set for the participation in the Shareholders' Meeting and the exercise of voting rights (regardless of whether permitted by law or the Articles of Association) such as, for example, advance registration of participation, certification of powers of attorney and similar? (If yes, why?)

YES, participation and exercise of voting right at the Shareholders' Meeting are to be registered by the deadline defined in the Articles of Association

27. Does the report to be submitted by the Supervisory Board to the Shareholders' Meeting include, apart from the content of the report defined by law, an evaluation of the overall business efficiency of the Company and the activities of the Management Board, and a special review of the Supervisory Board's cooperation with the Management Board? (If not, why?)

YES

28. Are the shareholders given the opportunity to participate and especially to vote at the Shareholders' Meeting by use of modern communication technology devices? (If not, why?)

NO, there have been no such requests by shareholders

29. Has the Management Board of the Company published the decisions of the Shareholders' Meeting, as well as the data of any action for the annulment of these decisions? (If not, why?)

YES, no decisions have been contested

30. Has the Supervisory Board adopted a decision on the master plan of its activities including the list of regular meetings and the data to be regularly and timely placed at the disposal of the Supervisory Board members? (If not, why?)

YES

31. Has the Supervisory Board adopted its internal rules of procedure? (If not, why?)

YES

32. Specify the names of the Supervisory Board's members.

Miljan Todorovic, Chairman

Sigilfredo Montinari, Deputy Chairman

Maurizio Dallochio, Member

Filippo Disertori, Member

Dario Montinari, Member

Djuro Predovic, Member

Dolly Predovic, Member

33. Specify for each Supervisory Board member in what other companies he/she is on the supervisory or the management boards. Indicate if any of such companies are considered to be the Company's competitors.

Miljan Todorovic, Director of Cerere S.p.A. Trieste, Sigilfredo Montinari, Chairman of the Board of Directors of Hipotekarna banka a.d. Podgorica

34. Is the Supervisory Board of the Company mostly composed of independent members? (If not, why?)


NO, the majority of the Supervisory Board members are shareholders of the Company

35. Which members of the Supervisory Board are independent?

Maurizio Dallochio and Filippo Disertori

36. Is there a long-term succession plan for the Company? (If not, why?)

YES

37. Has the reward or the remuneration received by the Supervisory Board members been entirely or partly determined based on their contribution to the efficiency of the Company? (If not, why?) 29 

NO, it has been defined by a decision of the Shareholders' Meeting

38. Is the remuneration to the Supervisory Board members: determined by a decision of the Shareholders' Meeting:

YES

determined in the Articles of Association of the Company
determined in some other way (if yes, in what way?)

39. Has detailed data on all remunerations and other income of each individual member of the Supervisory Board received from the Company or from any person related with the Company, including the structure of such remuneration, been published? (If not, why?) (If yes, where?)

YES, in the audited annual report

40. Does every member of the Supervisory Board inform the Company on all changes with regard to his/her ownership of the Company shares not later than on the business day following the occurrence of such change? (If not, why?)

YES

41. Specify any transactions in which the participant on one side were any members of the Supervisory Board or any person related with them and the participant on the other side the Company or any person related to it.

Regular banking transactions performed under commercial conditions

42. Have all transactions in which the participants were any members of the Supervisory Board or any person related with them and the Company or any person related to it:

been concluded on the market basis (especially with regard to terms, interests, guarantees and similar)? (If not, why and which?)

YES

clearly stated in the Company's reports (If not, why and which?)

YES

confirmed by an independent assessment by experts being independent in relation to the participants of the relevant transaction? (If not, why and which?)

YES

43. Are there any contracts and agreements between any Supervisory Board member and the Company?

YES

If yes,

had they been approved by the Supervisory Board? (If not, why?)

YES

have the essential elements of all such contracts and agreements been included in the annual report? (If not, why?)

NO, these were regular commercial transactions to which standard conditions apply

44. Has the Supervisory Board established an appointment committee? (If not, why?)

YES

If yes,

has the committee evaluated the composition, size, membership and quality of work of the Supervisory and the Management Boards and drafted appropriate recommendations to the Supervisory Board? (If not, why?)

has the committee made an evaluation of the knowledge, skills and experience of the individual Supervisory Board members and informed the Supervisory Board thereof? (If not, why?)

has the committee analyzed problems related to planning the Supervisory and the Management Boards' continuity? (If not, why?)



has the committee analyzed the Management Board's policy in regard to hiring senior management staff? (If not, why?)

45. Has the Supervisory Board established a remuneration committee?

NO

If yes,

is the majority of members of the committee from among the independent members of the Supervisory Board? (If not, why?)

Has the committee proposed to the Supervisory Board the policy of the Management Board remuneration which has to relate to all types of remuneration, and in particular to the fixed part of remuneration, the variable part of remuneration dependent on business efficiency, retirement plan and severance pay? (If not, why?)

with regard to the variable part of remuneration dependent on business efficiency, did the committee's proposal include any recommendations in regard to determining objective criteria of efficiency assessment? (If not, why?)

has the committee proposed to the Supervisory Board any remuneration for an individual Management Board member in compliance with the Company's remuneration policy and the assessment of his/her performance? (If not, why?)

has the committee proposed to the Supervisory Board an appropriate form and content of a contract with the Management Board members? (If not, why?)

has the committee monitored the amount and the structure of remuneration to the senior management and given general recommendations to the Management Board with regard to it? (If not, why?)

has the committee, with regard to the incentive part of remuneration to the Management Board, in case it is composed of options on shares or other arrangements based on the acquisition of shares, analyzed the general policy of such type of remuneration and suggested to the Supervisory Board appropriate solutions, and considered data being published about it in the annual report, prior to announcement?

46. Has the Supervisory Board established an audit committee? (If not, why?)

YES, the Audit Committee

If yes,

is the majority of the committee members from among the independent members of the Supervisory Board? (If not, why?)

NO, its composition corresponds to the composition of the Supervisory Board



has the committee monitored the integrity of the Company's financial information and in particular the correctness and consistency of the accounting methods used by the Company and the Group of which it is a member, including the criteria for the consolidation of financial reports of the member companies? (If not, why?)

YES

has the committee evaluated the quality of the internal control and risk management systems with a view to appropriately identifying and publicly reporting the main risks to which the Company has been exposed (including risks related to compliance) and to managing them in the appropriate way? (If not, why?)

YES

has the committee worked on ensuring the effectiveness of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and replacement of the head of the internal audit department and with regard to the resources at his/her disposal, and by assessing his/her actions in regard to findings and recommendations of the internal audit? (If not why?)

YES

If there is no internal audit function within the Company, has the committee assessed the need for establishing such a function? (If not, why?)

The internal audit has been established in the Bank

Has the committee given to the Supervisory Board recommendations with regard to the election, appointment, reappointment and replacement of an external auditor and the terms and conditions of his/her engagement? (If not, why?)

YES

Has the committee supervised the independency and objectiveness of the external auditor, in particular with regard to rotations of certified auditors within the auditing firm and the fees the Company is paying for the external audit services? (If not, why?)

YES

Has the committee monitored the nature and the quality of services which are not part of the audit but the Company receives them from the auditing firm or persons related to it? (If not, why?)

YES

Has the committee prepared rules on the services that may not be rendered to the Company by the external auditing firm and persons related to it, the services that may be rendered by them only with the committee's prior consent and those that may be rendered by them without the committee's prior consent? (If not, why?)

NO, procedures are in accordance with valid legal regulations

Has the committee analyzed the effectiveness of external audit and actions taken by the senior management staff with regard to recommendations made by the external auditor? (If not, why?)

YES

Has the committee examined the circumstances related to the replacement of the external auditor and given appropriate recommendations to the Supervisory Board (if the external auditor has been replaced)? (If not, why?)

NO, no such case has occurred

Has the committee an open and unlimited communication with the Management and the Supervisory Boards? (If not, why?)

YES

To whom is the committee accountable for its work?

To the Supervisory Board

Has the committee an open and unlimited communication with the internal and external auditors? (If not, why?)

YES

Has the Management Board submitted to the audit committee: timely and periodical financial statements and related documents prior to public announcement of this data (If not, why?);

YES

data on changes in accounting principles and criteria (If not, why?);

YES

accounting procedures accepted for the majority of actions (If not, why?);

YES

any significant deviations between the book and the real values per single item (If not, why?);

NO, there have been no such deviations

all correspondence with the internal audit department or independent auditors (If not, why?)

YES



Has the Management Board informed the audit committee on methods used for posting significant and unusual transactions and business events when the bookkeeping presentation of such events may be approached in different ways? (If not, why?)

YES

Has the audit committee discussed with the independent auditor any issues related to:

replacement or retaining of the accounting policies and criteria, (If not, why?)

YES

application of regulations, (If not, why?)

YES

important estimates and conclusions in preparing financial reports (If not, why?)

YES

methods of risk assessment and results (If not, why?)

YES

highly risky areas of activities (If not, why?)

YES

major faults and significant deficiencies observed in internal control (If not, why?)

YES

impact of external factors (economic, legal and industrial) on financial statements and audit procedures (If not, why?)

YES

Has the audit committee ensured the supply of high-quality information by subsidiary and related companies and third persons (such as expert advisors)? (If not, why?)

YES

47. Has documentation relevant for the work of the Supervisory Board been submitted to all members on time? (If not, why?)

YES

48. Have all decisions made at the Supervisory Board's meetings been recorded in the minutes together with the voting results, with an indication of how each member voted? (If not, why?)

YES

49. Has the Supervisory Board prepared an evaluation of its work in the past period including an evaluation of each member's contributions and competence and the Supervisory Board's work as a whole, an evaluation of the work of committees established by the Supervisory Board and an evaluation of the achievement of the Company's goals against the plan?

YES

50. Specify the names of the Management Board members.

Julio Kuruc, chairman, Marijan Marušić and Davorka Jakir, members

51. Are there any rules for the Management Board's work defining issues related to: scope of activities and objectives,

YES

rules of procedure,

YES

rules for solving conflict of interest,

YES

secretariat of the Management Board

YES

holding meetings, enactment of decisions, agenda, keeping the minutes and their contents and the submission of documents

YES

cooperation with the Supervisory Board (If not, why?)

YES

52. Has the Company published a statement of the policy of the Management Board and the Supervisory Board remuneration as part of the annual statement? (If not, why?)

NO, although there is no formal statement of the policy of the Management Board and the Supervisory Board remuneration, the Bank publishes data aggregated with the data of related parties, as well as data on the accrued and recognized amount of remuneration for the Bank's management within the annual report prepared in accordance with IFRS and published on the Bank's internet page

53. If there is one, does the Remuneration Policy Statement include the following: significant changes in relation to the remuneration policy against the preceding year (If not, why?)

an explanation of the relative share and significance of the fixed and variable parts of remuneration (If not, why?)



sufficient information on efficiency criteria the fulfilment of which entitles to the acquisition of options on shares, shares or other form of variable portion of remuneration (If not, why?)

sufficient information on the relationship between the amount of remuneration and efficiency (If not, why?)

basic ratios and reasons for the distribution of annual bonuses or privileges which are not cash (If not, why?)

summary review of contracts with the Management Board members which has to include the data on contract duration, notice periods and, in particular, severance pays. Any form of remuneration for the Management Board and the Supervisory Board members which includes options on shares and other rights to the acquisition of shares or remuneration based on the price of the Company's shares must be approved by the Shareholders' Meeting in order to become effective. This approval relates to remuneration principles and not to the remuneration of single members of the Management or the Supervisory Boards (If not, why?)

54. Is the statement of the Management Board remuneration policy been constantly available on the Internet on the Company's web pages? (If not, why?)
55. Is detailed data on all income and remunerations received from the Company by each member of the Management Board publicly announced in the Company's annual report? (If not, why?)
56. Are all forms of remunerations to the Management Board and the Supervisory Board members, including options and other benefits of the Management Board, publicly announced by detailed single items and persons in the Company's annual report? (If not, why?)
57. Does the Statement on remunerations to the Management Board members include the following elements with regard to each member of the Management Board who filled this post in the year to which the statement relates:
- the total amount of the salary, regardless of whether it has actually been paid out or not (If not, why?)
 - remunerations or benefits received from related companies (If not, why?)
 - remunerations in the form of a share in profit or bonuses and the reasons for their disbursement (If not, why?)
 - any other additional remunerations paid out to the Management Board members for the activities they performed for the Company outside the usual scope of activities of Management Board members (If not, why?)

compensation which has been or has to be paid out to a former member of the Management Board with regard to the termination of his/her function during the year to which the statement relates (If not, why?)

the total estimated value of non-cash benefits which are considered remuneration but are not listed under the above items (If not, why?)

with regard to remuneration in shares or options on shares or other forms of remuneration based on the acquisition of shares: number of options or shares approved by the Company within the year to which the Statement relates and the conditions for the exercise thereof (If not, why?)

number of options exercised in the year to which the Statement relates, and for each of them the number of shares and the price at which it was exercised or the value of shares distributed to the Management Board members at the end of the year (If not, why?)

number of options not exercised at the end of the year, the price at which they can be exercised, the exercise date and the main conditions pertaining to the exercise (If not, why?)

each change related to the conditions for the exercise of the existing options which occurred in the Company in the year to which the Statement relates (If not, why?)

each loan (including the balance of debt and the interest rate), advance payment or guarantee in favour of the Management Board members received from companies related to the Company which are included into the consolidated financial report (If not, why?)

Please see the answer to question 52.

58. Has every member of the Management Board informed the Supervisory Board on all changes with regard to his/her ownership of the Company shares not later than the business day following the occurrence of such change, with the obligation of the Company to publish such change in the shortest possible term? (If not, why?)

NO, in 2009 there were no changes in the Management Board's members' ownership of the Bank's shares

59. Specify any transactions in which the participant on one side were any members of the Management Board or any person related with them and the participant on the other side the Company or any person related to it.

Regular banking transactions performed under commercial conditions



60. Have all transactions in which the participants were any members of the Management Board or any person related with them and the Company or any person related to it:
been concluded on the market basis (especially with regard to terms, interests, guarantees and similar)? (If not, why and which?)
 YES
clearly stated in the reports of the Company (If not, why and which?)
 YES
confirmed by an independent assessment by experts being independent in relation to the participants of the relevant transaction? (If not, why and which?)
 YES
61. Do any members of the Management Board have a significant share in any companies which may be considered as the Company's competitors? (If yes, which, where and how many?)
 NO
62. Are any members of the Management Board members of any other company's supervisory board? (If yes, specify the names of such Management Board members, the names of the companies in which they are on the supervisory board and the functions they assume on these supervisory boards).
 NO
63. Does the Company have an external auditor (If not, why?)
 YES
64. Is the external auditor of the Company:
related with the Company in terms of ownership or interests (If yes, specify in what way)
 NO
Does the external auditor of the Company render to the Company, personally or through related persons, any other services? (If yes, specify such services and the cost thereof for the Company)
 NO
65. Have the independent auditors directly informed the audit committee on the following issues:
discussion of the main accounting policy
 YES
major deficiencies and significant inadequacies in the internal control,
 YES

alternative accounting procedures,

NO, there has not been any

disagreements with the Management Board, risk assessment, and

NO, there has not been any

any analyses of fraud and/or misuse.

YES

If they have not, why?

66. Has the Company publicly announced the amounts of fees paid to the independent external auditors for the performed audits and other services rendered? (If not, why?)

NO, the fees for the performed audit have been defined according to the contract

67. Does the Company have internal auditors and an implemented internal audit system? (If not, why?)

YES

68. Do investors have the possibility to request in written form and to timely obtain relevant data from the Management Board or from a person in the Company in charge of relations with investors (If not, why?)

YES

69. How many meetings with investors has the Management Board held?

No meetings with investors have been held apart from the Shareholders' Meeting

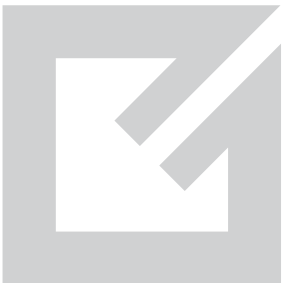
70. Has anyone suffered negative consequences due to having hinted to the competent authorities or bodies within or outside the Company at any compliance deficiencies or any disregard for ethical norms within the Company? (If yes, why?)

