annual report 2009



Vaba d.d. banka Varaždin, Varaždin

ANNUAL REPORT

for the year ended 31 December 2009

This version of the report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.





CONTENTS

- 5 Introduction
- 6 Report of the President of the Supervisory Board
- Report of the President of the Management Board
- Macroeconomic developments in the Republic of Croatia for the year ended 31 December 2009
- 17 Description of the Bank's operation
- 20 Statement on the application of the Code of Corporate Governance
- 23 Responsibilities of the Management and Supervisory Board for the preparation and approval of the annual financial statements
- 24 Independent auditors' report to the shareholders of Vaba d.d. banka Varaždin
- 26 Balance sheet
- 27 Income statement
- 28 Statement of changes in equity
- 29 Statement of cash flows
- 31 Notes to the financial statements
- 89 Supplementary schedules for the CNB
- 96 Reconciliation between the financial statements and supplementary schedules for the CNB

INTRODUCTION

The annual report comprises a summary of operation and key financial indicators, a description of operation and the audited financial statements including Independent auditor's report for the year ended 31 December 2009.

LEGAL STATUS

The Annual Report includes the Bank's financial statements prepared in accordance with accounting regulations applicable to banks in the Republic of Croatia and audited in accordance with International Standards on Auditing.

The Annual report was prepared by the management of the Bank in compliance with the Accounting Law and the Companies Act, which prescribe reporting to shareholders at the General Assembly meeting. According to the Accounting Law, the statutory financial statements consist of: balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements.

ABBREVIATIONS

In the Annual Report of Vaba d.d. banka Varaždin is referred to as the "Bank" or "Vaba", Croatian National Bank is referred to as the "CNB", the Republic of Croatia as the "Government" and the Croatian Bank for Reconstruction and Development, is referred to as "CBRD".

EXCHANGE RATE

The following CNB exchange rates were used for translation of foreign currencies into Croatian kuna:

31 December 2009	1 EUR = HRK 7.306	1 USD = HRK 5.089
31 December 2008	1 EUR = HRK 7.324	1 USD = HRK 5.156

SUMMARY OF OPERATION AND KEY FINANCIAL INDICATORS

	2009 (HRK '000)	2008 (HRK '000)
Net interest income	41.903	35.917
Net fee and commission income	5.003	5.697
Operating income	62.203	39.766
Profit/(loss) for the year	5.105	(58.635)
Total assets	1.209.515	1.391.057
Loans and advances to customers	819.531	822.896
Deposits from customers	968.729	1.020.893
Total equity (restated)	152.321	120.634
Regulatory capital (as reported to the CNB)	144.579	129.894



REPORT OF THE PRESIDENT OF THE SUPERVISORY BOARD

Vladimir Košćec

Dear Sirs,

The previous year marked the continuation of the global financial and economic crisis and further slowing of the economic growth. These adverse factors inevitably affected the economic environment in the Republic of Croatia. Despite of these negative impacts, Vaba d.d. banka Varaždin results were more than satisfactory.

The Bank is proud to announce the development of its business operation in northwest Croatia, in accordance with our goal, and the quality results achieved in the year ending 31 December 2009 was the result of a successful development strategy adopted by the Bank's Management and the Supervisory Boards.

I am delighted that the Bank has continued its successful collaboration with local governments and thus contributed to further economic development in the region. These exceptionally high-quality projects have sparked a large interest in businesses and resulted in a great success, starting from lending to small enterprises and entrepreneurs in the City of Varaždin, then the implementation of 3rd credit line for small enterprises, entrepreneurs and family business of the City of Ivanec and the credit line for the Local development projects - micro lending in collaboration with the Varaždin county and the Ministry of Economics of the Republic of Croatia.

The Bank has made a significant step in the financing of small and medium-sized companies, which is a part of the market that is extremely significant to the Bank, as they are quality and worthwhile investments. A significant number of satisfied customers are a testament to the quality of products offered to this market segment.

I would particularly like to highlight the successful recapitalization of the Bank during the year, which occurred during a time of recession and crisis of capital market. Registered capital increased from HRK 153,355,000 to HRK 176,522,800 by the year end.

On behalf of the Supervisory Board of Vaba d.d. banka Varaždin, I would like to express my satisfaction with the successful results of the Bank over the past year, which demonstrated how to successfully examine and capture the needs of the Croatian economy.

I thank all members of the Supervisory Board and Management Board for their cooperation and I believe that Vaba d.d. banka Varaždin will continue with achieving favourable results in the future as it has in the past.

Vladimir Košćec

President of the Supervisory Board Vaba d.d. banka Varaždin

REPORT OF THE PRESIDENT OF THE MANAGEMENT BOARD

Igor Čičak

Dear Sirs.

Year ended 31 December 2009 was marked by a deepening financial crisis. Despite the economic conditions Vaba d.d. banka Varaždin maintained successful results during the reporting period. Thus, it is my great pleasure to present to you the successful financial results achieved in the past year.

Total assets amounted to HRK 1,209,515 thousand, and the Bank achieved a net profit of HRK 5.1 million. Furthermore, during the year ended 31 December 2009 the net interest income grew by 16.7% in comparison to the prior year and is, with the increase in trading and other income, the main operating income generator. Changes in the asset and liabilities management strategy, which was necessary due to turbulent conditions in the banking industry in the first half of 2009, resulted in the growth of the net the interest income. Total revenue grew by 56.42%. Interest expense amounted to HRK 59.8 million, which represents an increase of 12.19%.

In the year ended 31 December 2009, general and administrative expenses declined by 15.9% as a result of rationalization and increased efficiency within the Bank.

Despite the high competition among the banks for retail deposits in the year ended 31 December 2009, Vaba d.d. banka Varaždin increased its retail deposits by 30.0% compared to the prior year and reached the amount of HRK 640.9 million, which I believe, to the satisfaction of all employees, further confirms the respectability of the Bank and clients trust and their satisfaction with Vaba d.d. banka Varaždin services.

The Bank has further strengthened through recapitalization, through a share capital increase from HRK 153,355,000.00 to HRK 176,522,800.00.



We are extremely proud that the Bank continued with projects that have contributed and still contribute to regional economic development. In the past year the loan fund amounted to HRK 23 million, of which HRK 10.362,250.00 was used.

During year ended 31 December 2009, we continued with the quality cooperation with cities, municipalities and counties in providing services of "cash pools" which, by the year end, resulted in 97 members.

Throughout the year the Bank has made significant progress in the area of informational system development. System application reporting is now developed to meet new regulatory requirements, and significant efforts have been made in the migration of analytical data to the new central banking system, which ensured the conditions for further business development. In the segment of infrastructure, the Bank established IT infrastructure that enables the independence of external service providers, and thus we have reached the highest safety standards. Finally, in the organizational segment, the Bank established that all IT processes are managed by the Banks information system, in accordance with the requirements of the regulator and best international practices.

We would like to take the opportunity to thank all the employees of Vaba d.d. banka Varaždin for their hard work and dedication in achieving positive business results and the Supervisory Board for their support and confidence.

Based on the above mentioned, we enter into 2010 ready for the challenges that await us.

Igor Čičak

President of the Management Board Vaba d.d. banka Varaždin

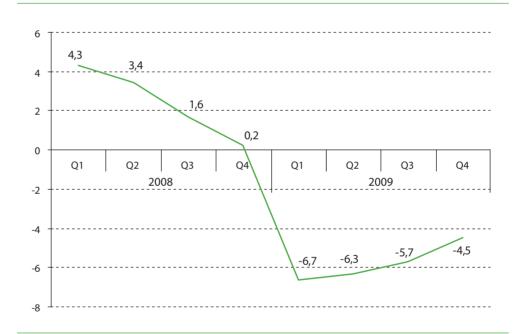


MACROECONOMIC DEVELOPMENTS IN THE REPUBLIC OF CROATIA FOR THE YEAR ENDED 31 DECEMBER 2009

The beginning of 2008 was marked by inflationary pressures resulting from the transfer of investments from the financial sector to the commodities market. The collapse of investment banking in the USA marked the beginning of the financial crisis in the second half of the year. Losses in investment banking resulted in reduced lending and consequently in reduction of demand and an increase in risk aversion.

The above mentioned has impacted the Republic of Croatia. Growth of gross domestic product (GDP) in 2008 slowed significantly, and as estimated by the Central Bureau of Statistics (CBS) for 2009, real GDP decreased by 5.8% compared to 2008, which is the first annual decrease in real GDP since 1999 (-1.5%).

RATE OF CHANGE IN GDP



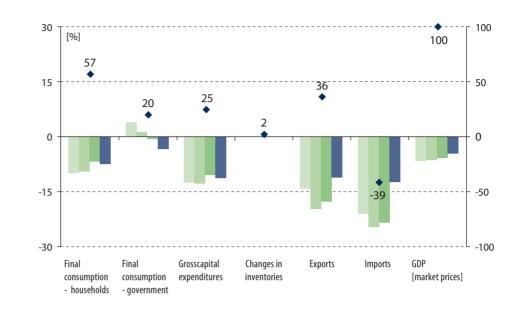
QUARTERLY REAL GDP CHANGE, in relation to the same quarter prior year [in %]

Source: Central Bureau of Statistics

Nearly all of the components of GDP in all quarters of 2009 resulted in a decline in value compared to the same quarters of the prior year. The exception being government consumption in the first two quarters of 2009, followed by the reduction of imports of goods and services, which slowed down the

fall in GDP. In comparison to 2008, household consumption declined in 2009 by HRK 12.6 billion, gross investments in fixed capital by HRK 12.0 billion, exports by HRK 23.2 billion, imports by HRK 40.8 billion, while government consumption increased by HRK 2.1 billion.

THE STRUCTURE OF GDP AND THE RATE OF CHANGE OF ITS COMPONENTS

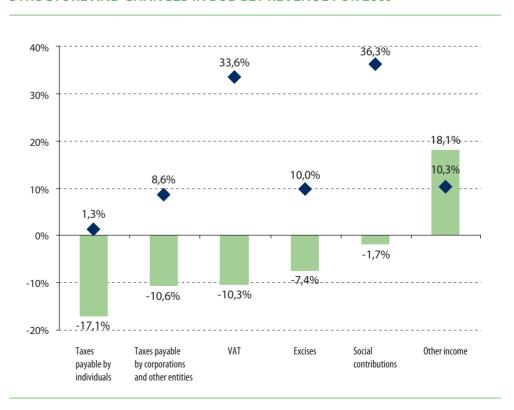


Rate of change Q1
Rate of change Q2
Rate of change Q3
Rate of change Q4
Share in GDP [2009]

Source: Central Bureau of Statistics

Contraction of the economy resulted in reduced budgetary revenue, which, along with the real growth of public consumption in the first two quarters of 2009, generated an increase in the budget deficit.

STRUCTURE AND CHANGES IN BUDGET REVENUE FOR 2009



♦ Share in revenues 2009

Source: Ministry of Finance

Reducing the budget deficit was not achieved by reducing expenditures, but through the introduction of new fiscal levies in order to compensate for reduced revenues. During the August, the Government introduced a new fiscal burden by increasing the rate of value added tax by 1 percentage point (from 22% to 23%), increased excise taxes on personal cars, other motor vehicles, boats and airplanes, introduced excise taxes on the services of mobile electronic communications network (6% on voice, SMS and MMS services), and introduced a special tax on wages,

pensions and other income (including dividends that had not yet been taxed) at a rate of 2% and 4% of net earnings (depending on the amount of actual monthly income). A high level of Government consumption was maintained, which led to negative implications for household consumption, the competitiveness of the workforce, investments and the economy as a whole.

According to preliminary figures from the Ministry of Finance, the budget deficit in 2009 amounted to HRK 7.6 billion, which is 2.3% of GDP (estimated GDP for 2009 by CBS).

MOVEMENTS IN THE BUDGET DEFICIT FOR 2009





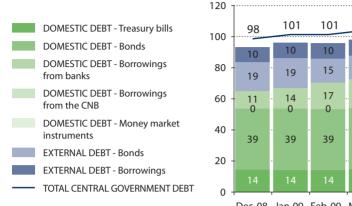
Source: Ministry of Finance

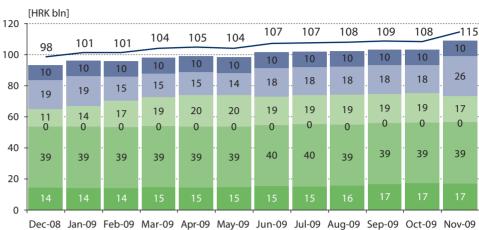
At the beginning of this year the Government primarily financed the budget deficit and debt repayment by the sources from the domestic market due to the turbulent conditions in the world market which resulted in high risk premiums. The first foreign borrowing since 2004 was realized at the end of May 2009, when the Republic of Croatia issued the first Eurobond of EUR 750 million at a price of 3.6 percentage points above mid-quote Euro swaps with maturity in January 2015. Additional foreign debt was financed in late October, when the issued bonds worth USD 1.5

billion where issued at a cost of 3.5 percentage points above comparable US bond.

The increase in domestic debt by HRK 9.1 billion from the end of 2008 to November 2009 was mainly realized through loans from banks (67.5%) which resulted in reduced funding opportunities for the remainder of the economy. In addition, a 98% increase in central government debt in the first quarter of 2009 (HRK 8.9 billion) contributed to the drastic increase in interest rates on the money market.

THE STRUCTURE OF CENTRAL GOVERNMENT DEBT

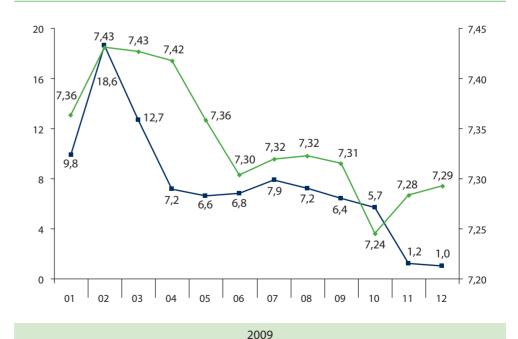




Source: Croatian National Bank

In line with the large amount of repayment of foreign debt in early 2009, there has been strong devaluation pressure on the Croatian Kuna. Since the Croatian National Bank (the CNB), in order to achieve its primary objective (price stability), protects exchange rate stability, liquidity creation in order to mitigate these issues didn't incure to prevent further devaluation pressure on the Croatian kuna and overall inflationary pressure.

FLUCTUATIONS IN INTEREST RATES ON THE ZAGREB MONEY MARKET AND **CHANGES OF EURO**



 Average Interest Rates in % Average HRK/EUR exchange rate

Source: Money Market Zagreb, the Croatian National Bank

This environment led to reduced economic activity and further liquidity problems. According to recently published data by the Financial Agency (FINA), in late July 2009, due to unsettled debt due within 60 days, the accounts of 1,787 legal entities were

blocked (41.7% more in comparison to the same period last year), which employed 12,396 workers, while the amount of their outstanding liabilities was HRK 798.9 million (67.1% higher than in the prior year).

BUSINESS ACTIVITIES OF ENTREPRENEURS IN THE REPUBLIC OF CROATIA IN THE PERIOD ENDED 31 JULY 2009



Number of legal entities [right scale] Number of employees [right scale] Amount of unsettled liabilities

Source: Financial Agency

In addition to weak liquidity, entrepreneurs are faced with reduced overall revenues and gross profit.

BUSINESS ACTIVITIES OF ENTREPRENEURS IN THE REPUBLIC OF CROATIA IN THE PERIOD ENDED 30 SEPTEMBER 2009

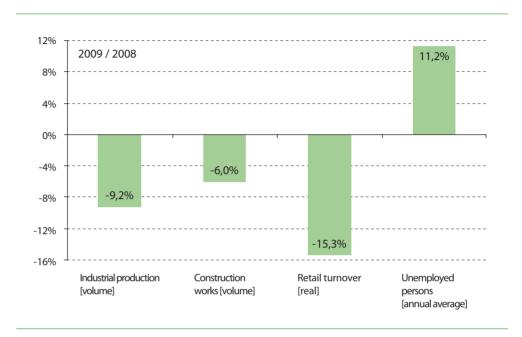


Total revenues Income before Tax Margin

Source: Financial Agency

Number of employees, industrial production, construction and retail turnover was reduced.

TRENDS IN THE VOLUME OF INDUSTRIAL PRODUCTION, CONSTRUCTION, TRADE TURNOVER AND NUMBER OF EMPLOYEES



Source: Central Bureau of Statistics

GENERAL MACROECONOMIC INDICATORS

GENERAL MACROECONOMIC	2005	2006	2007	2008	Latest avai	ilablo data	
INDICATORS	2005	2006	2007	2006	Latest avai	liable data	
GDP [HRK million, current prices]	264.367	286.341	314.223	342.159	333.063	[2009 e]	
GDP [EUR million, current prices]	35.725	39.102	42.833	47.370			
Real annual growth rate of GDP [%]	4,2	4,7	5,5	2,4	-5,8	[2009 e]	
Average annual inflation rate [%]	3,3	3,2	2,9	6,1	2,4	[2009]	
Current account deficit [% GDP]	-5,5	-6,9	-7,6	-9,3			
External debt [% GDP]	72,1	74,9	76,9	82,6			
International Reserves [EUR million]	7.438	8.725	9.307	9.121			
State budget [% GDP]	-3,5	-2,6	-2,0	-1,8	2,3	[2009 e]	
Public debt [% GDP]	38,4	35,9	33,3	29,1			
Unemployment rate [as defined by the ILO, population 15 years and older]	12,7	11,2	9,6	8,4			
Exchange rate HRK : 1 EUR [average]	7,40	7,32	7,34	7,22	7,34	[2009]	
Exchange rate HRK : 1 USD [average]	5,95	5,84	5,37	4,93	5,28	[2009]	

Source: Croatian National Bank, Central Bureau of Statistics

THE BANKING SYSTEM IN 2009

Although the negative economic situation affected the operations of banks in the Republic of Croatia, direct spill over of the global financial crisis was avoided. The Croatian banking system has a high level of capital and liquidity reserves, ensuring the systems stability. The capital adequacy ratio

is above the current regulatory minimum of 10% and higher than 12%, which will be prescribed as the new minimum, by the new Credit Institutions Act (31 March 2010). The effects of the crisis are seen in the reduced profitability rates and the increase of impairments.

CAPITAL ADEQUACY AND PROFITABILITY INDICATORS



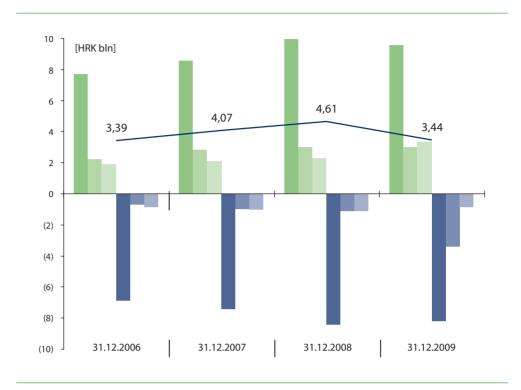
CAR
ROA
ROE
Impaired lending in relation to total lending

Source: Croatian National Bank

According to unaudited aggregated data on banks published by the Croatian National Bank, the net interest income in 2009 declined by 4.1% compared to prior year, primarily due to higher interest rates on deposits. However, the growth of other non-interest income (46.9% annually) contributed to the increase in total operating revenue

by 4.4%. Operating expenses decreased by 2.6% and operating profit before provisions and taxes increased by 12.9%. Despite such growth, increased provisions and impairment allowances (210.6% annually), as a result of worsening economic conditions, resulted in a reduction in net profits of banks by 25.4%.

AGGREGATE INCOME STATEMENT OF BANKS IN THE REPUBLIC OF **CROATIA**

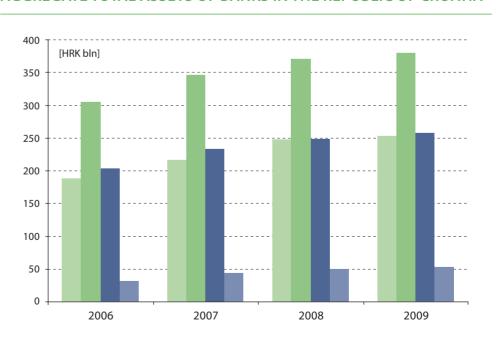


NET INTEREST INCOME **NET FEE AND COMMISSION** INCOME NON INTEREST INCOME **OPERATING COSTS** TOTAL PROVISIONS **INCOME TAX** TOTAL NET PROFIT

Source: Croatian National Bank

The gross loan portfolio increased by 3.3%, loan portfolio impairment allowance by 41.9%, and consequently, the net loan portfolio decreased by 2.4% annually. The Banks' capital increased by 5.6% annually and share of capital in total assets increased from 13.5% to 13.9%.

