KREDITNA BANKA ZAGREB d.d.

Financial statements as at 31 December 2010 together with the Independent Auditor's Report

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Responsibility for the financial statements

Pursuant to the Croatian Accounting Law (Official Gazette 109/07), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with statutory accounting regulations applicable to banks in Croatia which give a true and fair view of the financial position and results of the Bank 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:

- appropriate accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 (Official Gazette 109/07). The Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

Ivan Dropulić,
Vice president of the Management Board

Kreditna banka Zagreb d.d.
Ulica grada Vukovara 74
10000 Zagreb
Republic of Croatia

11 April 2011

Independent Auditor's Report

To the Management Board and Shareholders of Kreditna banka d.d.

We have audited the accompanying financial statements of Kreditna banka Zagreb d.d. (herein below the Bank), which comprise of the statement of the financial position as at 31 December 2010, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as presented on pages 4 to 57.

Management's Responsibility for the financial statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 presented on pages 4 to 57 give a true and fair view of the financial positions of the Bank as at 31 December 2010 and the results of its operations, changes in equity and cash flows for the year then ended in accordance with statutory accounting regulations applicable to banks in Croatia.

Grant Thornton revizija d.o.o.
Koranska 16, Zagreb

Zagreb, 11 April 2011

Siniša Dušić
Certified auditor

GRANT THORNTON
revizija d.o.o.
ZAGREB

Statement of comprehensive income
For the year ended 31 December 2010
(All amounts are expressed in thousands of kuna)

	Note	2010	2009
Interest and similar income	4	120,689	111,187
Interest and similar expense	5	(61,245)	(59,261)
Net interest income		**59,444**	**51,926**
Fee and commission income	6	24,430	24,601
Fee and commission expense	6	(11,243)	(12,277)
Net fee and commission income		**13,187**	**12,324**
Net foreign exchange gains	7	8,546	15,135
Dividend income		8	13
Net gain / (loss) from valuation of securities		1,013	1,044
Other operating income		18,605	1,193
Operating income		**100,803**	**81,635**
Operating expenses	8	(66,492)	(61,408)
Impairment losses and provisions	9	(29,209)	(4,564)
Profit before tax		**5,101**	**15,663**
Income tax expense	10	1,468	3,476
Net profit for the year		**3,633**	**12,187**
Unrealized gain (losses) from valuation of financial assets available for sale		(790)	2,235
Other comprehensive income		**(790)**	**2,235**
Total comprehensive income		**2,843**	**14,422**

The financial statements as shown on pages 4 to 57 were approved and signed by the Management Board on 11 April 2011.

Management Board:

Ivan Dropulić,
Vice president of the Management Board

KREDITNA BANKA ZAGREB d.d. 1 Zagreb

Statement of financial position
As at 31 December 2010
(All amounts are expressed in thousands of kuna)

	Note	31.12.2010	31.12.2009
ASSETS			
Cash and balances with Croatian National Bank	11	321,419	203,038
Placements with other banks	12	206,102	185,771
Financial assets at fair value through profit or loss	13	-	2,580
Loans to customers	14	1,356,832	1,074,437
Financial assets held to maturity	15	6,198	4,604
Financial assets available for sale	16	100,952	78,969
Intangible assets	17	18,537	12,634
Tangible assets	18	33,498	33,281
Other assets	19	65,280	51,691
Total assets		**2,108,818**	**1,647,005**
LIABILITIES			
Deposits from banks	20	14,775	5
Deposits from customers	20	1,544,992	1,144,895
Borrowings	21	239,663	193,514
Other liabilities	22	35,174	31,015
Provisions for contingent liabilities	26	1,417	1,522
Total liabilities		**1,836,021**	**1,370,951**
SHAREHOLDERS' EQUITY			
Share capital	23	186,554	186,554
Share premium	23	44,762	44,763
Unrealized (loss) / gain from assets available for sale		616	1,406
Retained earnings and reserves	24	37,232	31,144
Profit for the year		3,633	12,187
Total shareholders' equity		**272,797**	**276,054**
Total shareholders' equity and liabilities		**2,108,818**	**1,647,005**

The financial statements as shown on pages 4 to 57 were approved and signed by the Management Board on 11 April 2010.

Management Board:

Ivan Dropulić,
Vice president of the Management Board

KREDITNA BANKA ZAGREB d.d. 1 Zagreb

Statement of changes in equity

For the year ended 31 December 2010

(All amounts are expressed in thousands of kuna)

	Note	Share capital	Share premium	Unrealised (loss)/gain from assets available for sale	Retained earnings and reserves	Profit for the year	Total
Balance as at 31 December 2008	*23*	**131,995**	**1,116**	**(829)**	**26,677**	**11,556**	**170,515**
Net profit for the year		-	-	-	-	12,187	12,187
Unrealised gain/(loss) on assets available for sale		-	-	2,235	-	-	2.235
Total comprehensive income		**-**	**-**	***2,235***	**-**	***12,187***	***14,422***
Capital contribution	*23*	54,559	43,647	-	-	-	98,206
Transfer to reserves	*24*	-	-	-	578	(578)	-
Dividend payment	*23*	-	-	-	-	(7,089)	(7,089)
Transfer of profit to retained earnings	*24*	-	-	-	3,889	(3,889)	-
Balance as at 31 December 2009	*23*	**186,554**	**44,763**	**1,406**	**31,144**	**12,187**	**276,054**
Net profit for the year		-	-	-	-	3,633	3,633
Unrealised gain/(loss) on assets available for sale		-	-	(790)	-	-	(790)
Total comprehensive income		**-**	**-**	***(790)***	**-**	***3,633***	***2,843***
Transfer to reserves	*24*	-	-	-	609	(609)	-
Dividend payment	*23*	-	-	-	-	(6,100)	(6,100)
Transfer of profit to retained earnings	*24*	-	-	-	5,478	(5,478)	-
Balance as at 31 December 2010	*23*	**186,554**	**44,763**	**616**	**37,231**	**3,633**	**272,797**

	Note	2010	2009
Net cash flow from operating activities			
Profit before tax		5,101	15,663
Depreciation and amortisation		3,444	2,777
Increase / (decrease) in impairment allowance for other assets		9,617	139
Increase / (decrease) in impairment allowance for loans given		19,350	4,806
Net gain / (loss) on fair value adjustments of assets available for sale		347	2,235
(Decrease) / increase in contingent liabilities		(105)	(381)
Total items not affecting cash		**37,754**	**25,239**
Decrease / (increase) in receivables from Croatian National Bank and other banks		(137,721)	49,226
Increase in loans and advances to customers		(301,745)	(235,462)
Increase / (decrease) in deposits from other banks		14,770	(3)
(Decrease) / increase in deposits from customers		400,097	(52,707)
Increase in other assets		(23,207)	(3,975)
Increase / (decrease) in other liabilities		4,158	5,328
Corporate income tax paid		(4,944)	195
Net cash flow (used in) / generated from operating activities		**(48,592)**	**(237,398)**
Cash flow from investing activities			
Purchases of tangible and intangible assets		(9,564)	(6,016)
Purchase of assets available for sale		(22,330)	(37,860)
Proceeds from sale of assets at fair value through profit or loss		2,580	13,072
Decrease of assets held to maturity		**(1,594)**	**(3,110)**
Net cash flow from investing activities		**(30,908)**	**(33,914)**
Cash flow from financing activities			
Proceeds from borrowings		4,830,798	11,666,273
Repayments of borrowings		(4,784,649)	(11,562,847)
Capital contribution		-	54,559
Share premium from capital contribution		-	43,647
Dividend paid		(6,100)	(7,089)
Other gains / losses		2,688	-
Net cash flow from / (used in) financing activities		**42,737**	**194,543**
Net (decrease)/increase in cash and cash equivalents		**991**	**(51,530)**
Cash and cash equivalents at the beginning of the year	*28*	276,093	327,623
Cash and cash equivalents at the end of the year	*28*	**277,084**	**276,093**

1. General information

Kreditna banka Zagreb d.d. ("the Bank") is incorporated as a joint stock company in accordance with applicable laws of the Republic of Croatia. It was registered at the Commercial Court in Zagreb in 1994. The Bank's headquarters is in Zagreb, Ulica grada Vukovara 74.