NO

71. Do all members of the Management and the Supervisory Boards agree that the statements stated in the answers to this questionnaire are to their best knowledge truthful in their entirety? (If not, specify which members of the Management Board or the Supervisory Board disagree with any answers, with what answers and why).

YES







3.] Financial statements for the year ended 31 December 2009 together with the Independent Auditor's Report

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law (Official Gazette No. 109/07) and the Croatian Banking Law (Official Gazette Nos. 84/02 and 141/06), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with applicable laws and regulatory requirements that provide a true and fair view of the financial position, performance, changes in equity and cash flows of Podravska Banka d.d. for that period.

The Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements. In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

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

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

These financial statements were authorized for issue by the the Management Board on 9 April 2010 and were signed on its behalf by the Management Board:



Julio Kuruc

President of the Board



Marijan Maružić

Member of the Board



Davorica Jakir

Member of the Board

INDEPENDENT AUDITOR'S REPORT

To the Owners of Podravska Banka d.d.:

We have audited the financial statements of Podravska banka d.d. ("the Bank") which comprise the balance sheet as at 31 December 2009, and the related income statement, statement of comprehensive income, statements of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements on pages 4 to 67, present fairly, in all material respects, the financial position of the Company as at 31 December 2009, and the results of its operations and its cash flows for the year then ended in accordance with the legal requirements applicable to the accounting for banks in the Republic of Croatia.

Emphasis of the Matter

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix I to these financial statements on pages 68 to 77, which comprise the balance sheet as of 31 December 2009, and the statements of income, changes in equity and cash flows for the year then ended, as well as the reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 4 to 67, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Bank.

Deloitte d.o.o.
Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia
9 April 2010



Income statement

For the year ended 31 December 2009

(All amounts are expressed in thousands of HRK)

	Notes	2009	2008
Interest and similar income	3	178,107	180,457
Interest and similar expense	3	(84,958)	(86,174)
Net interest income		93,149	94,283
Fee and commission income	4	40,697	50,752
Fee and commission expense	4	(13,772)	(15,936)
Net fee and commission income		26,925	34,816
Other operating income, net	5	19,408	24,446
Operating income		139,482	153,545
Impairment losses and provisions	6	(11,043)	(7,605)
Administrative expenses	7	(100,273)	(108,701)
Depreciation and amortisation	8	(12,813)	(13,331)
Profit before taxation		15,353	23,908
Income tax expense	9	(3,229)	(3,831)
Net profit for the year		12,124	20,077
Earnings per share	10	HRK 18.13	HRK 45.03

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The accompanying accounting policies and notes on pages 49 to 111 form an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2009

(All amounts are expressed in thousands of HRK)

	Note	2009	2008
Net profit for the year		12,124	20,077
Other comprehensive income			
Increase of fair value of available for sale financial assets		16,225	14,290
Decrease of fair value of available for sale financial assets		(16,678)	(23,453)
Net foreign exchange differences on equity securities		(70)	51
Deferred tax		1,654	-
Other comprehensive income		1,131	(9,111)
Total comprehensive income after tax		13,255	10,966

The accompanying accounting policies and notes on pages 49 to 111 form an integral part of these financial statements.



Statement of financial position

As at 31 December 2009

(All amounts are expressed in thousands of HRK)

	Notes	2009	2008
ASSETS			
Cash and amounts due from banks	11	209,263	244,443
Balances with the Croatian National Bank	12	196,092	207,575
Placements with other banks	13	669,342	626,119
Loans and advances to customers	14	1,305,077	1,507,381
Financial assets available for sale	15	136,362	36,323
Financial assets held to maturity	16	125,552	55,156
Investments in subsidiaries	19	1,530	1,530
Intangible assets	17	18,733	19,211
Property and equipment	18	77,053	74,350
Deferred tax assets	9	4,387	2,929
Other assets	20	13,551	8,780
TOTAL ASSETS		2,756,942	2,783,797
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Amounts due to other banks	21	136,226	39,866
Amounts due to customers	22	2,043,071	2,169,842
Other borrowed funds	23	182,677	189,143
Other liabilities	24	29,220	31,991
Provisions for contingent liabilities and charges	25	2,131	2,579
Total liabilities		2,393,325	2,433,421
Shareholders' equity			
Share capital	26	267,500	267,500
Share premium		3,015	3,015
Treasury shares		(11,082)	(11,068)
Other reserves	27	92,060	70,852
Profit for the year		12,124	20,077
Total shareholders' equity		363,617	350,376
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,756,942	2,783,797

The accompanying accounting policies and notes on pages 49 to 111 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2009

(All amounts are expressed in thousands of HRK)

	Notes	2009	2008
Profit from operations		15,353	23,908
Adjustments to reconcile profit before taxation to net cash from operations			
Depreciation and amortisation		12,813	13,331
Net losses / (gains) on sale of non-current tangible assets		27	(376)
Increase in provisions for loans and advances		11,043	7,605
Losses from sale of securities at fair value through profit or loss		-	5,684
Dividend income		(2,267)	(1,619)
Increase of assets held to maturity		(375)	(1,128)
Profit from operations before changes in operating assets		36,594	47,405
Changes in operating assets			
Net decrease / (increase) in balances with the Croatian National Bank		11,483	(37,147)
Net decrease / (increase) in loans and advances to customers		191,261	(190,143)
Net decrease in financial assets at fair value through profit or loss		-	(1,991)
Net (increase) / decrease in other assets		(4,771)	6,018
Decrease in other liabilities		(3,985)	(18,036)
Increase / (decrease) in amounts due to other banks		96,360	(16,790)
(Decrease) / increase in deposits		(126,771)	285,035
Net cash inflow from operating activities		200,171	13,230
Purchases of property and equipment		(15,065)	(6,062)
Increase in financial assets available for sale		(100,562)	(5,986)
(Increase) / decrease in investments held to maturity		(70,021)	195
Net cash outflow from investing activities		(185,648)	(11,853)
Borrowed funds		(6,466)	36,722
Purchases of treasury shares		(14)	(6,139)
Increase in share capital		-	99,195
Net cash (outflow) / inflow from financing activities		(6,480)	129,778
Net increase in cash		8,043	131,155
Cash at beginning of period	11	870,562	739,407
Cash at end of period	11	878,605	870,562

The accompanying accounting policies and notes on pages 49 to 111 form an integral part of these financial statements.



Statement of changes in shareholders' equity

For the year ended 31 December 2009

(All amounts are expressed in thousands of HRK)

	Share capital	Share premium	Treasury shares	Capital gains	Reserves	Profit for the year	Total
Balance at 1 January 2008	168,305	3,015	(4,930)	5,095	56,300	19,417	247,202
Allocation of 2007 profit	-	-	849	(293)	18,861	(19,417)	-
Issue of shares	99,195	-	-	-	-	-	99,195
Purchase of treasury shares	-	-	(6,987)	-	-	-	(6,987)
Other comprehensive income	-	-	-	-	(9,111)	-	(9,111)
Profit for the year	-	-	-	-	-	20,077	20,077
Balance at 31 December 2008	267,500	3,015	(11,068)	4,802	66,050	20,077	350,376
Allocation of 2008 profit	-	-	-	-	20,077	(20,077)	-
Purchase of treasury shares	-	-	(14)	-	-	-	(14)
Other comprehensive income	-	-	-	-	1,131	-	1,131
Profit for the year	-	-	-	-	-	12,124	12,124
Balance at 31 December 2009	267,500	3,015	(11,082)	4,802	87,258	12,124	363,617



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The accompanying accounting policies and notes on pages 49 to 111 form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2009

1. GENERAL

1. 1. History and incorporation

Podravska banka d.d., Koprivnica (the "Bank") is incorporated in the Republic of Croatia and was registered as a joint stock company at the Commercial Court in Bjelovar on 12 July 1995. The registered seat of the Bank is in Koprivnica, Opatička 3.

1. 2. Principal activity

As at 31 December 2009, the Bank was operating a total of 36 branches throughout the Republic of Croatia. The Bank's main areas of operation include:

- receiving and making deposits;
- providing current and term deposit accounts;
- granting short-term and long-term loans and guarantees to the State Treasury, local municipalities, corporate customers, private individuals and other credit institutions dealing with finance lease and foreign exchange transactions,
- treasury operations in the interbank market,
- trust management and investment banking services,
- performing local and international payments,
- providing banking services through an extensive branch network in the Republic of Croatia.

The operations of the Bank are overseen by the Supervisory Board. The members of the Supervisory Board of Podravska banka d.d., Koprivnica during 2009 were as follows:

Miljan Todorovic, President

Sigilfredo Montinari, Deputy President

Dario Montinari, Member

Djuro Predovic, Member

Dolly Predovic, Member

Maurizio Dallochio, Member

Filippo Disertori, Member

The operations of the Bank are managed by the Management Board. The members of the Management Board during 2009 were as follows:

Julio Kuruc, President

Marijan Marušić, Member

Davorka Jakir, Member



1. 3. Current economic environment and its impact on the Bank

The structure of the Bank's shareholders as at 31 December 2009 and 2008 is provided in Note 26. The Bank's shares are included on the Public Joint Stock Company Listing on the Zagreb Stock Exchange.

An economic slowdown marked the entire 2009. Most economies reported negative growth rates, especially in the first half of the year. In the second half, global production and trade increased, mainly due to fiscal and monetary stimulus in the major and most developed economies. The global economic crisis has had a deep impact on the Croatian economy. As a result of diminished personal spending and investments, Croatia's economy declined by 6.2 percent in the first three quarters of 2009, with the real gross domestic product (GDP) estimated at 5.8 percent. The impact of the crisis is forecast to continue into 2010, with no rise in the real GDP growth expected year-on-year.

The aftermath of the economic crisis in the real sector was reflected in the 2009 performance indicators of the banking system. According to the unaudited pro-forma data, the 2009 banking profit before tax is one fourth less than in the previous year. At the same time, provisioning expenses rose due to an increased share of non-performing loans in the banks' assets. During 2009, doubtful loans almost doubled. A further increase in non-performing loans is expected, since the Croatian banking industry reported almost one third of loans in default at the end of 2009. Despite the negative trends, the high average capital adequacy ratio of 15.7 percent for 2009 guarantees stability in the banking industry.

In line with the prevailing trend in the Croatian banking market, coupled with decreased lending and a significant drop in capital-market trading undertaken on behalf of customers, the Bank's operating income, which amounted to HRK 139.5 million, declined by 9.1 percent.

In making credit risk assessments and provisions for non-performing loans and contingencies, a conservative policy and application of effective regulations are followed. Thus, the Bank's provisions for impairment losses and contingencies for the year amounted to HRK 11 million.

During the year, the Bank focused on secure investments, with a high concentration on its own customers. The year 2009 was a year in which the Bank sought to focus mainly on customers with positive outlooks, as well as on consolidating its loan portfolio. The Bank compensated the decline in its loan portfolio through investments in financial instruments, which reached HRK 262 million at the year-end, or HRK 170 million more than at the end of the previous year.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Bank's principal accounting policies is set out below.

Basis of accounting

The Bank maintains its accounting records in Croatian kuna (HRK) and in accordance with Croatian law and the accounting principles and practices observed by financial enterprises in Croatia.

Statement of compliance

The financial statements have been prepared in accordance with the legal requirements applicable to the accounting for banks in Croatia. In the Republic of Croatia, banking operations are carried out in accordance with the Banking Law, under which the financial reporting requirements for banks are specified by the Croatian National Bank ("the CNB"). These financial statements have been prepared in accordance with the CNB accounting requirements.

The CNB accounting requirements are based on International Financial Reporting Standards ("IFRS"). The key differences between the CNB accounting requirements and those provided in International Financial Reporting Standards include estimations of impairment losses on a portfolio basis for both balance sheet and off-balance sheet items not identified as individually impaired. The CNB requires from banks to recognise impairment losses on a portfolio basis in the range from 0.85% to 1.20% of qualifying items. At 31 December 2009, the aforementioned allowances amounted to HRK 23,390 thousand (2008: HRK 24,250 thousand) and the release of provision for portfolio impairment losses in the income statement for the year ended 31 December 2009 amounted to HRK 850 thousand (2008: expense in the amount of HRK 350 thousand).

According to IAS 39, future cash flows for groups of financial assets subject to a collective evaluation of impairment should be estimated on the basis of historical loss data about assets with similar credit risk characteristics and should not be limited from any aspect. The Bank is in the process of collecting data about past experience in unidentified losses in various portfolios, considering the appropriate economic conditions to adjust that data, to establish the basis for estimating the level of unidentified losses existing at the balance sheet date in accordance with the IFRS requirements.

The Management Board considers that unidentified impairment losses as determined on this basis would not exceed the losses determined in accordance with the CNB accounting requirements.



Basis of preparation

The financial statements of the Bank are prepared in thousands of Croatian kuna (HRK) and all values have been rounded to the nearest thousand, unless stated otherwise. The financial statements for the year ended 31 December 2009 have been prepared under historical cost convention, except for financial assets and liabilities carried at fair value through profit or loss in accordance with IAS 39 "Financial instruments: Recognition and Measurement". The accounting policies have been consistently applied, unless stated otherwise.

The financial statements of the Bank have been prepared under the going-concern assumption.

In the preparation of the financial statements, the directors are required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both the current and future periods.

The accounting policies applied are consistent with those from prior years.

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

Standards and Interpretation that affect the financial statements

- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009),

- IAS 1 (revised) “Presentation of Financial Statements” - A revised presentation (effective for annual periods beginning on or after 1 January 2009),

Standards and Interpretations that do not affect the financial statements

- Amendments to IFRS 1 “First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements” - Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 4 “Insurance contracts” and IFRS 7 “Financial Instruments: Disclosures” - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009),
- IFRS 8 “Operating Segments” (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” - Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009),
- IAS 23 (revised) “Borrowing Costs” (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 2 “Share-based Payment” - Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement” - Embedded Derivatives (effective for annual periods ending on or after 30 June 2009),
- IFRIC 13 “Customer Loyalty Programmes” (effective for annual periods beginning on or after 1 July 2008),
- IFRIC 15 “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after 1 January 2009),
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after 1 October 2008)

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Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013),
- IFRS 3 (revised) “Business Combinations” (effective for annual periods beginning on or after 1 July 2009),
- IFRS 1 (revised) “First-time Adoption of IFRS” (effective for annual periods beginning on or after 1 July 2009),



- Amendments to IFRS 1 “First-time Adoption of IFRS”- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- Amendments to IFRS 2 “Share-based Payment” - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IAS 24 “Related Party Disclosures” - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- Amendments to IAS 27 “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IAS 32 “Financial Instruments: Presentation” - Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010)
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),
- Amendments to IFRIC 14 “IAS 19 – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction” - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 17 “Distributions of Non-Cash Assets to Owners” (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 18 “Transfers of Assets from Customers” (effective for transfer of assets from customers received on or after 1 July 2009),
- IFRIC 19 “Extinguishing Liabilities with Equity Instruments” (effective for annual periods beginning on or after 1 July 2010).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

Reporting currency At 31 December 2009, the effective exchange rate of the Croatian Kuna for 1 Euro was HRK 7.306199 and for 1 American dollar (USD) HRK 5.0893 (31 December 2008: EUR 1 = HRK 7.324; USD 1 = HRK 5.156).

Interest and similar 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.

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. When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Other fees receivable are recognised when earned. Dividend income is recognised when declared by the General Assembly.

Fee and commission income Fees and commission income comprises mainly of fees receivable from enterprises for loans and guarantees granted and other services provided by the Bank, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions. Fees and commissions are recognised when the related service is rendered. Loan origination fees for loans which are likely of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan.

Operating income Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, realised gains on securities classified as assets available for sale, foreign exchange revaluation, gains from disposal of fixed assets, dividends earned and other income.

Foreign currencies Income and expenditure arising from transactions in foreign currencies are translated to HRK at the official rates of exchange on the transaction date. Assets and liabilities denominated in foreign currencies are translated to HRK at the mid market exchange rate of the CNB on the last day of the accounting period. Gains and losses resulting from the foreign currency translation are included in the income statement.



The Bank has receivables and liabilities originating in HRK, which are linked to foreign currencies with one-way currency clauses. Due to this clause the Bank has an option to revalue the asset by the higher of: foreign exchange rate valid as of the date of repayments of the receivables by the debtors, or foreign exchange rate valid as of the date of origination of the financial instrument.