AGGREGATE TOTAL ASSETS OF BANKS IN THE REPUBLIC OF CROATIA



Loans TOTAL ASSETS Deposits TOTAL CAPITAL

Source: Croatian National Bank

DESCRIPTION OF THE BANK'S OPERATION

Vaba d.d. banka Varaždin is registered as a limited company with the Commercial Court in Varaždin, headquartered in Varaždin, Alana kralja Zvonimira 1, for the following purposes:

- · Conduct transactions with foreign currencies in the country (money exchange)
- · Performance of financial intermediation
- · Receipt of all types of deposits
- Providing all types of loans, letters of credit, guarantees and the issuance of bank guarantees, and takeover of other financial liabilities
- Conduct transactions with promissory notes, checks and certificates of deposit for its own account and on behalf of its customers
- Lending, sales and acquisitions of financial derivatives (futures, options, etc.) for its own account or on behalf of its customers
- · Conduct transactions with securities for its own account or on behalf of its customers
- · Issuing and managing with means of payment (including cards, traveller's checks and bank orders)
- · Conducting business operations such as financial leasing and factoring
- Providing information regarding the creditworthiness of customers at their request
- · Conducting credit transactions with foreign countries through foreign payment systems
- Payment operations within the country (in accordance with the Law on payment operations)
- · Providing other financial services as required or determined by the Croatian National Bank
- · Safe rentals
- · Custodian services of securities, in accordance with laws governing the issuance of securities and trading with securities
- · Mediation in financial affairs
- · Representation in the sale of insurance policies

As of 31 December 2009, the Bank operates through four financial centres (Varaždin, Zagreb, Slavonski Brod, Pula), and 11 branches (Varaždin, Ludbreg, Ivanec, Novi Marof, Čakovec, Zagreb, Slavonski Brod, Nova Gradiška, Pula).

MISSION

We create value added for our customers by an individual approach to each client and our high quality and professional services, based on the competence of our employees. This contributes to the growth of our organization and improves the quality of the life of our community. We appreciate the personal contribution of each of our employees, whose creativity and knowledge are our greatest value.

VISION

Our vision is to continuously exceed expectations and be the first to innovate and create new values. We want to be a leader in creating high quality financial solutions for our customers and be the best in the area of development and prosperity for all of our employees. Following our objectives and guided by our values, in the next 5 years we plan to be at the height of market share and number of branches, as well as be one of the top 10 banks in Croatia.

DESCRIPTION OF THE BANK'S OPERATION

RETAIL OPERATION

Retail banking is carried out through 11 branches (Varaždin, Ludbreg, Ivanec, Novi Marof, Čakovec, Zagreb, Slavonski Brod, Nova Gradiška, Pula) and 11 ATMs. During 2009 a new branch, in the city center of Varaždin, commenced with operations offering its clients products and services from savings, payment services to lending. Including this new branch in total three branches are located in Varaždin.

Despite strong competition, the Bank, through high quality services and stimulative interest rates on savings, was able to attract new customers, due to which savings in 2009 increased by HRK 150 million.

With the cooperation of the Varaždin County, the Bank began with lending to students from the Varaždin County, where a great interest of students and their parents was noted. As a partner bank, Vaba participated in numerous exhibitions and events in the areas where it conducts its operation, such as the Međimurje's "MESAP", the "Catherine Fair" in Slavonski Brod, and the "Days of lace" in Lepoglava.

BUSINESS OPERATIONS WITH SOLETRADERS AND SMALL ENTREPRENEURS

Business operations with soletraders and entrepreneurs represent a significant segment of the Bank's operations. To date, cooperation of the Bank and local government has created a strong lever for the development of regional and local banking industry and has led to an active involvement of the Bank in development projects of local communities in which it operates.

To date, the Bank participated in the projects with the Varaždin County (local development projects-micro lending for the years 2007, 2008 and 2009), with the City of Varaždin (lending to soletraders and small entrepreneurs of the City of Varaždin), the City of Ivanec (micro lending to soletraders and small entrepreneurs of the City of Ivanec, lending of investments in the business zone, lending to soletraders and

small entrepreneurs that invest in the area of the City of Ivanec) and the City of Ludbreg (lending of investments of soletraders and small entrepreneurs of the City of Ludbreg). Total funds for these projects amounted to HRK 35.5 million.

CORPORATE BANKING

In accordance with the Bank's strategic focus during the 2009 business operations with small and mid-size enterprises in the region intensified in all segments. Furthermore, the cooperation with cities, districts and counties for the "cash pool" services (consisting of 97 members at the end of 2009) also continued, creating a high quality and stable deposit and "cross selling" base.

Due to the given circumstances in the economy, special attention was paid in preserving the quality of the loan portfolio, by assisting customers whose business has deteriorated by the recession and high levels of illiquidity in the system.

The fundamental principles of the Corporate Banking Business Division are to continue to increase our customer base, portfolio diversification, and quality monitoring of clients in all aspects of their business.

TREASURY ACTIVITIES

The volatility in interest rates affected the operations of the Treasury Department and the entire banking system. The level of volatility is apparent considering the change in the overnight ZIBOR value from 0.75% up to 40% in the 2009.

During the period of high interest rates, there were increased devaluation pressures on the local currency, which periodically obtained the characteristics of a market panic. A sudden increase in spread from leading market makers on EUR/HRK currency pair in some cases increased even up to 1,000%.

Despite challenging market conditions, the Treasury Department in all aspects successfully managed the bank's position and exceeded expectations.

This is the result of adaptation to new business conditions with the definition of different business strategies and implementation of new products in customer segments as well as in the segment of management of the Banking book.

With regards to business operations with customers, there has been a shift towards an increased number of transactions and volume of operation. The Treasury Department is constantly working on improvement in cooperation with existing customers, acquisition of new customers and defining a systematic approach to the targeted customers.

At the end of 2009, there was an increase in the government securities portfolio with fixed income. Such activities have been carried out due to expected further decline in interest rates and yields on government instruments.

Improvements are made by establishing new procedures and formal controls in the Treasury Department, and regulatory requirements mostly related to the new Credit Institutions Act have successfully been fulfilled.

SYSTEM OF INTERNAL CONTROL **AND INTERNAL AUDIT**

The internal control system is a system of established procedures and controls, directly or indirectly integrated into business processes managed by the Management and all employees of the Bank, in order to control and monitor the risks incurred in operations, monitor the effectiveness of the Bank's operations, the reliability of financial reporting, information and compliance with regulations. Management has established internal control system based on:

- · clear division of duties and responsibilities,
- · specific internal controls (physical, procedural, administrative and accounting, systematic)
- · establishment and organization of each independent control function:
 - risk control,
 - · compliance monitoring,
 - · internal audit.

Internal audit is organised as an independent autonomous control function of the Bank. Internal audit department performs audit work based on professional principles and standards of internal auditing, code of professional ethics of internal auditors and the internal rules on internal audit operations.

In accordance with the basic standards of internal audit and legal regulations, the audit process is conducted in four phases:

- planning,
- audit process (testing),
- reporting and
- monitoring the results of the implementation of recommendations.

The audit is planned based on risk analysis and assessment of each business segment, and based on the mentioned the Annual Internal Audit Work Plan is made and adopted by the Bank's Management, with the prior consent of the Audit Committee and approval of the Supervisory Board.

Reporting on audit results is submitted to the Management Board, Audit Committee and Supervisory Board, and they are based on:

- internal audit reports of the conducted audit and
- · reports on the work of internal audit.

DEVELOPMENT PLAN

In accordance with the mission and vision of the Bank, during 2010 operations will be focused on further development of products and services quality, functionality improvement of business processes and compliance with new regulatory requirements.

The above should contribute to increased quality of the Bank's business operations to the satisfaction of customers, regulator, employees and shareholders of the Bank.

STATEMENT ON THE APPLICATION OF THE CODE OF CORPORATE GOVERNANCE

During December 2009, the Bank's Management and Supervisory Board have adopted the Code of Corporate Governance of Vaba d.d. banka Varaždin, which established high standards and methods of quality corporate governance (further: the Code). The Code is published on the Bank's official web site.

In every matter that is not regulated by the Code, the Bank applies Zagreb's Stock Exchange Code of Corporate Governance (adopted by the resolution of the Croatian Financial Services Supervisory Agency "CFSSA", class: 011-02/07-04/28; Identification number: 326-01-07-02, 26 April 2007), to the extent applicable to the Bank.

In accordance with the Companies Act, Article 272p, the Management Board announces that the Bank has voluntarily applied the recommendations of both Codes during 2009, with exception to certain sections (as explained in details within annual questionnaire in the Code delivered along with the annual report to the Zagreb Stock Exchange for the publication).

The Management Board governs the Bank and its assets. Accordingly, the Board is obliged and authorised to take any necessary actions and decisions required for successful management of the Bank, all within the valid framework of the Companies Act and the Credit Institutions Act.

In accordance with the Bank's Articles of Association, the Management Board consists of three members at most, and the Supervisory Board decides on the number of members of the Management Board. Currently, the Management Board consists of three members.

The Supervisory Board appoints members and the president of the Management Board for the period of a maximum of 5 years, with the possibility of reappointment, upon CNB's approval.

The Supervisory Board can recall its decision on appointment in the case of existence of relevant reason in accordance with effective regulation.

Members of the Management Board who have preformed their duty during 2009 were as follows:

- Igor Čičak, Chairman
- · Zvonimir Jasek, Member (until 13 January 2009)
- Stjepan Bunić, Deputy Member (from 13 January 2009 to 14 April 2009)
- Denis Čivgin, Member (from 18 May 2009)
- Natalija Jambrečić, Member (from 24 November 2009)

The Supervisory Board is composed of seven members on a 4 year mandate, and can be reelected. In accordance with the Companies Act, Article 256, Section 2, a right to appoint 2 (two) members of the Supervisory Board has a shareholder Validus, as long as it is an owner of at least 24% of the Bank's shares.

A member of the Supervisory Board can be appointed only if an individual has knowledge and experience in banking or economics or scientific research, which would guarantee proper and duly performance of his duties. In addition, a member of the Supervisory Board cannot be an individual in contrary to the conditions specified by the Law.

The privileges of the Supervisory Board are set out in the Bank's Articles of Association in accordance with the applicable regulations within Companies Act and Credit Institutions

Members of the Supervisory board of the Bank for the year 2009 were as follows:

- Milan Horvat (until 10 June 2009)
- Stjepan Bunić (until 21 December 2009)
- Vladimir Košćec
- Artur Gedike (until 1 July 2009)
- · Oleg Uskoković (from July 2009 to 31 December 2009)
- Dubravko Žganec (from 14 September 2009 to 31 December 2009)
- Liljana Weissbarth (until 12 September 2009)
- Anisur Rehman Khan
- Balz Thomas Merkli
- Marina Bača (from 10 June 2009)

- Ankica Mamić (from 31 December 2009)
- Slavko Kulić (from 31 December 2009)

Information on the composition and activities of the Management and the Supervisory Board and their sub-committees is provided within the Annual Ouestionnaire within the Code of Corporate Governance.

The procedure for making amendments to the Articles of Association is defined in Article 65 of the Articles of Association. In accordance with law and this Articles of Association, amendments to Articles of Association can be processed at the General Assembly, whereas Supervisory Board is entitled to amend Articles of Association in order to adapt or to refine content of the Articles of Association.

Proposals for amendments and additions to the Articles of Association can be made by the Supervisory Board, the Management Board and the Bank's shareholders.

The Management Board is entitled to issue new shares of the Bank as a part of the section on so called approved issued capital. Issue of new shares is subject to approval by the Bank's Supervisory Board, and can be made during the period of 5 years, commencing from the date of entry of amendments into the Court register, in accordance with the Decision of the General Assembly of 6 March 2009. The Management Board can make decisions to increase Bank's share capital by making cash contribution and by issuing new shares, but total increase of share capital cannot exceed half of the nominal amount of the Bank's share capital at the date of decision on amendment of the

Articles of Association. Management Board, upon approval of the Supervisory Board, is entitled to exclude shareholders' priority. Furthermore, management Board upon approval of the Supervisory Board decides on rights arising from ownership of shares and condition of their issue.

In accordance to the Articles of Association. the Bank can acquire its own shares in following circumstances:

- 1. if share acquisition is needed to prevent potential damage to the Bank,
- 2. if shares acquisition is offered to the Bank's employees or related parties of the Bank.
- 3. if the shares are acquired in order to be given to shareholders as severance in accordance with the law.
- 4. if acquisition is free of charge and if Bank acquires shares on behalf of its customer,
- 5. on the basis of legal succession,
- 6. if based on an Assembly's decision to withdraw shares in accordance with regulations for reduction of share capital,
- 7. under the authority of the General Assembly of the Bank for the acquisition of shares in accordance with legal provisions.

Shares acquired for the purposes mentioned under 1-3 and 7, cannot exceed more than ten percent of the Bank's share capital. Such acquisition would only be allowed if the Bank recorded reserves for those shares in a way not to reduce share capital, nor reserves prescribed by law. Management Board makes decision about acquisition of its own shares, and it's required to notify General Assembly at the next General Meeting.

Main shareholders of the Bank with a share capital exceeding 2% of total share capital as at 31 December 2009 were as follows:

	Ownership share %	Number of shares
VALIDUS D.D.	29,0884	513.477
BALKAN FINANCIAL SECTOR EQUITY FUND C.V.	16,5418	292.000
PLURIS D.D.	10,4062	183.694
GARA SECUNDUS D.O.O.	4,3054	76.000
SAMARŽIJA JOSIP	3,5279	62.276
INTERFINANCE D.O.O.	3,5251	62.226
KALEM JOZO	3,5251	62.226
CROATIA OSIGURANJE D.D.	2,8591	50.470
NIKOMAT D.O.O.	2,4825	43.822
PODVEZANEC ĐURO	2,2623	39.935
CITY OF VARAŽDIN	2,1811	38.501

STATEMENT ON THE APPLICATION OF THE CODE OF CORPORATE GOVERNANCE

Politics of risk management are described in detail within the Notes to the financial statements for 2009.

The duties of the established internal audit function, through the independent organizational unit. Division of internal audit, is the implementation of controls for compliance and conformity of the Bank's business activities with legislations, maintenance of accounting records, recording of business transactions, application of accounting standards and procedures, accuracy of the financial and other reports in accordance with the Credit Institutions Act and subordinated provisions, the adequacy of internal controls, accounting, financial and other operational controls and assessment of management system which covers all the risks arising from operating activities.

Activities of internal audit are performed in accordance with the annual working program, which is approved by the Bank's Supervisory Board.

In December 2009, the Supervisory Board founded the Audit Committee which consisted of three members of Supervisory Board (with at least one independent member), and of one member which is not a member of the Supervisory Board, neither employee of the Bank, but has experience in accounting and audit.

The Audit Committee, which consists of the members of Bank's Supervisory Board, represented by Marina Bača (president of the Audit Committee), Vladimir Košćec (member of the Audit Committee) and Balz Merkli (member of the Audit Committee), assists the Supervisory Board performing the function of business supervision, and especially of the following tasks:

- · Monitors the reliability (credibility) of the financial information and reports (examines the relevance and consistence of the accounting methods).
- · at least once a year revises the internal control system and the risk management system,
- provides the efficiency of the internal audit by suggesting the selection, appointment,

removal or re-appointment of the Head of the Internal Audit, concerning also available budget and by assessing actions taken by the Management following the findings and recommendations of the internal audit

- makes recommendations to the Supervisory Board regarding the selection, appointment, re-appointment or replacement of external auditors and concerning also the terms of external auditors' engagement,
- oversees the independence and objectivity of external auditors, particularly regarding the rotation of auditors and fees paid by the Bank for audit services and takes care of other regulatory requirements (assessment of the extent and the level of other fees paid by the Bank to the auditor),
- considers the efficiency of external audit process and the actions undertaken by the senior management following the external auditor's recommendations following the audit

At least twice a year the Audit Committee reports to the Supervisory Board about its work, which is at least on the issuance of the half year and the Annual report of the Bank.

Beside the Audit Committee, the Supervisory Board in the performing function of supervision, follows and assess the work of the internal audit and makes recommendations to improve the quality of it's work, and makes the recommendations for the use of available resources, with the purpose of establishing the quality system of internal controls which will timely identify the risks that the Bank is exposed to, with the aim of effective risk management.

Igor Čičak, President of the Management Board

Natalija Jambrečić, Member of the Management Board

Denis Čivgin, Member of the Management Board

RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARDS FOR THE PREPARATION AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Management Board of the Bank is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable

and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank together with the annual financial statements for acceptance. If the Supervisory Board approves the annual financial statements they are deemed confirmed by the Management Board and Supervisory Board.

The financial statements set out on pages 26 to 106 were authorised by the Management Board on 28 April 2010 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of Vaba d.d. banka Varaždin:

President of the Management Board Natalija Jambrečić

Member of the Management Board

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF VABA D.D. BANK VARAŽDIN

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

The financial statements as of 31 December 2008 were audited by another auditor whose report dated 30 April 2009 expressed a qualified opinion on those financial statements on the basis of the auditor's disagreement with the valuation of financial assets available for sale and the valuation of property, plant and equipment.

Management's Responsibility for the **Financial Statements**

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

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider 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 principles 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 opinion.

This version of our report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Basis for Qualified Opinion

As of 31 December 2009 loans and advances to customers presented in Note 2.1.4. include amounts with a carrying value of HRK 8,955 thousand for which no specific impairment allowance has been recognised and for which we estimate that a specific impairment allowance in the amount of HRK 994 thousand should be recorded.

In addition, loans and advances to customers include an exposure with a carrying value of HRK 25,658 thousand, net of a specific impairment allowance of HRK 791 thousand, related to a borrower which has entered formal bankruptcy procedures. This exposure is collateralised with a second legal charge over the borrower's operational business premises, the estimation of the current fair market value of which is currently being undertaken but is not yet available as of the date of issue of these financial statements. The Bank considers that it will recover the carrying amount in full from the assignment of its receivables from the borrower to an investor with whom. as of the date of issue of this report, the Bank has initialed an agreement assigning the receivables from the borrower for an amount of HRK 26,326 thousand. Proceeds from the assignment are deferred until such time as the operational business premises are transferred to or bought by the investor out of the bankruptcy procedure. Given the uncertainty of the realisation of the bankruptcy procedure and the time required to transfer the property to the buyer, we are unable to estimate the amount of additional impairment allowance required.

Zagreb, 28 April 2010

KPMG Croatia d.o.o. za reviziju

Croatian Certified Auditors Eurotower, 17th floor Ivana Lučića 2a 10000 Zagreb, Croatia

Qualified opinion

In our opinion, except for the effect on the financial statements of the matters described in the preceding paragraph under "Basis for Oualified Opinion", the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2009 and of its financial performance and cash flows for the year then ended in accordance with the statutory accounting requirements for banks in Croatia.

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks. dated 30 May 2008 (Official Gazette 62/08). the Management Board of the Bank has prepared the schedules set out on pages 89 to 95 ("the Schedules"), which comprise an alternative presentation of the balance sheet as of 31 December 2009, and of the income statement, statement of changes in equity and cash flow statement for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements as presented on pages 96 to 106. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The Schedules do not reflect the effects of prior period restatement presented in the financial statements, as a result of which the loss for the prior year presented in the Schedules is understated by HRK 25,637 thousand, while net assets as of 31 December 2008 presented in the Schedules are overstated by HRK 15,625 thousand. The financial information in the Schedules is derived from the financial statements of the Bank set out on pages 26 to 86 on which we have expressed a qualified opinion as set out above.