The principal activities of the Bank include all types of corporate and retail deposit and lending operations, domestic and foreign payment transactions, issuance of guarantees, bills of exchange and other forms of guarantees, securities trading and other banking services. The Bank operates only in banking sector and on the Croatian market.

The Bank performs insurance agency business in accordance with the insurance laws, in the part that relates to the bank insurance, based on the license dated 14 February 2007.

Management Board

Mirjana Krile	President of the Management Board form 1 January 2011
Nelsi Rončević	President of the Management Board until 16 November 2010
Nadira Eror	President of the Management Board from 17 November 2010 until 31 December 2010
Ivan Dropulić	Vice president of the Management Board
Stjepan Anić	Member of Management Board from 1 January 2011

Procurator

Emil Mihalina	Procurator from 31 January 2011

Supervisory Board

Nadira Eror	President of the Supervisory Board from 1 January 2011
Mirjana Krile	President of the Supervisory Board until 31 December 2010
Ankica Čeko	Vice president of the Supervisory Board
Nadira Eror	Member of the Supervisory Board until 31 December 2010 (by the decision of the Supervisory Board as of 16 November 2010 was appointed as vice Member of the Board for the period from 16 November until 31 December 2010, and in that period she did not perform the function of member of the Supervisory Board)
Gordana Letica	Member of the Supervisory Board
Irena Severin	Member of the Supervisory Board

2. Basis of preparation of the financial statements

The principal accounting policies applied in preparation of these financial statements are summarized below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards ("IFRS"), reference may be made to certain Standards in describing the accounting policies of the Bank. Unless otherwise stated, these references are to Standards applicable as at 31 December 2010.

2.1. Compliance of statutory requirements for accounting of banks in Croatia and IFRS

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

The main difference between the requirements of the International Financial Reporting Standards („IFRS") and the accounting regulations of the CNB relates to the recognition of the impairment losses of financial assets calculated on the portfolio basis. In accordance with the regulations of the CNB, banks with registered seat in Croatia should recognize impairment on the portfolio basis by the prescribed rates from 0.85% to 1.20% on the balance sheet and off-balance sheet exposure exposed to credit risk of the debtors for which impairment on individual basis is not determined, while IFRS requires that the provision on portfolio basis should be determined for existing, but unidentified losses on the basis of valuation models taking into account individual characteristics of the Bank and debtors in the portfolio (i.e. collaterals, type and rating of a debtor and similar).

Additionally, the CNB prescribes minimal levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognized in accordance with IFRS.

2.2. Basis of preparation

The financial statements are presented in thousands of kuna („HRK"), unless otherwise stated.

The financial statements have been prepared on the accrual basis, under the going concern assumption.

3. Summary of significant accounting policies

3.1 Interest and similar income and expenses

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 recognized 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 recognized when earned. Dividend income is recognized when decision of General Assembly is made.

3.2 Fee and commission income

Fee and commission income is comprised 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 recognized on an accrual basis. Loan origination fees for loans which are likely of being drawn down, are deferred and recognized as an adjustment to the effective yield on the loan.

3.3 Operating income

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

3.4 Foreign currencies

Income and expenses 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 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 for the year.

3. Summary of significant accounting policies (continued)

3.4 Foreign currencies (continued)

The Bank has receivables and liabilities originated in HRK, which are linked to foreign currencies with one-way currency clause. Due to this clause the Bank has an option to revalue the asset by the higher of: foreign exchange rate valid as of the due date or foreign exchange rate valid as of the date of origination of the financial instrument. In case of the liability linked to this clause, the counterparty has this option. Due to the specific conditions of the market in Republic of Croatia the fair value of this option cannot be calculated as the forward rates for HRK for periods over 6 months are generally not available. As such the Bank revalue 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.

3.5 Personnel social contributions

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

	2010	**2009**
Contributions for Pension Fund	20%	20%
Contributions for State Health Fund	15%	15%
Contributions for Unemployment Fund	1,7%	1,7%
Occupational injury	0,5%	0,5%

The contributions on behalf of employees and on behalf of employer are charged to expenses in the period in which they are incurred.

3.6 Corporate income tax

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

Deferred tax is the tax expected to be payable or recoverable based on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, calculated using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available on the possible use of deductible temporary differences.

3. Summary of significant accounting policies (continued)

3.6 Corporate income tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is not likely to be available a sufficient amount of taxable income for the refund of all or part of the asset.

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

Deferred tax assets and liabilities are offset when they relate to income taxes charged by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

The Bank is liable to pay various indirect taxes which have been presented under administrative expenses

3.7 Cash and cash equivalents

For the purposes of reporting cash flows, cash and cash equivalents include cash, balances with the CNB, balances per gyro accounts and term deposits with banks with maturity of less than 90 days.

Cash and cash equivalents excludes the statutory reserves with the CNB, as the reserve funds are not available to the Bank's day to day operations. Obligatory reserves with the CNB is the amount required by all commercial banks licensed to operate in the Republic of Croatia.

3.8 Financial assets and liabilities

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 recognizes 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 categorized into portfolios in accordance with the Bank’s intent on the acquisition and pursuant to the Bank’s investment strategy. Financial assets and liabilities are classified as „At fair value through profit 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.

3. Summary of significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

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 recognized amounts and there is an intention to settle on a net basis, or to realize 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 recognized until the settlement date, changes in fair value on the underlying asset or liability are recognized starting from trade date.
When a financial asset or financial liability is recognized 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.

Assets at fair value through profit or loss

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

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

Held to maturity investments

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. This portfolio comprises debt securities. Held to maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment. 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 profit and loss statement line 'Allowance for impairment losses on securities'.

3. Summary of significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

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 securities, as well as receivables under factoring and forfeiting arrangements. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices. In circumstances where the quoted market prices are not readily available, the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect specific circumstances of the issuer. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

For available-for-sale assets, gains and losses arising from changes in fair value are recognized directly in equity under the caption "Reserves and retained earnings", 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.

Dividends on securities available for sale are recorded as declared and included as a receivable in the balance sheet line ‘Other assets’.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the 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 originated by the Bank by providing money directly to the borrower are categorized as loans granted by the Bank and are carried at amortized cost, 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. 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. All loans and advances are recognized when loans are issued, or cash is advanced to borrowers.

3. Summary of significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

The allowance for potential loan losses 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 determined as the difference between book value and recoverable value, which represents the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at original effective interest rate for a loan

The loan loss allowance also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

When a loan is uncollectible, it is fully written off. Subsequent recoveries are credited to income from collection of bad and doubtful debts in the income statement.

Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. 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 recognized in the income statement. Real estate used as collateral for loans given to customers can be sold only by distrait.

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.

3. Summary of significant accounting policies (continued)

3.9 Tangible and intangible assets

Property and equipment are started at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Items of tangible and intangible assets with a unit value less than HRK 2,000 are expensed when put into use.

Depreciation is computed under the straight-line method over the estimated useful life of the assets according to the following annual rates:

Description	**%**
Buildings	3.03
Computer hardware	15
Furniture and equipment	10
Motor vehicles	20
Computer software	10
Leasehold improvements	10

Land is not depreciated.

The Bank periodically tests its assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposal of assets are determined by reference to their carrying amount and are recognized in the income statement line ‘Other income/(expense)‘ in the year of disposal. Repairs and maintenance are charged to the income statement when the expenditure is incurred.

3.10 Foreign currency translation

The financial statements are presented in Croatian Kuna ("HRK") and rounded to the nearest thousand. The year-end exchange rates were as follows:

31. prosinca 2009.	1 EUR = 7,306199 HRK	1 USD = 5,089300 HRK
31. prosinca 2010.	1 EUR = 7,385173 HRK	1 USD = 5,568252 HRK

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and monetary liabilities in foreign currencies and linked to foreign currencies are translated at the mid exchange rates of the Croatian National Bank valid on the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement.

3. Summary of significant accounting policies (continued)

3.11 Off-balance sheet financial instruments

In the ordinary course of business, the Bank enters into arrangements and commitments, comprising primarily guarantees, letters of credit and undrawn loan commitments. Such financial instruments are reported on the Bank's balance sheet if and when they become payable.