The counterparty has this option if the liability is linked to this clause. 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 9 months are generally not available. As such the Bank revalues its receivables and liabilities linked to this clause by the agreed reference rate valid at the date of the balance sheet or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher.

Staff costs

Provisions for bonuses are recognised when the Bank has a constructive obligation arising from a contract or past practice. A provision is made for accrued vacation days by reference to the unused vacation days at the balance sheet date.

Personnel social contributions

According to local legislation, the Bank is obliged to pay contributions to the Pension Funds and the State Health Fund. This obligation relates to full-time employees and provides for paying contributions in the amount of certain percentages determined on the basis of the gross salary as follows:

	2009	2008
Contributions for Pension Fund	20%	20%
Contributions for State Health Fund	15%	15%
Contributions for the State Employment Bureau	1.7%	1.7%
Injuries at work	0.5%	0.5%

The Bank is also obliged to withhold contributions from the gross pay on behalf of the employee for the same funds.

The contributions on behalf of employees and on behalf of employer are charged to expenses in the period to which they relate (see Note 7). In the course of normal operations, the Bank makes regular payments of contributions on behalf of its employees who are members of mandatory pension funds as provided by law. The mandatory pension contributions are included in the payroll costs when they are accrued.

The Bank has no additional retirement benefit plan and, therefore, has no further obligations in respect of employee retirement benefits. In addition, the Bank has no obligation to provide any post-employment benefits to its employees.

Taxation

The corporate income tax payable is provided on taxable profits for the year at the current rate. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred tax assets and liabilities are measured using the expected tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

At each balance sheet date, the Bank re-assesses unrecognised deferred tax assets and the appropriateness of carrying amount of the tax assets. The Bank is subject to a tax rate of 20 percent in accordance with the Income Tax Law.

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Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days of remaining maturity, including cash and current accounts with other banks.

Financial instruments

The Bank's financial assets and financial liabilities recorded on the balance sheet include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term loans, deposits and investments. The accounting principles for these items are disclosed in the respective accounting policies.

The Bank recognises financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition and pursuant to the Bank's investment strategy.




Financial assets and liabilities are classified as “Financial assets 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 as described below.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Regular way transactions with financial instruments are accounted for at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value on the underlying asset or liability are recognised starting from trade date.

When a financial asset or financial liability is recognised initially, the Bank measures it at its fair value plus, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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Financial assets at fair value through profit or loss

Financial instruments included in this portfolio are instruments held for trading, acquired to generate profits from short-term fluctuations in prices or brokerage fees, or are securities included in a portfolio with a pattern of short-term profit taking. Such instruments are initially recognised at cost and subsequently measured at fair value, which is based on the quoted bid prices in an active market.

All related realised and unrealised gains and losses are included in the income statement under “Net trading gains“. Interest earned whilst holding the instruments are reported under “Interest and similar income”.

Held to maturity assets

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

Loans and receivables

The Bank assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate.

The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of assets is identified, the Bank recognizes allowances through the income statement.

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

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 Bank intends 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 Bank upon initial recognition designates as available for sale; or (c) those for which 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 initially recognised at fair value, and are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers. 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.



Impairment of financial assets

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due.

The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition.

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. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include: delinquency in contractual payments of principal or interest, cash flow difficulties experienced by the borrower, breach of loan covenants or conditions, initiation of bankruptcy proceedings and deterioration of the borrower's competitive position.

If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes 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.

When a loan is uncollectible, it is written-off against the related provision for loan impairment. Such loans are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. This portfolio comprises equity and debt securities. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models.



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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 the specific circumstances of the issuer.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has substantially transferred all risks and rewards of ownership.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

For available-for-sale assets, gains and losses arising from changes in fair value are recognised directly in equity under the caption “Reserves and retained profits”, 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.

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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 monthly 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.



Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. The real estate is stated at the lower of cost of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the income statement. Real estate used as collateral for loans given to customers can be sold only by distraint.

Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements and the counterparty is included in due to banks or customers as appropriate. Securities purchased under agreements to resell (reverse repo) are recorded as due from banks and loans and advances to customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation less any provision for impairment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the income statement in the period in which the costs are incurred. Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction, property and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use and reclassified to the appropriate category of property and equipment.

Property and equipment is depreciated on a straight-line basis over the useful life of the assets as follows:

	2009	2008
Buildings	40	40
Furniture	5	5
Computers	4	4
Motor vehicles	5	5
Equipment and other assets	2 - 10	2 - 10

Land is not depreciated. The assets' residual values, useful lives and methods are reviewed, and adjusted if appropriate, at least every financial year end. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed at each reporting period.

Intangible assets are amortised over the periods of 4 years (software). Amortisation period and amortisation method are reviewed at least every year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

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Impairment of non financial assets

Property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property and equipment and intangibles carried at cost and treated as a revaluation decrease for assets that are carried at their revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset. The recoverable amount is the higher of an asset's net selling price and its value in use.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet in accordance with the policy for initial recognition of financial instruments and subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and options pricing models as appropriate.



All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses on foreign exchange derivatives are included in Foreign exchange revaluation. The Bank did not apply hedge accounting.

Provisions for contingent liabilities

Provisions are recognised when the Bank has a present legal or contractive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Managed funds

The Bank manages a significant amount of assets on behalf of third parties. A fee is charged for this service. These assets are not recorded in the Bank's balance sheet. The details are set out in note 28.

Dividend policy

The Bank has a policy to pay dividend to its shareholders based on the audited annual results.

Significant accounting judgements and estimates

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Held to maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep this investments to maturity other than for the specific circumstances (such as selling an insignificant amount close to maturity) it will be required to reclassify the entire class as available for sale and measure it at fair value instead of amortised cost.

Estimation uncertainty

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.



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Allowances for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables.

The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.



3. INTEREST INCOME AND EXPENSE

(All amounts are expressed in thousands of HRK)

	2009	2008
Interest income		
Citizens	75,534	97,602
Companies	62,837	52,373
Securities	7,243	4,051
Banks	29,062	25,029
Public and other sectors	3,431	1,402
	178,107	180,457
Interest expense		
Citizens	(66,913)	(58,201)
Companies	(12,116)	(18,328)
Banks	(2,432)	(3,003)
Public and other sectors	(3,497)	(6,642)
	(84,958)	(86,174)
Net interest income	93,149	94,283



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Interest income also includes deferred fees on loans in total amount of HRK 8,803 thousand (2008: HRK 7,972 thousand), which are recognized applying the effective interest rate methodology.

	2009	2008
Interest income recognized on:		
Substandard loans	3,030	2,956
Irrecoverable loans	1,001	960
	4,031	3,916

4. FEE AND COMMISSION INCOME AND EXPENSE

(All amounts are expressed in thousands of HRK)

	2009	2008
Fee and commission income		
Payment transaction fees and commissions	13,458	15,449
Fees and commissions on credit card services	14,791	15,757
Fees and commissions from lending operations	6,848	7,407
Fees and commissions on securities trading	1,404	7,612
Other fees and commissions	4,196	4,527
	40,697	50,752
Fee and commission expense		
Payment transaction charges	(3,960)	(4,179)
Cash operation fees and commissions	(5,531)	(6,170)
Interbank service fees	(1,712)	(2,216)
Other	(2,569)	(3,371)
	(13,772)	(15,936)
Net fee and commission income	26,925	34,816

Other fee and commission income consist mainly of fees collected on the Bank's counters from customers for the payments made and amounted to HRK 2,117 thousand (2008: HRK 2,268 thousand).



5. OTHER OPERATING INCOME NET

(All amounts are expressed in thousands of HRK)

	2009	2008
Foreign exchange trading gain	8,696	10,854
Net gains on dealings in available-for-sale securities	3,740	13,110
Foreign exchange revaluation	2,497	385
Dividend income	2,267	1,619
Income on subsequent collection of loans previously written off	47	58
Net (losses) / gains on disposal of property and equipment	(27)	376
Net losses on FVTPL securities dealings	-	(5,684)
Other income	2,188	3,728
	19,408	24,446

Other income relates mainly to legal expenses recovered, bills of exchange and income from sale of prepaid vouchers.



6. IMPAIRMENT ALLOWANCE AND PROVISIONS

(All amounts are expressed in thousands of HRK)

	2009	2008
Provisions for loans and advances to customers (Note 14)	(12,291)	(9,508)
Other assets (Note 20)	550	162
Provisions for guarantees and commitments (Note 25)	698	1,741
	(11,043)	(7,605)

7. ADMINISTRATIVE EXPENSES

(All amounts are expressed in thousands of HRK)

	2009	2008
Staff costs	47,913	54,340
Materials and services	32,830	37,263
Rentals	12,292	10,018
Deposit insurance premium	4,694	4,403
Taxes and contributions	1,308	1,389
Provisions for court suits	250	-
Other expenses	986	1,288
	100,273	108,701

Other operating expenses include: cost of advertising, sponsorships, donations and other costs.

Overview of staff costs

(All amounts are expressed in thousands of HRK)

	2009	2008
Net salaries	25,234	26,064
Pension insurance costs	7,111	7,100
Health insurance costs	5,901	5,988
Other compulsory contributions	865	878
Taxes and surtaxes	6,988	6,747
Provisions for employee benefits	140	1,127
Other staff costs	1,674	6,436
	47,913	54,340

At 31 December 2009, the number of staff employed by the Bank was 313 (2008: 326).

8. DEPRECIATION AND AMORTISATION

(All amounts are expressed in thousands of HRK)

	2009	2008
Depreciation of property and equipment	10,546	11,160
Depreciation of leasehold improvements	1,533	1,419
Amortisation	734	752
	12,813	13,331

9. INCOME TAX EXPENSE

Income tax is determined by applying the rate of 20 percent to taxable profits (2008: 20 percent). Tax returns remain not final and are subject to supervisory inspection for at least a three-year period. The management states that the Bank has made adequate provisions for tax obligations in the presented financial statements. However, the risk remains that the relevant authorities could take a different position with regard to the Bank's tax obligations and that this effect could be significant.

Tax expense comprises of the following:

(All amounts are expressed in thousands of HRK)

	2009	2008
Current tax expense	3,033	4,605
Deferred tax expense/(income)	196	(774)
Income tax expense	3,229	3,831



The reconciliation between accounting profit and taxable profit is set out below:

31 December 2009 31 December 2008

Profit before taxation	15,353	23,909
Statutory tax rate	20%	20%
Income tax calculated at 20%	3,071	4,782

TEMPORARY DIFFERENCES

Unrealised losses on financial assets	-	4,199
Realised gains on other investments	-	(23)
Deferred loan origination fees	(976)	(549)
Deferred other fees	(6)	2
Net temporary differences	(982)	3,629

PERMANENT DIFFERENCES

Tax effect of non-taxable income:	(2,267)	(1,778)
Dividends received	(2,267)	(1,619)
Other prior-period expenses	-	-
Decrease in profit by other income	-	(159)
Tax effect of expenses not recognised for tax purposes	3,061	949
Entertainment and personal transportation	350	480
Depreciation above prescribed amounts	237	240
Write-offs	2,472	229
Other	2	-
Net permanent differences	794	(829)



31 December 2009 31 December 2008

Taxable profit	15,165	26,709
Utilisation of tax losses brought forward	-	(3,684)
Tax base	15,165	23,025
Tax rate	20%	20%
Tax liability	3,033	4,605
Current tax expense	3,033	4,605
Effective tax rate	20.00%	19.26%

Movements in deferred tax assets are as follows:

	2009			
	Opening balance	Charged to income statement	Charged to equity	Closing balance
Losses on financial assets	936	-	-	936
Losses on other investments	43	-	-	43
Deferred loan origination fees	1,949	(195)	-	1,754
Deferred other fees	1	(1)	-	-
Financial asset available for sale	-	-	1,654	1,654
	2,929	(196)	1,654	4,387

	2008			
	Opening balance	Charged to income statement	Charged to equity	Closing balance
Losses on financial assets	96	840	-	936
Losses on other investments	-	43	-	43
Deferred loan origination fees	2,058	(109)	-	1,949
Deferred other fees	1	-	-	1
	2,155	774	-	2,929

Tax losses

	2009	2008
Tax losses brought forward	-	3,684
Utilised in the current year	-	(3,684)
Tax losses available for carry forward	-	-

10. EARNINGS PER SHARE

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

	2009	2008
Profit for the year (in HRK'000)	12,124	20,077
Weighted average number of shares	668,749	445,900
Earnings per share (in HRK) - Basic and diluted	18.13	45.03

11. CASH AND AMOUNTS DUE FROM BANKS

(All amounts are expressed in thousands of HRK)

	2009	2008
Cash in hand	34,721	40,919
Current account with the Croatian National Bank	93,061	130,917
Current accounts and demand deposits with foreign banks	61,684	58,172
Current accounts and demand deposits with domestic banks	7,971	2,554
Other items	11,826	11,881
	209,263	244,443

Cash and cash equivalents included in the cash flow statement:

(All amounts are expressed in thousands of HRK)

	2009	2008
Cash in hand	34,721	40,919
Current account with the Croatian National Bank	93,061	130,917
Current accounts and demand deposits with foreign banks	61,684	58,172
Current accounts and demand deposits with domestic banks	7,971	2,554
Other items	11,826	11,881
Cash equivalents - deposits with other banks (Note 13)	669,342	626,119
	878,605	870,562

12. BALANCES WITH THE CROATIAN NATIONAL BANK

(All amounts are expressed in thousands of HRK)

	2009	2008
Obligatory and marginal reserve	196,092	207,575

Obligatory reserve represents the amount of liquid assets required to be deposited with the Croatian National Bank. At the end of each month the obligatory reserve is calculated on certain balances of attracted funds for the previous month. The obligatory reserve is calculated as 14 percent of HRK denominated (in 2008 14 percent) and 14 percent of foreign currency denominated balances (in 2008 14 percent). From that amount the banks should maintain at least 70 percent for the kuna obligatory reserve and 60 percent for the obligatory reserve in foreign currency with the Croatian National Bank. The percentage of the obligatory reserve funds denominated in Croatian kuna includes a portion of the foreign currency denominated funds maintained in kuna. The balances maintained with the Croatian National Bank earned annual interest of 0.75 percent for HRK amounts (in 2008 0.75 percent). The balances in foreign currencies maintained with the Croatian National Bank bore annual interest from 0.50 to 1.25 percent (in 2008 between 0.50 and 1.25 percent) for EUR and USD deposits. The banks are required to maintain 75 percent of the foreign currency obligatory reserve should be maintained in HRK.

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13. PLACEMENTS WITH OTHER BANKS

(All amounts are expressed in thousands of HRK)

	2009	2008
Term deposits	522,068	301,779
Repo loans to banks	14,617	0
Loans to other banks	133,258	327,685
	669,942	629,464
Impairment allowance	(600)	(3,345)
	669,342	626,119

Term deposits are short-term deposits with local and foreign banks bearing an interest rate of 0.25 to 4.50 percent (in 2008: 1.00 to 5.20 percent). Of the total term deposits with other banks, deposits with foreign banks amount to HRK 298,814 thousand (2008: HRK 266,451 thousand). Loans to other banks comprise short-term loans (up to one month) to domestic banks provided at interest rates from 0.30 to 3.20 percent (2008: from 1.50 to 7.00 percent).



Movements in impairment allowance

(All amounts are expressed in thousands of HRK)

	2009	2008
At 1 January	3,345	3,345
Write off	(2,745)	-
At 31 December	600	3,345

The impairment allowance presented above relates to domestic banks in bankruptcy.