For and on behalf of KPMG Croatia d.o.o. za reviziju:

Goran Horvat

Croatian Certified Auditor

BALANCE SHEET

as at 31 December

	Notes	31 December 2009 (HRK '000)	Restated 31 December 2008 (HRK '000)
ASSETS		(111111 000)	(11111 000)
Cash and amounts due from banks	5	56.365	107.544
Obligatory reserve with Croatian National Bank	6	88.150	86.251
Placements with and loans to other banks	7	1.086	123.405
Financial assets available for sale	8	187.648	148.151
Financial assets held to maturity	9	4.094	52.543
Loans and advances to customers	10	819.531	822.896
Property and equipment	11	28.291	25.569
Intangible assets	12	18.501	18.252
Other assets	13	5.849	6.446
TOTAL ASSETS		1.209.515	1.391.057
LIABILITIES			
Deposits from banks	14	3.684	8.551
Deposits from customers	15	968.729	1.020.893
Borrowings	16	69.112	219.333
Hybrid instruments	17	2.923	-
Provisions for liabilities and charges	18	3.601	3.664
Other liabilities	19	9.145	17.982
TOTAL LIABILITIES		1.057.194	1.270.423
EQUITY			
Share capital	20.1	176.523	153.355
Share premium	20.2	27.464	27.423
Other reserves	20.3	2.611	2.652
Fair value reserve	20.4	395	1.221
Accumulated losses	20.5	(54.672)	(64.017)
TOTAL EQUITY		152.321	120.634
TOTAL LIABILITIES AND EQUITY		1,209,515	1.391.057

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Notes	2009 (HRK '000)	Restated 2008 (HRK '000)
Interest and similar income	21	101.710	89.228
Interest expense and similar charges	22	(59.807)	(53.311)
Net interest income		41.903	35.917
Fee and commission income	23	7.251	8.114
Fee and commission expense	24	(2.248)	(2.417)
Net fee and commission income		5.003	5.697
Gains less losses arising from dealing securities	25	2.549	(5.508)
Gains less losses arising from investment securities	26	1.956	248
Gains less losses arising from dealing in foreign currencies		8.591	(112)
Other operating income	27	2.201	3.524
Dealing and other income/(expense)		15.297	(1.848)
OPERATING INCOME		62.203	39.766
		(40 740)	(== 000)
General and administrative expenses	28	(48.743)	(57.930)
Depreciation and amortisation	11, 12	(5.533)	(4.815)
Impairment losses on loans and advances to customers and other assets	29	(2.681)	(9.609)
Impairment losses on financial assets available for sale	1 I. f)	-	(23.527)
Provisions for liabilities and charges	18	(141)	(2.520)
OPERATING EXPENSES		(57.098)	(98.401)
PROFIT/(LOSS) BEFORE TAX		5.105	(58.635)
Income tax expense	30	-	-
PROFIT/(LOSS) FOR THE YEAR		5.105	(58.635)
Basic and diluted earnings/(loss) per share in HRK	31	2,98	(38,23)

STATEMENT OF CHANGES IN EQUITY

HRK '000	Share capital	Share premium	Other reserves	Fair value reserve	Accumulated losses	Total
Balance at 1 January 2008	153.355	29.055	2.600	(74)	(1.142)	183.794
Net unrealised gains on financial assets available for sale (restated)	1	1	ı	1.295	ı	1.295
Movement in share premium	ı	(1.632)	1	1	1	(1.632)
Property acquisition costs excluded from equity	ı	ı	ı	1	(4.240)	(4.240)
Increase in other reserves	ı	ı	52	1	1	52
Loss for the year (restated)	ı	ı	1	1	(58.635)	(58.635)
	٠					
Balance at 31 December 2008 (restated)	153.355	27.423	2.652	1.221	(64.017)	120.634
	,					
Net unrealised losses on financial assets available for sale	1	ı	-	(826)	1	(826)
Property acquisition costs recognised in equity	1	ı	1	1	4.240	4.240
Transfer	ı	41	(41)	1	1	I
Increase in share capital	23.168	ī	-	1	1	23.168
Profit for the year	1	ı	•	1	5.105	5.105
	-					
Balance at 31 December 2009	176.523	27.464	2.611	395	(54.672)	152.321

The restatement of amounts originally reported as of and for the year ended 31 December 2008 has no effect on the opening balance of equity as at 1 January 2008.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

	Notes	2009 (HRK '000)	Restated 2008 (HRK '000)
CASH FLOW FROM OPERATING ACTIVITIES	·		
Profit/(loss) before tax		5.105	(58.635)
Adjustments:			
- depreciation and amortisation	11,12	5.533	4.815
- impairment losses on loans and advances to customers and other assets	29	2.681	9.609
- impairment losses on provisions for liabilities and charges	18	141	2.520
- net foreign exchange losses	28	1.209	49
- net unrealized losses on financial assets at fair value through income statement	25	-	2.504
- losses on disposal and write off of property and equipment		1.241	31
- impairment losses on available for sale financial assets		-	23.527
Changes in operating assets and liabilities			
Decrease/(increase) in placements with and loans to other banks		29	(417)
Increase in loans and advances to customers		(3.841)	(123.411)
Decrease in other assets		589	14.417
(Increase)/decrease in obligatory reserve with the CNB		(1.059)	27.051
(Decrease)/increase in deposits from banks		(4.867)	8.551
Decrease in treasury bills with the CNB		-	12.682
(Decrease)/increase in deposits from customers		(49.342)	195.220
(Decrease)/increase in other liabilities		(8.949)	11.778
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		(51.530)	130.291
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment and intangible assets		(5.504)	(13.001)
Increase in financial assets available for sale		(41.202)	(127.937)
Decrease in financial instruments at fair value through profit or loss		-	94.631
Maturity/(acquisition) of financial assets held to maturity		48.448	(42.747)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		1.742	(89.054)
CASH FLOW FROM FINANCING ACTIVITIES			
Increase in hybrid instrument		2.915	-
(Decrease)/increase in borrowings		(150.241)	25.630
Increase/(decrease) in share capital		23.168	(1.580)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES		(124.158)	24.050
Effect of foreign exchange rate changes on cash and cash equivalents		477	(482)
NET (DECREASE)/INCREASE CASH AND CASH EQUIVALETNS		(173.469)	64.805
Cash and cash equivalents at the beginning of the year	33	229.834	165.029
Cash and cash equivalents at the end of the year	33	56.365	229.834



NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

General data

Vaba d.d. Bank Varaždin (the "Bank") was established as Brodsko - posavska banka d.d., Slavonski Brod in 1994. On 27 December 2004 the Bank was renamed Vaba d.d. Banka Varaždin, and its headquarters were relocated from Slavonski Brod to Varaždin, Anina 2. This change was a result of the changes in the ownership structure of the Bank, whose shareholder became Validus d.d. from Varaždin, with the consent of the Croatian National Bank.

On the General Assembly dated 14 December 2006, the Bank issued a decision to increase the share capital by issuing 292 thousand of new shares, with a nominal value of HRK 100 per share through a private offer at a price of HRK 140 per share. On the General Assembly held on 18 April 2007, a decision was made to increase share capital by issuing a further 619 thousand of new shares, with a nominal value of HRK 100 per share, through a private offer to the Bank's existing shareholders at a price of HRK 140 per share. In 2007, the share capital of the Bank was increased, and the

capital increased from HRK 62,226,400 to HRK 153,355,000 which was registered at the Commercial Court in Varaždin by the Court decision dated 17 August 2007.

By Decision of the General Assembly dated 18 April 2007, the Bank's headquarters were changed to Aleja kralja Zvonimira 1, Varaždin.

On 6 March 2009, the General Assembly authorised an increase in share capital by the maximum amount of HRK 31,113,200 up to a total of HRK 184,468,200. Share capital was increased by certain shareholders during March 2009 by the amount of HRK 23,167,800 to HRK 176,522,800 and registered in court on 25 March 2009. Share capital is divided into 1,765,228 ordinary shares, each with a nominal value of HRK 100.

Given the current ownership structure, there is no parent or ultimate parent company.

These financial statements were approved by the Bank's Management Board on 28 April 2010 for submission to the Supervisory board.

I. BASIS OF PRESENTATION

(a) Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. This version represents an unofficial translation into English of the statutory financial statements originally presented in Croatian. The Bank's operations are subject to the Banking Act, in accordance with which the Bank's financial reporting is regulated by Croatian National Bank ("the CNB") which is the central monitoring institution of the banking system in Croatia.

The principal accounting policies applied in the preparation of these financial statements are summarised below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards ("IFRS"), reference may be made to certain Standards in describing the accounting policies of the Bank; unle-

ss otherwise stated, these references are to Standards applicable at 31 December 2009.

The accounting regulations which are the basis for the preparation of these financial statements differ from IFRS, in respect of presentation, recognition and measurement. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of IFRS are as follows:

• The CNB requires banks to recognise impairment losses, in the income statement, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value through profit or loss). In accordance with these requirements, as of 31 December 2009 the Bank has recognised portfolio-based provisions of HRK 9,802 thousand (2008:

1. SIGNIFICANT ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

(a) Statement of compliance

HRK 12.323 thousand) in the balance sheet and has recognised income for the year ending 31 December 2009 in the amount of HRK 2,521 thousand (2008: expense of HRK 2,510 thousand) within the movement in impairment loss on loans and advances to customers and other assets. Although, in accordance with IFRS, such provisions are more properly presented as an appropriation within equity, the Bank continues to recognise such provisions in the income statement as a substitute for unidentified impairment losses calculated in accordance with the requirements of IFRS.

• Although the Bank calculates impairment losses on corporate lending as the present value of the expected future cash flows,

discounted at the instrument's original effective interest rate, in accordance with IFRS, the CNB requires the amortisation of the calculated discount to be presented in the income statement within the movement in impairment losses on loans and advances to customers and other assets. rather than as interest income, as required by International Financial Reporting Stan-

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

(b) Basis of measurement

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which there is no reliable measure of fair value. Other financial assets and liabilities are carried at amortized cost or historical cost.

The financial statements are prepared in a format that is commonly used and internationally recognized by banks.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent liabilities on the balance sheet date, as well as the amounts of income and expenditure for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be realistic in

the circumstances and information available on the date of preparation of financial statements, the results of which form the basis for judgments about carrying values of assets and liabilities that are not directly visible from other sources. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which they are incurred if affecting only that period or the period in which they are incurred and future periods if they impact current and future periods.

Judgements made by management in applying the appropriate standards that have a significant impact on the financial statements and estimates with a risk of material adjustment in the coming year, are described in Note 3.

These financial statements have been prepared based on going concern basis.

(c) The effect of financial crisis

The recent volatility in global financial markets

Although the situation on international markets largely stabilised in the second half of 2009 and enabled easier access to capital markets, events such as the crisis in Dubai in November and December 2009, and the current uncertainty about the situation in Greece reflect that the situation is still not fully normalized. This is reflected in higher margins compared to the period before the crisis. Conditions in the domestic inter-banking market have significantly improved in late October 2009 and are still favourable. However, the possibility of currency volatility continuing in 2010 means that this favourable situation should not be taken as guaranteed. Although, overall, the situation in 2010 appears better than during most of 2009, uncertainty is still one of the main features of the business environment, which is reflected in reduced lending demand and lower activity in the domestic debt securities market, with the exception of the Government's occasional borrowing.

The impact on liquidity

In order to manage liquidity on a daily basis, the Bank monitors and reports on all changes that have an impact on the liquidity

The Bank's financial statements are presented in the currency of the primary economic environment in which the Bank operates ("the functional currency"), Croatian kuna (HRK), rounded to the nearest thousand.

(e) Changes in presentation or classification of items within the financial statements

presentation currency

(d) Functional and

Where necessary, comparative information has been reclassified to achieve consistency with amounts presented in the current financial year and other disclosures. As indicated in Note 1 I. (f), the Bank restated prior period

position and monitors internal indicators of short-term and structural liquidity.

Based on regulatory requirements, the Bank reports every ten days on the state of liquidity gap of assets and liabilities. Details of the Bank's liquidity risk management are described in Note 2.2.

The impact on customers

The effects of the financial crisis require early identification of impairment losses on loans to customers and to all interrelated parties.

In addition, the Bank monitors the share of potential losses in the overall portfolio and their share in regulatory capital.

The adequacy of particular collateral is estimated on a case-by-case basis. Notwithstanding the existence of the above procedures, the market value of real estate as collateral is difficult to estimate with certainty, given the current difficulties and the relative inactivity of the real estate market.

Although the impact of the financial crisis cannot be predicted nor can the Bank be protected from it, the Bank seeks to direct activities of monitoring the quality of the existing portfolio of clients for the purpose of timely identification of credit risk.

As at 31 December 2009 the exchange rates used for translation of Bank's assets and liabilities were HRK 7.306 to EUR 1 (2008: HRK 7.324 to EUR 1) and HRK 5.089 to USD 1 (2008: HRK 5.156 to USD 1).

balances in respect of the impairment losses on financial assets available for sale and capitalised costs in respect of advisory services received by the Bank.

1. SIGNIFICANT ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

(f) Restatement of previously reported data

The table below shows balance sheet figures for the year ended 31 December 2008, restated for the amount of impairment losses on financial assets available for sale and the amount of capitalised operating costs. The column "Previously reported" presents the originally reported amounts reclassified for consistency with the classification in the current reporting period.

Balance sheet as at 31 December 2008	Previously reported 2008 (HRK '000)	Restatements (HRK '000)	Restated 2008 (HRK'000)
ASSETS			
Cash and amounts due from banks	107.544	-	107.544
Obligatory reserve with Croatian National Bank	86.251	-	86.251
Placements with and loans to other banks	123.405	-	123.405
Financial assets available for sale	161.666	(13.515)	148.151
Financial assets held to maturity	52.543	-	52.543
Loans and advances to customers	822.896	-	822.896
Property and equipment	25.569	-	25.569
Intangible assets	18.252	-	18.252
Other assets	8.556	(2.110)	6.446
TOTAL ASSETS	1.406.682	(15.625)	1.391.057
LIABILITIES			
Deposits from banks	8.551	-	8.551
Deposits from customers	1.020.893	-	1.020.893
Borrowings	219.333	-	219.333
Hybrid instruments	-	-	-
Provisions for liabilities and charges	3.664	-	3.664
Other liabilities	17.982	-	17.982
TOTAL LIABILITIES	1.270.423	-	1.270.423
EQUITY			
Share capital	153.355	-	153.355
Share premium	27.423	-	27.423
Other reserves	2.652	-	2.652
Fair value reserve	(8.791)	10.012	1.221
Accumulated losses	(38.380)	(25.637)	(64.017)
TOTAL EQUITY	136.259	(15.625)	120.634
TOTAL LIABILITIES AND EQUITY	1,406.682	(15.625)	1.391.057

Income statement for the period ended 31 December 2008	Previously reported 2008 (HRK '000)	Restatements (HRK '000)	Restated 2008 (HRK'000)
Interest and similar income	89.228	-	89.228
Interest expense and similar charges	(53.311)	-	(53.311)
Net interest income	35.917	-	35.917
Fee and commission income	8.114	-	8.114
Fee and commission expense	(2.417)	-	(2.417)
Net fee and commission income	5.697	-	5.697
Gains less losses arising from dealing securities	(5.508)	-	(5.508)
Gains less losses arising from investment securities	248	-	248
Gains less losses arising from dealing in foreign currencies	(112)	-	(112)
Other operating income	3.524	-	3.524
Dealing and other income/(expense)	(1.848)	-	(1.848)
OPERATING INCOME	39.766	-	39.766
General and administrative expenses	(55.820)	(2.110)	(57.930)
Depreciation and amortisation	(4.815)	-	(4.815)
Impairment losses on loans and advances to customers and other assets	(9.609)	-	(9.609)
Impairment losses on financial assets available for sale	-	(23.527)	(23.527)
Provisions for liabilities and charges	(2.520)	-	(2.520)
OPERATING EXPENSES	(72.764)	(25.637)	(98.401)
LOSS BEFORE TAX	(32.998)	(25.637)	(58.635)
Income tax expense	-	-	-
	(32.998)	(25.637)	(58.635)

As at 31 December 2008 the Bank had financial assets available for sale (equity securities and funds) with a carrying value of HRK 9,541 thousand net of an unrealized loss, arising from a fair value adjustment in the amount of HRK 10,012 thousand, which was originally recognized in the fair value reserve in equity. Subsequent analysis revealed that the amount of HRK 10,012 thousand represented an impairment loss and, as such, should have been recognized in the income statement for the year ended 31 December 2008.

1. SIGNIFICANT ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

(f) Restatement of previously reported data

Furthermore, at 31 December 2008 the Bank had financial assets available for sale (equity securities) with a carrying value of HRK 17,439 thousand in respect of which no fair value adjustment (unrealized loss) was recognized. Subsequent analysis revealed that an impairment loss in the amount of HRK 13,515 thousand had been incurred. Accordingly, the income statement for the year ending 31 December 2008 as presented in these financial statements has been restated to record an impairment loss in the amount of HRK 23,527 thousand within the

income statement item Impairment of assets available for sale. There was no impact on the opening balance of equity as at 1 January 2008.

The restatement of Other assets and General and administrative expenses, in the amount of HRK 2,110 thousand, relates to costs incurred in 2008, which were recognised in the balance sheet as of 31 December 2008 as Other assets, and which should more properly been charged as General and administrative

II. SPECIFIC ACCOUNTING POLICIES

(a) Interest income and expense

Interest income and expense are recognised in the income statement as they accrue for all interest earning financial instruments, including those measured at amortised cost, at fair value through profit or loss and available for sale, using the effective interest rate method. Such income and expense is presented as interest and similar income or interest expense and similar charges in the income statement. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortisation, and other differences between the initial carrying amount of an interest-earning financial instrument and its value at maturity.

(b) Fee and commission income and expense Fee and commission income and expense arise on financial services provided by the Bank and received by the Bank, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by the Bank. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Loan commitment fees for loans that are likely to be drawn down are deferred linearly (together with related direct costs) and recognised as an adjustment to the interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognised over the

term of the commitment. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part for itself, or has retained a part at the same interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts upon completion of the service.

Asset management fees related to investment fund management are recognised on an accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

(c) Dividend income

Dividend income from equity securities is recognised in the income statement

when the rights to receive the dividend are established.

(d) Gains less losses from dealing and investment securities

Gains less losses from financial instruments at fair value through profit or loss include unrealised and realised gains and losses arising from trading with debt securities and other financial instruments designated at fair value through profit or loss.

Gains less losses arising from investment securities comprise realised gains and losses from financial instruments available for sale.

(e) Gains less losses arising from dealing in foreign currencies

Gains less losses from dealing in foreign currencies include unrealised and realised gains and losses arising from spot and forward dealings in foreign currencies.

(f) Foreign currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates ruling at the dates when the fair values were determined.

Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange

rate at the date of the transaction and are not retranslated at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the securities. The translation differences are recognised in the income statement as part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within general and administrative expenses in the income statement or other operating income. Translation differences on non-monetary financial assets, such as equity instruments classified as available for sale, are included in the fair value reserve in equity.

(g) Financial instruments

Classification

The Bank classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, available for sale, held to maturity or financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The management determines the classification of financial instruments upon initial recognition.

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

This category comprises two subcategories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. The Bank designates

financial assets and liabilities at fair value through profit or loss when:

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

As of 31 December 2009 the Bank had no financial assets and financial liabilities at fair value through profit and loss.

1. SIGNIFICANT ACCOUNTING POLICIES

II. SPECIFIC ACCOUNTING POLICIES

(g) Financial instruments

Loans and receivables

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

Held-to-maturity investments

This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity. These include corporate bills of exchange.

Available for sale financial assets

This category comprises non-derivative financial assets which are defined as available for sale or are not included in loans and receivables or held-to-maturity investments, or classified as financial assets at fair value through profit or loss. Available for sale financial assets are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices.

Available-for-sale financial assets include debt and equity securities, units in investment funds and units in a private equity fund.

Other financial liabilities

Other financial liabilities comprise of all financial liabilities which are not held for trading or designated at fair value through profit or loss.

Recognition and derecognition

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

The Bank derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over the financial instrument. It occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. The Bank derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognising of the liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Realised gains and losses from the disposal of financial instruments are calculated by using the FIFO method.

Initial and subsequent measurement

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

After initial recognition, the Bank measures financial instruments at fair value through profit or loss and financial assets available for sale at their fair value, without any deduction for costs of sale. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment.

Loans and receivables and held-to-maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortised cost.

Gains and losses

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

Gains or losses arising from a change in the fair value of available-for-sale monetary assets are recognised directly in a fair value reserve within equity and are disclosed in the statement of changes in equity. Impairment

(g) Financial instruments

losses, foreign exchange gains and losses, interest income and amortisation of premium or discount on available-for-sale monetary assets are recognised in the income statement. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in equity.

Upon disposal or other derecognition of financial assets available for sale all cumulative gains and losses from the financial instrument are transferred to the income statement.

Gains or losses arising from financial assets and financial liabilities carried at amortised cost are recognised as interest in the income statement over the period of amortisation.

Gains or losses may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired.

Determination of fair value of financial instruments

The fair values of quoted available-for-sale financial assets are based on closing prices at the reporting date. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Bank uses an internal evaluation model for fair value estimation.

The fair value of non-exchange-traded derivatives is estimated at the amount that the Bank would receive or pay to terminate the contract on the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Impairment of financial assets

Impairment of assets identified as impaired

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The Bank estimates and performs impairment of all financial assets, except financial assets at fair value through profit or loss.

If any evidence of impairment exists for available-for-sale financial assets, the cumulative loss measured as the difference between the

acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Significant or prolonged decline in fair value of instruments in equity securities and investments in investment funds is considered as impairment. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

The recoverable amount of financial assets measured at amortised cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original interest rate. Short-term balances are not discounted. Provisions for uncollectibility are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts (or lower amount if required by applicable CNB regulations). The expected cash flows for port folios of similar assets are estimated basedon previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. An increase in impairment losses is recognised in the income statement. When a loan is known to be uncollectable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-off, the write-off or impairment loss is reversed through the income statement.

Impairment of assets not identified as impaired

In addition to the above described impairment losses on assets identified as impaired, the Bank recognises impairment losses, in income, in on and off-balance-sheet credit risk exposures not identified as impaired at

1. SIGNIFICANT ACCOUNTING POLICIES

II. SPECIFIC ACCOUNTING POLICIES

(g) Financial instruments

rates from 0.85 - 1.20%, in accordance with the accounting regulations of the CNB (the Bank uses the rate of 0.85%).

Debt securities carried at fair value and classified as available for sale were excluded from the basis of such calculation at the reporting date.

(h) Specific financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise of cash balances on hand, cash deposited with Croatian National Bank, placements with other banks with original maturities of three months or less, and items in course of collection.

Derivative financial instruments

The Bank uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Bank does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency forward agreements and swaps and are initially recognised at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the guoted market price or, if more appropriate, based on the discounted cash flow. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is considered to represent an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair

value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealised gains and losses recognised in the income statement, unless there is no reliable measure of their fair value.

Changes in the fair value of derivatives instruments are included in gains less losses arising from dealing with foreign currencies.

Treasury bills and debt securities

Treasury bills and debt securities that the Bank holds for the liquidity purposes are classified as available-for-sale assets, and are carried at fair value.