3.12 Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be measured reliably.

Management determines the allowance based upon reviews of individual items and experiences with past event experience, current economic conditions, risk characteristics of the transactions and other relevant factors at the balance sheet. If the effect is material, provisions are discounted to present value

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3.13 Derivative financial instruments

As at 31 December 2010 and 31 December 2009, the Bank had not had any derivative financial instruments. The Bank has assets and liabilities originated in HRK, which are linked to foreign currency with a one-way currency clause. Due to this clause the Bank has an option to revalue the asset by the greater of: foreign exchange rate valid as of the date of maturity, or foreign exchange rate valid as of the date of origination of the financial instrument. Due to the special circumstances of the market in Republic of Croatia the fair value of this option cannot be calculated as the forward rates for HRK for periods over 6 months are not available. As such, the Bank values its assets and liabilities related to this clause by middle rate of Croatian National Bank valid at the date of balance sheet or foreign exchange rate agreed by the option (rate valid at origination) if higher.

3.14 Cash flow statement

For the purpose of reporting cash flows, cash and cash equivalents include cash and balances with banks, placements with other banks with maturity of less than 90 days

3.15 Managed funds

The Bank manages funds on behalf of legal entities and individuals, for which it charges a fee. As these amounts do not represent the Bank's assets and liabilities, they are excluded from the accompanying balance sheet (Note 27).

3. Summary of significant accounting policies (continued)

3.16 Accounting for financial guarantee contracts

The IASB has also amended IAS 39 Financial Instruments: Recognition and Measurement to require certain financial guarantee contracts issued by the Bank to be accounted for in accordance with that Standard. Financial guarantee contracts that are accounted for in accordance with IAS 39 are measured initially at their fair values, and subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

The management of the Bank has assessed that adoption of this amendment to IAS 39 does not materially impact the amounts reported in the previous periods.

3.17 Significant accounting judgments and estimates

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized 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 judgment. In making this judgment, 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 amortized 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.

3. Summary of significant accounting policies (continued)

Allowances for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few 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 judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

4. Interest and similar income

	2010	2009
Loans to corporate clients	86,168	73,706
Loans to retail clients	28,471	30,990
Placements with other banks	1,018	1,778
Croatian National Bank	825	762
Debt securities	2,671	2,035
Other companies	1,536	1,916
	120,689	**111,187**

a) Analysis by product

	2010	2009
Loans to customers	116,175	106,612
Placements with banks	1,843	2,540
Debt securities	2,671	2,035
	120,689	**111,187**

5. Interest and similar expense

	2010	2009
Retail clients	38,583	32,427
Corporate clients	9,547	11,115
Banks	2,194	9,570
Other companies	9,777	5,567
Other borrowed funds	1,144	582
	61,245	**59,261**

a) Analysis by product

	2010	2009
Deposits	57,868	49,078
Borrowings	3,377	10,183
	61,245	**59,261**

6. Fee and commission income and expense

	2010	2009
Fee and commission income		
Commission income from corporate clients	15,282	16,160
Commission income from retail clients	5,215	4,616
Commission income from banks	3,933	3,825
	24,430	**24,601**
Fee and commission expense		
Commission for domestic payments	7,575	8,659
Other fees and commissions	3,668	3,618
	11,243	**12,277**

7. Net foreign exchange gains

	2010	2009
Income from foreign currency trading	11,039	15,972
Translation losses	(2,493)	(837)
	8,546	**15,135**

8. Operating expenses

	2010	2009
Personnel expenses (Note 8.1)	28,658	26,382
Material and services	29,141	27,197
Depreciation (Note 17 and 18)	2,844	2,777
Marketing and administration expenses	1,593	1,941
Insurance premiums	1,594	1,038
Taxes and contributions	614	626
Other expenses	2,048	1,447
	66,492	**61,408**

8.1. Personnel expenses

	2010	2009
Net salaries	15,303	13,916
Taxes and contributions from salaries	8,294	7,587
Contributions on salaries	3,879	3,699
Other personnel expenses	1,182	1,180
	28,658	**26,382**

The number of employees as at 31 December 2010 was 179, (31 December 2009:176).

9. Impairment losses and provisions

	Note	2010	2009
Loans to customers	*14*	(31,196)	(7,686)
Interest	*19*	(14,926)	(784)
Other assets	*19*	(6,955)	(331)
Provisions for legal cases		(429)	-
Contingent liabilities	*26*	(194)	(222)
		(53,700)	**(9,023)**
Less: amounts collected and reversed			
Loans to customers	*14*	9,753	3,476
Interest	*19*	9,691	188
Other assets	*19*	4,748	192
Contingent liabilities	*26*	299	603
Total		**(29,209)**	**(4,564)**

10. Income tax

Income tax is determined by applying the rate of 20% to taxable profits (2009: 20%).

Reconciliation of income tax:

	2010	2008
Current tax	1,174	3,122
Deferred tax	294	354
	1,468	**3,476**

Tax returns remain open and subject to tax audit at least over a three-year period. The management is confident that the Bank has made adequate provisions for tax obligations in the accompanying financial statements. However, the risk remains that the relevant authorities could take a different view with regard to the interpretation of the applicable provisions.

Reconciliation between accounting profit and taxable profit is as follows:

	2010	2009
Accounting profit before tax	5,101	15,663
Expected tax rate of 20%	1,020	3,133
Tax effect of non-taxable income	(67)	1,757
Tax effect of tax deductible costs	515	(1,414)
Income tax expense	**1,468**	**3,476**
Effective tax rate	**28.78%**	**22.19%**

11. Cash and balances with Croatian National Bank

	31.12.2010	31.12.2009
Cash in hand	44,522	34,505
Instruments in the course of collection	16	17
Total cash	**44,538**	**34,522**
Cash account with the Croatian National Bank	29,503	57,632
Obligatory reserve in HRK	112,061	95,870
Obligatory reserve in foreign currency	15,317	15,014
Other deposits with the Croatian National Bank	120,000	-
Total assets with the Croatian National Bank	**276,881**	**168,516**
Total cash and balances with the Croatian National Bank	**321,419**	**203,038**

The CNB determines the requirement for banks to calculate an obligatory reserve, which is required to be deposited with the CNB and held in the form of other liquid receivables.

The obligatory reserve requirement as at 31 December 2010 amounted to 13% (until 10 February 2010: 14%) of kuna and foreign currency deposits, borrowings and issued debt securities.

As at 31 December 2010, the required rate for the kuna part of the obligatory reserve to be deposited with the CNB amounted to 70% (2009: 70%), while the remaining 30% (2009: 30%) had to be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK (see below).

60% of the foreign currency part of the obligatory reserve (2009: 60%) is deposited with the CNB, while the remaining 40% (2009: 40%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). From 14 January 2009 75% of the foreign currency obligatory reserve is required to be held in HRK and is added to the kuna part of the obligatory reserve (see above).

12. Placements with other banks

	31.12.2010	31.12.2009
Current accounts with other banks		
- denominated in foreign currency	25,241	86,914
Loans and time deposits with other banks		
- denominated in foreign currency	180,861	98,857
- denominated in HRK	-	-
Total placements with other banks	**206,102**	**185,771**
Impairment allowances	-	-
Total placements with other banks, net	**206,102**	**185,771**

Of the total amount of placements with other banks, 3,059 thousand kuna relates to guarantee deposits at Erste Bank with original maturitiy greater than 3 months.

Movements in provision:

	2010	2009
Balance as at 1 January	**-**	**3,349**
New impairment losses	-	-
Amounts collected	-	-
Amounts written off	-	3,349
Balance as at 31 December	**-**	**-**

12. Placements with other banks (continued)

Geographical analysis:

	31.12.2010	31.12.2009
Belgium	733	304
Germany	6,910	5,962
Italy	984	5,262
Croatia	7,842	7,432
Switzerland	42,043	4,765
Sweden	328	572
Denmark	15,118	34,820
The Netherlands	772	1,310
Austria	68,265	50,949
USA	25,786	20,999
Spain	35,982	50,799
Canada	1,312	2,551
Norway	27	46
	206,102	**185,771**

All placements are kept with first-class international banks.