Geographical analysis

The analysis includes term deposits and current accounts with foreign banks:

	2009	2008
Australia	1,303	1,153
Austria	410	970
Belgium	70,175	63,205
Monte Negro	35,793	19,444
Denmark	166	516
Italy	40,033	19,243
Canada	660	226
Netherlands	341	488
Germany	43,357	148,055
United States of America	3,783	4,038
Slovenia	700	384
Turkey	0	154
Spain	66,105	818
Sweden	596	712
Switzerland	14,432	65,217
	277,854	324,623

14. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis by type of customer

(All amounts are expressed in thousands of HRK)

	2009	2008
Citizens		
HRK denominated	679,703	831,238
foreign currency denominated	4,737	4,096
	684,440	835,334
Companies		
HRK denominated	505,539	662,939
foreign currency denominated	248,740	136,519
	754,279	799,458
	1,438,719	1,634,792
Impairment allowance	(133,642)	(127,411)
	1,305,077	1,507,381

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b) Analysis by sector

(All amounts are expressed in thousands of HRK)

	2009	2008
Citizens	684,440	835,334
Wholesale and retail trade	243,724	275,192
Processing industry	95,697	111,495
Real estate activities	31,933	37,498
Transport, storage and communication	60,547	79,600
Agriculture and forestry	39,471	43,281
Construction	98,978	62,839
Food and beverage industry	77,903	68,891
Energy (electricity, gas, water)	1,378	1,324
Hotels and restaurants	14,129	23,115
Other	90,519	96,223
	1,438,719	1,634,792
Impairment allowance	(133,642)	(127,411)
	1,305,077	1,507,381



c) Changes in principal of substandard and bad loans

	2009		2008	
	Substandard loans	Bad loans	Substandard loans	Bad loans
As of 1 January	99,079	70,398	96,627	62,298
Transfer from performing loans	35,726	1,533	21,705	1,503
Transfer from bad loans	6	(6)	1,488	(1,488)
Transfer from substandard loans	(19,453)	19,453	(8,825)	8,825
Transfer to performing loans	(1,411)	(17)	(2,314)	(176)
Amounts collected	(7,891)	(996)	(5,961)	(1,773)
Amounts written off	-	(8,804)	-	(263)
Other changes	(1,366)	(2,580)	(3,641)	1,472
As of 31 December	104,690	78,981	99,079	70,398

On 31 December 2009, the gross principal amount of non-performing loans was HRK 78,981 thousand (2008: HRK 70,398 thousand). During 2009, HRK 996 thousand of non-performing loans was collected (2008: HRK 1,773 thousand). Also, during 2009 the amount of HRK 1,444 thousand of loans to companies and sole traders were renegotiated (in 2008 HRK 2,314 thousand).

d) Provisions for losses

	2009	2008
Balance at 1 January	127,411	117,947
New provisions made	23,356	22,174
Amounts collected	(11,122)	(13,239)
Amounts written off	(6,060)	(44)
Foreign exchange (gain)/loss	-	600
Balance at 31 December	133,642	127,411

The Bank manages its exposure to credit risk by applying a variety of control measures: regular assessment using agreed credit criteria, diversification of sector risk to avoid undue concentration in a single industry. Where required, the Bank obtains acceptable collateral to reduce the level of credit risk.

15. FINANCIAL ASSETS AVAILABLE FOR SALE

(All amounts are expressed in thousands of HRK)

	2009	2008
Treasury bills of the Republic of Croatia	19,621	-
Bonds	84,518	4,356
Units in investment funds	4,738	2,569
Equity securities	28,711	30,624
	137,588	37,549
	-	-
Permanent impairment allowance	(1,226)	(1,226)
	136,362	36,323

a) Treasury bills of the Republic of Croatia

	2009	2008
Balance at 1 January	-	-
Purchase	19,621	-
Balance at 31 December	19,621	-

b) Bonds

	2009	2008
Balance at 1 January	4,356	6,099
Purchase	100,125	-
Sale / collection	(21,876)	(1,666)
Changes in fair value	1,913	(77)
Stanje 31. prosinca	84,518	4,356

Table below present structure of debt portfolio:

Company name	State	Branche	Investments	
			2009	2008
HEP d.d. Zagreb	Croatia	non fin.Inst.	9,144	-
Atlantic grupa d.d. Zagreb	Croatia	non fin.Inst.	2,688	-
Raiffeisenbank Austria d.d. Zagreb	Croatia	fin.inst.	1,785	-
Agrokor d.d. Zagreb	Croatia	non fin.Inst.	3,655	-
Hrvatska pošta d.d. Zagreb	Croatia	non fin.Inst.	5,817	-
City of Koprivnica	Croatia	municipality	2,413	4,356
Ministry of Finance of Republic of Croatia	Croatia	government	59,016	-
Total			84,518	4,356

c) Units in investment funds

Units in investment funds include investments in Poba Ico Equity - open investment fund with public offer

	2009	2008
Balance at 1 January	2,569	-
Reclassification	-	3,984
Purchase	1,500	-
Changes in the fair value	669	(1,415)
Balance at 31 December	4,738	2,569

d) Equity securities

	2009	2008
Quoted securities	8,351	21,695
Unquoted securities	20,360	8,929
	28,711	30,624
	-	-
Impairment allowance	(1,226)	(1,226)
Total	27,485	29,398



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Changes in equities during the year:

	2009	2008
Balance at 1 January	29,398	15,127
Purchases	8,828	6,722
Sale	(7,635)	(17,867)
Reclassification	-	19,918
Realised gains recognised in profit or loss	-	13,117
Movement in the fair value	(3,036)	(7,670)
Impairment allowance	-	-
Exchange differences on fair value remeasurement	(70)	51
Balance at 31 December	27,485	29,398

Set out below are details of the equity investment portfolio:

Company name	State	Branche	Share, in %		Investment	
			2009	2008	2009	2008
Bilokalnik-IPA d.d. Koprivnica	Croatia	nonfin. inst	3.21	3.21	2,087	4,817
Western Balkan Investment F. AD Podgorica	Monte Negro	fin.inst.	5.00	5.00	1,071	3,662
Spin Valis d.d. Požega	Croatia	nonfin. inst	2.55	2.55	931	931
Croatia osiguranje d.d. Zagreb	Croatia	fin.inst.	0.01	0.01	200	126
Oroplet d.d. - u stečaju	Croatia	nonfin. inst	11.68	11.68	1,226	1,226
MBU d.o.o. Zagreb	Croatia	nonfin. inst	-	10.12	-	579
Tržište novca d.d. Zagreb	Croatia	fin.inst.	4.55	4.55	319	319
HROK d.o.o. Zagreb	Croatia	nonfin. inst	1.00	1.00	141	141
Zagrebačka burza d.d. Zagreb	Croatia	fin.inst.	0.09	0.09	37	37
Velebit osiguranje d.d. Zagreb	Croatia	fin.inst.	5.00	5.00	3,300	3,300
Velebit životno osiguranje d.d. Zagreb	Croatia	fin.inst.	5.00	5.00	3,300	3,300
Središnje klirinško depozitarno društvo d.d. Zg	Croatia	fin.inst.	0.10	0.10	23	23
S.W.I.F.T. SCRL Belgija	Belgium	nonfin. inst	-	-	5	5
Crnogorski telekom AD, Podgorica	Monte Negro	nonfin. inst	0.36	0.36	3,354	3,112
HT-Hrvatske telekomunikacije d.d. Zagreb	Croatia	nonfin. inst	0.03	0.03	7,274	4,981
HUP-Zagreb d.d. Zagreb	Croatia	nonfin. inst	0.19	0.23	1,636	1,695
Franck d.d. Zagreb	Croatia	nonfin. inst	0.29	0.29	975	1,225
Jamnica d.d. Zagreb	Croatia	nonfin. inst	0.07	0.07	667	606
Atlantic grupa d.d. Zagreb	Croatia	nonfin. inst	0.03	0.03	545	369
Proficio d.d. Zagreb	Croatia	nonfin. inst	0.18	0.18	97	133
Centralna depozitarna agencija AD Podgorica	Monte Negro	fin.inst.	2.00	2.00	37	37
Viro d.d. Virovitica	Croatia	nonfin. inst	0.04	-	216	-
Petrokemija d.d. Kutina	Croatia	nonfin. inst	0.04	-	190	-
Jadroplov d.d. Split	Croatia	nonfin. inst	0.06	-	161	-
Dalekovod d.d. Zagreb	Croatia	nonfin. inst	0.05	-	372	-
Zagrebačka banka d.d. Zagreb	Croatia	fin.inst.	0.00	-	377	-
Privredna banka d.d. Zagreb	Croatia	fin.inst.	0.00	-	170	-
Total					28,711	30,624

The following equity has been fully impaired:

	2009	2008
Oroplet d.d. - in bankruptcy	(1,226)	(1,226)
Total impairment	(1,226)	(1,226)

e) Revaluation reserve for financial assets available for sale

Type of security	2009	2008
Debt security	1,305	(1,277)
Equity security	(9,575)	(6,470)
Calculated tax	1,654	-
Total revaluation reserve	(6,616)	(7,747)

Movements in the revaluation reserve

	2009	2008
Balance at 1 January	(7,747)	1,364
Change in the fair value of debt securities	2,582	(1,492)
Change in the fair value of equity securities	(3,105)	(7,619)
Deferred tax recognized in equity	1,654	-
Balance at 31 December	(6,616)	(7,747)

16. FINANCIAL ASSETS HELD TO MATURITY

	2009	2008
Treasury bills of the Republic of Croatia	70,273	-
Bonds of the Republic of Croatia	55,279	55,156
Total value	125,552	55,156

Movements in held-to-maturity assets

a) Treasury bills of the Republic of Croatia

	2009	2008
Balance at 1 January	-	-
Purchase	77,648	-
Collection	(7,375)	-
Balance at 31 December	70,273	-

b) Bonds of the Republic of Croatia

	2009	2008
Balance at 1 January	55,156	54,223
Purchase	375	1,128
Collection	(252)	(195)
Balance at 31 December	55,279	55,156

17. INTANGIBLE ASSETS

(All amounts are expressed in thousands of HRK)

	Software	Goodwill	Assets under development	Total intangible assets
COST OR VALUATION				
Balance at 1 January 2008	9,508	16,867	51	26,426
Additions	-	-	665	665
Disposals and retirements	(592)	-	-	(592)
Transfer from assets under development	280	-	(280)	-
Balance at 31 December 2008	9,196	16,867	436	26,499
Additions	-	-	256	256
Disposals and retirements	-	-	-	-
Transfer from assets under development	87	-	(87)	-
Balance at 31 December 2009	9,283	16,867	605	26,755
ACCUMULATED AMORTISATION				
Balance at 1 January 2008	7,127	-	-	7,127
Charge for the year	752	-	-	752
Disposals and retirements	(592)	-	-	(592)
Balance at 31 December 2008	7,288	-	-	7,288
Charge for the year	734	-	-	734
Disposals and retirements	-	-	-	-
Balance at 31 December 2009	8,022	-	-	8,022
Net book value				
At 31 December 2009	1,261	16,867	605	18,733
At 31 December 2008	1,908	16,867	436	19,211

Goodwill has been allocated to the cash generating units acquired on the merger of Požeška Banka d.d. The recoverable amount of the cash generating units is determined on the basis of profitability calculation. For the purposes of calculation, cash flow forecasts have been developed on the basis of financial projection over a time horizon of five years. The budgeted gross margin has been determined on the basis of past experience and the expected market development. The discount rate applied reflects the specific risks of the relevant business segment.



18. PROPERTY AND EQUIPMENT

Cost or valuation	Land and buildings	Furniture and equipment	Motor vehicles	IT equipment	Leasehold improvements	Assets under construction	Total
Balance at 1 January 2008	88,129	44,145	5,637	35,858	10,521	98	184,388
Additions	-	-	-	-	-	5,397	5,397
Transfer from assets under construction	337	2,410	439	1,171	915	(5,272)	-
Disposals and retirements	-	(1,170)	(222)	(1,687)	-	-	(3,079)
Balance at 31 December 2008	88,466	45,385	5,854	35,342	11,436	223	186,706
Additions	-	-	-	-	-	14,985	14,985
Transfer from assets under construction	2,108	3,939	1,039	5,554	2,530	(15,170)	-
Disposals and retirements	-	(1,592)	(609)	(3,361)	(746)	-	(6,308)
Balance at 31 December 2009	90,574	47,732	6,284	37,535	13,220	38	195,383

ACCUMULATED DEPRECIATION

Balance at 1 January 2008	34,586	32,225	1,920	27,345	6,679	-	102,755
Charge for the year	2,056	4,625	1,106	3,373	1,419	-	12,579
Disposals and retirements	-	(1,162)	(139)	(1,677)	-	-	(2,978)
Balance at 31 December 2008	36,642	35,688	2,887	29,041	8,098	-	112,356
Charge for the year	1,840	4,292	1,024	3,390	1,533	-	12,079
Disposals and retirements	-	(1,536)	(487)	(3,336)	(746)	-	(6,105)
Balance at 31 December 2009	38,482	38,444	3,424	29,095	8,885	-	118,330

Net book value

At 31 December 2009	52,092	9,288	2,860	8,440	4,335	38	77,053
At 31 December 2008	51,824	9,697	2,967	6,301	3,338	223	74,350

Tangible assets with a book value of HRK 9,106 thousand (2008: HRK 28,252 thousand) were pledged as collateral for deposits made by companies in the amount of HRK 35,155 thousand (2008: HRK 35,000 thousand).

19. INVESTMENTS IN SUBSIDIARIES

In 2007, the Bank acquired an equity share in the company POBA ICO d.o.o. in the amount of HRK 1,530 thousand, representing 51%. The subsidiary has not been consolidated in these financial statements as its net assets are not material for the Bank. The following key data was reported by POBA ICO d.o.o. at 31 December 2009:

(All amounts are expressed in thousands of HRK)

	2009	2008
Total assets	992	1,095
Total net assets	(1,240)	(795)
Net loss for year	1,346	1,813

20. OTHER ASSETS

(All amounts are expressed in thousands of HRK)

	2009	2008
Accrued fees and commissions	3,739	3,532
Foreclosed assets	7,275	2,123
Income tax refund	421	1,391
Prepaid expenses	1,748	1,641
Other advances made	61	189
Other assets	1,717	1,872
	14,960	10,748
	-	
Impairment allowance	(1,409)	(1,968)
	13,551	8,780

Foreclosed property and equipment are assets not used by the Bank and amounted to HRK 7,275 thousand at 31 December 2009 (2008: HRK 2,123 thousand). They are carried by the Bank at cost. Movements in impairment allowance for potential losses on other assets were as follows:

	2009	2008
Balance at 1 January	1,968	2,347
Additions	3,849	1,816
Amounts collected	(4,400)	(1,979)
Amounts written off	(9)	(217)
Exchange differences	1	1
Balance at 31 December	1,409	1,968

21. AMOUNTS DUE TO OTHER BANKS

(All amounts are expressed in thousands of HRK)

	2009	2008
Foreign currency demand deposits	43,187	39,866
Foreign bank term deposits in foreign currency	36,534	-
Domestic bank currency term deposits in HRK	56,505	-
	136,226	39,866

Demand deposit funds represent funds received from Banche Popolari Milano for the payment of pension benefits to all the beneficiary of Italian pensions in the Republic of Croatia, with interest rate agreed at 30 percent of one-month EURIBOR. Interest rate on received term deposits domestic banks are from 1.0% to 2.0%.

22. AMOUNTS DUE TO CUSTOMERS

(All amounts are expressed in thousands of HRK)

	2009	2008
CITIZENS		
Demand deposits		
HRK denominated	182,106	209,319
foreign currency denominated	133,217	133,549
Term deposits		
HRK denominated	377,499	446,695
foreign currency denominated	1,003,543	877,086
TOTAL CITIZENS	1,696,366	1,666,649
LEGAL ENTITIES		
Demand deposits		
- HRK denominated	149,684	240,056
- foreign currency denominated	22,632	30,673
Term deposits		
- HRK denominated	98,984	203,754
- foreign currency denominated	75,406	28,710
TOTAL LEGAL ENTITIES	346,705	503,193
TOTAL DEPOSITS FROM CUSTOMERS	2,043,071	2,169,842

23. OTHER BORROWED FUNDS

(All amounts are expressed in thousands of HRK)

	2009	2008
Repo loans from domestic banks, HRK denominated	100,006	21,600
Short-term money market borrowings from domestic banks	7,000	98,565
CBRD loans	75,671	68,978
	182,677	189,143

Repo loans from domestic banks and other legal entities represent a loan facility for which the Bank has pledged its securities with the obligation to repurchase those securities at a certain future date. The repo loan received in 2009 bears interest at the agreed rate of 1.3% and 1.4% percent. The pledged securities are RHM-F-O-15CA bonds of the Republic of Croatia, with a market value of HRK 35,689 thousand and Republic of Croatia treasury bills, with a market value of HRK 70,155 thousand.