Equity securities and investments in openended investment funds

Equity securities and investments in openended and close-ended investment funds are classified as available-for-sale assets.

Placements with banks

Placements with banks are classified as loans and receivables and are carried at amortised cost less impairment losses.

Loans and advances to customers

Loans and advances to customers are classified as loans and receivables and are presented net of impairment allowances to reflect the estimated recoverable amounts.

Borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings as interest expense.

(h) Specific financial instruments

Repurchase agreements and linked transactions

The Bank enters into purchases/(sales) of investments under agreements to resell (repurchase) substantially identical investments or in a series of linked sales and buy-back transactions at a certain date in the future at a fixed price. The amounts paid are recognised in loans and advances to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount 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 realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(i) Income tax

The income tax charge is based on taxable profit for the year and comprises of current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

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

(j) Property and equipment

Property and equipment are tangible assets that are held for use in the supply of services or other administrative purposes.

Recognition and measurement

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes

expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other

1. SIGNIFICANT ACCOUNTING POLICIES

II. SPECIFIC ACCOUNTING POLICIES

(j) Property and equipment

repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and assets under development are not

depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

	2009	2008
Buildings	33 years	33 years
Computers	5 years	5 years
Furniture and equipment	7-15 years	7-15 years
Motor vehicles	4 years	4 years
Other assets	10 years	10 years

Residual values are not taken into account. Depreciation methods and estimated useful lives are reassessed at the each reporting date. Gains and losses on disposals are

determined by comparing proceeds with carrying amount, and are included in the income statement.

(k) Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment losses. Expenditure on development activities are capitalised if all of the features required by IAS 38 "Intangible Assets" are satisfied. Amortisation is provided on a straight-line basis over the estimated useful lives of intangible assets. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Intangible assets are amortised on a straightline basis over their estimated useful economic lives as follows:

	2009	2008
Leasehold improvements	5 years	5 years
Software	5 years	5 years
Licences	5 years	5 years

(I) Impairment of nonfinancial assets

The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

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

(m) Provisions for liabilities and charges

Provisions are recognised when the Bank has a present obligation as a result of past events, and 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, or as required by the law in the case of provisions for unidentified impairment of off-balance-sheet credit risk exposures, as previously referred to in note II. (g) "Financial Instruments".

Provision for liabilities and charges are maintained at a level which management believes is adequate to absorb probable future losses. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

(n) Operating leases

Leases where the Bank as a lessor retains substantially all the risks and rewards incidental to ownership are classified as financial leases. The Bank did not have any financial leases on the balance sheet date, neither as a lessee or lessor. All leases are operating leases. Rental income under operating leases is recognised in the income statement on a straight-line basis over the term of the lease. The Bank leases office space for conducting its business activities. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(o) Employee benefits

Pension obligations

The Bank pays contributions to state-owned institutions and obligatory pension funds managed by privately owned management companies, in accordance with legal requirements or individual choice. The Bank has no further payment obligations once the contributions have been paid. The pension contributions are recognised as employee benefits in the income statement as they accrue.

Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the balance sheet date. The projected discounted present value unit method is used for the calculation of the present value of the liability, using discount rates that, in opinion of the Bank's management, best represent the time value of money.

(p) Share capital and reserves

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

Reserve for general banking risks

The Bank recognises a reserve for general banking risks, which represents a reserve for potential losses in excess of those expected and provided for through recognised impairment losses. The reserve is calculated in accordance with applicable regulations which require that a certain percentage of net profit for the year be set aside as a reserve within equity if the growth of risk assets on an annual basis exceeds a specific level. The reserve for general banking risk cannot be transferred to retained earnings or be otherwise distributed until the expiry of a consecutive three year period in which the Bank

has recorded annual growth not exceeding 15%. Given that the stated excess has not occurred, the Bank has not created a reserve for general banking risk.

Accumulated losses

Profit for the year is transferred to accumulated loss. Accumulated losses include losses from previous periods, the profit for the year and expenditures related to acquisition of property in the prior period.

Earnings per share

The Bank presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

1. SIGNIFICANT ACCOUNTING POLICIES

II. SPECIFIC ACCOUNTING POLICIES

(r) Off-balance-sheet commitments and contingent liabilities In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance-sheet records and primarily comprise guarantees, letters

of credit and undrawn loan commitments. Such financial commitments are recorded in the Bank's balance sheet if and when they become payable.

(s) Funds management for and on behalf of third parties

The Bank manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Bank's assets and therefore are excluded from the balance

sheet. For the services rendered, the Bank charges a fee which is recognised in the income statement on an accruals basis.

(t) Seament reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other seaments.

The Bank has identified three primary segments: corporate banking; retail banking and treasury banking, as described in Note 4 "Segment Reporting".

2. RISK MANAGEMENT

This section provides details of the Bank's exposure to risk and describes the methods used by management to identify, measure and manage risk in order to safeguard capital. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk.

2.1 Credit risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties.

To manage the level of credit risk, the Bank evaluates debtors' creditworthiness, and in order to minimise credit risk, obtains appropriate collateral. Also, the risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis.

The Bank's primary exposure to credit risk arises from loans to and receivables from customers. The amount of credit exposure in

this regard, and in respect of held-to-maturity securities recognised at amortised cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk in respect of the off-balance-sheet items, through commitments arising from unused facilities and guarantees issued, as disclosed in Note 34.

The Bank manages its credit risk exposure in accordance with the legislative requirements and regulations of the Croatian National Bank, as well as in accordance with its internal procedures.

2.1.1 Assessment of credit risk of the placements

Process of credit risk rating of placements comprises the following:

- · debtors' creditworthiness,
- · debtors' timeliness in meeting their obligations and
- · collateral quality.

Assessment of creditworthiness is preformed on each loan application, that is, minimum once a year subsequent to the delivery of the annual financial reports by the clients to which the Bank is exposed and who have not filed a loan request for a new risky product.

2.1.1 Assessment of credit risk of the placements

Creditworthiness implies the ability of a client to comply with credit terms or potential obligations and to ensure fulfilment of accepted obligation towards the Bank with its own funds, in the manner and within period determined by the contract and that client's operations comply with laws and regulations.

Assessment of creditworthiness of a corporate customer is preformed at least by following criteria:

- 1. the nature of the debtor
- 2. the debtor's capital
- 3. creditworthiness of the debtor

- 4. liquidity and profitability
- 5. cash flow of the debtor
- 6. the general business terms and conditions and the outlook of the debtor
- 7. the debtor's exposure to currency indicated credit risk.

Monitoring of placements and contingent obligations includes continuous assessment whether elements exist which would indicate a deterioration of the customer's financial position, the customer's exposure to currencv risk or an increase in risk due to the decrease of collateral value.

2.1.2 Classification of placements into risk categories

The Bank classifies placements into risk categories depending on the estimated recovery of placements, and in accordance with the CNB's Decision on Classification of Placements and Contingent Liabilities of Banks. All placements that the Bank estimates are fully recoverable are classified in risk category A. Upon initial approval, the Bank classifies all placements into risk category A. Placements that the Bank estimates are partly recoverable are classified into risk category B, depending on the recovery percentage in

subcategory B1 (the recoverable amount is estimated at higher than 70% and less than or equal to 100%), in subcategory B2 (the recoverable amount is estimated at higher than 30% and less than or equal to 70%) and in subcategory B3 (the recoverable amount is estimated at higher than 10% and less than or equal to 30%). Placements estimated to be substantially irrecoverable (recoverable amount less than or equal to 10%), are classified into risk category C.

2.1.3 Impairment policy of placements

When estimating the recoverable amount of placements, based on applicable criteria, the Bank divides placements into those which belong to the portfolio of small placements and those which do not belong to the portfolio of small placements. Impairment of the portfolio of small placements is determined on portfolio basis, while the impairment of placements that do not belong to the portfolio of small placements is determined on an individual basis.

Placements which belong to the portfolio of small placements are those whose gross value (before any impairment loss) does not exceed HRK 200 thousand towards one debtor at the date of estimation.

Generally, the Bank estimates the recoverability of placements regardless of whether it is retail customer or corporate client according to the criteria established for small portfolios if these placements relate to the portfolio of small placements.

Individual basis

Estimate of the recoverable amount of placements that are not classified within small loan portfolio of the Bank is performed on an individual basis according to the following criteria:

- · debtors' creditworthiness,
- · debtors' timeliness in meeting their obligations and
- · collateral quality.

Portfolio basis

The estimate of the recoverable amount of exposures that are classified within the small loan portfolio is, in general, performed on a portfolio basis having regard principally to the debtors' timeliness in meeting their obligations.

2.1.4 Assets exposed to credit risk

Maximum exposure to credit risk before consideration of collateral

The table presented below discloses the maximum exposure of the Bank to credit risk as at 31 December 2009 and 31 December 2008, whereby existing collateral is not taken into account. The exposure disclosed in the table below represents the exposure net of impairment losses.

ASSETS	Notes	2009 (HRK'000)	2008 (HRK '000)
Amounts due from banks	5	39.555	92.818
Obligatory reserve with Croatian National Bank	6	88.150	86.251
Placements with and loans to other banks	7	1.086	123.405
Financial assets available for sale	8	187.648	148.151
Financial assets held to maturity	9	4.094	52.543
Loans and advances to customers	10	819.531	822.896
Other assets	13	2.006	1.270
Total assets exposed to credit risk		1.142.070	1.327.334
Unused loan commitments	34	39.649	97.624
Guarantees	34	27.774	21.016
Other contingent liabilities	34	1.986	533
Total off balance sheet exposure to credit risk		69.409	119.173
Total credit exposure		1.211.479	1.446.507

The Bank utilises the following basic collateral instruments as insurance for placements: bank guarantees, pledged property and equipment, insurance policies, pledged shares, and units in open-ended investment funds, transfer of receivables (cessions) from corporate clients and the Government, and other common financial execution instruments, such as bills of exchange and promissory notes. The valuation of property and equipment is performed by authorised valuers in accordance to Bank's list of authorised valuers. Collateral value is reviewed in accordance to appropriate business practice and with general market trends. The tables presented below disclose gross assets by risk categories, including interest receivable, related impairment allowance and estimated amount of collateral value related to particular assets.

Loans and advances to customers include amounts with a carrying value of HRK 8,955 thousand for which no specific impairment allowance has been recognized and for which a specific impairment allowance in the amount

of HRK 994 thousand should be recorded. They also include one exposure with a carrying value of HRK 25.658 thousand net of specific impairment allowance in the amount of HRK 791 thousand, related to a borrower which has entered formal bankruptcy procedure. This exposure is collateralised with a second legal charge over the borrower's operational business premises, the estimation of the current fair market value of which is currently being undertaken but is not vet available as of the date of issue of these financial statements. The Bank considers that it will recover the carrying amount in full from the assignment of its receivables from a customer to an investor with whom, as of the date of issue of this report, the Bank has initialised an agreement assigning the receivables from the borrower for an amount of HRK 26,326 thousand. Proceeds from the assignment are deferred until such time as the operational business premises are transferred to or bought by the investor out of the bankruptcy procedure.

Amounts due from banks A Obligatory reserve with the CNB A Placements with and loans to other banks A A A A A A Held to maturity investments B, C Held to maturity investments A A A A A A A B, C B, C B, C C B, C C A A A A A B, C C B, C C C C C C C C C C C C C	2 100,00% 100,00% 100,00% 100,00% 100,00% 100,00% 100,00% 100,00% 89,31%	25.445	565 565	5 = 3 + 4	0,30%	7 = 1 - 5 39.555 39.555 39.555 88.150 1.086 1.086 1.086 1.086	∞ ' ' ' ' ' ' ' ' ' ' ' ' ' ' ' ' ' ' '	8 = 6
gatory reserve with the CNB ements with and loans to other banks lable for sale financial assets	100,00% 100,00% 100,00% 100,00% 100,00% 100,00% 100,00% 100,00% 100,00%	25.445	565 565 565 565	565	0,30%	39.555 39.555 88.150 1.086 1.086 1.086 1.086		
gatory reserve with the CNB ements with and loans to other banks lable for sale financial assets	100,00% 100,00% 100,00% 100,00% 100,00% 100,00% 100,00% 89,31%	25.445	565 565	565	0,30%	39.555 88.150 88.150 1.086 1.086 1.086 1.086 1.086		
gatory reserve with the CNB ements with and loans to other banks lable for sale financial assets 1 1 1 1 to maturity investments	100,00% 100,00% 100,00% 100,00% 100,00% 100,00% 100,00% 89,31%	25.445	565 565	265 565	0,30%	88.150 88.150 1.086 1.086 187.648		
ements with and loans to other banks lable for sale financial assets	100,00% 100,00% 100,00% 100,00% 100,00% 100,00% 100,00%	25.445	565 565	565	0,30%	1.086 1.086 1.086 1.086 1.086 1.086 1.086 1.086 1.086 1.086 1.086		
ements with and loans to other banks lable for sale financial assets 18 18 1 to maturity investments	100,00% 100,00% 100,00% 100,00% 100,00% 100,00% 89,31%	25.445	565 565	565	0,30%	1.086 1.086 1.086 1.086 1.086 1.086 1.086 1.086	1 1 1 1 1	
lable for sale financial assets 18 18 18	100,00% 100,00% 100,00% 100,00% 100,00% 89,31%	25.445	565 565	565	0,30%	1.086 187.648 187.648	1 1 1 1	
lable for sale financial assets 18	100,00% 100,00% 100,00% 100,00% 89,31%	25.445	565 565	565	0,30%	187.648	1 1 1 1	
18 I to maturity investments	100,00% 100,00% 100,00% 100,00% 89,31%	25.445	565	5965	0,30%	187.648	1 1	
I to maturity investments	100,00% 100,00% 100,00% 89,31%	25.445	8.625	1 1 1	1 1	- 4004	1 1	
I to maturity investments	100,00% 100,00% 100,00% 89,31%	25.445	8.625	1 1 1	1	4 004	'	1 1 1
	100,00%	25.445	8.625	1 1		† \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \		1 1
B, C -	- 100,00% 89,31%	25.445	8.625	1		4.094		1
	100,00%	25.445	8.625		1	ı	1	
Loans and advances to customers 853.601	89,31%			34.070	3,99%	819.531	312.257	38,10%
A 762.393		1	8.625	8.625	1,13%	753.768	261.267	34,66%
B, C 91.208	10,69%	25.445	1	25.445	27,90%	65.763	50.990	77,54%
Government entities 7.735	100,00%	-	-	1	•	7.735	-	
A 7.735	100,00%	1	1	1	1	7.735	1	ı
B, C	1	1	1	1	1	1	1	1
Corporate 567.846	100,00%	7.162	7.020	14.182	7,50%	553.664	247.739	44,75%
A 498.537	82,79%	1	7.020	7.020	1,41%	491.517	197.650	40,21%
B, C 69.309	12,21%	7.162	1	7.162	10,33%	62.147	50.089	80,60%
Retail 240.545	100,00%	18.283	1.579	19.862	8,26%	220.683	64.518	29,24%
A 218.646	%06'06	1	1.579	1.579	0,72%	217.067	63.617	29,31%
B, C 21.899	9,10%	18.283	1	18.283	83,49%	3.616	901	24,92%
Other loans and advances 37.475	100,00%	1	79	26	%20'0	37.449	1	
A 37.475	100,00%	1	26	26	0,07%	37.449	1	1
B, C	1	1	1	1	1	1	1	1
Other assets 4.908	100,00%	2.902	1	2.902	59,13%	2.006	-	ı
A 1.950	39,73%	1	1	1	1	1.950	1	1
B, C 2.958	60,27%	2.902	'	2.902	98,11%	56	1	
TOTAL ASSETS 1.179.607		28.347	9.190	37.537		1.142.070	312.257	

3 i December 2008 (HRK '000)	Gross	%	Impairment loss for identified losses	Impairment loss for unidentified losses	Total impairment loss	Total impairment loss/gross	Net	Collateral value	Collateral value / net
	-	2	3	4	5 = 3 + 4	6=5/1	7 = 1 - 5	∞	9=8/7
Amounts due from banks	92.818	100,00%	1	1	1	1	92.818	1	
A	92.818	100,00%	1	1	ı	ı	92.818	1	
Obligatory reserve with the CNB	86.251	100,00%	1	1	ı	I	86.251	1	
A	86.251	100,00%	1	1	1	1	86.251	ı	1
Placements with and loans to other banks	123.405	100,00%	1	1	1	1	123.405	1	
A	123.405	100,00%	1	1	1	1	123,405	1	1
Available for sale financial assets	148.637	100,00%	1	486	486	0,33%	148.151		
A	148.637	100,00%	1	486	486	0,33%	148.151	1	1
B, C	ı	1	ı	1	ı	I	ı	ı	1
Held to maturity investments	52.543	100,00%	ı	-	1	ı	52.543	ı	1
A	52.543	100,00%	1	1	1	ı	52.543	1	1
B, C	1	1	-	1	-	1	-	1	
Loans and advances to customers	856.697	100,00%	23.001	10.800	33.801	3,95%	822.896	256.265	31,14%
А	824.964	%08'36%	1	10.800	10.800	1,31%	814.164	253.942	31,19%
B, C	31.733	3,70%	23.001	1	23.001	72,48%	8.732	2.323	26,60%
Government entities	6.684	100,00%	1	1	1	1	6.684	1	
A	6.684	100,00%	1	1	1	1	6.684	1	1
B, C	ı	1	1	1	ı	I	ı	ı	1
Corporate	555.953	100,00%	4.360	8.620	12.980	2,33%	542.973	157.709	29,05%
A	548.749	98,70%	ı	8.620	8.620	1,57%	540.129	156.763	29,02%
B, C	7.204	1,30%	4.360		4.360	60,52%	2.844	946	33,26%
Retail	294.038	100,00%	18.641	2.180	20.821	2,08%	273.217	98.556	36,07%
A	269.509	91,66%	-	2.180	2.180	0,81%	267.329	97.179	36,35%
B, C	24.529	8,34%	18.641	1	18.641	76,00%	5.888	1.377	23,39%
Ostali zajmovi i predujmovi	22	100,00%	1	1	1	1	22	ı	1
A	22	100,00%	1	1	1	1	22	1	1
B, C	ı	1	1	1	1	1	1	1	'
Other assets	4.062	100,00%	2.792	1	2.792	68,73%	1.270	1	1
A	942	23,19%	1	1	1	1	942	1	1
B, C	3.120	76,81%	2.792	1	2.792	89,49%	328	ı	1
TOTAL ASSETS	1.364.413		25.793	11.286	37.079		1.327.334	256.265	

2.1.5 Rescheduled loans and advances to customers

Although the situation in international financial and capital markets became largely stable in the second half of the year 2009, the situation is still not fully stabilised, and the Croatian economy continues to be affected by the recession trend, which is also expected in the 2010 in the Republic of Croatia.

The financial crisis had a significant impact on the banking industry in the Republic of Croatia. The most significant impact on the Bank represents more difficult repayment of loans granted, as a consequence of reduced creditworthiness of customers.

General economic situation and the extension of payment deadlines caused the loan rescheduling that is usually applied to loans for which problems of regular debt servicing, due to the imbalance in terms of payment from trade receivables and payment of obligations to suppliers, are expected. Also one part of the loan portfolio, for which the primary source of repayment were proceeds from the sale of real estates built for the market, was rescheduled due to stagnation in the real-estate market and the short-term funding have been replaced with long-term. Due to the reduced volume of business, as a result of the general crisis, rescheduling is used to match the clients' repayment ability with current market conditions. Rescheduling approval is subject of business projection which is expected to ensure ability to settle due debt as it falls due. The Bank generally requires additional insurance to improve collateral coverage.

The Bank reschedules the loans to overcome liquidity problems of customers through extension of repayment deadlines and consequent reduction in the instalment amount which ultimately leads to orderly payment of obligations to the Bank and improves the liquidity of customers to ensure business stability and viability over the long term.

At 31 December 2009 the amount of rescheduled loans (gross loans) amounted to HRK 111,342 thousand (2008: 25,573 thousand). Of that amount, loans and advances to customers with a bullet repayment of principal and interest amounted to HRK 11,040 thousand (2008: -), while the loans and advances to customers which are in a grace period amounted to HRK 31,615 thousand (2008: HRK 1,592 thousand). The total amount of the capitalized interest on loans and advances to customers in 2009 amounted to HRK 825 thousand (2008: -).

Uncertainties of fair value of pledged property and foreclosed assets

At 31 December 2009 loans and advances to customers include exposure to the gross carrying value in the amount HRK 91,208 thousand (2008: HRK 31,733 thousand) with identified recognized impairment losses, due to the irregularity in repayment. Part of those exposure, is secured by a pledge on property, plant and equipment.

Furthermore, other assets at 31 December 2009 include property, plant and equipment totalling HRK 1,776 thousand (2008: HRK 2,119 thousand), which represents property acquired in lieu for uncollected receivables. Given the impact of global financial and economic crisis, at 31 December 2009 the fair market value of such collateral and assets acquired in lieu for uncollected receivables, including the time required for their realization, is uncertain.