13. Assets at fair value through profit or loss

	31.12.2010	31.12.2009
Bonds from Government of Croatia – listed on stock exchange	-	2,580
Total	**-**	**2,580**

On 31 December 2010 the Bank had no securities in the portfolio of assets at fair value through profit or loss.

14. Loans to customers

a) Analysis of lending portfolio

	31.12.2010	31.12.2009
Retail clients	293,108	317,008
Corporate clients	1,072,266	780,435
Other companies	3,476	1,463
Financial institutions	34,100	5,600
Gross loans and advances	**1,402,950**	**1,104,506**
Less: impairment allowance	(46,118)	(30,069)
Total loans to customers	**1,356,832**	**1,074,437**

Loans are secured by specific pledges on properties, deposits, guarantees, securities and other types of collaterals.

In the period from 1 January to 31 December 2010, the interest rates on loans to corporate clients were set at 9% to 12.9% (2009: 9% to 12.9%) and for loans to retail clients at 5 % to 13.99% (2009: 6% to 13.99%).

14. Loans to customers (continued)

b) Changes in the principal of partially recoverable and fully unrecoverable loans

	2010		2009	
	Partially recoverable loans	**Fully unrecoverable loans**	**Partially recoverable loans**	**Fully unrecoverable loans**
As at 1 January	**35,915**	**7,821**	**34,973**	**30,588**
Transfer from performing loans	81,204	5,876	6,252	1,755
Transfer from fully unrecoverable loans	2,200	-	35	-
Transfer from partially recoverable loans	-	20,071	-	42
Transfer to performing loans	(19,019)	(5,269)	(230)	(61)
Transfer to fully unrecoverable loans	(20,071)	-	(42)	-
Transfer to partially recoverable loans	-	(2,200)	-	(35)
Amounts collected	(5,077)	(380)	(4,808)	(1,334)
Amounts written off	(17)	(5,170)	-	(23,100)
Other increases	135	69	-	75
Other decreases	(120)	(16)	(265)	(109)
As at 31 December	**75,150**	**20,802**	**35,915**	**7,821**

14. Loans to customers (continued)

c) Movements in impairment allowances

	Specific impairment allowances	Impairment allowance on collective assessment basis	Total
Balance as at 31 December 2008	**39,696**	**11,621**	**51,317**
New impairment losses (Note 9)	7,241	445	7,686
Amounts collected (Note 9)	(426)	(3,050)	(3,476)
Amounts written off	(25,766)	-	(25,766)
Foreign exchange differences	308	-	308
Balance as at 31 December 2009	**21,053**	**9,016**	**30,069**
New impairment losses (Note 9)	29,103	2,093	31,196
Amounts collected (Note 9)	(9,753)	-	(9,753)
Amounts written off	(5,589)	-	(5,589)
Foreign exchange differences	194	-	194
Balance as at 31 December 2010	**35,008**	**11,109**	**46,117**

d) Deferred fee income recognized as an adjustment to the effective yield

	31.12.2010	31.12.2009
As at 1 January	**6,270**	**7,497**
Collected and deferred fees	5,119	6,629
Fees recognized	(6,042)	(7,856)
As at 31 December	**5,347**	**6,270**

e) Concentration of credit risk

The Bank has a diversified lending portfolio that covers various industries, with the largest concentration in the retail sector, which was 20.9% (2009: retail sector 19.2%) of the total credit portfolio at the year-end.

15. Financial assets held to maturity

	31.12.2010	31.12.2009
Investments held to maturity		
Corporate bills of exchange	6,779	4,677
Allowance for impairment losses	(581)	(73)
Total investments held to maturity	**6,198**	**4,604**

Bills of exchange were issued by different corporate entities, with an interest rate from 8.5% to 11.5% and are due over the period up to 27 October 2011.

Bills of exchange are carried at amortized cost less any allowance for impairment. As at 31 December 2010, of the total amount of bills of exchange, 1.718 thousand kuna were overdue (2009: 73 thousand kuna).

Impairment of financial assets available for sale in 2010 amounted to 581 thousand kuna (2009: 73 thousand kuna).

16. Financial assets available for sale

	31.12.2010	31.12.2009
Debt securities available for sale	47,315	32,320
Equity securities available for sale	53,637	46,649
	100,952	**78,969**

Debt securities available for sale

	31.12.2010	31.12.2009
Treasury bills from Ministry of Finance	24,505	23,959
Factoring	113	1,825
Bonds	15,514	-
Commercial bills	7,183	6,536
	47,315	**33,320**
Listed	47,202	30,495
Unlisted	113	1,825

16. Financial assets available for sale (continued)

Equity securities available for sale

	31.12.2010	31.12.2009
Shares in investment funds	53,174	45,840
Securities listed on stock exchange	64	62
Securities unlisted on stock exchange	399	747
	53,637	**46,649**

Unlisted equity securities comprise a certain number of small individual investments presented at cost less impairment. There is no market for these investments and they account for less than 1% of the share capital of those entities. In the opinion of the Bank's management, the fair values do not differ substantially from their carrying amounts.

During the year 2010, the Bank made an investment in the investment fund VB Cash in the amount of 8,000 thousand kuna.
Treasury Bills and Bonds of Ministry of finance are collateral for repo loans from Privredna banka Zagreb d.d. i Fund to finance the decommissioning of nuclear waste.

Movement in equity securities during the year:

	2010	2009
As at 1 January	**46,649**	**35,806**
Change in fair value of shares	2	24
Investment fund stake purchase	10,000	12,670
Investment fund stake sale	(2,000)	(4,000)
Decrease in fair value of stake	(1,073)	(8,640)
Value adjustment	(347)	-
Foreign exchange differences	407	10,789
As at 31 December	**53,637**	**46,649**

17. Intangible assets

	Software and other rights	Assets acquired but not brought into use	Total
Cost			
At 31 December 2008	**10,729**	**5,428**	**16,157**
Additions	-	4,942	4,942
Brought into use	350	(350)	-
At 31 December 2009	**11,079**	**10,020**	**21,099**
Additions	6,177	6,600	12,777
Brought into use	(56)	(6,179)	(6,235)
At 31 December 2010	**17,201**	**10,441**	**27,641**
Accumulated depreciation			
At 31 December 2008	**7,958**	**-**	**7,958**
Charge for the year	507	-	507
At 31 December 2009	**8,465**	**-**	**8,465**
Charge for the year	694	-	694
Expense	(56)	-	(56)
At 31 December 2010	9,104	-	9,104
Net book value			
At 31 December 2009	**2,614**	**10,020**	**12,634**
At 31 December 2010	**8,097**	**10,441**	**18,537**

During 2009, the Management Board made a decision to launch development of new software and to establish a project team for that purpose. During the year, a contract on technical cooperation was signed with Dialog d.o.o. Osijek for development of components for software application and for implementation of the application. Deadline for the finish of the project is 1 March 2012, and it is expected it will be met.

18. Tangible assets

	Buildings	Computers	Furniture and equipment	Vehicles	Assets acquired but not brought into use	Total
Cost						
At 31 December 2008	**49,057**	**5,113**	**14,457**	**652**	**11**	**69,290**
Additions	-	-	-	-	1,075	1,075
Transfers	-	536	486	17	(1,039)	-
At 31 December 2009	**49,057**	**5,649**	**14,943**	**669**	**47**	**70,365**
Additions	-	-	-	-	2,365	2,365
Transfers	1,195	242	824	-	(2,261)	-
Expenses	-	(3,285)	(3,245)	-	-	(6,530)
At 31 December 2010	**50,252**	**2,605**	**12,522**	**669**	**151**	**66,200**
Accumulated depreciation						
At 31 December 2008	**17,226**	**4,595**	**12,341**	**652**	**-**	**34,814**
Charge for the year	1,486	207	574	3	-	2,270
At 31 December 2009	**18,712**	**4,802**	**12,915**	**655**	**-**	**37,084**
Charge for the year	1,495	222	429	3	-	2,149
Disposals	-	(3,285)	(3,245)	-	-	(6,530)
At 31 December 2010	**20,207**	**1,739**	**10,099**	**658**	**-**	**32,702**
Net book value						
At 31 December 2009	**30,345**	**847**	**2,028**	**14**	**47**	**33,281**
At 31 December 2010	**30,045**	**867**	**2,423**	**11**	**151**	**33,498**

There are no pledges on property for borrowings as at 31 December 2010.