Short-term money market borrowings were raised from domestic banks for current liquidity purposes. The interest rates on those borrowings was 1.0% (2008: 6.5% - 7.5%). Loans received from the Croatian Bank for Reconstruction and Development (CBRD) relate to loans approved by the CBRD through the Bank in accordance with the CBRD's programs for subsidising small and medium-sized entrepreneurs, tourism and agriculture, which bear interest at rates from 0% to 5% (2008: 0% - 4%).

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24. OTHER LIABILITIES

(All amounts are expressed in thousands of HRK)

	2009	2008
Deferred fees and commissions	884	1,102
Accrued premiums for insuring term deposits payable	996	1,212
Dividends payable	146	147
Amounts due to employees	3,613	3,572
Provisions for severance pays	2,258	2,118
Amounts due to suppliers	3,443	3,943
Pending disbursements under loan commitments	4,563	4,975
Accruals in respect of received funds	8,445	5,534
Current income tax liability	384	4,605
Items in course of payment	2,844	3,143
Other HRK denominated liabilities	1,519	1,537
Other foreign currency denominated liabilities	125	103
	29,220	31,991



25. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

(All amounts are expressed in thousands of HRK)

a) Analysis

	2009	2008
Provisions for other contingent liabilities	1,881	2,579
Provisions for legal cases	250	-
	2,131	2,579

b) Movements in provisions

Movements in provisions for contingent liabilities and charges

	2009	2008
Balance at 1 January	2,579	4,320
Increase during the year	250	-
Decrease during the year	(698)	(1,741)
Balance at 31 December	2,131	2,579

26. SHARE CAPITAL



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Share capital consists of ordinary shares. The total number of ordinary shares in issue at the end of 2009 was 668,749 (2008: 668,749 pcs), with a nominal value of HRK 400.00 per share. At 31 December 2009, the Bank held 9,203 treasury shares, which it carries at cost (2008: 9,173 treasury shares).

Movements in shares

(All amounts are expressed in thousands of HRK)

	Number of shares issued	Treasury shares	Total number of shares
31 December 2007	420,762	(2,289)	418,473
Issue of shares	247,987	-	247,987
Purchase of treasury shares	-	(7,302)	(7,302)
Sale of treasury shares	-	-	-
Allocation of 2007 profit	-	418	418
31 December 2008	668,749	(9,173)	659,576
Purchase of treasury shares	-	(30)	(30)
Sale of treasury shares	-	-	-
Allocation of 2008 profit	-	-	-
31 December 2009	668,749	(9,203)	659,546

The key shareholders of the Bank at 31 December were as follows:

	2009		2008	
	Number of shares	Ordinary shares in %	Number of shares	Ordinary shares in %
Lorenzo Gorgoni	66,002	9.87	66,002	9.87
Assicurazioni Generali S.p.A.	63,791	9.54	63,791	9.54
Cerere S.p.A., Trieste	63,735	9.53	63,735	9.53
Antonia Gorgoni	65,336	9.77	65,336	9.77
Miljan Todorovic	55,731	8.33	55,731	8.33
Andrea Montinari	38,515	5.76	38,515	5.76
Piero Montinari	38,515	5.76	38,515	5.76
Sigilfredo Montinari	38,529	5.76	38,529	5.76
Dario Montinari	38,526	5.76	38,526	5.76
Podravska banka d.d./Liaci Luigi	26,346	3.94	26,346	3.94
Giovanni Semeraro	27,494	4.11	27,494	4.11
Other shareholders (individually below 3%)	146,229	21.87	146,229	21.87
	668,749	100.00	668,749	100.00

27. OTHER RESERVES

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(All amounts are expressed in thousands of HRK)

	2009	2008
Legal reserves	71,940	51,863
Reserves for treasury shares	16,830	16,830
General banking risk reserve	5,104	5,104
Undistributable reserves	93,874	73,797
Capital gains on trading in treasury shares	4,802	4,802
Fair value reserve	(6,616)	(7,747)
Distributable reserves	(1,814)	(2,945)
	92,060	70,852

In accordance with Croatian legislation, banks are required to allocate 5 percent of the net profit to a non-distributable legal reserve until the reserve funds reach 5 percent of the share capital or more if specified by the bank's statute. The general banking risk reserve was allocated in accordance with the CNB regulations out of the net profits for the year 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Bank's exposure has been increasing at a rate below 15 percent annually. Other reserves are distributable only with the approval by the General Shareholders' Assembly.



Both the distributable and non-distributable reserves of the Bank have been determined and presented in these financial statements in accordance with Croatian regulations and decisions of the Croatian National Bank.

28. FUNDS MANAGED FOR AND ON BEHALF OF THIRD PARTIES AND, CUSTODY SERVICES

The Bank manages significant funds for and on behalf of third parties, entities and individuals. Those assets are accounted for separately from those of the Bank. Income and expenses arising from these funds are credited and charged to corresponding sources and no liability falls on the Bank in connection with these transactions. The Bank is compensated for its services by fees chargeable to the funds. Assets and liabilities on loans managed for and on behalf of third parties can be presented as follows:

(All amounts are expressed in thousands of HRK)

	2009	2008
ASSETS		
Loans to individuals	26,648	28,019
Loans to corporate entities	20,718	91,561
Cash	9,325	16,656
Total assets:	56,691	136,236
LIABILITIES		
Public sector	31,877	24,001
Corporate entities	9,567	96,763
Financial institutions	15,247	15,472
Total liabilities:	56,691	136,236

The Bank provides custody services for securities. The market value of equities taken under custody was HRK 118,475 thousand at 31 December 2009 (2008: HRK 140,849 thousand). During 2009, the total Bank's fee income in respect of funds managed for and on behalf of third parties amounted to HRK 3,443 thousand (2008: HRK 4,690 thousand).

29. CONTINGENT LIABILITIES AND COMMITMENTS

Legal actions

At 31 December 2009 and 2008 there were several legal actions outstanding against the Bank. Based on the management's estimate, for the potential losses in legal actions it is provided 250 thousand kuna (2008: HRK 0).

Commitments to extend credit, guarantees and other financial instruments

Total outstanding amounts under guarantees, letters of credit and undrawn loans at the year end were as follows:

	2009	2008
Commitments - undrawn overdraft facilities on transaction accounts	111,085	117,224
Commitments - undrawn loans	39,567	42,517
Letters of intent	-	766
Guarantees	37,668	52,465
Foreign currency letters of credit	12,879	24,848
	201,199	237,820

The primary purpose of commitments and contingencies is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Future minimum lease payments under operating leases are as follows:

	2009	2008
Up to 1 year	9,458	9,815
From 2 to 5 years	26,556	26,323
Over 5 years	11,425	7,176
Total	47,439	43,314

Upon the expiry of the lease term, the lease agreements are renewable at the market price.



30. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Such transactions are made in the ordinary course of business at market terms and conditions, and market interest rates. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Parties related to the Bank include the Bank's Management Board, its officers with the general power of attorney, members of the Supervisory Board and their related persons. Related party transactions at the year end were as follows:

(All amounts are expressed in thousands of HRK)

	Key management and their related persons		Supervisory Board	
	2009	2008	2009	2008
Loans				
Opening balance	2,642	1,440	-	-
Increases/(decreases) during the year	667	1,202	-	-
Closing balance	3,309	2,642	-	-
Interest income	177	124	1	2
Deposits received				
Opening balance	8,688	4,583	919	1,354
Increases/(decreases) during the year	328	4,105	(783)	(435)
Closing balance	8,996	8,688	136	919
Interest expense	465	236	2	4



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Key management remuneration

	2009	2008
Gross salaries and other short-term benefits	6,870	7,027
Bonuses (shares)	-	556

The Management Board consists of three members.

The exposure and liabilities to the company Poba Ico Invest d.o.o., an investment fund management company, in addition to the direct investments in the investment fund managed by the company are as follows:

	Assets		Liabilities	
	2009	2008	2009	2008
Poba Ico Invest d.o.o.	8,168	5,052	1,714	772

	Income		Expenses	
	2009	2008	2009	2008
	32	276	89	57



31. FINANCIAL RISK MANAGEMENT POLICIES

This section provides details of the Bank's exposure to risk and describes the methods used by the management to control the risk. The Bank's operations expose it to various types of financial risks. These operations include analyzing, assessing, accepting and managing a certain level of risk, or a combination of risks. Assuming risk is a fundamental feature of financial operations, with risks being inherent to the business. The Bank's aim is to achieve an appropriate balance between the risk and return, whilst minimizing potential negative effects on its financial performance. The Bank's risk policies have been designed to identify and analyse those risks in order to define appropriate limits and controls, and to monitor those risks and limit compliance by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect any changes in its markets, products and best practices. The most important types of financial risks to which the Bank is exposed are the credit risk, liquidity risk, market risk and operational risk. The market risk includes the currency risk, interest rate risk and equities and securities price risk.

An integrated system of risk management is being established at Bank level by introducing a set of policies and procedures, determining the risk level limits acceptable to the Bank. The limits are set according to the amount of the regulatory capital and apply to all types of risk. The methodology and models for managing the operational risk have been developed.

Credit risk

The Bank takes on exposure to credit risk, which may be defined as the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. Major changes in the economy or the status of an industry in which the Bank's portfolio is concentrated, may lead to losses not provided against at the balance sheet date. Therefore, the Board manages its exposure to credit risk with a high level of prudence. The exposure to credit risk arises primarily in respect of loans and advances, debt and other securities. Credit risk is also present in off-balance sheet financial arrangements, such as commitments to extend credit and guarantees issued. Credit risk management and control have been centralised within the Risk Management Division.

The Bank manages credit risk in accordance with its policies, procedures and other internal guidelines. The Bank has defined its credit policy as a set of measures for allocating loan funds to loan applicants with the aim of sound and prudent credit risk management, by ensuring unbiased lending principles and goals and setting them as a general rule and reliable guidance in making every decision to lend.



The credit policy defines the focus of considerations to be made in performing credit operations. If a proposal to extend a loan departs from the credit policy, the final decision is made by the Bank's management.

The structure of loans over a certain period is defined by the credit policy. Loans are structured by type of customer, or groups of customers, type or group of products, by sector and industry. The policy sets limits for individual placements in accordance with the guidelines of the Croatian National Bank. Given that loans are approved using the two pairs of eyes principle, it is very unlikely that a loan authorised by overriding the procedures might remain undetected (unless in a group of persons acts jointly in agreement).

The credit policy defines and sets out policies and procedures for extending loans to individuals and legal entities. Credit risk is reviewed on an ongoing basis and reported on regularly to promptly identify any indication of impairment in the loan portfolio. The Bank has been continually applying prudent methods and models used in the process of the credit risk assessment.

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

- Performing loans
 - A Risk Group - subject to a collective assessment;
- Substandard loans
 - B Risk Group - subject to individual assessment;
- Non-performing loans (bad debt)
 - C Risk Group - subject to individual assessment.

All three levels contain sub-categories, which are mandatory for the substandard loans. Loans are classified into the groupings by criteria specified in the applicable decision of the Croatian National Bank and the Bank's internal decision. In assessing each individual customer, the Bank considers the credit rating of the borrower, the past debt service history and the collaterals obtained for loans, guarantees and other placements. The Bank reviews the risk assessment of its loans and advances on a quarterly basis. Based on the risk assessment and the risk groupings as defined by the Decision on the Internal Loan Classification System, the required level of provision is determined for every individual debtor impaired or type of placement. The final decision on the required level of provisions for identified potential losses is made by the Bank's management.



Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates, and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe. The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings, subordinated liabilities including deposits, borrowings and share capital. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as a part of its liquidity risk management.

The Bank adjusts its business activities related to liquidity risk according to regulatory and internal policies for maintenance of liquidity reserves, by matching liabilities and assets, monitoring compliance with the externally and internally set limits, preferred liquidity ratios and contingency planning procedure. The Treasury manages liquidity reserves daily, ensuring also the accomplishment of all customers' needs.

There is a concentration in the deposit portfolio of top 20 individual and corporate depositors in the total deposits, which is regularly reported to the Bank's Management Board on a monthly level. In addition to the regulatory requirements set out above, the Bank has the obligation to monitor the structural indicators of the liquidity and concentration levels, which have been set in the internal regulations of the Bank. The structural liquidity level indicators present the correlations between certain items of assets and liabilities such as: the ratio of total loans to total deposits received; the ratio of total loans to total assets; the ratio of liquid assets to total deposits received; the ratio of total loans to total liabilities.

The majority of available for sale instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous. Market risks represent potential effects of external factors on the value of assets, liabilities and off-balance sheet items of the Bank, resulting from fluctuations in prices and trends on the financial markets. The instruments are recognised at fair value, and all changes in market conditions directly affect revaluation reserves.

The Bank manages its use of trading instruments in response to changing market conditions. The limits are defined in accordance with the Bank's requirements and strategy, and the senior management risk policy indications. The exposure to market risk is formally managed within the risk limits approved by the Management Board and revised annually at the least.

Market risk



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Key liquidity data about the liquidity positions in the local and foreign currency is provided to the Banks' Board and senior management on a daily basis, focusing on the most significant fluctuations in interest and foreign exchange rates. The Treasury Division provides the Management Board with weekly reports on currency risk exposure. Also, the Risk Management Division provides the Management Board with monthly reports on the total currency risk exposure. In managing its market risks, the Bank resorts to various strategies. The Value-at-risk (VaR) methodology is applied to the Bank's open foreign currency position to estimate the maximum potential losses on the basis of certain assumptions regarding various changes in market conditions. The methodology defines the maximum loss that the Bank may suffer with a limited level of reliability (95 and 99 percent). However, this approach does not preclude any losses outside the defined limits in case of major changes in market terms and conditions. The exposure figures and limit utilisation are delivered to the Treasury Division on a daily basis.

Currency risk

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

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The currency position of the Bank is monitored daily through the report on the open foreign currency positions in accordance with the CNB requirements. For the purposes of analysing the currency risk exposure, the Supervision and Risk Reporting Division prepares regular management reports. The Bank has the obligation to adjust its foreign currency position in line with the currency risk to ensure that the foreign exchange open position does not exceed 20 percent of the Bank's regulatory capital, as determined by the CNB.

Interest rate risk

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

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



Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The exposure to interest rate risk is monitored and measured using re-pricing gap analysis in the sensitivity to changes in interest rates, the net interest income and economic value of equity. Risk management activities are aimed at optimising the net interest income and economic value of equity, when the market interest rate levels are consistent with the Bank's business strategies. Interest rate risk is reported through an interest rate gap report, by which the Management Board approves internally set limits for individual time horizons. The Bank's Management Board and Asset and Liability Committee control and manage the interest rate risk by involving all organizational units that operatively apply the prescribed interest rates.

Equity and debt security price risk

Equity and debt security price risk is the risk that equity and debt security prices will fluctuate, affecting the fair value of the underlying investments and other instruments that derive their value from these investments. The primary exposure to equity price risk arises from the available-for-sale equity shares accounted for at fair value.

Derivative financial instruments

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

Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk. In order to efficiently measure and manage the operational risk exposure at the Bank level, the Bank is developing internal models for the operational risk exposure management in line with the Basel II prescribed framework. The main goals of this internal model are to introduce and apply methods enabling a detailed analysis of operational risks at the Bank and support the decision-making processes through development of efficient policies for the management and mitigation of the operational risk at the Bank level. Operational risk events are aggregated in a single database using a web application.

According to the Basel II guidelines and EU Directives, there are three operational risk assessment methods, which are as follows:

- Basic Indicator Approach (BIA);
- Standardised Approach (SA); and
- Advanced Measurement Approach (AMA).

The Bank has opted to adopt the BIA approach. Within the operational risk management framework, the Bank has adopted the Operational Risk Policy that provides the methodology for managing operational risks, together with a Data Collection and Operational Risk Reporting Procedure that specifies the methods for collecting operational risk event data and reporting.

The Bank plans to identify its risk using the mapping method and implement the key risk indicators (KRI) which, together with the measures specified above, would constitute the entire operational risk management framework. The Bank will continue its efforts towards establishing a reliable and adequate operational risk management system.