2.1.6 Concentration of credit risk by industry

Commercial lending is concentrated on corporate and retail customers in Croatia. An analysis of the concentration of credit risk by industry is presented in the table below:

	31 December 2009 (HRK '000)	31 December 2008 (HRK '000)
Total gross loans to corporate customers	613.056	562.659
Agriculture and forestry	32.023	25.713
Industry	160.187	264.101
Construction	89.745	53.865
Transport, storage and communication	12.674	17.045
Retail	133.277	50.399
Services	166.606	143.604
Other	18.544	7.932
Total gross loans to retail customers	240.545	294.038
TOTAL	853.601	856.697
- covered by collateral	312.257	256.265
Impairment allowance	(34.070)	(33.801)
TOTAL	819.531	822.896

2.2 Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of its positions. The main categories of liquidity risk to which the Bank is exposed are:

- · inability to settle liabilities as a result of the maturity gap between cash inflow and outflow - structural liquidity risk, and
- risk of being unable to sell or acquire liquid asset at market in an appropriate timeframe and at a reasonable price - liquidity risk of financial instruments.

The liquidity risk management is conducted in compliance with regulatory requirements, and is also defined with the following internal acts:

- liquidity risk management policy
- · liquidity stress test procedure
- procedure for the Bank's liquidity management
- · liquidity risk (crisis) plan

Internal acts are proposed by the Risk Management Division and approved by the Bank's Management Board. In accordance with changes proposed by the Risk Management Division, a revision of internal acts is made.

The liquidity monitoring system is aimed at assessing the Bank's short-term liquidity and its ability to comply with future financing requirements. The Bank continuously aims its activities on improving the quality of the model and the entire process of liquidity management by upgrading the monitoring system, its related assumptions and by enhancing technical support in the procedural process.

The key purpose of the liquidity policy is to ensure that the Bank operates in a way to achieve an optimal balance between the Bank's safety and shareholders return on investment. Framework for a appropriate liquidity risk management comprises of: liquidity management strategy approved by the Management Board within budget and strategic plans, efficient supervision by Asset and Liability Management Committee and the Management Board, clearly defined responsibilities and conducts operations in line with agreed limits, management of assets and liabilities by matching their maturities, an established evaluation system of all current and future inflows and outflows, liabilities structure management, specifically in monitoring concentration of large deposits, sustained development of liquidity stress tests, assessment of access to financial markets and available funds under usual and stressed conditions and a crisis plan.

As part of it's business activities the Bank monitors liquidity risk and complies with regulations, following measures are part of liquidity risk management:

- prescribed ratio of short-term foreign currency receivables in relation to payables, which are monitored on a daily basis;
- · reserve requirements HRK;
- · reserve requirements foreign currency;
- minimum liquidity ratio.

The purpose of management liquidity funds is compliance with regulatory minimum in a method to maintain minimum cost of liquidity funds.

The following liquidity risk indicators are monitored by the Bank:

- · financial and structural indicators;
- deposit concentration;
- · cash flow notice and projection system;
- · liquidity stress tests.

The Bank performs liquidity stress tests adapted to business size and characteristics, strategic goals and plans, internal Bank's organization and its environment, to ensure sufficient liquidity funding. The aim of the liquidity stress test is to recognise a situation and to prepare relevant function of the Bank for prompt reaction in the case of a liquidity crisis. The development of the liquidity stress test represents the Bank's internal policy and is good practice for liquidity management. Management of the long term liquidity is accomplished by position maintenance with regards to liquidity risk exposure limits.

The Bank raises funds using a broad range of instruments including deposits, borrowings, subordinated loans and share capital. The Bank continuously assesses its liquidity risk by identifying and monitoring changes in the level of funding required to achieve business goals and strategic targets. Diverse funds enable flexibility, decrease dependence on a single source of funding and enable straightforward management of financing costs.

The table disclosed further on presents the Bank's maturity of assets and liabilities including maturity of rescheduled loans and advances to customers.

2.2.1 Maturity analysis

Balance sheet as at			2009 (H	RK'000)		
31 December 2009	up to 1 month	1 month to 3 months	3 months to 1 year	1 to 3 years	over 3 years	Total
ASSETS						
Cash and amounts due from banks	56.365	-	-	-	-	56.365
Obligatory reserves with Croatian National Bank	88.150	-	-	-	-	88.150
Placements with and loans to other banks	373	-	713	-	-	1.086
Financial assets available for sale	56.144	46.751	82.675	-	2.078	187.648
Financial assets held to maturity	3.134	674	286	-	-	4.094
Loans and advances to customers	114.739	147.017	232.549	122.663	202.563	819.531
Property and equipment	-	-	-	-	28.291	28.291
Intangible assets	-	-	-	-	18.501	18.501
Other assets	3.321	-	-	2.528	-	5.849
TOTAL ASSETS	322.226	194.442	316.223	125.191	251.433	1.209.515
LIABILITIES			'	'		
Deposits from banks	840	-	2.844	-	-	3.684
Deposits from customers	282.355	137.243	470.844	67.470	10.817	968.729
Borrowings	51.495	13.000	-	-	4.617	69.112
Hybrid instruments	-	-	-	-	2.923	2.923
Provisions for liabilities and charges	-	-	3.601	-	-	3.601
Other liabilities	3.721	870	2.627	727	1.200	9.145
TOTAL LIABILITIES	338.411	151.113	479.916	68.197	19.557	1.057.194
TOTAL EQUITY	-	-	-	-	152.321	152.321
TOTAL LIABILITIES AND EQUITY	338.411	151.113	479.916	68.197	171.878	1.209.515
MATURITY GAP	(16.185)	43.329	(163.693)	56.994	79.555	-
CUMULATIVE MATURITY GAP	(16.185)	27.144	(136.549)	(79.555)	_	-

The highest maturity gap between assets and liabilities arises from the remaining maturity of deposits from customers from 3 months to 1 year.

2.2.1. Maturity analysis

Balance sheet as at			2008 (H	IRK '000)		
31 December 2008	up to 1 month	1 month to 3 months	3 months to 1 year	1 to 3 years	over 3 years	Total
ASSETS						
Cash and amounts due from banks	107.544	-	-	-	-	107.544
Obligatory reserves with Croatian National Bank	86.251	-	-	-	-	86.251
Placements with and loans to other banks	123.405	-	-	-	-	123.405
Financial assets available for sale	48.760	18.290	60.042	21.059	-	148.151
Financial assets held to maturity	7.415	29.149	15.979	-	-	52.543
Loans and advances to customers	187.160	133.679	243.823	132.105	126.129	822.896
Property and equipment	-	-	-	-	25.569	25.569
Intangible assets	-	-	-	-	18.252	18.252
Other assets	2.991	-	-	3.455	-	6.446
TOTAL ASSETS	563.526	181.118	319.844	156.619	169.950	1.391.057
LIABILITIES	'		-	-	'	
Deposits from banks	276	-	8.275	-	-	8.551
Deposits from customers	359.084	190.287	344.388	112.785	14.349	1.020.893
Borrowings	204.900	1.433	13.000	-	-	219.333
Provisions for liabilities and charges	-	-	3.664	-	-	3.664
Other liabilities	9.173	967	5.975	955	912	17.982
TOTAL LIABILITIES	573.433	192.687	375.302	113.740	15.261	1.270.423
TOTAL EQUITY	-	-	-	-	120.634	120.634
TOTAL LIABILITIES AND EQUITY	573.433	192.687	375.302	113.740	135.895	1.391.057
MATURITY GAP	(9.907)	(11.569)	(55.458)	42.879	34.055	-
CUMULATIVE MATURITY GAP	(9.907)	(21.476)	(76.934)	(34.055)	-	-

2.3 Market risk

The exposure to market risk occurs in respect of positions recognised at fair value and refers to securities and other financial instruments held for trading, securities and other financial instruments available for sale and positions denominated in foreign currency.

Financial instruments held for trading are exposed to general position risk, that is the risk of loss due to price change of financial instruments which can occur due to interest rate changes, or more significant changes on capital markets not related to any specific characteristics of financial instruments. Related instruments are also exposed to specific position risk which arises from price changes of individual financial instruments due to factors related to its issuer.

The Risk Management Division calculates: market risk exposure, usage of exposure to market risk limits and capital requirements for exposure to market risks.

In the measurement of the market risk exposure, the Bank relies on regulations set out by the Croatian National Bank and monitors the following:

· Capital requirements calculated by the standard method in accordance with the Croatian National Bank's Decision on capital adequacy;

- · Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors for a period of retaining the same position for 10 days at statistical accuracy of 99%. To calculate VaR, a database containing 250 historical figures is used:
- Internal models of monitoring exposure to interest rate risk in the Bank's records.

The Risk Management Division reports daily to the Treasury Division on the usage of market risk exposure limits and monthly to the Asset and Liability Management Committee.

Investment in equity securities risk

Financial assets available for sale

The financial assets available for sale consist of debt and equity securities. The Bank uses value at risk (VaR) figures to measure exposure to risks in investment in equity securities.

The table below presents market values and the risk values for the portfolio of equity securities within the portfolio available for sale on 31 December 2009.

Equity securities	Market value (HRK '000)	VaR (HRK '000)	VaR (%)
2009	9.055	1.112	12,28

Based on historical data (price movement of equity securities in the last 250 days) assessment of the maximum loss that Bank could incur from change in market value is

12.28%, while maintaining the same portfolio over the next 10 days, which in absolute terms amounts to HRK 1,112 thousand on the total value of investments' in equity securities.

2.4 Interest rate risk

The Bank's operations are subject to the risk of loss which arises from potential interest rate fluctuations which affects positions in the Bank's records.

In line with cautious interest rate risk management, the Bank defines responsibilities in accordance with generally accepted standards and defined limits for maintaining an acceptable level of economic capital and achieving satisfactory financial results.

The majority of placements and deposits are initially contracted at variable interest rate in accordance with the Bank's Decision. except when, for competitive reasons, fixed interest rates are contracted.

The Bank utilises the following measures for measurement of interest rate risk exposure:

- 1. repricing gap analysis;
- 2. standard interest shock on net interest income:
- 3. "what if" simulation; and
- 4. economic value of capital simulation (duration analysis).

2.4 Interest rate risk

Measuring exposure to interest rate risk

The Bank measures the exposure to interest rate risk from two perspectives; profit perspective and the perspective of economic value of capital.

Profit perspective

When calculating the effect of interest rate change on net interest income, the Bank uses standard interest shock on net interest income for a 12 month period. The simulation is based on parallel movements in all interest rates, increase/decrease by 2 percentage points for HRK and increase/decrease by 1 percentage point for EUR and all other currencies.

	2009	2008
Potential decrease in net interest income (HRK'000)	(281)	(905)
% of budgeted net interest income	(0,55%)	(1,81%)

Perspective of economic value of capital

The perspective of economic value of capital (duration analysis) represents a long term measure of interest rate risk exposure in the balance sheet. The effect of interest rate changes on economic value of capital is measured by economic value of capital simulation. This model is based on duration analysis and the hypothesis is that economic value of capital is expressed as the difference between the present value of assets and the present value of liabilities. The calculation is

based on balance sheet positions which are distributed according to repricing criteria.

The Bank calculates the market value of capital by discounting the balance sheet positions using a rate of 5%. The economic value of capital is expressed as the difference between the present value of assets and the present value of liabilities. The simulation of change in economic value of capital is based on a simultaneous parallel increase of interest rates by 1%.

	2009	2008
Net book value of capital (HRK '000)	152.321	120.634
Economic value of capital (HRK '000)	130.885	128.034
Change in economic value of capital (%)	(3,11%)	(1,12%)
Limit of change in market value of capital (%)	10,00%	10,00%

In the case of growth of interest rate which was used to discount the assets and liabilities by 1%, the percentage reduction in economic value of capital would be 3.11%.

2.4.1 Interest rate gap analysis

Tables disclosed further on present the Bank's assets and liabilities distributed according to interest rate sensibility. Balance sheet positions are distributed into repricing periods, so that the fixed interest rate positions are distributed into repricing periods by remaining contractual maturity, and the variable interest rate positions are distributed into repricing periods the earlier of the remaining

contractual repricing or maturity. Noninterest bearing positions are shown separately.

Tables disclosed further on present the Management's assessment of risk exposure to changes in interest rates as at 31 December 2009 and 31 December 2008. They also present the potential effect of interest rates on financial result.

2.4.1. Interest rate gap analysis

Balance sheet as at				2009 (HRK' 000)	RK' 000)			
31 December 2009	up to 1 month	1 month to 3 months	3 months to 1 year	1 to 3 years	over 3 years	Without interest	Total	Fixed interest rate
ASSET								
Cash and amounts due from banks	39.555	ı		1	ı	16.810	56.365	1
Obligatory reserves with Croatian National Bank	88.102	1	1	ı	ı	48	88.150	1
Placements with and loans to other banks	1.078	ı	ı	ı	ı	∞	1.086	ı
Financial assets available for sale	27.760	46.173	83.272	1	2.078	28.365	187.648	159.283
Financial assets held to maturity	2.782	674	286	1	1	352	4.094	3.742
Loans and advances to customers	105.909	147.017	554.917	2.528	330	8.830	819.531	4.578
Property and equipment	ı	-	-	1	1	28.291	28.291	ı
Intangible assets	1	-	•	1	•	18.501	18.501	1
Other assets	1	-	•	1	•	5.849	5.849	1
TOTAL ASSETS	265.186	193.864	638.475	2.528	2.408	107.054	1.209.515	167.603
LIABILITIES								
Deposits from banks	3.344	1	1	1	1	340	3.684	1
Deposits from customers	264.612	137.243	518.832	23.974	6.383	17.685	968.729	449.553
Borrowings	69.007	1	1	1	-	105	69.112	
Hybrid instruments	1	1	1	1	2.923	1	2.923	2.923
Provisions from liabilities and charges	1	1	1	ı	1	3.601	3.601	1
Other liabilities	ı	1	1	1	1	9.145	9.145	1
TOTAL LIABILITIES	336.963	137.243	518.832	23.974	9.306	30.876	1.057.194	452.476
TOTAL EQUITY	•	•	•	•	•	152.321	152.321	1
TOTAL LIABILITIES AND EQUITY	336.963	137.243	518.832	23.974	9.306	183.197	1.209.515	452.476
INTEREST GAP	(777.17)	56.621	119.643	(21.446)	(86898)	(76.143)	•	(284.873)

2.4.1. Interest rate gap analysis

Balance sheet as at				2008 (HRK'000)	K' 000)			
31 December 2008	up to 1 month	1 month to 3 months	3 months to 1 year	1 to 3 years	over 3 years	Without interest	Total	Fixed interest rate
ASSET								
Cash and amounts due from banks	92.818	,	,	,	1	14.726	107.544	1
Obligatory reserves with Croatian National Bank	86.203	1	1	1	1	48	86.251	1
Placements with and loans to other banks	123.378	1	1	1	1	27	123.405	1
Financial assets available for sale	1	18.290	60.042	20.995	1	48.824	148.151	99.327
Financial assets held to maturity	7.281	29.149	15.978	1	1	135	52.543	52.409
Loans and advances to customers	176.371	133.679	497.046	3.244	1.767	10.789	822.896	8.203
Property and equipment	ı	1	ı	1	ı	25.569	25.569	1
Intangible assets	ı	1	•	1	1	18.252	18.252	1
Other assets	-	1	•	1	-	6.446	6.446	1
TOTAL ASSETS	486.051	181.118	573.066	24.239	1.767	124.816	1.391.057	159.939
LIABILITIES								
Deposits from banks	8.275	1	1	1	1	276	8.551	1
Deposits from customers	346.584	190.287	437.027	28.026	6.469	12.500	1.020.893	241.224
Borrowings	219.246	1	ı	1	1	87	219.333	1
Hybrid instruments	ı	1	1	-	1	1	1	1
Provisions from liabilities and charges	1	1	1	ı	1	3.664	3.664	1
Other liabilities	1	1	1	1	1	17.982	17.982	1
TOTAL LIABILITIES	574.105	190.287	437.027	28.026	6.469	34.509	1.270.423	241.224
TOTAL EQUITY	•	•	•	•	•	120.634	120.634	•
TOTAL LIABILITIES AND EQUITY	574.105	190.287	437.027	28.026	6.469	155.143	1.391.057	241.224
INTEREST GAP	(88.054)	(9.169)	136.039	(3.787)	(4.702)	(30.327)	•	(81.285)

2.5 Foreign exchange risk

Foreign exchange operations of the Bank are subject to risks due to changes in intercurrency relationships, as well as changes in foreign currency rates in relation to the domestic currency. The Bank monitors changes in the foreign currency sub ledger on a daily basis by monitoring the relationship between the foreign currency receivables and liabilities, in accordance with the regulations of the CNB on the open foreign exchange position.

The Bank uses the open foreign exchange position (gap analysis) to measure and report exposure to currency risk in accordance with the methodology prescribed by the Croatian

National Bank. Operational management of foreign currency position, within the prescribed limits is responsibility of the Treasury Department, which has the ability to propose measures to eliminate currency gap through a reduction or increase in loans and deposits with a currency clause, selling or buying the currency, or through arbitration - selling one currency for another.

The Risk Management Division controls the compliance with limits on a daily basis, and monthly reports to Asset and Liability Management Committee on foreign exchange risk exposure.

2.5.1 Foreign exchange risk

Balance sheet as at 31 December 2009	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	26.457	-	20.203	9.705	56.365
Obligatory reserves with Croatian National Bank	75.534	-	-	12.616	88.150
Placements with and loans to other banks	-	-	365	721	1.086
Financial assets available for sale	28.251	78.138	81.259	-	187.648
Financial assets held to maturity	4.094	-	-	-	4.094
Loans and advances to customers	236.001	401.600	181.930	-	819.531
Property and equipment	28.291	-	-	-	28.291
Intangible assets	18.501	-	-	-	18.501
Other assets	4.883	104	862	-	5.849
TOTAL ASSETS	422.012	479.842	284.619	23.042	1.209.515
LIABILITIES			·		
Deposits from banks	3.684	-	-	-	3.684
Deposits from customers	330.631	7.411	608.996	21.691	968.729
Borrowings	15.088	4.617	49.407	-	69.112
Hybrid instruments	-	-	2.923	-	2.923
Provisions for liabilities and charges	3.601	-	-	-	3.601
Other liabilities	9.072	73		-	9.145
TOTAL LIABILITIES	362.076	12.101	661.326	21.691	1.057.194
EQUITY					
Share capital	176.523	-	-	-	176.523
Share premium	27.464	-	-	-	27.464
Other reserves	2.611	-	-	-	2.611
Fair value reserve	395	-	-	-	395
Accumulated losses	(54.672)	-	-	-	(54.672)
TOTAL EQUITY	152.321	-	-	-	152.321
TOTAL LIABILITIES AND EQUITY	514.397	12.101	661.326	21.691	1.209.515
NET FOREIGN EXCHANGE POSITION	(92.385)	467.741	(376.707)	1.351	-

 $Agreements\ in\ Croatian\ kuna\ with\ foreign\ currency\ clause\ include\ mostly\ Croatian\ kuna\ linked\ to\ euro\ and\ to\ the\ lesser\ extent\ Croatian\ kuna\ linked\ to\ Swiss\ franc.$

2.5.1. Foreign exchange risk

Balance sheet as at 31 December 2008	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	81.430	-	10.566	15.548	107.544
Obligatory reserves with Croatian National Bank	73.053	-	-	13.198	86.251
Placements with and loans to other banks	100.010	-	14.297	9.098	123.405
Financial assets available for sale	48.760	-	99.391	-	148.151
Financial assets held to maturity	52.543	-	-	-	52.543
Loans and advances to customers	635.083	184.242	3.571	-	822.896
Property and equipment	25.569	-	-	-	25.569
Intangible assets	18.252	-	-	-	18.252
Other assets	6.427	-	19	-	6.446
TOTAL ASSETS	1.041.127	184.242	127.844	37.844	1. 391.057
LIABILITIES					
Deposits from banks	8.551	-	-	-	8.551
Deposits from customers	633.526	51.212	313.891	22.264	1.020.893
Borrowings	217.987	1.346	-	-	219.333
Hybrid instruments	-	-	-	-	-
Provisions for liabilities and charges	3.664	-	-	-	3.664
Other liabilities	17.955	-	27	-	17.982
TOTAL LIABILITIES	881.683	52.558	313.918	22.264	1.270.423
EQUITY					'
Share capital	153.355	-	-	-	153.355
Share premium	27.423	-	-	-	27.423
Other reserves	2.652	-	-	-	2.652
Fair value reserve	1.221	-	-	-	1.221
Accumulated losses	(64.017)	-	-	-	(64.017)
TOTAL EQUITY	120.634	-	-	-	120.634
TOTAL LIABILITIES AND EQUITY	1.002.317	52.558	313.918	22.264	1.391.057
NET FOREIGN EXCHANGE POSITION	38.810	131.684	(186.074)	15.580	-

2.6 Operational risk management

The Bank is exposed to operational risk in all segments of its activities. The Bank seeks to manage its operational risk in accordance with defined principles, with the final purpose being to mitigate operational risk.

Operational risk is defined as the risk of loss due to inadequate or incorrect internal processes, human or system errors or events caused by external factors. The definition of operational risk includes legal risk but does not include strategic and reputational risk.