19. Other assets

	31.12.2010	31.12.2009
Accrued interest	16,121	15,804
Repossessed assets	13,145	11,603
Fees and commissions	1,687	2,020
Receivables from card operations	1,423	1,678
Prepaid expenses	4,137	4,467
Bails	5,311	6,929
Other receivables	24,575	14,066
	66,400	**56,567**
Less impairment allowance:		
- other assets	(1,119)	(4,876)
Total other assets	**65,280**	**51,691**

Changes in allowances

	Interest	Other assets
Balance as at 31 December 2008	**-**	**2,110**
New allowances (Note 9)	784	331
Amounts collected (Note 9)	(188)	(192)
Amounts written off	(784)	(710)
Other	188	-
Balance as at 31 December 2009	**-**	**1,539**
Allowance based on collective assessment	-	4,048
Suspended interest	8,633	-
New allowances (Note 9)	14,926	6,955
Amounts collected (Note 9)	(9,691)	(4,748)
Amounts written off	(211)	(62)
Balance as at 31 December 2010	**13,657**	**7,732**

Based on a new decision by the Croatian National Bank, the Bank included allowances on collective basis and suspended interest in the balance sheet.

All funds are due within one year.

20. Deposits from customers

	31.12.2010	31.12.2009
Demand deposits		
Retail clients	97,414	75,307
Corporate clients	164,509	115,578
Other companies	62,189	42,152
Total demand deposits	**324,112**	**233,037**
Term deposits		
Retail clients	690,205	627,943
Corporate clients	223,732	140,964
Other companies	321,718	142,956
Total term deposits	**1,235,655**	**911,863**
Total deposits from customers	**1,559,767**	**1,144,900**

Interest rate on demand deposits varied from 0.10% to 0.75% during the year 2010 (2009: from 0.5% to 0.75%).

Interest rate on time retail deposits varied from 1.5 % to 8.75 % during 2010 and from 1,0% to 8.8% during 2009, respectively while the interest rate for time corporate deposits varied from 2% to 10% during both 2010 and 2009.

21. Borrowings

	31.12.2010	31.12.2009
Denominated in HRK	202,737	156,983
Denominated in foreign currency	36,926	36,531
Total borrowed funds	**239,663**	**193,514**

Interest rate on loans from the Croatian Bank for Reconstruction and Development denominated in HRK varied from 2.0% to 5.5%, while for the end user the interest rate varied from 4% to 7% during 2010.

21. Borrowings (continued)

Loans received comprise of borrowings as follows:

	31.12.2010	31.12.2009
ISTARSKA KREDITNA BANKA d.d.	-	4,000
ŠTED BANKA d.d.	-	7,000
PRIVREDNA BANKA ZAGREB d.d.	23,300	10,000
CROATIA BANKA d.d.	10,000	11,000
BANKA KOVANICA d.d.	-	15,000
SLATINSKA BANKA d.d.	5,000	5,000
PODRAVSKA BANKA d.d.	42,000	27,500
OBRTNIČKA ŠTEDNA BANKA d.d.	-	2,000
JADRANSKA BANKA d.d.	15,000	20,000
ERSTE&STEIERMÄRKISCHE BANK d.d.	7,000	7,000
HYPO ALPE ADRIA BANK d.d.	7,000	7,000
HRVATSKA POŠTANSKA BANKA d.d.	25,000	15,000
ADRIA BANK AG WIEN	36,926	36,531
HBOR d.d.	33,937	26,483
BKS BANK d.d.	5,000	-
VABA d.d. BANKA	4,500	-
OTP BANKA d.d.	5,000	-
VENETO BANKA d.d.	5,000	-
FUND TO FINANCE THE DACOMMISSIONING OF NUCLEAR WASTE	15,000	-
	239,663	**193,514**

Borrowing costs are recognized when incurred. The repayment of the loans is secured by the Bank's bills of exchange and pledges on account.

The loans from the Croatian Bank for Reconstruction and Development (HBOR) relate to loans placed by HBOR through the Bank in accordance with its financing programmes.

Collaterals

Loans from Privredna banka Zagreb d.d. and the Fund to finance the decommissioning of nuclear waste are repo loans (collateral: Croatian Ministry of finance Treasury bills and Bonds).

No collaterals have been provided for other loans referred to above, as these are overnight loans. The relationship between the Bank and HBOR is subject to a separate agreement.

22. Other liabilities

	31.12.2010	31.12.2009
Accrued interest	19,115	18,042
Liabilities to suppliers	1,051	1,852
Deferred income	9,484	7,770
Liabilities for card operations	806	673
Other liabilities	4,718	2,678
Total other liabilities	**35,174**	**31,015**

23. Share capital

Based on decision from General Assembly held on 30 June 2008 and HANFA's Resolution on approval of prospect for issuing shares with an private offer dated 11 December 2008, capital increase has been made during January 2009.
The share capital was increased by issuing of 545,587 new ordinary shares (KBZ-R-A) with nominal value of HRK 100. The share capital was thus increased from HRK 131,994,500 to HRK 186,553,200 and comprises of 1,865,532 ordinary shares (KBZ-R-A) with nominal value of HRK 100.

The following shareholders held over 5% of the Bank's share capital at 31 December 2010 and 31 December 2009:

Shareholders	**Percentage of share capital held (%)**	
	31.12.2010	**31.12.2009**
Euroherc osiguranje d.d.	18.43	18.38
Jadransko osiguranje d.d.	17.48	16.79
Agram životno osiguranje d.d.	17.60	16.40
Euroleasing d.o.o.	11.79	11.79
Euro Daus d.d.	4.99	9.18
Others	29.71	27.46
Total share capital	**100.00**	**100.00**

The Bank's shares are listed on Zagreb Stock Exchange. At 31 December 2010 the share price of the Bank's ordinary shares quoted on the Zagreb Stock Exchange was HRK 180 (2009: HRK 209).

23. Share capital (continued)

Share premium

As a result of the share issue in January 2009, the Bank recognised share premium in the amount of HRK 43,647 thousand representing the excess of the paid-in amount over the nominal value of the issued shares.

Dividend

The General Assembly made a decision in the annual meeting held on 10 May 2010 to pay out dividend to the shareholders in the amount of HRK 6,100 thousand. The dividend amounted to HRK 3.27 per share.

Regulatory capital

Regulatory capital of the Bank, according to CNB requirements, is as follows:

	31.12.2010 HRK`000	31.12.2009 HRK`000
Basic capital		
Issued share capital	230,200	230,200
Legal, statutory and other reserves, retained earnings prior the current year result	38,348	32,256
Total basic capital	**268,548**	**262,456**
Supplementary capital		
Specific reserves for unidentified losses	15,708	14,585
Gross additional share	**15,708**	**14,585**
Deductions		
Specific reserves for unidentified losses that are not included in supplementary capital	(15,708)	(14,585)
Total deductions from supplementary capital	**(15,708)**	**(14,585)**
Total supplementary capital (gross supplementary capital less deductions)		
Gross regulatory capital	**268,548**	**262,456**
Risk weighted assets		
Credit risk weighted assets	1,423,256	1,609,244
Other weighted assets	480	18,354
Total risk weighted assets	**1,423,736**	**1,627,598**
Capital adequacy ratio	**16.50%**	**16.13%**

24. Retained earnings and reserves

Retained earnings include accumulated profits from prior years.

In accordance with the local legislation 5 percent of the net profit of the Bank is required to be transferred to a non-distributable legal reserve to equal 5 percent of the share capital of the Bank. The legal reserve, in the amount of up to 5% of issued share capital, can be used for covering current and prior years losses.

Based on General Assembly's decision from 10 May 2010 the Bank allocated the amount of HRK 5,478 thousand into retained earnings and the amount of HRK 609 thousand into legal reserves.