32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Loans and advances to customers and assets held to maturity are measured at amortised cost less impairment. The following methods and assumptions have been made in estimating the fair value of financial instruments:

- Loans and advances to customers are presented net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected future cash flows are estimated considering credit risk and any indication of impairment. As the Bank has a limited portfolio of loans and advances with fixed rate and longer term maturity, the fair values of loans and advances are not significantly different from their carrying amounts.
- The fair value of securities is based on market prices, with the exception of unquoted equity investments whose fair value is based on the latest available financial statements of the issuer.
- The fair value of certain investments carried at amortised cost less impairment for which no quoted market price is available is, where possible, estimated using mark to model techniques and, as a result, their estimated fair values appeared not to be materially different from their carrying value. However, the afore-mentioned techniques did not include market liquidity factor on similar instruments.
- For demand deposits and deposits with no defined maturities, fair value is determined to be the amount payable on demand at the balance sheet date.
- Most of the Bank's long-term borrowings are at variable rates which are linked to the market and are repriced regularly. As such, the management believes that the book value of the long-term borrowings approximates their fair value.



33. INTEREST RATE RISK

The tables below provide the Bank's interest rate sensitivity position at 31 December 2009 and 2008 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of other items.

At 31 December 2009	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non - interest bearing	Total
ASSETS						
Cash and amounts due from banks	-	-	-	-	209,263	209,263
Balances with the Croatian National Bank	-	90,204	74,449	31,332	107	196,092
Placements with other banks	639,216	21,919	7,854	-	354	669,343
Loans and advances to customers	1,187,246	68,978	12,905	24,568	11,380	1,305,077
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets available for sale	-	10,000	11,608	80,716	34,038	136,362
Financial assets held to maturity	-	-	70,273	54,799	480	125,552
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	18,733	18,733
Property and equipment	-	-	-	-	77,053	77,053
Deferred tax assets	-	-	-	-	4,386	4,386
Other assets	-	-	-	-	13,551	13,551
TOTAL ASSETS	1,826,462	191,101	177,089	191,415	370,875	2,756,942
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	136,218	-	-	-	8	136,226
Amounts due to customers	1,198,931	153,711	619,806	29,843	40,780	2,043,071
Other borrowed funds	107,248	16,993	8,905	49,234	297	182,677
Other liabilities	-	-	-	-	29,220	29,220
Provisions for contingent liabilities and charges	-	-	-	-	2,131	2,131
Total liabilities	1,442,397	170,704	628,711	79,077	72,436	2,393,325
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,082)	(11,082)
Other reserves	-	-	-	-	92,060	92,060
Profit for the year	-	-	-	-	12,124	12,124
Total shareholders' equity	-	-	-	-	363,617	363,617
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,442,397	170,704	628,711	79,077	436,053	2,756,942
NET INTEREST GAP	384,065	20,397	(451,622)	112,338	(65,178)	-

At 31 December 2008	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non - interest bearing	Total
ASSETS						
Cash and amounts due from banks	-	-	-	-	244,443	244,443
Balances with the Croatian National Bank	-	97,010	75,397	35,035	133	207,575
Placements with other banks	626,119	-	-	-	-	626,119
Loans and advances to customers	1,301,568	36,047	41,351	113,334	15,081	1,507,381
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets available for sale	-	-	1,742	3,484	31,097	36,323
Financial assets held to maturity	-	-	-	54,659	497	55,156
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	19,211	19,211
Property and equipment	-	-	-	-	74,350	74,350
Deferred tax assets	-	-	-	-	2,929	2,929
Other assets	-	-	-	-	8,780	8,780
TOTAL ASSETS	1,927,687	133,057	118,490	206,512	398,051	2,783,797
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	39,866	-	-	-	-	39,866
Amounts due to customers	1,327,949	197,290	529,254	87,354	27,995	2,169,842
Other borrowed funds	120,325	8,071	19,172	41,340	235	189,143
Other liabilities	-	-	-	-	31,991	31,991
Provisions for contingent liabilities and charges	-	-	-	-	2,579	2,579
Total liabilities	1,488,140	205,361	548,426	128,694	62,800	2,433,421
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,068)	(11,068)
Other reserves	-	-	-	-	70,852	70,852
Profit for the year	-	-	-	-	20,077	20,077
Total shareholders' equity	-	-	-	-	350,376	350,376
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,488,140	205,361	548,426	128,694	413,176	2,783,797
NET INTEREST GAP	439,547	(72,304)	(429,936)	77,818	(15,125)	-



During 2009, the weighted average effective interest rate on loans and advances to customers was 9.38 percent (2008: 9.45 percent).

During 2009, the weighted average effective interest rate on deposits from customers was 4.39 percent (2008: 4.02 percent).

The Table below presents the sensitivity of the Bank's variable rate assets and liabilities to the fluctuations in interest rates assuming the maximum recorded increase or decrease in the interest rates during 2009 and in early 2010. Changes in interest rates have a direct impact on net interest income.

In case of an interest rate decrease at the same percentage, there would be an interest expense in the same amount.

	Assumed increase of the interest rate	Impact on 2009 profit and loss	Impact on 2008 profit and loss
Assets	5%	7,129	8,986
Liabilities	5%	(3,030)	(4,198)
Impact on net interest income		4,099	4,788



34. CURRENCY RISK

The Bank manages its exposure to currency risk through a variety of measures, including the use of revaluation clauses, which have the same effect as denominated HRK assets in other currencies.

At 31 December 2009	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
ASSETS						
Cash and amounts due from banks	55,182	4,959	23,891	84,032	125,231	209,263
Balances with the Croatian National Bank	21,846	5,298	-	27,144	168,948	196,092
Placements with other banks	352,661	7,519	-	360,180	309,163	669,343
Loans and advances to customers	876,631	12,492	1,220	890,343	414,734	1,305,077
Financial assets at fair value through profit or loss						
Financial assets available for sale	53,693	-	-	53,693	82,669	136,362
Financial assets held to maturity	70,273	-	-	70,273	55,279	125,552
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	18,733	18,733
Property and equipment	-	-	-	-	77,053	77,053
Deferred tax assets	-	-	-	-	4,386	4,386
Other assets	159	2	-	161	13,390	13,551
TOTAL ASSETS	1,430,445	30,270	25,111	1,485,826	1,271,116	2,756,942
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	79,721	-	-	79,721	56,505	136,226
Amounts due to customers	1,268,219	29,543	15,359	1,313,121	729,950	2,043,071
Other borrowed funds	58,220	-	-	58,220	124,457	182,677
Other liabilities	4,954	213	9	5,176	21,786	26,962
Provisions for continent liabilities and charges	-	-	-	-	4,389	4,389
Total liabilities	1,411,114	29,756	15,368	1,456,238	937,087	2,393,325
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,082)	(11,082)
Other reserves	-	-	-	-	92,060	92,060
Profit for the year	-	-	-	-	12,124	12,124
Total shareholders' equity	-	-	-	-	363,617	363,617
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,411,114	29,756	15,368	1,456,238	1,300,704	2,756,942
NET FX GAP	19,331	514	9,743	29,588	(29,588)	-

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At 31 December 2008	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
ASSETS						
Cash and amounts due from banks	60,042	5,392	10,662	76,096	168,347	244,443
Balances with the Croatian National Bank	37,846	8,039	-	45,885	161,690	207,575
Placements with other banks	277,957	14,000	9,822	301,779	324,340	626,119
Loans and advances to customers	891,457	13,955	1,355	906,767	600,614	1,507,381
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets available for sale	6,818	-	-	6,818	29,505	36,323
Fin. assets held to maturity	-	-	-	-	55,156	55,156
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	19,211	19,211
Property and equipment	-	-	-	-	74,350	74,350
Deferred tax assets	-	-	-	-	2,929	2,929
Other assets	242	3	3	248	8,532	8,780
TOTAL ASSETS	1,274,362	41,389	21,842	1,337,593	1,446,204	2,783,797
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	39,866	-	-	39,866	-	39,866
Amounts due to customers	1,142,330	40,294	16,496	1,199,120	970,722	2,169,842
Other borrowed funds	51,532	-	-	51,532	137,611	189,143
Other liabilities	5,154	107	17	5,278	26,713	31,991
Provisions for contingent liabilities and charges	258	-	-	258	2,321	2,579
Total liabilities	1,239,140	40,401	16,513	1,296,054	1,137,367	2,433,421
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,068)	(11,068)
Other reserves	-	-	-	-	70,852	70,852
Profit for the year	-	-	-	-	20,077	20,077
Total shareholders' equity	-	-	-	-	350,376	350,376
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,239,140	40,401	16,513	1,296,054	1,487,743	2,783,797
NET FX GAP	35,222	988	5,329	41,539	(41,539)	-



The Table below presents the sensitivity of the Bank's net assets and profit and loss to an increase in the CNB's middle exchange rate. By applying the same assumed percentage to a decrease of the CNB middle exchange rate, the impact on the profit or loss, on the net principle, by individual currency would be the same and opposite, that is, the aggregate impact on all currencies would result in expense for the year 2009 and in income for the year 2008. The results of fluctuations in exchange rates are reported in the income statement as foreign exchange gains or losses.

Currency on 31 December 2009	Assumed increase of the CNB's middle exchange rate	Influence on profit and loss	Influence on profit and loss	Influence on profit and loss
		Bank Assets	Bank Liabilities	Net
Assets	3%	44,574	-	
Liabilities	3%	-	43,687	
Net assets/(liabilities)				887

Currency on 31 December 2008	Assumed increase of the CNB's middle exchange rate	Influence on profit and loss	Influence on profit and loss	Influence on profit and loss
		Bank Assets	Bank Liabilities	Net
Assets	3%	40,128	-	
Liabilities	3%	-	38,882	
Net assets/(liabilities)				1,246



35. LIQUIDITY RISK

At 31 December 2009	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	209,263	-	-	-	-	209,263
Balances with the Croatian National Bank	107	90,204	74,449	25,439	5,893	196,092
Placements with other banks	639,570	21,919	7,854	-	-	669,343
Loans and advances to customers	217,842	162,115	361,174	300,237	263,709	1,305,077
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets available for sale	85,277	37,372	12,909	804	-	136,362
Financial assets held to maturity	-	-	70,753	54,799	-	125,552
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	18,733	18,733
Property and equipment	-	-	-	-	77,053	77,053
Deferred tax assets	-	-	1,654	2,732	-	4,386
Other assets	3,920	1,835	421	100	7,275	13,551
TOTAL ASSETS	1,157,386	313,445	529,214	384,111	374,193	2,756,942
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	136,226	-	-	-	-	136,226
Amounts due to customers	693,711	284,254	837,356	192,200	35,550	2,043,071
Other borrowed funds	107,545	16,993	8,905	17,470	31,764	182,677
Other liabilities	17,153	4,774	4,279	-	756	26,962
Provisions for contingent liabilities and charges	457	384	928	336	2,284	4,389
Total liabilities	955,092	306,405	851,468	210,006	70,354	2,393,325
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,082)	(11,082)
Other reserves	-	-	-	-	92,060	92,060
Profit for the year	-	-	-	-	12,124	12,124
Total shareholders' equity	-	-	-	-	363,617	363,617
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	955,092	306,405	851,468	210,006	433,971	2,756,942
NET LIQUIDITY GAP	200,887	7,040	(322,254)	174,105	(59,778)	-

At 31 December 2008	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	244,443	-	-	-	-	244,443
Balances with the Croatian National Bank	133	97,010	75,397	27,676	7,359	207,575
Placements with other banks	626,119	-	-	-	-	626,119
Loans and advances to customers	276,157	185,218	391,777	328,967	325,262	1,507,381
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets available for sale	24,224	6,873	1,742	3,484	-	36,323
Financial assets held to maturity	551	106	477	27,522	26,500	55,156
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	19,211	19,211
Property and equipment	-	-	-	-	74,350	74,350
Deferred tax assets	-	-	-	2,929	-	2,929
Other assets	3,383	-	3,274	-	2,123	8,780
TOTAL ASSETS	1,175,010	289,207	472,667	390,578	456,335	2,783,797

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**LIABILITIES****AND SHAREHOLDERS' EQUITY****Liabilities**

Amounts due to other banks	39,866	-	-	-	-	39,866
Amounts due to customers	809,427	307,659	787,221	215,333	50,202	2,169,842
Other borrowed funds	120,560	8,071	19,172	16,124	25,216	189,143
Other liabilities	20,285	544	8,267	-	2,895	31,991
Provisions for contingent liabilities and charges	647	633	1,257	42	-	2,579
Total liabilities	990,785	316,907	815,917	231,499	78,313	2,433,421

Shareholders' equity

Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,068)	(11,068)
Other reserves	-	-	-	-	70,852	70,852
Profit for the year	-	-	-	-	20,077	20,077
Total shareholders' equity	-	-	-	-	350,376	350,376

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	990,785	316,907	815,917	231,499	428,689	2,783,797
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NET LIQUIDITY GAP	184,225	(27,700)	(343,250)	159,079	27,646	-
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36. CREDIT RISK

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

As at 31 December 2009	Gross placements	Provisions on individual basis	Provisions on general basis	Net placements
A. BALANCE SHEET EXPOSURE				
Balances with the Croatian National Bank	196,092	-	-	196,092
Placements with other banks	669,943	(600)	-	669,343
Assets available for sale	136,362	-	-	136,362
Assets held to maturity	125,552	-	-	125,552
Loans and advances to customers				
Performing	1,255,048	-	(21,680)	1,233,368
Substandard	104,690	(32,981)	-	71,709
Non-performing (bad)	78,981	(78,981)	-	-
Overall Balance sheet exposure	2,566,668	(112,562)	(21,680)	2,432,426
B. OFF-BALANCE SHEET EXPOSURE				
Customers				
Performing	200,961	-	(1,710)	199,251
Substandard	98	(31)	-	67
Non-performing (bad)	140	(140)	-	-
Overall Off-balance sheet exposure	201,199	(171)	(1,710)	199,318
OVERALL EXPOSURE (A+B)	2,767,867	(112,733)	(23,390)	2,631,744



As at 31 December 2008	Gross placements	Provisions on individual basis	Provisions on general basis	Net placements
A. BALANCE SHEET EXPOSURE				
Balances with the Croatian National Bank	207,575	-	-	207,575
Placements with other banks	629,464	(3,345)	-	626,119
Assets available for sale	36,323	-	-	36,323
Assets held to maturity	55,156	-	-	55,156
Loans and advances to customers				
Performing	1,468,256	-	(22,150)	1,446,106
Substandard	99,483	(38,208)	-	61,275
Non-performing (bad)	67,053	(67,053)	-	-
Overall Balance sheet exposure	2,563,310	(108,606)	(22,150)	2,432,554
B. OFF-BALANCE SHEET EXPOSURE				
Customers				
Performing	237,188	-	(2,100)	235,088
Substandard	229	(75)	-	154
Non-performing (bad)	404	(404)	-	-
Overall Off-balance sheet exposure	237,821	(479)	(2,100)	235,242
OVERALL EXPOSURE (A+B)	2,771,733	(109,085)	(24,250)	2,638,398



b) Past due claims

Past due claims consist of balances due but not impaired for both the principle due and not yet due. They are arranged according to age, based on the individual placement including uncollected and not yet due interest and other income related to the principle. Other past due claims consist of interest not yet due and uncollected, and amounts written off or still in the process of collection. The total individual placement is classified by reference to the oldest past due claim, regardless of whether the principle or the interest is due.