2.7 Capital management

Even though maximisation of returns on weighted capital is one of the fundamental bases of capital allocation to particular activities within the Bank, it is not the only basis for decision-making. Other reasons for capital management include synergy with other activities, accessibility of resources, and correlation of activities with the longterm strategic goals of the Bank.

The capital adequacy rate is calculated as the ratio between the regulatory capital and the sum of credit-risk-weighted assets, exposure to position risks (capital requirements for position risks multiplied by 10 times) and total exposure of open foreign currency positions exposed to currency risk.

As of 31 December 2009 the Bank's capital adequacy was in compliance with the regulatory requirements.

The following table presents the movement in capital adequacy rates, exposure to position and currency risks, movement of credit risk weighted assets and regulatory capital of

AS DISCLOSED IN THE CNB RETURNS

	2009 (HRK '000)	2008 (HRK '000)
REGULATORY CAPITAL		
Basic capital	141.657	129.894
Additional capital	2.922	-
Deductions from regulatory capital	-	-
Total regulatory capital	144.579	129.894
Credit risk weighted assets	1.152.628	1.056.502
Exposure to foreign currency risk positions	5.210	24.811
Exposure to position risks	-	-
Exposure to settlement risk and counterparty risk	636	-
CREDIT RISK WEIGHTED ASSETS AND EXPOSURE TO OTHER RISKS	1.158.474	1.081.313
CAPIIAL ADEQUACY RATIO	12,48%	12,01%

Compliance with regulatory requirements

The Croatian National Bank requires banks to reach the minimum capital adequacy ratio of 12% by 31 March 2010 in accordance with the new Credit Institutions Act of 13 October 2008 and to calculate it in accordance with the Credit Institutions Act methodology. According to a new methodology for calculation of capital adequacy, the most significant changes relate to the applicable weights of certain type of exposure and to the requirement to calculate capital requirements for operational risk.

According to the preliminary, unaudited data, at 31 March 2010, the Bank achieved a capital adequacy of 13.92%. In order to further strengthen the market position of the Bank considering adequate levels of risk management, the Management negotiates with shareholders and strategic partners about the recapitalization which is planned by the end of the second quarter. Management believes it has the support of shareholders to contribute the amount of EUR 5 million of additional capital.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors. Key sources of estimation of uncertainty are described below.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with the CNB regulations, the need for impairment of the Bank's on and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans

and advances to corporate and retail customers as described in Note 2.1 "Credit risk". while provisions for liabilities and charges arise from off-balance-sheet risk exposure to customers, mainly in the form of guarantees, documentary credits and undrawn loan commitments as described in Note 34.

Financial assets carried at amortized cost

Financial assets carried at amortised cost include financial investments held to maturity and loans and advances to customers.

The Bank initially assesses whether objective evidence of impairment exists. Assets for which impairment is not individually assessed are included in group of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

The Bank estimates impairment losses in cases when it estimates that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets.

The Bank also seeks to recognise impairment losses which are known to exist at the balance sheet date, but which have not yet been specifically identified. In estimating unidentified impairment losses existing in collectively assessed portfolios, and in the absence of reliable data on historical loss rates and the emergence period for the identification of these impairment losses, the Bank considers the range of impairment loss rates from 0.85% to 1.20% prescribed by the CNB to be calculated on all credit risk exposures except those carried at fair value, including off-balance-sheet amounts and Croatian sovereign risk. Amounts assessed as impaired on an individual basis are excluded from this calculation.

Provisions for court cases

The Bank performs individual assessment of outcome of court cases. Initial assessment is made by the Legal department of the Bank. The Bank is defendant in a several court cases and approximately ten violations arising from the daily operations of the Bank. According

to the Management's estimate, except for the Bank's violations raised by the CNB for which the Bank created a provision, the final outcome of other claims are expected to be in favour of the Bank, and accordingly, no additional provision is recognised.

Fair value of the financial instruments quoted in an active market

In estimating the fair value of quoted financial instruments, the Bank uses closing prices at the date of estimation. If the market for a financial asset is not active (and for

unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market prices, the Bank establishes fair value by using valuation techniques.

Regulatory requirements

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

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the

approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records.

4. SEGMENT REPORTING

The Bank comprises the following primary business segments:

- Corporate Banking loans, deposits and other transactions and balances with corporate customers;
- Retail Banking loans, deposits and other transactions and balances with retail customers;
- Treasury undertakes financing and ensures liquidity.

2009 (HRK '000)	Corporate	Retail	Treasury	Unallocated	Total
Net interest income	46.033	(2.202)	(1.906)	(22)	41.903
Net fee and commission income	3.787	1.229	-	(13)	5.003
Dealing and other income	-	-	10.878	4.419	15.297
OPERATING INCOME	49.820	(973)	8.972	4.384	62.203
OPERATING EXPENSES	(29.848)	(16.118)	(8.052)	(3.080)	(57.098)
PROFIT/(LOSS) BEFORE TAX	19.972	(17.091)	920	1.304	5.105
Income tax expense	-	-	-	-	-
PROFIT/(LOSS) FOR THE YEAR	19.972	(17.091)	920	1.304	5.105
Assets	651.904	314.489	175.867	67.255	1.209.515
Liabilities	317.239	656.344	72.795	10.816	1.057.194
Equity	-	-	-	152.321	152.321
2008 (HRK '000)	Corporate	Retail	Treasury	Unallocated	Total
Net interest income	28.833	11.827	(4.952)	209	35.917
Net fee and commission income	4.666	1.090	-	(59)	5.697
Dealing and other income	-	-	645	(2.493)	(1.848)
OPERATING INCOME	33.499	12.917	(4.307)	(2.343)	39.766
OPERATING EXPENSES	(48.403)	(26.123)	(19.101)	(4.774)	(98.401)
PROFIT/(LOSS) BEFORE TAX	(14.904)	(13.206)	(23.408)	(7.117)	(58.635)
Income tax expense	-	-	-	-	-
PROFIT/(LOSS) FOR THE YEAR	(14.904)	(13.206)	(23.408)	(7.117)	(58.635)
Assets	692.245	357.363	273.175	68.274	1.391.057
Liabilities	522.391	504.452	227.884	15.696	1.270.423
Equity	-	-	-	120.634	120.634

5. CASH AND AMOUNTS DUE FROM BANKS

	31 Dec	ember 2009 (HF	RK '000)	31 Dec	ember 2008 (HR	K '000)
	in HRK	in foreign currency	total	in HRK	in foreign currency	total
Cash in hand	8.802	8.008	16.810	9.456	5.270	14.726
AMOUNTS DUE FROM BANKS					'	
Current accounts with domestic banks	-	966	966	-	7.566	7.566
Current accounts with foreign banks	-	20.934	20.934	-	13.278	13.278
Giro account with the CNB	17.655	-	17.655	71.974	-	71.974
	17.655	21.900	39.555	71.974	20.844	92.818
TOTAL	26.457	29.908	56.365	81.430	26.114	107.544

6. OBLIGATORY RESERVE WITH CROATIAN NATIONAL BANK

	31 December 2009 (HRK′ 000)	31 December 2008 (HRK′000)
OBLIGATORY RESERVE		
In HRK	75.486	73.005
In foreign currency	12.616	13.198
	88.102	86.203
ACCRUED INTEREST		
Accrued interest – due	48	48
Accrued interest – not due	-	-
	48	48
TOTAL	88.150	86.251

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

The rate of the obligatory reserve at 31 December 2009 amounted to 14% (2008: 17%; CNB changed the rate of the obligatory reserve from 17% to 14% on 10 December 2008) of HRK and foreign currency deposits, borrowings and issued debt securities. On 10 February 2010 the decision on change of the rate of the obligatory reserve to 13% became in force.

At 31 December 2009 the required minimum rate of maintenance of the obligatory reserve in the Croatian kuna with the CNB amounted to 70% (2008: 70%), while the remaining 30% (2008: 30%) could be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK.

6. OBLIGATORY RESERVE WITH CROATIAN NATIONAL BANK

In 2009, the annual interest rate on the kuna obligatory reserve payable by the CNB was 0.75% (2008: 0.75%).

60% of the foreign currency obligatory reserve (2008: 60%) is maintained with the CNB, while the remaining 40% (2008: 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). Since 14 January 2009 75% (2008: 50%) of the foreign currency obligatory reserve is included in the HRK obligatory reserve and is required to be held in HRK.

In accordance with CNB decision in force from 11 November 2009, the CNB pays no interest on foreign currency obligatory reserve (prior to the decision, an interest for maintaining the reserve in the USD amounted to 75% of U.S. Federal Funds Target Rate and for EUR amounted to 75% ECB Minimum Bid Refinance Rate.)

7. PLACEMENTS WITH AND LOANS TO OTHER BANKS

	31 December 2009 (HRK′000)	31 December 2008 (HRK′ 000)
SHORT-TERM PLACEMENTS		
With foreign banks	-	22.290
With domestic banks	-	100.000
	-	122.290
LONG-TERM PLACEMENTS		
With foreign banks	713	722
With domestic banks	365	366
	1.078	1.088
ACCRUED INTEREST		
Accrued interest – due	-	-
Accrued interest – not due	8	27
	8	27
TOTAL	1.086	123.405

8. FINANCIAL ASSETS AVAILABLE FOR SALE

	31 December 2009	Restated 31 December 2008
	(HRK' 000)	(HRK' 000)
DEBT SECURITIES AND UNITS IN INVESTMENT FUNDS ON ACTIVE MARKETS	, QUOTED	
Bonds issued by the Ministry of Finance	-	20.995
Corporate bonds	2.078	-
Foreign treasury bills	81.823	78.818
Units in investment funds	7.783	26.214
	91.684	126.027
DEBT SECURITIES AND SHARES IN INVESTMENT FUNI ON ACTIVE MARKETS	DS, NOT QUOTED	
Treasury bills issued by the Ministry of Finance	75.946	-
Units in investment funds	11.413	14.208
	87.359	14.208
EQUITY SECURITIES QUOTED ON ACTIVE MARKETS		
Corporate entity	9.055	8.338
	9.055	8.338
ACCRUED INTEREST		
Accrued interest – due	-	-
Accrued interest – not due	115	64
	115	64
IMPAIRMENT ALLOWANCE	(565)	(486)
TOTAL	187.648	148.151

The Bank recognises available-for-sale financial assets at fair value with changes in fair value recognised in a fair value reserve in equity.

In accordance with the CNB regulations the Bank recognises provisions for unidentified losses. The movements in the impairment allowance for available for sale financial assets, recognised in the income statement, are as follows:

		2009 (HRK'000)			2008 (HRK'000)	
	identified losses	unidentified losses	total	identified losses	unidentified losses	total
MOVEMENT IN IMPAIRMENT ALLOWAN	ICES					
Balance as at 1 January	-	486	486	-	-	-
Increase in impairment losses	-	79	79	-	486	486
Balance at 31 December	-	565	565	-	486	486

9. FINANCIAL ASSETS HELD TO MATURITY

	31 December 2009 (HRK′000)	31 December 2008 (HRK'000)
DEBT SECURITIES		
Bills of exchange	3.742	52.408
TOTAL	3.742	52.408
ACCRUED INTEREST		
Accrued interest – due	352	135
TOTAL	352	135
IMPAIRMENT ALLOWANCE	-	-
TOTAL	4.094	52.543

Corporate bills of exchange are issued at a discount rate of 8.5% to 10.99%. At 31 December 2009 HRK 2,790 thousand (2008: HRK 3,015 thousand) of total investments in bills of exchange were due.

10. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2008 (HRK '000)	31 December 2008 (HRK '000)
SHORT-TERM LOANS		
Corporate	374.052	366.849
Retail	57.651	100.377
TOTAL	431.703	467.226
LONG-TERM LOANS		
Corporate	232.574	187.919
Retail	180.494	190.763
TOTAL	413.068	378.682
TOTAL GROSS LOANS	844.771	845.908
ACCRUED INTEREST		
Accrued interest – due	7.234	9.540
Accrued interest – not due	1.596	1.249
TOTAL	8.830	10.789
IMPAIRMENT ALLOWANCE	(34.070)	(33.801)
TOTAL	819.531	822.896

10. LOANS AND ADVANCES TO CUSTOMERS

The movements in the impairment allowances on loans to customers are as follows:

	2009 (HRK′000)			2008 (HRK'000)		
	identified losses	unidentified losses	total	identified losses	unidentified losses	total
MOVEMENT IN IMPAIRMENT						
Balance at 1 January	23.001	10.800	33.801	19.973	8.832	28.805
Increase/(decrease) in impairment losses	4.667	(2.175)	2.492	7.543	1.968	9.511
Write-offs	(1.072)	-	(1.072)	(2.304)	-	(2.304)
Net gain on foreign exchange differences	(213)	-	(213)	(333)	-	(333)
Usage	(938)	-	(938)	(1.878)	-	(1.878)
Balance at 31 December	25.445	8.625	34.070	23.001	10.800	33.801

As indicated in Significant accounting policies, the Bank applies the rate of 0.85% on balance sheet and off balance sheet exposures which are subject to the credit risk and for which no identified impairment losses have been recognised.

11. PROPERTY AND EQUIPMENT

2009 (HRK '000)	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and others	Assets in the course of construction	Total
COST					'	
Balance as at 1 January	15.515	5.361	11.209	1.799	787	34.671
Property acquisition costs recognized in equity	4.240	-	-	-	-	4.240
Additions	726	-	-	-	3.430	4.156
Transfers	2.008	852	1.297	60	(4.217)	-
Write offs	(2.258)	(73)	(1.697)	(102)	-	(4.130)
Balance as at 31 December	20.231	6.140	10.809	1.757	-	38.937
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2009	1.634	2.299	4.350	819	-	9.102
Charge for the year	623	1.091	1.059	303	-	3.076
Disposal and write offs	(627)	(37)	(833)	(35)	-	(1.532)
Balance as at 31 December	1.630	3.353	4.576	1.087	-	10.646
CARRYING VALUE			·			
Balance as at 1 January	13.881	3.062	6.859	980	787	25.569
Balance as at 31 December	18.601	2.787	6.233	670	-	28.291
2008 (HRK '000)	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and others	Assets in the course of construction	Total
COST	10.742	4.660	0.107	4 527		25.426
Balance as at 1 January Additions	19.743	4.669	9.187	1.527	3.855	35.126
Transfers	12	705	2.033	318	(3.068)	3.033
Property acquisition costs		, 03	2.033	310	(3.000)	
reversed from equity	(4.240)	-	-	-	-	(4.240)
reversed from equity Write offs	(4.240)	(13)	(11)	(46)	-	(4.240)
-	(4.240) - 15.515	(13) 5.361			787	
Write offs	-		(11)	(46)	787	(70)
Write offs Balance as at 31 December	-		(11)	(46)	787	(70) 34.671
Write offs Balance as at 31 December ACCUMULATED DEPRECIATION	15.515	5.361	(11) 11.209	(46) 1.799		(70) 34.671 6.425
Write offs Balance as at 31 December ACCUMULATED DEPRECIATION Balance as at 1 January 2009	15.515 1.141	5.361	(11) 11.209	(46) 1.799	-	(70) 34.671 6.425 2.716
Write offs Balance as at 31 December ACCUMULATED DEPRECIATION Balance as at 1 January 2009 Charge for the year	15.515 1.141 493	5.361 1.408 899	(11) 11.209 3.331 1.026	(46) 1.799 545 298	-	(70) 34.671 6.425 2.716 (39)
Write offs Balance as at 31 December ACCUMULATED DEPRECIATION Balance as at 1 January 2009 Charge for the year Write offs	1.141 493	1.408 899 (8)	(11) 11.209 3.331 1.026 (7)	(46) 1.799 545 298 (24)	- - -	(70) 34.671 6.425 2.716 (39)
Write offs Balance as at 31 December ACCUMULATED DEPRECIATION Balance as at 1 January 2009 Charge for the year Write offs Balance as at 31 December	1.141 493	1.408 899 (8)	(11) 11.209 3.331 1.026 (7)	(46) 1.799 545 298 (24)	- - -	(70) 34.671 6.425 2.716

12. INTANGIBLE ASSETS

2009 (HRK '000)	Software	Goodwill	Leasehold improvements	Licences	Assets in the course of construction	Total
COST						
Balance as at 1 January	1.246	2.300	9.421	2.549	8.433	23.949
Additions	-	-	-	-	3.161	3.161
Transfers	57	-	595	1.838	(2.490)	-
Write off	-	-	(992)	(13)	-	(1.005)
Balance as at 31 December	1.303	2.300	9.024	4.374	9.104	26.105
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2009	773	-	3.901	1.023	-	5.697
Charge for the year	156	-	1.543	758	-	2.457
Write off	-	-	(549)	(1)	-	(550)
Balance as at 31 December	929	-	4.895	1.780	-	7.604
CARRYING VALUE						
Balance as at 1 January	473	2.300	5.520	1.526	8.433	18.252
Balance as at 31 December	374	2.300	4.129	2.594	9.104	18.501
2008 (HRK '000)	Software	Goodwill	Leasehold improvements	Licences	Assets in the course of construction	Total
COST	1.121		7.600	2.170	2.004	44004
Balance as at 1 January	1.121	- 2 200	7.600	2.179	3.901	14.801
Additions Transfers	125	2.300	1 021	270	6.848	9.148
Write off	123		1.821	370	(2.316)	<u> </u>
Balance as at 31 December	1.246	2 200	9.421	2.549	8.433	23.949
	1.240	2.300	9.421	2.549	0.433	23.545
Release as at 1 January 2000	621	_	2.252	C14	-	2.500
Balance as at 1 January 2009	631		2.353	614		3.598
Charge for the year	142	-	1.548	409	-	2.099
Write off	-	-	-	-	-	-
Balance as at 31 December	773	-	3.901	1.023	-	5.697
CARRYING VALUE	ı					
Balance as at 1 January	490	-	5.247	1.565	3.901	11.203
Balance as at 31 December	473	2.300	5.520	1.526	8.433	18.252

12. INTANGIBLE ASSETS

Assets in the course of construction

As at 31 December 2009 and 31 December 2008 assets in the course of construction comprise application software and licences at cost which are in the course of construction for future utilisation.

Goodwill

In 2008 the Bank has acquired HRK 12.8 million of deposits and HRK 10.7 million of loans secured by deposit in the amount of HRK 2.8 million from savings and credit association MIPCRO Ivanec for the amount of HRK 2.3 million.

The future economic benefits expected by the Bank arising from these transactions are shown in the Bank's balance sheet as goodwill, and are based on the additional value arising for the Bank on the basis of obtaining customers from a saving and credit association, i.e. taking over some of the market share, and creating the potential for further business development in the area of Ivanec, compared with the branches of the Bank operating in a similar economic environment.

13. OTHER ASSETS

	31 December 2009	Restated 31 December 2008
	(HRK'000)	(HRK'000)
OTHER ASSETS		
Fees receivable	1.714	688
Prepaid expenses	472	412
Foreclosed assets	1.776	2.119
Inventories	653	960
Other receivables	4.136	5.059
TOTAL	8.751	9.238
IMPAIRMENT ALLOWANCE	(2.902)	(2.792)
TOTAL	5.849	6.446

The movement in the impairment allowance of Other assets is presented below:

	2009 (HRK'000)	2008 (HRK'000)
MOVEMENT IN IMPAIRMENT ALLOWANCE		
Balance as at 1 January	2.792	8.718
Increase/(decrease) in impairment loss	110	(388)
Write offs	-	(5.538)
Balance as at 31 December	2.902	2.792

14. DEPOSITS FROM BANKS

	31 December 2009 (HRK′ 000)	31 December 2008 (HRK′000)
DEMAND DEPOSIT		
In HRK	-	-
In foreign currency	-	-
TOTAL	-	-
TERM DEPOSIT		
In HRK	3.344	8.275
In foreign currency	-	-
TOTAL	3.344	8.275
INTEREST PAYABLE		
Interest – not due	340	276
TOTAL	340	276
TOTAL	3.684	8.551

15. DEPOSITS FROM CUSTOMERS

31 December 2009 (HRK'000)			31 Dece	ember 2008 (HRK	(000)
in HRK	in foreign currency	total	in HRK	in foreign currency	total
9.054	8.667	17.721	12.821	10.996	23.817
54.496	3.771	58.267	122.458	1.251	123.709
63.550	12.438	75.988	135.279	12.247	147.526
			,		
1.202	3	1.205	3.989	5	3.994
2.986	-	2.986	1.129	1.742	2.871
4.188	3	4.191	5.118	1.747	6.865
'			1		
137.416	484.593	622.009	154.386	310.667	465.053
128.759	120.097	248.856	384.512	4.437	388.949
266.175	604.690	870.865	538.898	315.104	854.002
251	-	251	406	-	406
3.878	13.556	17.434	5.037	7.057	12.094
4.129	13.556	17.685	5.443	7.057	12.500
338.042	630.687	968.729			1.020.893
	9.054 54.496 63.550 1.202 2.986 4.188 137.416 128.759 266.175 251 3.878 4.129	in HRK in foreign currency 9.054 8.667 54.496 3.771 63.550 12.438 1.202 3 2.986 - 4.188 3 137.416 484.593 128.759 120.097 266.175 604.690 251 - 3.878 13.556 4.129 13.556	in HRK in foreign currency total 9.054 8.667 17.721 54.496 3.771 58.267 63.550 12.438 75.988 1.202 3 1.205 2.986 - 2.986 4.188 3 4.191 137.416 484.593 622.009 128.759 120.097 248.856 266.175 604.690 870.865 251 - 251 3.878 13.556 17.434 4.129 13.556 17.685	in HRK in foreign currency total in HRK 9.054 8.667 17.721 12.821 54.496 3.771 58.267 122.458 63.550 12.438 75.988 135.279 1.202 3 1.205 3.989 2.986 - 2.986 1.129 4.188 3 4.191 5.118 137.416 484.593 622.009 154.386 128.759 120.097 248.856 384.512 266.175 604.690 870.865 538.898 251 - 251 406 3.878 13.556 17.434 5.037 4.129 13.556 17.685 5.443	in HRK in foreign currency total in HRK in foreign currency 9.054 8.667 17.721 12.821 10.996 54.496 3.771 58.267 122.458 1.251 63.550 12.438 75.988 135.279 12.247 1.202 3 1.205 3.989 5 2.986 - 2.986 1.129 1.742 4.188 3 4.191 5.118 1.747 137.416 484.593 622.009 154.386 310.667 128.759 120.097 248.856 384.512 4.437 266.175 604.690 870.865 538.898 315.104 251 - 251 406 - 3.878 13.556 17.434 5.037 7.057 4.129 13.556 17.685 5.443 7.057

Restricted deposits mainly relate to client deposits which are predetermined for special purposes.