25. Earnings per share

Basic

For the purposes of calculating earnings per share, earnings are calculated as the profit for the period attributable to equity holders of the Bank. For the reconciliation of profit after tax which is distributed to ordinary shareholders please see below:

	2010	2009
Profit for the year in HRK	3,633,293	12,186,822
Profit attributable to equity holders of the Bank	3,633,293	12,186,822
Weighted average number of ordinary shares in issue	1,865,532	1,865,532
Earnings per share in HRK	**1.95**	**6.53**

Diluted

Given that there is no effect of options, convertible bonds or similar effect, the weighted average number of ordinary shares used for diluted earnings per share in 2010 and 2009 was the same as used to calculate basic earnings per share.

26. Contingences and commitments

a) Legal proceedings

There are several legal proceedings outstanding against the Bank. The Bank made a provisions in according to the decision of the National Bank and the obligation to make provisions for legal proceedings outstanding against the Bank which came into force on 31 March 2010 in the total amount of 429 thousand kuna. During the previous period, the Bank has not made a provision for such disputes because of the judgments of the Bank in connection with their final outcome.

26. Contingences and commitments (continued)

b) Guarantees and credit commitments

As at 31 December 2010 and 31 December 2009, the total amount of guarantees, letters of credit and unused revolving credits was as follows:

	31.12.2010	31.12.2009
Guarantees in HRK	65,345	85,576
Guarantees in foreign currency	2,423	935
Letters of credit	12,135	8,564
Credit commitments	86,805	83,929
Total guarantees and credit commitments	**166,708**	**179,004**

c) Movements in provisions

	2010	2009
Balance as at 1 January	**1,522**	**1,903**
New provisions (Note 9)	194	222
Decreases (Note 9)	(299)	(603)
Balance as at 31 December	**1,417**	**1,522**

27. Managed funds

The Bank manages assets for and on behalf of legal entities and citizens. Related income and expense are charged to the customer, and the Bank does not bear any liabilities.

Net assets and liabilities from operations in the name and on behalf of third parties are as follows:

	31.12.2010	31.12.2009
Assets		
Retail clients	89	89
Corporate clients	598	598
Total assets	**687**	**687**
Liabilities		
Retail clients	53	53
Corporate clients	634	634
Total liabilities	**687**	**687**

28. Cash and cash equivalents

Cash and cash equivalents comprise the following items with an original maturity of up to 90 days:

	31.12.2010	31.12.2009
Cash account at Croatian National Bank (Note 11)	29,503	57,632
Cash in hand (Note 11)	44,522	34,505
Instruments in the course of collection (Note 11)	16	17
Placements with other banks (Note 12)	203,043	183,939
Total cash and cash equivalents	**277,084**	**276,093**

29. Risk management

This note provides details of the Bank's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk. An integrated system of risk management is being established by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Bank. Methodology and models for managing operational risk have been developed.

a) Credit risk

The Bank takes on exposure to credit risk which is the risk upon that the counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit related commitments

The primary purpose of these instruments 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. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

29. Risk management (continued)

a) Credit risk (continued)

Letters of credit are secured by collateral in the form of goods to which they relate and therefore represent less risk than a loan.
Loans are classified into the following three main groupings, in accordance with the regulations of the Croatian National Bank:

- fully recoverable loans – A Risk Group – measured on a collective basis
- partially recoverable loans – B Risk Group – measured on an individual basis, or an a collective basis for a „small loans portfolio" that are not sued
- fully unrecoverable loans (bad debt) – C Risk Group – measured on an individual basis, or an a collective basis for a „small loans portfolio" that are not sued

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

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

b) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and loan drawdown's.
The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest–bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

29. Risk management (continued)

b) Liquidity risk (continued)

Total amount of commitments to extend credit does not necessarily represent future cash flows, since many of these commitments will expire or terminate without their financing. Liquidity risk is shown in the maturity structure of assets and liabilities as at 31 December 2010 and 31 December 2009. (see Note 31).

c) Market risk

Most trading 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. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income. The Bank manages its use of trading instruments in response to changing market conditions.
The limits are defined following the needs and strategy of the Bank and in accordance with the senior management risk policy indications.

The exposure to market risk is formally managed in accordance with the risk limits approved by the senior management and revised at least annually. The exposure figures and limit utilization are delivered to the Treasury Division on a daily basis.

d) Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate gap table summarizes the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re pricing or maturity dates (see Note 32).

e) 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 Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions.

Foreign currency balance sheet and foreign exchange risk table summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2010 and 31 December 2009. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by domestic currency and foreign currency (see Note 33).

29. Risk management (continued)

f) Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other derivative instruments.
The primary exposure to equity prices arises from the Bank's holding of equity instruments available for sale. The Bank does not actively trade in equity securities.

g) 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 implement techniques enabling a detailed insight in the profile of the risk exposure of the Bank such as (quantitative 'ex-post' and qualitative 'ex-ante' risk exposure assessment); to support the management decision making process by developing efficient policies for the management and mitigation of the operational risk at the Bank level; adjustment of the pricing/provisioning policy by incorporating the expected losses and allocating the adequate economic/regulatory capital for unexpected losses.

30. Credit risk

a) Total credit risk exposure – balance sheet and off- balance sheet

As at 31 December 2010	Gross placements	Specific impairment allowance	General impairment allowance	Net placements
A. Balance sheet exposure				
Cash and balances with Croatian National Bank	276,881	-	2,353	274,527
Placements with other banks	206,102	-	1,752	204,350
Assets held to maturity	6,780	581	58	6,141
Loans to customers	**1,402,949**	**35,008**	**11,109**	**1,356,832**
- performing loans	1,306,998	-	11,109	1,295,888
- substandard loans	75,150	14,206	-	60,944
- non-performing loans	20,802	20,802	-	-
Interest, fees and other assets	68,914	15,863	451	52,600
Total balance sheet exposure	**1,961,625**	**51,452**	**15,723**	**1,894,450**
B. Off-balance sheet exposure				
Other banks	-	-	-	-
Customers	166,708	-	1,417	165,291
- fully recoverable	166,708	-	1,417	165,291
- partially recoverable	-	-	-	-
- completely irrecoverable	-	-	-	-
Total off-balance sheet exposure	**166,708**	**-**	**1,417**	**165,291**
TOTAL EXPOSURE (A+B)	**2,128,334**	**51,452**	**17,140**	**2,059,741**

30. Credit risk (continued)

a) Total credit risk exposure – balance sheet and off-balance sheet (continued)

As at 31 December 2009	Gross placements	Specific provisions	General provisions	Net placements
A. Balance sheet exposure				
Cash and balances with Croatian National Bank	168,516	-	1,432	167,084
Placements with other banks	185,771	-	1,580	184,191
Assets available for sale	78,870	-	670	78,200
Assets held to maturity	4,604	73	39	4,492
Loans to customers	**1,104,506**	**21,053**	**9,016**	**1,074,437**
- performing loans	1,060,694	-	9,016	1,051,678
- substandard loans	35,991	13,232	-	22,759
- non-performing loans	7,821	7,821	-	-
Interest, fees and other assets	38,424	1,539	325	36,560
Total balance sheet exposure	**1,580,691**	**22,665**	**13,062**	**1,544,964**
B. Off-balance sheet exposure				
Other banks	-	-	-	-
Customers	179,004	-	1,522	177,482
- fully recoverable	179,004	-	1,522	177,482
- partially recoverable	-	-	-	-
- completely irrecoverable	-	-	-	-
Total off-balance sheet exposure	**179,004**	**-**	**1,522**	**177,482**
TOTAL EXPOSURE (A+B)	**1,759,695**	**22,665**	**14,584**	**1,722,446**

30. Credit risk (continued)

b) Past due claims

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

As at 31 December 2010	Due up to 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 365 days	Due between 1 and 2 years	Due between 2 and 3 years	Due over 3 years
Placements with other banks	-	-	-	-	-	-	-
Loans to customers	735,442	163,572	27,810	18,146	28,688	18,680	27,945
- retail customers	101,867	30,842	6,602	8,750	8,026	3,409	2,572
- corporate customers	633,575	132,730	21,208	9,396	20,662	15,271	25,373
- public and other sectors	-	-	-	-	-	-	-
Other past due claims	39,244	3,231	1,608	1,994	7,418	5,156	52,337
Total past due claims	**774,864**	**166,803**	**29,418**	**20,140**	**36,106**	**23,838**	**80,282**