As at 31 December 2009	Past due up to 30 days	Past due between 31 and 90 days	Past due between 91 and 180 days	Past due between 181 and 365 days	Past due between 1 and 2 years	Past due between 2 and 3 years	Past due over 3 years
Placements with other banks	-	-	-	-	-	-	600
Loans and advances to customers							
Citizens	19,059	56,834	16,234	17,625	13,705	7,646	33,443
Companies	11,091	36,589	38,925	8,464	14,264	10,669	58,869
Public and other sectors	2	-	6	1	1	-	1,912
Other past due claims	2,145	3,776	2,140	1,391	2,205	3,208	49,855
Total past due claims	32,297	97,199	57,305	27,481	30,175	21,523	144,679

As at 31 December 2008	Past due up to 30 days	Past due between 31 and 90 days	Past due between 91 and 180 days	Past due between 181 and 365 days	Past due between 1 and 2 years	Past due between 2 and 3 years	Past due over 3 years
Placements with other banks							3,345
Loans and advances to customers							
Citizens	24,395	60,729	16,100	10,936	8,508	8,103	27,476
Companies	8,127	51,148	10,795	6,691	10,961	19,320	46,153
Public and other sectors	3	101	-	-	-	-	1,912
Other past due claims	7,418	1,254	1,007	1,568	3,452	5,774	49,554
Total past due claims	39,943	113,232	27,902	19,195	22,921	33,197	128,440



c) Placements covered by collaterals

As at 31 December 2009	Deposit	Housing mortgages	Business mortgages	Other instruments	No collateral
A. BALANCE SHEET EXPOSURE					
Balances with the Croatian National Bank	-	-	-	-	196,092
Placements with other banks	-	-	-	15,343	654,000
Loans and advances to customers	80,776	143,760	141,762	150,824	787,955
Assets available for sale	-	-	-	-	136,362
Assets held to maturity	-	-	-	-	125,552
Overall Balance sheet exposure	80,776	143,760	141,762	166,167	1,899,961
B. OFF-BALANCE SHEET EXPOSURE					
Customers	180	1,264	-	-	197,874
Overall Off-balance sheet exposure	180	1,264	-	-	197,874
OVERALL EXPOSURE (A+B)	80,956	145,024	141,762	166,167	2,097,835
Fair value of collaterals		166,164	155,406	-	-

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As at 31 December 2008	Deposit	Housing mortgages	Business mortgages	Other instruments	No collateral
A. BALANCE SHEET EXPOSURE					
Balances with the Croatian National Bank	-	-	-	-	207,575
Placements with other banks	-	-	-	-	626,119
Loans and advances to customers	85,811	154,163	142,623	276,367	848,417
Assets available for sale	-	-	-	-	6,925
Assets held to maturity	-	-	-	-	55,156
Overall Balance sheet exposure	85,811	154,163	142,623	276,367	1,744,192
B. OFF-BALANCE SHEET EXPOSURE					
Customers	304	810	-	244	233,884
Overall Off-balance sheet exposure	304	810	-	244	233,884
OVERALL EXPOSURE (A+B)	86,115	154,973	142,623	276,611	1,978,076
Fair value of collaterals		164,710	157,791		



d) Provision ratio in performing and non-performing loans

	2009		2008	
	Loans and advances to customers (%)	Provision ratio (%)	Loans and advances to customers (%)	Provision ratio (%)
Performing loans	87.2	1.7	89.8	1.5
Substandard loans	7.3	31.5	6.1	38.4
Non-performing loans	5.5	100	4.1	100.0
Total	100.0		100.0	

37. PRICE RISK

Equity and debt instrument price risk represents the sensitivity of the available-for-sale assets to fluctuations in market prices, with effects on the income statement and the revaluation reserve within the Bank's equity.

	Assumed price change	Influence of price increase on revaluation reserves
At 31 December 2009	20%	27,272
At 31 December 2008	20%	7,265

38. CONCENTRATIONS OF ASSETS AND LIABILITIES

There is a significant concentration of the Bank's assets towards the Republic of Croatia, which is analysed as follows:

	2009	2008
Current account with the Croatian National Bank	83,061	130,917
Other cash reserve funds	10,000	10,000
Mandatory reserve with the Croatian National Bank	196,092	207,575
Treasury bills of the Republic of Croatia	89,894	0
Bonds of the Republic of Croatia	114,295	55,156
Other assets	421	1,391
Deposits received	(7,899)	(1,905)
Current tax liability	(3,033)	(4,605)
	482,831	398,529

At 31 December 2009, the Bank's indirect exposure to the Republic of Croatia in respect of debt securities issued by local and municipal authorities, loans and other exposures were as follows:

	2009	2008
State Agency for Deposit Insurance and Rehabilitation of Banks	(996)	(1,212)
Municipal bonds of the Town of Koprivnica	2,413	4,356
Loans and advances to customers guaranteed by the State	10,347	4,074
Deposits received	(26,851)	(71,444)
Loans from the Croatian Bank for Reconstruction and Development	(75,671)	(68,977)
	(90,758)	(133,203)

39. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorized for issue by the Management Board on 9 April 2010 and were signed on its behalf by:



Julio Kuruc

President of the Board



Marijan Marušić

Member of the Board



Davorka Jakir

Member of the Board







4.] About the Bank

Bank's management and organizational structure

The Bank's operations are supervised by the Supervisory Board and managed by the Management Board.

Supervisory Board

Miljan Todorovic, Chairman
Sigilfredo Montinari, Deputy Chairman
Maurizio Dallochio, Member
Filippo Disertori, Member
Dario Montinari, Member
Djuro Predovic, Member
Dolly Predovic, Member

Bank's Management Board

Julio Kuruc, Chairman of the Management Board
Davorka Jakir, Member of the Management Board
Marijan Marušić, Member of the Management Board

Business Processes Coordinator

Moreno Marson

Operations and Organization Function

Marko Žigmund

Units

Strategic Development and Planning Unit - Sanda Fuček Šanjić
Risk Control Unit - Renata Vinković
Administration and Human Resource Management Unit - Božana Kovačević
Accounting and Reporting Unit - Vesna Laloš
Support Unit - Dragica Hrkalović
Internal Audit Unit - Krunoslav Vnučec
Compliance Monitoring Unit - Božica Širić

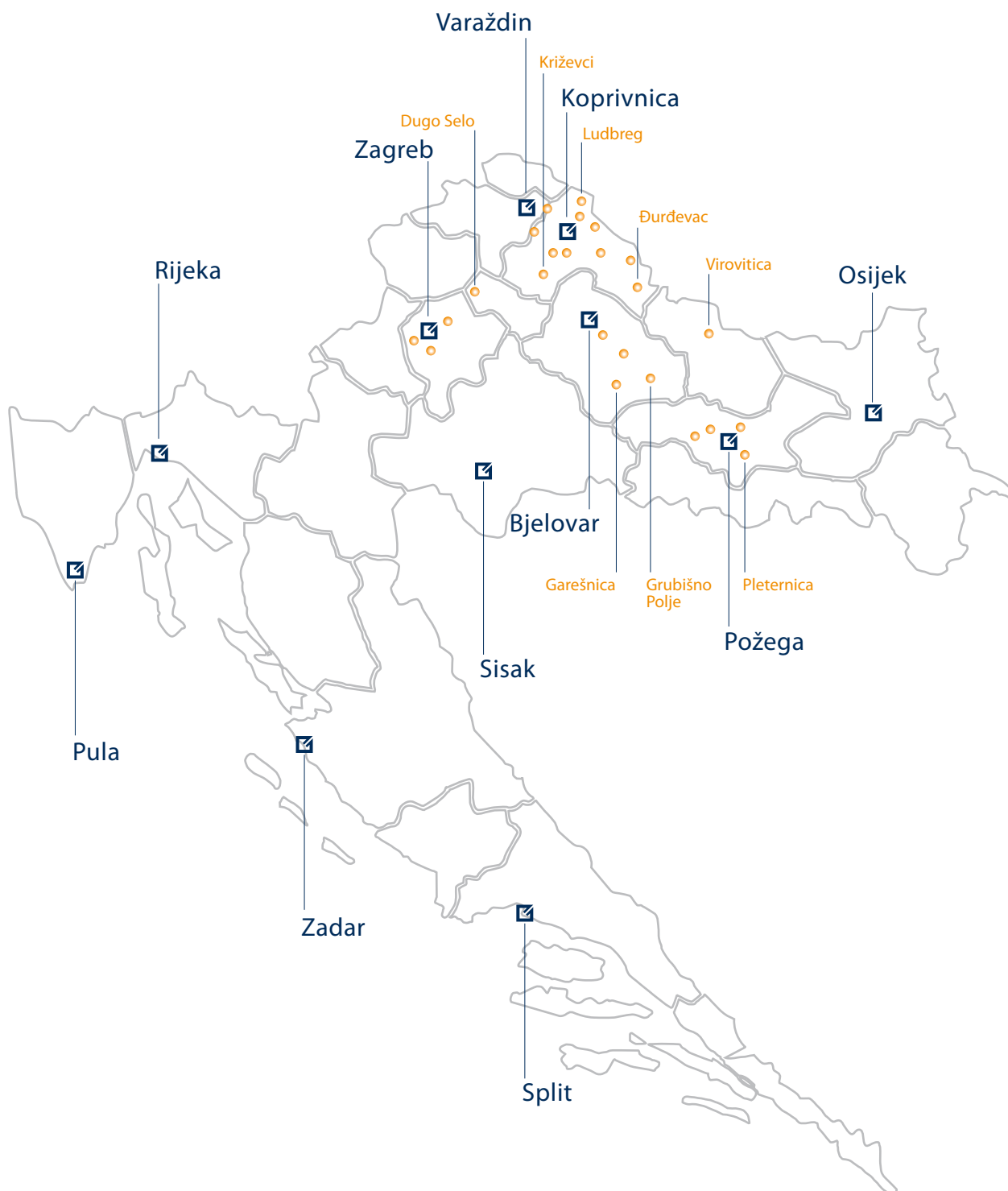
Divisions

Commercial Operations Unit - Daniel Unger
Treasury Division - Goran Varat
Payments and Back-Office Division - Snježana Pobi

Retail Network

Commercial Centre Zagreb
Commercial Centre Koprivnica
Commercial Centre Bjelovar
Commercial Centre Požega
Commercial Centre Pula
Commercial Centre Rijeka
Commercial Centre Sisak
Commercial Centre Split
Commercial Centre Varaždin
Commercial Centre Zadar
Commercial Centre Osijek





LEGEND

-  Commercial center
-  Branches



Retail network

Commercial Center Zagreb

Zagreb, Nova galerija - Zagrebačka avenija 104, phone 062 655 490, fax 062 655 499

Zagreb, Miramarska cesta 23, phone 062 655 450, fax 062 655 459

Zagreb, Gajeva 5, phone 062 655 400, fax 062 655 409

Zagreb, Vlaška ulica 129, phone 062 655 410, fax 062 655 419

Dugo Selo, Josipa Zorića 23, phone 062 655 440, fax 062 655 449

Commercial Center Koprivnica

Koprivnica, Opatička 3, phone 062 655 000, fax 062 655 200

Koprivnica, Trg bana Jelačića 10, phone 062 655 310, fax 062 655 319

Koprivnica, Trg Eugena Kumičića 11, phone 062 655 330, fax 062 655 339

Koprivnica, Ivana Meštrovića bb, phone 062 655 340, fax 062 655 349

Gola, Trg kardinala A. Stepinca 6b, phone 062 655 352, fax 062 655 353

Đelekovec, P. Kvakana bb, phone 062 655 354, fax 062 655 355

Legrad, Trg Svetog Trojstva bb, phone 062 655 356, fax 062 655 357

Ludbreg, Petra Zrinskog 32, phone 062 655 620, fax 062 655 629

Commercial Center Bjelovar

Bjelovar, Trg Eugena Kvaternika 12, phone 062 655 800, fax 062 655 809

Grubišno Polje, 77. samostalnog bataljuna ZNG 1, phone 062 655 820,
fax 062 655 829

Veliki Grđevac, Kralja Tomislava 26, phone 062 655 840, fax 062 655 849

Osijek, Kapucinska 38, phone 062 655 790, fax 062 655 799

Đurđevac, Stjepana Radića 16, phone 062 655 370, fax 062 655 379

Garešnica, Trg hrvatskih branitelja 7, phone 062 655 830, fax 062 655 839

Križevci, I. Z. Dijankovečkog 2, phone 062 655 360, fax 062 655 369

Commercial Center Požega

Požega, Republike Hrvatske 1b, phone 062 655 700, fax 062 655 709

Požega, Trg Svetog Trojstva 8, phone 062 655 740, fax 062 655 749

Velika, Bana Josipa Jelačića 24, phone 062 655 760, fax 062 655 769

Pleternica, Ivana Šveara 4, phone 062 655 770, fax 062 655 779

Kutjevo, Kralja Tomislava 2, phone 062 655 780, fax 062 655 789

Commercial Center Pula

Pula, Giardini 13, phone 062 655 680, fax 062 655 689

Commercial Center Rijeka

Rijeka, Ivana Zajca 18, phone 062 655 660, fax 062 655 669



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Commercial Center Sisak

Sisak, Stjepana i Antuna Radića 6, phone 062 655 850, fax 062 655 859

Commercial Center Split

Split, Ulica slobode 33, phone 062 655 630, fax 062 655 639

Commercial Center Varaždin

Varaždin, Trg slobode 2, phone 062 655 600, fax 062 655 609

Commercial Center Zadar

Zadar, Stjepana Radića 2f, phone 062 655 650, fax 062 655 659





A.] Appendix 1

Appendix 1

Supplementary Reports for the Croatian National Bank

Pursuant to the Croatian Accounting Act (Official Gazette No. 109/07), the Croatian National Bank has promulgated the Decision on the Structure and Content of the Financial Statements of Banks (Official Gazette 62/08). Set out below are the statutory financial statements of the Bank presented in accordance with the Decision:

Income Statement

	2009 Unaudited HRK '000	2008 Unaudited HRK '000
1. Interest income	178,302	181,312
2. (Interest expenses)	(89,497)	(90,599)
3. Net interest income	88,805	90,713
4. Commission and fee income	40,697	50,754
5. (Commission and fee expenses)	(13,772)	(15,890)
6. Net commission and fee income	26,925	34,864
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. Gain/(loss) from trading activities	8,750	10,271
9. Gain/(loss) from embedded derivatives	(1)	(1)
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	-	(5,684)
11. Gain/(loss) from financial assets available for sale	3,739	13,111
12. Gain/(loss) from financial assets held to maturity	-	-
13. Gain/(loss) from hedging transactions	-	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-
15. Income from other equity investments	2,267	1,619
16. Gain/(loss) from foreign exchange differences	2,408	1,057
17. Other income	2,377	4,250
18. Other expenses	(6,014)	(12,335)
19. General and administrative expenses, depreciation and amortization	(102,679)	(105,480)
20. Net income before value adjustments and provisions for losses	26,577	32,385
21. Expenses from value adjustments and provisions for losses	(11,224)	(8,477)
22. Profit/(loss) before tax	15,353	23,908
23. Income tax	(3,229)	(3,831)
24. Current year profit/(loss)	12,124	20,077
25. Earnings per share	18.13	36.86

Appendix to the Income Statement

	2009 HRK '000	2008 HRK '000
Current year profit/(loss)	-	-
Attributable to the equity holders of the parent	-	-
Minority interest	-	-



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Balance Sheet

	2009 Unaudited HRK '000	2008 Unaudited HRK '000
Assets		
1. Cash and deposits with the CNB	333,858	389,525
1.1. Cash	34,813	41,166
1.2. Deposits with the CNB	299,045	348,359
2. Deposits with banking institutions	591,530	362,297
3. Treasury bills of Ministry of Finance and treasury bills of the CNB	89,894	-
4. Securities and other financial instruments held for trading	-	-
5. Securities and other financial instruments available for sale	119,987	66,436
6. Securities and other financial instruments held to maturity	60,495	67,400
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	-	-
8. Derivative financial assets	-	1
9. Loans to financial institutions	147,112	324,070
10. Loans to other clients	1,301,098	1,471,904
11. Investments in subsidiaries, affiliated companies and joint ventures	1,530	1,530
12. Repossessed assets	7,275	2,123
13. Tangible and intangible assets (minus depreciation and amortization)	95,906	93,704
14. Interests, fees and other assets	17,558	14,550
A. Total assets	2,766,243	2,793,540
Liabilities and equity		
1. Borrowings from financial institutions	182,380	188,908
1.1. Short-term borrowings	110,500	123,600
1.2. Long-term borrowings	71,880	65,308
2. Deposits	2,121,254	2,141,848
2.1. Deposits on giro-accounts and current accounts	287,057	387,160
2.2. Savings deposits	226,514	233,966
2.3. Term deposits	1,607,683	1,520,722
3. Other borrowings	-	-
3.1. Short-term borrowings	-	-
3.2. Long-term borrowings	-	-
4. Derivative financial liabilities and other trading financial liabilities	-	-
5. Issued debt securities	-	-
5.1. Issued short-term debt securities	-	-
5.2. Issued long-term debt securities	-	-
6. Issued subordinated instruments	-	-
7. Issued subordinated debt	-	-
8. Interests, fees and other liabilities	98,235	111,631
B. Total liabilities	2,401,869	2,442,387
Equity		
1. Share capital	259,433	259,447
2. Current year gain/loss	12,124	20,077
3. Retained earnings/(loss)	-	-
4. Legal reserves	71,940	51,863
5. Statutory and other capital reserves	27,493	27,513
6. Unrealised gain / (loss) from available for sale fair value adjustment	(6,616)	(7,747)
C. Total equity	364,374	351,153
D. Total liabilities and equity	2,766,243	2,793,540