16. BORROWINGS

	31 December 2009 (HRK '000)		31 December 2008 (HRK '000		'000)	
	in HRK	in foreign currency	total	in HRK	in foreign currency	total
SHORT-TERM BORROWINGS						
From banks	2.000	49.390	51.390	204.900	-	204.900
From CBRD	13.000	-	13.000	13.000	-	13.000
TOTAL	15.000	49.390	64.390	217.900	-	217.900
LONG-TERM BORROWINGS						
From CBRD	4.617	-	4.617	1.346	-	1.346
TOTAL	4.617	-	4.617	1.346	-	1.346
INTEREST PAYABLE						
Interest – due	88	17	105	64	-	64
Interest – not due	-	-	-	23	-	23
TOTAL	88	17	105	87	-	87
TOTAL	19.705	49.407	69.112	219.333	-	219.333

16.1. Repurchase and resale agreements

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. At 31 December 2009, the Bank entered into a series of linked sell and repurchase transactions, which, in line with IAS 39: Financial instruments: Recognition and measurement, do not satisfy criteria for derecognition and accordingly are

recognised in the same manner as related agreements.

Repurchase agreements are commonly used as a tool for short-term financing of interestbearing assets, depending on the prevailing interest rates. The financial instruments sold are being recognised in the balance sheet and the proceeds from sale are presented as a liability for borrowings.

At the end of the year assets sold under repurchase agreements were as follows:

31 December 2009	Currency	Disposal date	Repurchase date	Carrying amount of liability (HRK '000)	Fair value of securities (HRK '000)
Zagrebačka banka	EUR	28 December 2009	4 January 2010	7.014	7.305
Raiffeisen banka Zagreb	EUR	28 December 2009	4 January 2010	14.247	15.331
Podravska banka	EUR	29 December 2009	12 January 2010	14.612	15.341
Privredna banka Zagreb	EUR	29 December 2009	5 January 2010	8.767	9.495
Privredna banka Zagreb	EUR	30 December 2009	7 January 2010	4.750	5.114
TOTAL				49.390	52.586

16.1. Repurchase and resale agreements

31 December 2008	Currency	Disposal date	Repurchase date	Carrying amount of liability (HRK '000)	Fair value of securities (HRK'000)
Zagrebačka banka	KN	29 December 2008	5 January 2009	20.400	21.813
Zagrebačka banka	KN	30 December 2008	7 January 2009	17.500	18.230
Zagrebačka banka	KN	31 December 2008	2 January 2009	7.600	7.998
Zagrebačka banka	KN	29 December 2008	2 January 2009	19.400	20.332
Privredna banka Zagreb	KN	29 December 2008	5 January 2009	21.500	20.943
Privredna banka Zagreb	KN	29 December 2008	2 January 2009	9.000	9.440
TOTAL				95.400	98.756

Linked transactions have been accounted for as repurchase agreements, in accordance with IAS 39 Financial instruments: *Recognition and measurement.*

At 31 December 2009 the Bank did not enter into resale agreements.

17. HYBRID INSTRUMENTS

	31 December 2009 (HRK '000)	31 December 2008 (HRK '000)
Hybrid instruments	2.923	-
TOTAL	2.923	-

In September 2009 the Bank received a hybrid instrument with maturity of 5.5 years and fixed interest rate of 7.75%. The hybrid instrument is included in to the Bank's additional capital. These amounts may be used for covering the losses from current operations, in bankruptcy or liquidation, and if the Bank's capital adequacy falls below 3/4

of the capital adequacy ratio prescribed by law (or some other ratio prescribed by the CNB) and if shareholders of the Bank do not acquire of additional shares within 90 days, the Bank will convert hybrid instruments into shares, which, in accordance with Decision on capital adequacy, are to be included in share capital.

18. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2009 (HRK '000)	31 December 2008 (HRK '000)
Provisions for court cases	2.413	2.413
Provisions for pensions and other liabilities to employees	576	214
Provisions for contingent and other liabilities	612	1.037
TOTAL	3.601	3.664

The movement in provisions for liabilities and charges is presented below:

	2009 (HRK '000)	2008 (HRK '000)
MOVEMENT IN PROVISION		
Balance at 1 January	3.664	1.293
Increase in provision	141	2.520
Provisions used during the year	(204)	(149)
Balance at 31 December	3.601	3.664

19. OTHER LIABILITIES

	31 December 2009 (HRK '000)	31 December 2008 (HRK '000)
Trade payables	535	3.308
Liabilities for salaries, deductions from salaries, taxes and contributions	1.942	2.098
Items in the course of settlement	283	2.255
Deferred income from sale of shares	-	2.510
Deferred fee income	4.855	5.950
Other liabilities	1.530	1.861
TOTAL	9.145	17.982

20. EQUITY

20.1 Share capital

In accordance with the General Assembly decision from 6 March 2009 on the increase of the Bank's share capital in cash by issuance of ordinary shares with a nominal value of HRK 100.00 each, the Bank increased its share capital from HRK 153,355,000.00 to HRK 176,522,800 by the amount of HRK 23,167,800.00. The number of shares increased from 1,533,550 to 1,765,288 shares.

The shareholder structure is as follows:

31 December 2009	Paid in capital (HRK '000)	Ownership share (%)
VALIDUS D.D.	51.348	29,09
BALKAN FINANCIAL SECTOR EQUITY FUND C.V.	29.200	16,54
PLURIS D.D.	18.369	10,41
Small shareholders	77.606	43,96
	176.523	100,00

31 December 2008	Paid in capital (HRK '000)	Ownership share (%)
FIMA VALIDUS D.D.	45.177	29,46
BALKAN FINANCIAL SECTOR EQUITY FUND C.V.	29.200	19,04
FIMA GRUPA D.D.	18.549	12,10
Small shareholders	60.429	39,40
	153.355	100,00

Due to further strengthening of the Bank's market position, along with quality level of the risk management, in 2010 the Bank intends to increase its share capital in cash through issuance of new shares, and is currently in the process of discussion on the amounts and the date and terms of recapitalization by potential investors.

20.2 Share premium

Share premium relates to capital gain incurred on issuance of new shares at a price higher than the nominal value during the recapitalization process in 2006 and 2007.

20.3 Other reserves

Other reserves as at 31 December 2009 amount to HRK 2,611 thousand (2008: HRK 2,652 thousand) and are created in accordance with the General Assembly decision.

20.4 Fair value reserve

The fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets available for sale.

20.5 Accumulated losses

Accumulated loss comprise previous year accumulated losses and property acquisition cost related to capitalised costs incurred during sale and repurchase transactions of property owned by the Bank in prior years.

20. EQUITY

20.6 Statutory reserve

The Bank is required to create a statutory reserve by allocating 5% of its net profit for the year, until the reserve reaches 5% of share capital. The legal reserve can be used to cover losses from previous years if the losses are not covered by current year profits or if other reserves are not available.

20.7 Reserves for general banking risks

Reserve for general banking risks represents a reserve for potential losses in excess of planned and already established allowances for identified losses.

In accordance with the regulations of the Croatian National Bank, the Bank is required to create provision for general banking risks, if the growth in the Bank's balance-sheet and offbalance-sheet exposure exceeds 15% of balance sheet and off-balance-sheet exposure at the previous year end.

The Bank did not recognised provision for general banking risks.

20.8 Proposed dividends

Dividends payable are not recognized until they are approved at the General Assembly. The Management will not propose a dividend payment for 2009 (2008: -).

21. INTEREST AND SIMILAR INCOME

	2009 (HRK '000)	2008 (HRK '000)
ANALYSIS BY PRODUCT		
Loans and advances to customers	92.592	79.728
- corporate	64.035	46.935
- retail	28.557	32.793
Placements with and loans to other banks	1.698	2.912
Available for sale financial assets	4.582	1.622
Held to maturity financial investments	2.201	4.379
Obligatory reserve with the CNB	637	587
TOTAL	101.710	89.228
ANALYSIS BY SOURCE		
Corporate	65.179	50.813
Retail	28.557	32.438
State and public sector	4.564	552
Banks and other financial institutions	3.269	5.058
Other	141	367
TOTAL	101.710	89.228

22. INTEREST EXPENSE AND SIMILAR CHARGES

	2009 (HRK'000)	2008 (HRK '000)
ANALYSIS BY PRODUCT		
Deposits from customers	41.903	29.570
- corporate	10.599	8.459
- retail	31.304	21.111
Borrowings	6.296	10.067
Bank deposits	11.549	13.295
Other	59	379
TOTAL	59.807	53.311
ANALYSIS BY RECIPIENT		
Corporate	10.351	8.068
Retail	31.358	20.611
State and public sector	185	391
Banks and other financial institutions	17.845	23.862
Other	68	379
TOTAL	59.807	53.311

23. FEE AND COMMISSION INCOME

	2009 (HRK '000)	2008 (HRK '000)
Cash-based payment transactions	324	330
Non-cash-based payment transactions	2.286	1.676
Retail and credit card operations	1.655	1.482
Letters of credit, guarantees and foreign currency payment transactions	1.988	1.628
Other fee and commission income	998	2.998
TOTAL	7.251	8.114

24. FEE AND COMMISSION EXPENSE

	2009 (HRK '000)	2008 (HRK '000)
Cash-based payment transactions	260	130
Non-cash-based payment transactions	1.631	1.606
Credit card transactions	217	280
Other fee and commission expense	140	401
TOTAL	2.248	2.417

25. GAINS LESS LOSSES ARISING FROM DEALING SECURITIES

	2009 (HRK '000)	2008 (HRK '000)
REALISED GAINS/(LOSSES)		
Debt securities	-	-
Equity securities	2.549	(523)
Investment funds	-	(2.481)
TOTAL	2.549	(3.004)
UNREALISED GAINS/(LOSSES)		
Debt securities		-
Equity securities	-	(2.504)
Investment funds	-	-
TOTAL	-	(2.504)
TOTAL	2.549	(5.508)

26. GAINS LESS LOSSES ARISING FROM INVESTMENTS SECURITIES

	2009 (HRK '000)	2008 (HRK '000)
REALISED GAINS/(LOSSES)		
Debt securities	1.956	(95)
Equity securities	-	340
Investment funds	-	3
TOTAL	1.956	248

27. OTHER OPERATING INCOME

	2009 (HRK '000)	2008 (HRK '000)
Dividend income	331	509
Other income	1.870	3.015
TOTAL	2.201	3.524

28. GENERAL AND ADMINISTRATIVE EXPENSES

	2009 (HRK '000)	2008 (HRK '000)
Materials and services	16.402	21.395
Administration and marketing expenses	1.886	2.367
Postal and communication expenses	1.006	1.593
Personnel expenses	23.777	27.121
Savings deposit insurance expense	1.719	1.136
Net foreign exchange loss from translation of monetary assets and liabilities	1.209	49
Other general and administrative expenses	2.744	4.269
TOTAL	48.743	57.930

Personnel expenses

	2009 (HRK '000)	2008 (HRK '000)
Net wages, severance payments and other costs	12.391	13.952
Taxes and employee contributions	9.944	11.404
Other employee benefits	1.022	1.044
Supervisory Board members fees	420	721
TOTAL	23.777	27.121

At 31 December 2009 the bank had 175 employees (2008: 182).

Personnel expenses include mandatory contributions for pension insurance in the amount of HRK 3,978 thousand (2008: HRK 4,270 thousand) paid into mandatory pension funds. Contributions are calculated as a percentage of employees' gross salaries.

29. IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS AND OTHER ASSETS

	2009 (HRK '000)	2008 (HRK '000)
IDENTIFIED LOSSES		
Loans and advances to customers	4.667	7.543
Other assets	110	(388)
TOTAL	4.777	7.155
UNIDENTIFIED LOSSES		
Available for sale financial assets	79	486
Loans and advances to customers	(2.175)	1.968
Other assets	-	-
TOTAL	(2.096)	2.454
TOTAL IDENTIFIED AND UNIDENTIFIED LOSSES		
Available for sale financial assets	79	486
Loans and advances to customers	2.492	9.511
Other assets	110	(388)
TOTAL	2.681	9.609

30. INCOME TAX EXPENSE

Income tax expense recognised in the income statement:

	2009 (HRK '000)	2008 (HRK '000)
Profit/(loss) before income tax	5.105	(58.635)
Income tax at 20% rate	1.021	(11.727)
Expenses not deductible for tax purposes	1.090	5.053
Income not subject to tax	(66)	(102)
(Tax losses)/tax benefit	(2.045)	6.776
INCOME TAX EXPENSE	-	-
Effective income tax rate	n/a	n/a

30. INCOME TAX EXPENSE

In previous years the Bank incurred tax losses. Such tax losses can be carried forward over the following five years in which are incurred. Tax losses and their expiry dates at 31 December 2009 are as follows:

		2009 (HRK '000)		Restated 2008 (HRK'000)		
Incurred	Year of expiry	Gross tax losses	Tax losses to be carried forward (20%)	Gross tax losses	Tax losses to be carried forward (20%)	
2005	2010	-	-	2.778	555	
2008	2013	26.433	5.287	33.880	6.776	
UKUPNO		26.433	5.287	36.658	7.331	

Considering uncertainty of results in the upcoming period, the Bank did not recognised deferred tax asset on unused tax losses in the amount of HRK 5,287 thousand (2008: HRK 7,331 thousand).

31. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the profit for the period attributable to share holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares circulating during the year after deducting the number of ordinary treasury shares (none during 2009 or 2008).

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 was the same as used to calculate basic earnings per share. The Bank has no preference shares.

	2009	Restated 2008
Gains/(losses) for the year (HRK '000)	5.105	(58.635)
Weighted average number of ordinary shares	1.711.910	1.533.550
BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE (HRK)	2,98	(38,23)

32. CONCENTRATION OF ASSETS AND LIABILITIES

	Notes	2009 (HRK '000)	2008 (HRK '000)
Giro account with the CNB	5	17.655	71.974
Obligatory reserves with Croatian National Bank	6	88.150	86.251
Bonds issued by the Ministry of Finance	8	-	20.995
Treasury bills issued by the Ministry of Finance	8	75.946	-
Borrowings (CBRD)	16	(17.617)	(14.346)
TOTAL		164.134	164.874

Izloženost Banke prema lokalnoj upravi i državnim institucijama koje se ne financiraju direktno iz državnog proračuna (isključujući društva u državnom vlasništvu), iznosi kako slijedi:

	2009 (HRK '000)	2008 (HRK '000)
Loans	4.101	4.066
Deposits	(859)	(3.369)
TOTAL	3.242	697

33. CASH AND CASH EQUIVALENTS

	Notes	2009 (HRK '000)	2008 (HRK '000)
Cash and amounts due from banks	5	56.365	107.544
Placements to banks with original maturity up to 90 days	7	-	122.290
TOTAL		56.365	229.834

34. COMMITMENTS AND CONTINGENCIES

	2009 (HRK '000)	2008 (HRK '000)
Guarantees in HRK	25.782	17.317
Guarantees in foreign currency	1.992	3.699
Unused loan commitments	39.649	97.624
Other contingent liabilities	1.986	533
TOTAL	69.409	119.173

At 31 December 2009, the Bank recognized unidentified impairment losses for off-balancesheet risks arising from the issue of guarantees, letters of credit and undrawn lending commitments in the amount of HRK 612 thousand (2008: HRK 1,037 thousand).

35. RELATED PARTY TRANSACTIONS

The key shareholders of the Bank are Validus d.d. and Balkan Financial Sector Equity Fund which together owned 56.04 % (2008: 63.03 %) of the Bank's shares at year end. The remaining 43.96% (2008: 36.97%) of the shares are publicly traded. The Bank considers that it has an immediate related party relationship with its key shareholders; the Supervisory and Management Board members and

other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

35.1. Key transactions with immediate related parties

At 31 December 2009 the Bank has no high risk product exposure towards its key shareholders (2008: nil). All transactions with key shareholders during the year are generated from deposit activities, while transactions with key management personnel were generated from deposit, lending activities and given benefits. Gross exposure to key shareholders at 31 December 2009 amounted HRK 2 thousand (2008: HRK 184 thousand).

Liabilities towards the Bank's key shareholders at 31 December 2009 amounted to HRK 114 thousand and relate to demand deposits held with the Bank (2008: HRK 6,974 thousand of which HRK 5,000 thousand related to the term deposit of Fima Global Invest, and the reminder to demand deposits held with the Bank).

	2009 (HRK '000)				2008 (H	IRK '000)		
	Exposure	Liabilities	Revenue	Expenses	Exposure	Liabilities	Revenue	Expenses
KEY SHAREHOLDERS	2	114	18	22	184	6.974	384	365
KEY MANAGEMENT								
Paid benefits	-	835	-	2.538	-	183	-	2.479
Loans granted	3.625	-	76	18	827	-	8	-
TOTAL	3.627	949	94	2.578	1.011	7.157	392	2.844

Although some employees of the Bank are also members of the customers' Supervisory Boards, the Bank believes that they have no control over the operations of these customers, and therefore the customers are not considered as related parties and not included in the table above.

36. MANAGED FUNDS FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Bank manages funds for and on behalf of corporate and retail customers, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. These assets are not assets of the Bank and are not recognised in the balance sheet of the Bank. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

Further, the Bank manages credit exposure of third parties as follows:

	2009 (HRK '000)	2008 (HRK '000)
ASSETS		
Corporate	41.340	46.466
Retail	24.106	32.236
Giro accounts	2.600	18
TOTAL	68.046	78.720
LIABILITIES		
Corporate	34.803	46.467
Republic of Croatia	9.126	-
HBOR	24.073	32.253
Local governments	44	-
Local governments	68.046	78.720

37. AVERAGE INTEREST RATES

Average interest rates calculated based on the average monthly balances for each category of interest-earning assets and interest-bearing liabilities, are presented below:

	2009 (HRK '000)	2008 (HRK '000)
ASSETS		
Cash and amounts due from banks	0,73%	0,97%
Obligatory reserve with Croatian National Bank	0,69%	0,70%
Placements with and loans to other banks	7,31%	6,18%
Available for sale financial assets	3,29%	3,21%
Held to maturity investments	13,56%	13,27%
Loans and advances to customers	11,10%	10,89%
LIABILITIES		
Deposits from banks	4,69%	4,98%
Deposits from customers	5,39%	5,24%
Borrowings	6,34%	6,87%
Hybrid instruments	7,56%	-

38. OPERATING LEASE LIABILITIES

The Bank has 21 operating lease contracts. These contracts relate to leases for offices, ATM machines and automobiles from which operating lease liabilities are derived.

Future minimum lease payments, arising from operating lease liabilities, are as follows:

	2009 (HRK '000)	2008 (HRK '000)
Up to 1 year	5.212	12.437
From 1 to 5 years	20.064	25.891
Over 5 years	3.460	19.785
TOTAL	28.736	58.113

39. FAIR VALUE OF FINANCIAL ASSETS

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

The Management Board believes that the fair value of financial assets and liabilities are not significantly different from their carrying values at 31 December 2009.

The following methods were used to estimate the fair value of financial instruments of the Bank:

Cash and amounts due from banks, amounts held with the CNB

Carrying values of cash, amounts due from banks, amounts held with the CNB generally approximate their fair values.

Placements and loans other banks

Estimated fair value of placements and loans to other banks represents a discounted value of future cash flows.

Financial assets available for sale

Fair value of financial assets available for sale is based on their market prices. Financial instruments non quoted on active markets are evaluated through discounted cash flows method or by an alternative method used for fair value estimation.

Loans and advances to customers

Insignificant part of loans and advances to customers is contracted with fixed interest rate or the one which deviates from market rates. The Bank considers the fair value of loans and advances to customers' approximates their carrying value.