As at 31 December 2009	Due up to 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 365 days	Due between 1 and 2 years	Due between 2 and 3 years	Due over 3 years
Placements with other banks	-	-	-	-	-	-	-
Loans to customers	654,533	95,069	29,897	38,298	18,355	4,462	30,693
- retail customers	111,303	29,766	6,563	8,692	3,395	2,409	3,894
- corporate customers	543,230	65,303	23,334	29,606	14,960	2,053	26,799
- public and other sectors	-	-	-	-	-	-	-
Other past due claims	21,774	3,165	1,129	6,905	2,616	5,767	159,662
Total past due claims	**676,307**	**98,234**	**31,026**	**45,203**	**20,971**	**10,229**	**190,355**

30. Credit risk (continued)

c) placements secured by collaterals

As at 31 December 2010	Deposits	Housing mortgage	Business mortgage	Other instruments	No collateral
A. Balance sheet exposure					
Cash and balances with Croatian National Bank	-	-	-	-	276,881
Derivative financial assets	-	-	-	-	-
Placements with other banks	-	-	-	-	206,102
Loans to customers	79,001	185,810	462,639	744,413	-
Assets available for sale	-	-	-	-	-
Assets held to maturity	-	-	-	-	6,780
Other assets		-	-	-	-
Total balance sheet exposure	**79,001**	**185,810**	**462,639**	**744,413**	**489,763**
B. Off-balance sheet exposure					
Other banks	-	-	-	-	-
Clients	6,243	10,860	17,276	95,865	36,454
Total off-balance sheet exposure	**6,243**	**10,860**	**17,276**	**95,865**	**36,454**
Total exposure (A+B)	**85,244**	**196,670**	**479,915**	**840,278**	**526,226**

As at 31 December 2009	Deposits	Housing mortgage	Business mortgage	Other instruments	No collateral
Total balance sheet exposure	85,523	31,029	138,319	370,796	919,297
Total off-balance sheet exposure	13,616	723	-	-	163,143
Total exposure	**99,139**	**31,752**	**138,319**	**370,796**	**1,082,440**

30. Credit risk (continued)

d) Provision ratio in loans to customers

	31.12.2010		31.12.2009	
	Loans to customers (%)	**Provision ratio (%)**	**Loans to customers (%)**	**Provision ratio (%)**
Performing loans	93.16	0.85	96.00	0.85
Substandard loans	5.36	32.59	3.00	32.59
Non-performing loans	1.48	100.00	1.00	100.00
Total	**100**		**100**	

31. Liquidity risk

The amount of the total assets and liabilities was analysed according to the most conservative assumption of remaining maturity from the balance sheet date to the contractual maturity.

As at 31 December 2010	0- 30 days	1-3 months	3-12 months	1 - 2 years	2 - 3 years	Over 3 years	Total
Assets							
Cash and balances with Croatian National Bank	237,271	17,352	43,717	6,979	13,115	2,984	321,419
Placements with other banks	203,276	36,926	-	-	-	-	240,202
Treasury bills from Ministry of finance	-	7,945	16,560	-	-		24,505
Loans to customers	199,931	247,896	403,245	143,015	78,392	245,654	1,318,134
Investments available for sale	53,258	4	7,203	26	24	15,932	76,447
Investments held to maturity	1,263	128	4,808	-	-	-	6,198
Tangible and intangible assets	440	65	112	257	223	32,959	34,057
Repossessed property	-	11,603	-	1,543	-	-	13,145
Other assets	50,137	3,007	1,006	785	700	19,077	74,712
Total assets	**745,577**	**324,925**	**476,651**	**152,605**	**92,455**	**316,605**	**2,108,818**
Liabilities							
Deposits from banks	14,775	-	-	-	-	-	14,775
Deposits from customers	580,250	133,628	541,556	87,176	164,643	37,739	1,544,992
Borrowings	195,667	10,377	16,538	2,038	1,994	13,049	239,663
Other liabilities	8,734	19,084	2,541	1,608	922	2,285	35,174
Provisions for other liabilities	1,417	-	-	-	-	-	1,417
Total liabilities	**800,843**	**163,089**	**560,634**	**90,822**	**167,558**	**53,073**	**1,836,021**
Maturity gap	**(55,266)**	**161,836**	**(83,984)**	**61,783**	**(75,103)**	**263,532**	**272,798**

As at 31 December 2009	0- 30 days	1-3 months	3-12 months	1 - 2 years	2 - 3 years	Over 3 years	Total
Total assets	531,583	234,542	363,973	116,903	84,735	315,269	1.647,005
Total liabilities	538,854	174,729	433,304	112,063	76,797	70,854	1,406,601
Maturity gap	**(7,271)**	**59,813**	**(69,331)**	**4,840**	**7,938**	**244,415**	**240,404**

32. Interest rate risk

The following table is the Management's estimate of the interest rate risk for the Bank at 31 December 2010 and 31 December 2009 and is not necessarily indicative of the positions at other times. The table provides some indication of the sensitivity of the Bank's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities.

As at 31 December 2010	0 - 30 days	1-3 months	3-12 months	1 - 3 years	Over 3 years	Non-interest bearing	Total
Assets							
Cash and balances with Croatian National Bank	276,881	-	-	-		44,538	321,419
Placements with other banks	203,276	36,926	-	-	-	-	240,202
Loans to customers	1,318,134	-	-	-	-	-	1,318,134
Investments available for sale	100,952	-	-	-		-	100,952
Investments held to maturity	-	-	-	-	-	6,198	6,198
Repossessed property	-	-	-	-	-	13,145	13,145
Tangible and intangible assets	-	-	-	-	-	34,057	34,057
Other assets	-	-	-	-	-	74,712	74,712
Total assets	**1,899,242**	**36,926**	**-**	**-**	**-**	**172,650**	**2,108,818**
Liabilities							
Deposits from banks	-	-	-	-	-	14,775	14,775
Deposits from customers	941,862	132,083	269,268	163,731	32,895	5,152	1,544,992
Borrowings	239,663	-	-	-	-	-	239,663
Provisions for contingent liabilities	1,417	-	-	-	-	-	1,417
Other liabilities	-	-	-	-	-	35,174	35,174
Of which at fixed interest rate	**637,677**	**132,083**	**269,268**	**163,731**	**32,895**	**-**	**1,235,655**
Total liabilities	**1,182,942**	**132,083**	**269,268**	**163,731**	**32,895**	**-**	**-**

As at 31 December 2009	0 - 30 days	1-3 months	3-12 months	1 - 3 years	Over 3 years	Non-interest bearing	Total
Total assets	1,466,562	43,711	-	-	-	136,732	1,647,005
Total liabilities	747,094	86,655	340,510	107,334	46,967	42,392	1,370,952

32. Interest rate risk (continued)

The following table summarizes the effective average interest rate by major currencies for monetary financial instruments as follows:

	31.12.2010		31.12.2009	
	HRK %	Foreign currency %	HRK %	Foreign currency %
Assets				
Cash and balances with Croatian National Bank	0.19	-	0.125	0.55
Placements with other banks	-	0.82	6.26	1.11
Assets at fair value through profit or loss	-	-	-	4.625
Loans to customers	8.85	9.5	10.83	4.29
Investments available for sale	-	-	10.33	-
Investments held to maturity	10.49	-	10.28	-
Tangible and intangible assets	-	-	-	-
Other assets	-	-	-	-
Of which at fixed interest rate	9.34	-	8.63	4.625
Total assets	7.34	0.9	9.59	1.20
Liabilities				
Deposits from banks	-	-	-	-
Deposits from customers	3.42	4.11	4.07	5.21
Borrowings	6.36	1.0	3.975	2.19
Provisions for contingent liabilities	-	-	-	-
Other liabilities	-	-	-	-
Of which at fixed interest rate	4.97	4.45	5.2	4.94
Total liabilities	4.32	3.96	4.05	5.04

The following table displays sensitivity of interest bearing assets and liabilities on variation of interest rate. For the calculation of the interest rate sensitivity on profit and loss account of the Bank, the assumption used by the Bank was increase of the interest rates by 1% except for cash and balances at Central National Bank. If the interest rates would decrease by the same percentage, the result would be interest income in the same amount.