Appendix to the Balance Sheet

	2009 HRK '000	2008 HRK '000
Total equity	-	-
Attributable to the equity holders of the parent	-	-
Minority interest	-	-

Cash Flow Statement

	2009 Unaudited HRK '000	2008 Unaudited HRK '000
OPERATING ACTIVITIES		
1.1. Gain/(loss) before tax	15,353	23,909
1.2. Value adjustments and provisions for losses	11,224	8,477
1.3. Depreciation and amortization	12,813	13,331
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	-	5,684
1.5. Gain/(loss) from sale of tangible assets	27	(376)
1.6. Other (gains)/losses	-	351
1. Operating cash flow before changes in operating assets	39,417	51,376
2.1. Deposits with the CNB	11,458	50,822
2.2. Treasury bills of Ministry of Finance and treasury bills of the CNB	(89,894)	-
2.3. Deposits with banking institutions and loans to financial institutions	-	(70)
2.4. Loans to other clients	159,582	12,836
2.5. Securities and other financial instruments held for trading	-	-
2.6. Securities and other financial instruments available for sale	(53,551)	48,793
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	-	10,443
2.8. Other operating assets	(3,007)	472
2. Net (increase)/decrease in operating assets	24,588	123,296
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
3.1. Demand deposits	(100,103)	(49,530)
3.2. Savings and term deposits	79,509	(122,604)
3.3. Derivative financial liabilities and other trading liabilities	-	(6)
3.4. Other liabilities	(9,793)	13,128
3. Net increase/(decrease) in operating liabilities	(30,387)	(159,012)
4. Net cash flow from operating activities before profit tax	33,618	15,660
5. Profit tax paid	(3,454)	-
6. Net cash inflow/(outflow) from operating activities	30,164	15,660
INVESTING ACTIVITIES		
7.1. Proceeds from sale/(payments on purchases) of tangible and intangible assets	(15,065)	(5,571)
7.2. Proceeds from sale/(payments on purchases) of investments in subsidiaries, associates and joint ventures	-	-
7.3. Proceeds from sale/(payments on purchases) of securities and other financial instruments held to maturity	6,905	(7,502)
7.4. Dividends received	(2,267)	(1,619)
7.5. Other receipts/(payments) from financial activities	(5,152)	291
7. Net cash flow from investing activities	(15,579)	(14,401)
FINANCING ACTIVITIES		
8.1. Net increase/(decrease) in borrowings	(6,528)	36,841
8.2. Net increase/(decrease) in issued debt securities	-	-
8.3. Net increase/(decrease) in subordinated debt and hybrid instruments	-	-
8.4. Receipts from issued share capital	-	99,195
8.5. (Dividends paid)	-	-
8.6. Other receipts/(payments) from financial activities	(14)	(6,140)
8. Net cash flow from financial activities	(6,542)	129,896
9. Net increase/(decrease) in cash and cash equivalents	8,043	131,155
10. Cash and cash equivalents at the beginning of the year	870,562	739,407
11. Cash and cash equivalents at the end of the year	878,605	870,562

Statement of Changes in Equity

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/losses from available for sale financial assets fair value adjustment	Minority interest	Total capital and reserves
	<i>Unaudited</i> HRK '000	<i>Unaudited</i> HRK '000	<i>Unaudited</i> HRK '000	<i>Unaudited</i> HRK '000	<i>Unaudited</i> HRK '000	<i>Unaudited</i> HRK '000	<i>Unaudited</i> HRK '000	<i>Unaudited</i> HRK '000
1. Balance at 1 January 2009	270,515	(11,068)	79,376	20,077	-	(7,747)	-	351,153
2. Changes in accounting policies and corrections of errors	-	-	-	-	-	-	-	-
3. Restated current year balance	270,515	(11,068)	79,376	20,077	-	(7,747)	-	351,153
4. Sale of financial assets available for sale	-	-	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	-	(523)	-	(523)
6. Tax on items recognised directly in, or transferred from capital and reserves	-	-	-	-	-	1,654	-	1,654
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8. Net gains/losses recognised directly in capital and reserves	-	-	-	-	-	1,131	-	1,131
9. Current year gain/(loss)	-	-	-	-	12,124	-	-	12,124
10. Total income and expenses recognised for the current year	-	-	-	-	12,124	1,131	-	13,255
11. Increase/ (decrease) in share capital	-	-	-	-	-	-	-	-
12. Purchase/(sale) of treasury shares	-	(14)	-	-	-	-	-	(14)
13. Other changes	-	-	(20)	-	-	-	-	(20)
14. Transfer to reserves	-	-	-	-	-	-	-	-
15. Dividends paid	-	-	-	-	-	-	-	-
16. Allocation of profit	-	-	20,077	(20,77)	-	-	-	-
17. Balance at 31 December 2009	270,515	(11,082)	99,433	-	12,124	(6,616)	-	364,374



	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/losses from available for sale financial assets fair value adjustment	Minority interest	Total capital and reserves
	Unaudited HRK '000	Unaudited HRK '000	Unaudited HRK '000	Unaudited HRK '000	Unaudited HRK '000	Unaudited HRK '000	Unaudited HRK '000	Unaudited HRK '000
1. Balance at 1 January 2008	171,320	(4,929)	60,819	19,417	-	1,364	-	247,991
2. Changes in accounting policies and corrections of errors	-	-	-	-	-	-	-	-
3. Restated current year balance	171,320	(4,929)	60,819	19,417	-	1,364	-	247,991
4. Sale of financial assets available for sale	-	-	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	-	(9,111)	-	(9,111)
6. Tax on items recognised directly in, or transferred from capital and reserves	-	-	-	-	-	-	-	-
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8. Net gains/losses recognised directly in capital and reserves	-	-	-	-	-	(9,111)	-	(9,111)
9. Current year gain/ (loss)	-	-	-	-	20,077	-	-	20,077
10. Total income and expenses recognised for the current year	-	-	-	-	20,077	(9,111)	-	10,966
11. Increase/ (decrease) in share capital	99,195	-	-	-	-	-	-	99,195
12. Purchase/ (sale) of treasury shares	-	(6,139)	(292)	-	-	-	-	(6,431)
13. Other changes	-	-	(12)	-	-	-	-	(12)
14. Transfer to reserves	-	-	-	-	-	-	-	-
15. Dividends paid	-	-	-	-	-	-	-	-
16. Allocation of profit	-	-	18,861	(19,417)	-	-	-	(556)
17. Balance at 31 December 2008	270,515	(11,068)	79,376	-	20,077	(7,747)	-	351,153

Since the data in the financial statements prepared in accordance with the Croatian National Bank (“CNB”) Decision is classified differently from those in the financial statements prepared according to the statutory accounting requirements for banks in Croatia, set out below are the comparative figures.

Comparatives for the income statement ended 31 December 2009 and 2008:

	2009 Croatian National Bank Decision 2009	2009 Accounting Requirements for banks in Croatia 2009	2009 Difference 2009	2008 Croatian National Bank Decision 2008	2008 Accounting Requirements for banks in Croatia 2008	2008 Difference 2008
	<i>Unaudited</i> HRK '000	HRK '000	HRK '000	<i>Unaudited</i> HRK '000	HRK '000	HRK '000
Interest and similar income	178,302	178,107	195	181,312	180,484	855
Interest and similar expense	(89,497)	(84,958)	(4,539)	(90,599)	(86,174)	(4,425)
Net interest income	88,805	93,149	(4,344)	90,713	94,310	(3,570)
Fee and commission income	40,697	40,697	-	50,754	50,752	2
Expense for fees and commissions	(13,772)	(13,772)	-	(15,890)	(15,936)	46
Net fee and commission income	26,925	26,925	-	34,864	34,816	48
Net trading gain	8,750	8,696	54	10,271	10,854	(583)
Gain/(loss) from embedded derivatives	(1)		(1)			
Gain/(loss) from assets at fair value through profit or loss			-	(5,684)	(5,684)	-
Gain/(loss) from financial assets available for sale	3,739	3,740	(1)	13,111	13,110	1
Income from other investments in equity securities	2,267	2,267	-	1,619	1,619	-
Net foreign exchange differences	2,408	2,497	(89)	1,057	385	672
Other operating income	2,377	2,208	169	4,249	4,162	87
Total other income	19,540	19,408	132	24,623	24,446	177
General and administrative expenses, depreciation and amortization	(102,679)	(113,086)	10,407	(105,480)	(122,032)	16,552
Impairment allowance and provisions	(11,224)	(11,043)	(181)	(8,477)	(7,605)	(872)
Other operating expenses	(6,014)	-	(6,014)	(12,335)		(12,335)
Total other expenses	(119,917)	(124,129)	4,212	(126,292)	(129,637)	3,345
Profit before tax	15,353	15,353	-	23,908	23,908	-
Income tax expense	(3,229)	(3,229)	-	(3,831)	(3,831)	-
Net profit for the year	12,124	12,124	-	20,077	20,077	-
EARNINGS PER SHARE (u HRK)	18.13			36.86		



The difference for the year ended 31 December 2009 in “Interest and interest similar income” of HRK 195 thousand (2008: HRK 855 thousand) arises mainly from interest income being reduced by the provision for impairment losses of HRK 229 thousand (2008: HRK 929 thousand). The remaining difference relates to foreign exchange differences based on the interest income.

The difference for the year ended 31 December 2009 in “Interest and similar expense” of HRK 4,539 thousand (2008: HRK 4,425 thousand) relates mainly to the savings deposit insurance premium expenses, which were presented within “General and administrative expenses” in the audited income statement per amount HRK 4,694 thousands (2008: HRK 4,403 thousands). Other differences are in respect of the reclassification of other expense items from the audited accounts to interest expense and of exchange differences on interest expense into net foreign exchange gains on translation of monetary assets and liabilities.

The differences in the positions included in Net foreign exchange differences and Net gain from trading relate to foreign exchange differences based on the translation of foreign currency balances to mid or contracted exchange rate. The differences in the positions included in “Total other expenses” result from reclassification of representation and advertising expenses, and other and extraordinary expenses to “General and administrative expenses in audited financial statements.



Comparatives for the balance sheet at 31 December 2009 and 31 December 2008:

	2009 Croatian National Bank	2009 Accounting Requirements for banks	2009 Difference	2008 Croatian National Bank	2008 Accounting Requirements for banks	2008 Difference
	<i>Unaudited</i> HRK '000	HRK '000	HRK '000	<i>Unaudited</i> HRK '000	HRK '000	HRK '000
Assets						
Cash and deposits with the Croatian National Bank	333,858	405,355	(71,497)	389,525	452,018	(62,493)
Treasury bills of Ministry of Finance and treasury bills of the CNB	89,894	-	89,894	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets available for sale	119,987	136,362	(16,375)	66,436	36,323	30,113
Financial assets held to maturity	60,495	125,552	(65,057)	67,400	55,156	12,244
Placements with and loans to other banks	738,642	669,343	69,299	686,367	626,119	60,248
Loans and receivables	1,301,098	1,305,077	(3,979)	1,471,904	1,507,381	(35,477)
Investments in subsidiaries	1,530	1,530	-	1,530	1,530	-
Repossessed assets	7,275	-	7,275	2,123	-	2,123
Property, plant and equipment and intangible assets	95,906	95,786	120	93,704	93,561	143
Derivative financial assets	-	-	-	1	1	1
Deferred tax assets	-	4,386	(4,386)	-	2,929	(2,929)
Other assets	17,558	13,551	4,007	14,550	8,780	5,770
Total assets	2,766,243	2,756,942	9,301	2,793,540	2,783,797	9,743
Liabilities						
Due to other banks and deposits from customers	2,303,634	2,361,974	(58,340)	2,330,756	2,398,851	(68,095)
Long-term debt securities issued	-	-	-	-	-	-
Provisions for liabilities and charges	-	2,131	(2,131)	-	2,579	(2,579)
Derivative financial liabilities and other trading financial liabilities	-	-	-	-	-	-
Other liabilities	98,235	29,220	69,015	111,631	31,991	79,640
Total liabilities	2,401,869	2,393,325	8,544	2,442,387	2,433,421	8,966
Hybrid instruments	-	-	-	-	-	-
SHAREHOLDERS' EQUITY						
Share capital	259,433	267,500	(8,067)	259,447	267,500	(8,053)
Share premium	-	3,015	(3,015)	-	3,015	(3,015)
Treasury shares	-	(11,082)	11,082	-	(11,068)	11,068
Net profit for the year	12,124	12,124	-	20,077	20,077	-
Retained profit/ (accumulated losses)	-	-	-	-	-	-
Hedging reserve	-	-	-	-	-	-
Unrealised gain / (loss) from fair value adjustment of available for sale assets	(6,616)	(6,616)	-	(7,747)	(7,747)	-
Reserves	99,433	98,676	757	79,376	78,599	777
Total equity	364,374	363,617	757	351,153	350,376	777
Total liabilities and capital	2,766,243	2,756,942	9,301	2,793,540	2,783,797	9,743



The difference in net of HRK 9,301 thousand (2008.: 9,743 thousand) in the balance sheet totals between the balance sheet as per the CNB Decision and the balance sheet according to the statutory accounting requirements for banks in Croatia arises from the different classification of deferred loan origination fees in the amount of 8,767 thousand (2008: HRK 9,743 thousand) and liabilities recognized deferred tax arising from unrealized gains from the value of assets available for sale to the amount of HRK 534 thousand. The balance of the statutory accounting requirements for banks in the Republic of Croatia in the “total assets” are delimited loan origination fees accounted for as an impairment in the position of “Loans and receivables” and the deferred tax liability is reported netted in the position “Deferred tax assets”. The differences in other positions arise from a different classification of interest receivables and interest payables. In the balance sheet according to the CNB Decision, interest receivables and interest payables are recognised in “Other assets”, whereas in the balance sheet according to the statutory accounting requirements for banks in Croatia they are recognized on the balance sheet within the corresponding principal component.

Assets

Cash balances on current accounts with domestic and foreign banks as well as other deposits to the total amount of HRK 71,497 thousand (2008: HRK 62,493 thousand) are presented in the audited accounts within “Cash and amounts due from banks”, while according to the CNB Decision, they are reported within “Deposits with banking institutions”. Treasury bills of the Croatian National Bank according to the requirements stated in a separate component, while the revised report included depending on the distribution of portfolios, the line item “financial assets available for sale” in the amount of 19,621 thousand, and the line item “financial assets held to maturity in an amount of 70,273 thousand. In the audited accounts, placements with customers in respect of discounted bills and factored receivables in the total amount of HRK 10,757 thousand (2008: HRK 42,855 thousand) are presented within “Loans and advances to customers”, while under the CNB Decision they are reported by the financial asset portfolio to which they are allocated as follows: HRK 5,060 thousand to financial assets available for sale (2008: HRK 30,114 thousand) and HRK 5,697 thousand to financial assets held to maturity (2008: HRK 12,741 thousand). Repossessed i.e. foreclosed assets are reported under the CNB Decision separately, while in the audited accounts they have been included within “Other assets”. Small inventories of HRK 120 thousand (2008: HRK 143 thousand) are presented in the audited accounts within “Other assets”, whereas under the CNB Decision they are included in “Property, plant and equipment, and intangible assets”. Deferred tax assets to the amount of HRK 4,386 thousand (2008: HRK 2,929 thousand) are reported separately in the audited accounts, whereas according to the reporting requirements of the CNB they are included within “Other assets”.

Liabilities and capital

According to the CNB Decision, “Other liabilities” include provisions for contingent liabilities and legal cases, which have been presented separately in the audited accounts in the amount of HRK 2,131 thousand (2008: HRK 2,579 thousand). According to the CNB requirements, the position “Statutory and other capital reserves” includes reserves fin to the amount of HRK 756 thousand, formed in respect of flats with tenancy rights not sold (2008: HRK 777 thousand), which are included in the audited accounts within “Other liabilities”.