	Assumed interest rate growth	Impact on profit and loss account 2010	Impact on profit and loss account 2009
Assets			
Cash and balances with Croatian National Bank	-	-	-
Placements with other banks	1.00%	2,402	1,858
Loans to customers	1.00%	13,337	10,744
Other assets	-	-	-
Liabilities			
Due to banks	1.00%	222	-
Due to customers	1.00%	13,135	9,794
Other borrowed funds	1.00%	2,397	1,935
Impact on net interest income		**985**	**873**

33. Currency risk

As at 31 December 2010, the Bank had following foreign exchange position:

	EUR	USD	Other foreign currencies	Total foreign currencies	HRK	Total
Assets						
Cash and balances with Croatian National Bank	19,979	-	-	19,979	301,440	321,419
Placements with other banks	168,033	30,075	7,994	206,102	-	206,102
Loans to customers	654,349	-	-	654,349	702,483	1,356,832
Investments available for sale	38,495	-	-	38,495	62,457	100,952
Investments held to maturity	-	-	-	-	6,198	6,198
Tangible and intangible assets	-	-	-	-	52,035	52,035
Repossessed property	-	-	-	-	13,145	13,145
Other assets	5,668	367	516	6,552	45,583	52,135
Total assets	**886,524**	**30,443**	**8,510**	**925,477**	**1,183,341**	**2,108,818**
Liabilities						
Deposits from banks	14,771	4	-	14,775	-	14,775
Deposits from customers	792,486	31,220	4,833	828,540	716,452	1,544,992
Borrowings	56,063	-	-	56,063	183,600	239,663
Other liabilities	14,598	1,361	31	15,989	19,184	35,174
Provisions for contingent liabilities	-	-	-	-	1,417	1,417
Total liabilities	**877,918**	**32,585**	**4,864**	**915,367**	**920,653**	**1,836,021**
Net foreign exchange position	**8,606**	**(2,142)**	**3,646**	**10,110**	**262,688**	**272,797**
Contingent liabilities and commitments	8,195	9,483	-	17,678	149,030	166,708

33. Currency risk (continued)

As at 31 December 2009, the Bank had following foreign exchange position:

	EUR	USD	Other foreign currencies	Total foreign currencies	HRK	Total
Total assets	752,008	25,425	10,905	788,338	858,667	1,647,005
Total liabilities	745,129	21,816	40,476	807,421	563,530	1,370,951
Net foreign exchange position	**6,879**	**3,609**	**(29,571)**	**(19,083)**	**295,137**	**276,054**
Contingent liabilities and commitments	11,433	6,752	-	18,184	160,820	179,004

The table below presents the sensitivity of the Bank's net assets and profit or loss to fluctuations in the CNB's middle exchange rate. If the same assumed per cent change would be applied to the decrease in the middle exchange rate of the CNB, the impact on profit or loss by individual currency on a net basis would be equal and opposite, that is, the total impact on all currencies would be a charge to the 2010. The result of the exchange rate changes is reflected in the income statement as foreign exchange gains or losses.

Currency as at 31 December 2010	Assumed increase of CNB's middle exchange rate	Impact on profit and loss account	Impact on profit and loss account	Impact on profit and loss account
		Assets	Liabilities	Net
EUR	0.42%	37	44	(7)
USD	2.36%	8	4	4
Other currencies		1	4	(3)

Currency as at 31 December 2009	Assumed increase of CNB's middle exchange rate	Impact on profit and loss account	Impact on profit and loss account	Impact on profit and loss account
		Assets	Liabilities	Net
EUR	0.41%	28	24	4
USD	2.30%	6	3	3
Other currencies		2	7	(5)

34. Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial instruments designated at fair value through profit or loss and available for sale are measured at fair value. Originated loans and receivables and held to maturity assets are measured at amortized cost less impairment. Management believes that the carrying amounts of these instruments are not significantly different from their fair values.

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments.

Loans

Fair value of loans is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans with no fixed repayment dates, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans, such as residential mortgage loans, are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were originated and changes in interest rates in the case of fixed rate loans. As the Bank has a very limited portfolio of loans and advances with fixed rates and longer maturity, the fair values of loans and advances are not significantly different from their carrying amounts.

Deposits from banks and customers

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The length of relationship with depositors is not taken into account in estimating the fair value. As most of the Bank’s deposits are given with variable rate, being market rate, there is no significant difference between the fair value of these deposits and their carrying amount.

Borrowings

As majority of the Bank’s borrowings are given with variable interest rate, there is no significant difference between their carrying and fair values.

35. Related party transactions

On 8 February 2006, the Croatian National Bank approved the acquisition of the controlling interest of ordinary shares of Kreditna Banka Zagreb d.d., Zagreb (1,190,726 ordinary shares, accounting for 90.21% of the total share capital) to the member companies of the Agram Group.

Parties are considered to be related if one party has the ability to control the other, or exercise significant influence over the other party in making financial or operational decisions.

At the beginning of the 2009 increase in share capital was made by previous major shareholders.

As at 31 December 2010 and 31 December 2009, the major part of the Bank's share capital is held by Agram Group companies (Euroherc osiguranje d.d., Jadransko osiguranje d.d., Agram životno osiguranje d.d., Euro daus d.d. i Euroleasing d.o.o.).

In the normal course of business, a number of banking transactions are entered into with related parties and carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows:

	Board members		Related companies	
Transaction type	**2010**	**2009**	**2010**	**2009**
Loans				
Opening balance	1,654	1,693	32,835	25,422
New loans granted	537	51	29,514	161,838
Loans repaid	(673)	(90)	(11,859)	(154,425)
Closing balance	**1,518**	**1,654**	**50,490**	**32,835**
Interest income	108	77	1,874	4,048
Loans and deposits received				
Opening balance	2,188	1,610	100,982	136,905
New deposits and loans received	117	578	204,329	348,849
Deposits and loans repaid	(705)	-	(135,288)	(384,772)
Closing balance	**1,600**	**2,188**	**170,023**	**100,982**
Interest expense	-	(21)	5,583	(3,938)
Fee and rental income	-	1	4,774	660
Fee and other expenses	-	-	(9,650)	(10,032)
Personnel and fee expenses	(828)	(846)	-	-
Total income	**108**	**78**	**6,648**	**4,708**
Total expenses	**-**	**(867)**	**15,233**	**(13,970)**
Dividends paid	**-**	**-**	**4,540**	**7,089**
Fee and other receivables				
Interest and fees receivables	-	-	310	746
Other receivables	-	-	7,015	7,666
Liabilities				
Interest payable	**-**	**-**	**637**	**-**
Liabilities to suppliers	-	**-**	170	414
Liabilities for credit cards operations	-	**-**	726	586
Off-balance sheet items				
Guarantees issued	**-**	**-**	**5,075**	**18,267**
Revolving loans	35	-	49	2,276

36. Related party transactions (continued)

In the year 2010, remunerations to the Supervisory Board members amounted to HRK 486 thousand (2009.: HRK 486 thousand).

37. Contracted liabilities for operating lease of vehicles and equipment

As at 31 December 2010 the Bank has 83 operating lease agreements for vehicles and equipment (2009: 74). Contracted annual operating lease liabilities are as follows:

	2010	2009
Within a year	4,018	2,962
From two to five years	4,513	6,005
	8,531	**8,967**

38. Contracted liabilities for business premises leases

As at 31 December 2010 the Bank has 16 lease agreements for business premises. Contracted annual lease liabilities for business premises are as follows:

	2010	2009
Within a year	6,802	6,361
From two to five years	27,209	25,043
From five to ten years	34,012	31,255
	68,023	**62,659**

39. Approval of financial statements

Financial statements as shown on pages 4 to 57 were approved and signed by the Management Board on 11 April 2011.

Signed by the Management Board:

Vice president

Ivan Dropulić

KREDITNA BANKA ZAGREB d.d. 1 Zagreb