Deposits from banks and customers

Fair value of deposits maturing on demand is the carrying amount of obligation payable at the balance sheet date. Fair value of term deposits with variable interest rates approximates their carrying amount at the balance sheet date. Fair value of deposits with fixed interest rate is estimated by discounting future cash flows using interest rates currently used for deposits of similar remaining maturities. The Bank estimates that the fair value of bank and customer deposits do not significantly deviate from their carrying value.



SUPPLEMENTARY SCHEDULES FOR THE CNB

SCHEDULES PREPARED IN ACCORDANCE WITH THE CNB DECISION

Balance sheet as at 31 December

		2009 (HRK '000)	2008 (HRK '000)
ASSET	S		
1.	Cash and deposits with the CNB		
	1.1. Cash	16.810	14.727
	1.2. Deposits with the CNB	105.756	158.177
2.	Deposits with banking institutions	22.978	44.222
3.	Treasury bills issued by the Ministry of Finance and the CNB	75.946	-
4.	Securities and other financial instruments held for trading	-	-
5.	Securities and other financial instruments available for sale	112.152	162.088
6.	Securities and other financial instruments held to maturity	3.742	52.408
7.	Securities and other financial instruments which are not actively traded, but are designated at fair value through profit or loss	-	-
8.	Derivative financial assets	9	13
9.	Loans to financial institutions	-	100.022
10.	Loans to other customers	819.318	822.873
11.	Investments in subsidiaries, associates and joint ventures	-	-
12.	Foreclosed assets	2.485	2.119
13.	Tangible assets (less amortisation)	28.235	26.528
14.	Interest, fees and other assets	33.383	34.792
15.	Unidentified impairment losses	(9.189)	(11.287)
TOTAL	ASSETS	1.211.625	1.406.682

Balance sheet as at 31 December

vings from financial institutions		
ort-term borrowings	64.390	217.900
ng-term borrowings	4.617	1.346
its		
ro and current accounts	61.005	132.78
vings deposits	14.925	14.74
m deposits	874.210	862.277
borrowings		
ort-term borrowings	-	
ng-term borrowings	-	
ties arising from derivatives and other liabilities held for trading	-	
debt securities		
ort-term issued debt securities	-	
ng-term issued debt securities	-	
subordinate instruments	-	
hybrid instruments	2.922	
st, fees and other liabilities	35.125	41.37
TIES	1.057.194	1.270.422
capital	207.354	184.146
nt year profit/(loss)	5.105	(32.998
ed earnings/(loss)	-	
reserves	-	
ory and other capital reserves	(756)	(716
lised gain/(loss) on value adjustment of financial assets available for sale	(23.132)	(8.790
(loss) of previous year	(34.140)	(5.382
ıL	154.431	136.260
II ITIES AND CADITAL	1 211 625	1.406.682
(loss)		of previous year (34.140) 154.431

Income statement for the year ended 31 December

		2009 (HRK '000)	2008 (HRK '000)
1.	Interest income	101.710	89.228
2.	(Interest expense)	(61.526)	(54.447)
3.	Net interest income	40.184	34.781
4.	Income from commissions and fees	7.264	8.173
5.	(Expenses on commissions and fees)	(2.248)	(2.417)
6.	Net income from commissions and fees	5.016	5.756
7.	Gains/(losses) from investment in subsidiaries, associates and joint ventures	-	-
8.	Gains/(losses) from trading activities	11.140	(5.620)
9.	Gains/(losses) from embedded derivatives	(3)	1
10.	Gains/(losses) from assets which are not traded, but are designated at fair value through profit or loss	-	-
11.	Gains/(losses) from activities related to financial assets available for sale	1.956	248
12.	Gains/(losses) from activities related to held to maturity investments	-	-
13.	Gains/(losses) from hedging transactions	-	-
14.	Income from investments in subsidiaries, associates and joint ventures	-	-
15.	Income from other equity investments	331	509
16.	Gains/(losses) from foreign exchange differences	(1.194)	(94)
17.	Other income	1.870	3.015
18.	Other expenses	(4.591)	(8.525)
19.	General administrative expenses and depreciation	(47.324)	(53.391)
20.	Net income from operations before impairment and other provisions	7.385	(23.320)
21.	Impairment and provisions for losses	(2.280)	(9.678)
22.	Income/(loss) before tax	5.105	(32.998)
23.	Income tax expense	-	-
24.	Profit/(loss) for the period	5.105	(32.998)
25.	Earnings per share	2,98	(21,52)

Cash flow statement for the year ended 31 December

		2009 (HRK '000)	2008 (HRK '000)
OPER#	ATING ACTIVITIES		
	1.1. Profit/(loss) before tax	5.105	(32.998)
	1.2. Impairment allowances and provisions for losses	2.681	9.609
	1.3. Depreciation and amortisation	5.533	4.815
	1.4. Net unrealised profit/(loss) from financial assets and liabilities at fair value through profit or loss	-	2.504
	1.5. Profit/(loss) on disposal of fixed assets and expenses	1.241	31
	1.6. Other profit/(loss)	1.350	2.569
1.	Cash flow from operating activities before changes in operating assets (1.1 to 1.6)	15.910	(13.470)
	2.1. Deposits with the CNB	(1.059)	27.049
	2.2. Treasury bills issued by the Ministry of Finance and the CNB bills	(75.946)	14.321
	2.3. Deposits with financial institutions and loans to financial institutions	33	12.205
	2.4. Loans to other customers	(5.827)	(120.004)
	2.5. Securities and other financial assets held for trading financial assets	-	94.630
	2.6. Securities and other available for sale financial assets	34.794	(142.341)
	2.7. Securities and other financial assets which are not actively traded, but are designated at fair value through profit or loss	-	-
	2.8. Other assets	1.282	9.162
2.	Net (increase)/decrease of operating assets (2.1 to 2.8)	(46.723)	(104.978)
INCRE	ASE/(DECREASE) OF LIABILITIES		
	3.1. Demand deposits	(71.775)	87.434
	3.2. Savings and time deposits	14.935	108.382
	3.3. Derivative financial liabilities and other trading liabilities	4	5
	3.4. Other liabilities	(6.296)	19.529
3.	Net increase/(decrease) of liabilities (3.1 to 3.4)	(63.132)	215.350
4.	Net cash flow from operating activities before income tax (1+2+3)	(93.945)	96.902
5.	Paid income tax	-	-
6.	Net cash inflow/(outflow) from operating activities (4-5)	(93.945)	96.902
INVES	TMENT ACTIVITIES		
	7.1. Receipts from sale/(payments for purchase) of tangible and intangible assets	(4.489)	(13.116)
	7.2. Receipts from sale/(payments for purchase) of investments in subsidiaries, associates and joint ventures	-	-
	7.3. Receipts from sale/(payments for purchase) of securities and other investments held to maturity	48.665	(42.755)
	7.4. Received dividends	-	-
	7.5. Other proceeds/(payments) from investment activities	-	-
7.	Net cash flow from investment activities (7.1 to 7.5)	44.176	(55.871)

		2009 (HRK '000)	2008 (HRK '000)
FINAN	CIAL ACTIVITIES		
	8.1. Net increase/(decrease) in borrowings	(150.260)	25.836
	8.2. Net increase/(decrease) of issued debt securities	-	-
	8.3. Net increase/(decrease) of subordinated and hybrid instruments	2.915	-
	8.4. Receipts from issue of capital	23.168	-
	8.5. (Payment of dividends)	-	-
	8.6. Other receipts/(payments) from financial activities	-	(1.580)
8.	Net cash flow from financial activities (8.1 to 8.6)	(124.177)	24.256
9.	Net cash inflow/(outflow) from operating activities (6+7+8)	(173.946)	65.287
10.	Effects of change in foreign currency rates on cash and cash equivalents	477	(482)
11.	Net increase/(decrease) in cash and cash equivalents (9+10)	(173.469)	64.805
12.	Cash and cash equivalents at the beginning of the year	229.834	165.029
13.	Cash and cash equivalents at the year end	56.365	229.834

Statement of changes in equity for the year ended 31 December

in thousands of HRK	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Current year profit/(loss)	Unrealised gain/(loss) on fair value adjustment of financial assets available for sale	Minority interest	Total capital and reserves
Balance at 1 January 2009	184.146	-	(716)	(5.382)	(32.998)	(8.790)	-	136.260
Changes in accounting policies and errors	-	-	-	-	-	-	-	-
Restated balance at 1 January 2009	184.146	-	(716)	(5.382)	(32.998)	(8.790)	-	136.260
Disposal of available-for-sale portfolio	-	-	-	-	-	-	-	-
Change in fair value of available-for-sale portfolio	-	-	-	-	-	(14.342)	-	(14.342)
Tax on items directly recognized or transferred from equity	-	-	-	-	-	-	-	-
Other gains/losses directly recognised in equity	-	-	-	-	-	-	-	-
Net gains/losses directly recognised in equity	-	-	-	-	-	(14.342)	-	(14.342)
Current year profit/(loss)	-	-	-	-	5.105	-	-	5.105
Total recognised income and expense for 2009	-	-	-	-	5.105	(14.342)	-	(9.237)
Increase/decrease of share capital	23.168	-	-	-	-	-	-	23.168
Acquisition /disposal of treasury shares	-	-	-	-	-	-	-	-
Other movements	-	-	-	4.240	-	-	-	4.240
Transfer to reserves	40	-	(40)	(32.998)	32.998	-	-	-
Dividends paid	-	-	-	-	-	-	-	-
Distribution of profit	-	-	-	(32.998)	32.998	-	-	-
Balance at 31 December 2009	207.354	-	(756)	(34.140)	5.105	(23.132)	-	154.431

in thousands of HRK	Share capital	Treasury shares	Legal, statutor and other reserves	Retained earning/(loss)	Current year profit/(loss)	Unrealised gain/(loss) on fair value adjustment of financial assets available for sale	Minority interest	Total capital and reserves
Balance at 1 January 2008	185.778	-	(768)	(1.632)	490	(74)	-	183.794
Changes in accounting policies and errors	-	-	-	-	-	-	-	-
Restated balance at 1 January 2008	185.778	-	(768)	(1.632)	490	(74)	-	183.794
Disposal of available-for sale portfolio	-	-	-	-	-	-	-	-
Change in fair value of available-for-sale portfolio	-	-	-	-	-	(8.716)	-	(8.716)
Tax on items directly recognized or transferred from equity	-	-	-	-	-	-	-	-
Other gains/losses directly recognised in equity	-	-	-	(4,240)	-	-	-	(4,240)
Net gains/losses directly recognised in equity	-	-	-	(4,240)	-	(8,716)	-	(12,956)
Current year profit/(loss)	-	-	-	-	(32,998)	-	-	(32,998)
Total recognised income and expense for 2008	-	-	-	(4,240)	(32,998)	(8,716)	-	(45,954)
Increase/decrease of share capital	-	-	-	-		-	-	-
Acquisition /disposal of treasury shares	-	-	-	-	-	-	-	-
Other movements	-	-	-	490	(490)	-	-	-
Transfer to reserves	(1.632)	-	52	-	-	-	-	(1.580)
Dividends paid	-	-	-	-	-	-	-	-
Distribution of profit	-	-	-	-	-	-	-	-
Balance at 31 December 2008	184.146	-	(716)	(5.382)	(32.998)	(8.790)	-	136.260

RECONCILIATION OF THE BALANCE SHEET BETWEEN FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES OF THE BANK as at 31 December

ASSETS (HRK'000)	Supplementary schedules 31 December 2009	Cash and amounts due from banks	Obligatory reserve with Croatian Mational Bank	Placements with and loans to other banks	Financial assets ales for sale	Financial assets held to matunity	Loans and advances to customers	rof bled stessA else	Property and equipment	stezee eldignetal	Other assets	ST∃SSA	Red. Broj
TOTAL ASSETS – Financial statements		56.365	88.150	1.086	187.648	4.094	819.531	•	28.291	18.501	5.849	1.209.515	
Cash and deposits with the CNB													
Cash	16.810	(16.810)	ı	1	I	ı	ı	ı	ı	ı	I	(16.810)	_
Deposits with the CNB	105.756	(17.654)	(88.102)	-	1	1	1	'	-	-	1	(105.756)	2
Deposits with banking institutions	22.978	(21.900)	1	(1.078)	1	1	1	ı	1	1	ı	(22.978)	ĸ
Treasury bills issued by the Ministry of Finance and the CNB	75.946	1	ı	ı	(75.946)	ı	ı	1	ı	ı	ı	(75.946)	4
Securities and other financial instruments held for trading	•	1	1	ı		ı	ı	1	ı	ı	ı	1	
Securities and other financial instruments available for sale	112.152	1	1	ı	(112.152)	ı	ı	1	ı	ı	ı	(112.152)	2
Securities and other financial instruments held to maturity	3.742	ı	1	ı	ı	(3.742)	ı	1	ı	ı	ı	(3.742)	9
Securities and other financial instruments which are not actively traded, but are designated at fair value through profit or loss	1	1	1	ı	1	,	1	1	1	1	'	,	
Derivative financial assets	6	1	1	1	'	1	(6)	'	1	1	1	(6)	7
Loans to financial institutions	1	1	ı	1	1	1		1	-	-	1	-	
Loans to other customers	810.129	1	ı	'	292	1	(810.694)	1	-	1	1	(810.129)	8
Investments in subsidiaries, associates and joint ventures	•	ı	1	1	1	ı	1	1	ı	1	1	•	
Foreclosed assets	2.485	ı	1	'	1	1	ı	1	(206)	1	(1.776)	(2.485)	6
Tangible assets (less amortisation)	28.235	'	1	1	1	1	ı	1	(27.582)	1	(653)	(28.235)	10
Interest, fees and other assets	33.383	*(1)*	(48)	(8)	(115)	(352)	(8.828)	1	1	(18.501)	(5.530)	(33.383)	11
ASSETS	1.211.625	1	1	1	1	1	'	1	1	1	1		
TOTAL DIFFERENCE		•	•	-	•	•	•	-	-	-	(2.110)	(2.110)	

 st Difference between the financial statements and supplementary schedules occurs due to rounding.

RECONCILIATION OF THE BALANCE SHEET BETWEEN FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES OF THE BANK

as at 31 December

LIABILITIES (HRK '000)	Supplementary schedules 31 December 2009	Deposits from banks	Deposits from customers	Borrowings	Hybrid instruments	Provisions for liabilities and charges	Other liabilities	LIABILITIES	Ord. No.
TOTAL LIABILITIES - Financial statements		3.684	968.729	69.112	2.923	3.601	9.145	1.057.194	
BORROWINGS FROM FINANCIAL INSTITU	JTIONS								
- Short-term borrowings	64.390	-	-	(64.390)	-	-	-	(64.390)	1
- Long-term borrowings	4.617	-	-	(4.617)	-	-	-	(4.617)	2
DEPOSITS									
- Giro and current accounts	61.005	-	(61.005)	-	-	-	-	(61.005)	3
- Savings deposits	14.925	-	(14.925)	-	-	-	-	(14.925)	4
- Term deposits	874.210	(3.344)	(870.866)	-	-	-	-	(874.210)	5
OTHER BORROWINGS									
- Short-term borrowings	-	-	-	-	-	-	-	-	
- Long-term borrowings	-	-	-	-	-	-	-	-	
Liabilities arising from derivatives and other liabilities held for trading	-	-	-	-	-	-	-	-	
ISSUED DEBT SECURITIES									
- Short-term issued debt securities	-	-	-	-	-	-	-	-	
- Long-term issued debt securities	-	-	-	-	-	-	-	-	
Issued subordinate instruments	-	-	-	-	-	-	-	-	
Issued hybrid instruments	2.922	-	-	-	(2.923)*	-	-	(2.922)*	
Interest, fees and other liabilities	35.125	(340)	(21.934)*	(105)		(3.601)	(9.145)	(35.125)	6
LIABILITIES	1.057.194	-	-	-	-	-	-	-	
TOTAL DIFFERENCE		-	(1)*	-	-	-	-	-	

^{*} Difference between financial statements and supplementary schedules occurs due to rounding.

RECONCILIATION OF THE BALANCE SHEET BETWEEN FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES OF THE BANK

as at 31 December

CAPITAL (HRK'000)	Supplementary schedules 31 December 2009	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Accumulated losses	CAPITAL AND RESERVES	Ord. No
TOTAL CAPITAL - Financial statements		176.523	27.464	-	2.611	395	(54.672)	152.321	
Share capital	207.354	(176.523)	(30.831)	-	-	-	-	(207.354)	1
Current year profit/(loss)	5.105	-	-	-	-	-	(5.105)	(5.105)	2
Profit (loss) of previous year	(34.140)	-	-	-	-	-	34.140	34.140	3
Legal reserves	-	-	-	-	-	-	-	-	
Statutory and other capital reserves	(756)	-	3.367	-	(2.611)	-	-	756	4
Unrealised gain/(loss) on value adjustment of financial assets available for sale	(23.132)	-		-	-	23.132	-	23.132	
Reserves hedging	-	-	-	-	-	-	-	-	
CAPITAL	154.431	-	-	-	-	-	-	-	
TOTAL DIFFERENCE		-	-	-	-	23.527	(25.637)	(2.110)	

^{*} Difference between financial statements and supplementary schedules occurs due to rounding.

EXPLANATION OF RECONCILIATION OF THE BALANCE SHEET BETWEEN FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES OF THE BANK

as at 31 December

ASSETS

- 1. The amount of cash (HRK 16.810 thousand) from item Cash in supplementary schedules has been reclassified to item Cash and amounts due from banks in financial statements
- 2. The amount of funds at the bank account held with the CNB (HRK 17.654 thousand) from item Deposits with the CNB in supplementary schedules has been reclassified to item Cash and amounts due from banks in financial statements. The amount of obligatory reserve with the CNB (HRK 88,102 thousand) from item Deposits with the CNB in supplementary schedules has been reclassified to item Obligatory reserve with Croatian National Bank in financial statements.
- 3. The amount of bank deposits (HRK 21,900 thousand) from item Deposits with banking institutions in supplementary schedules has been reclassified to item Cash and amounts due from banks in financial statements. The amount of bank deposits (HRK 1,078 thousand) from item Deposits with banking institutions in supplementary schedules has been reclassified to item Placements with and loans to other banks in financial statements.
- 4. The amount of treasury bills of the Ministry of Finance (HRK 75,946 thousand) from item Treasury bills issued by the Ministry of Finance and the CNB bills in supplementary schedules has been reclassified to item Financial assets available for sale in financial statements.
- 5. The amount of securities and other financial instruments available for sale (other than treasury bills issued by the Ministry of Finance) (HRK 112,152 thousand) has been reclassified from item Securities and other financial instruments available for sale in supplementary schedules to item Financial assets available for sale in financial statements.
- 6. The amount of securities and other financial instruments held to maturity (HRK 3,742 thousand) from item Securities and other financial instruments held

- to maturity in supplementary schedules has been reclassified to item Financial assets held to maturity in financial sta-
- The amount of derivative financial in-7. struments (HRK 9 thousand) from item Derivative financial assets in supplementary schedules has been reclassified to item Loans and advances to customers in financial statements.
- The amount of recognised unidentified impairment losses (the amount of deduction), which refers to the portfolio of assets available for sale (HRK 565 thousand) from item Loans to other clients in supplementary schedules has been reclassified to item Financial assets available for sale in financial statements.
- The amount of foreclosed assets which are unsold for more than two years (HRK 709 thousand) from item Foreclosed assets in supplementary schedules has been reclassified to item Property and equipment in financial statements. The amount of foreclosed assets whose takeover has been less than two years (HRK 1,776 thousand) from item Foreclosed assets in supplementary schedules has been reclassified to item Other assets in financial statements.
- 10. The amount of stock office supplies (HRK 653 thousand) from item Tangible assets (less amortisation) in supplementary schedules has been reclassified to item Other assets in financial statements.
- 11. The amount of accrued interest on deposits with banks (HRK 8 thousand) from item Interest, fees and other assets in supplementary schedules has been reclassified to item Loans and advances to banks in financial statements. The amount of accrued interest on obligatory reserve with the CNB (HRK 48 thousand) from item Interest, fees and other assets in supplementary schedules has been reclassified to item Obligatory reserve with Croatian National Bank in financial statements.

EXPLANATION OF RECONCILIATION OF THE BALANCE SHEET BETWEEN FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES OF THE BANK

as at 31 December 2009

ASSETS

The amount of accrued interest on Financial assets available for sale (HRK 115 thousand) from item Interest, fees and other assets in supplementary schedules has been reclassified to item Financial assets available for sale in financial statements. The amount of accrued interest on securities and other financial instruments held to maturity (HRK 352 thousand) from item Interest, fees and other assets in supplementary schedules has been reclassified to item Financial assets held to

maturity in financial statements. The amount of not due and due interest on loans and advances to customers (HRK 8,828 thousand) from item Interest, fees and other assets in supplementary schedules has been reclassified to item Loans and advances to customers in financial statements. The amount of intangible assets (HRK 18,501 thousand) from item Interest, fees and other assets in supplementary schedules has been reclassified to item Intangible assets in financial statements.

LIABILITIES

- 1. The amount of short-term borrowings from financial institutions (HRK 64,390 thousand) from item Borrowings from financial institutions in supplementary schedules has been reclassified to item Borrowings in financial statements.
- 2. The amount of long-term borrowings from financial institutions (HRK 4,617 thousand) from item Borrowings from financial institutions in supplementary schedules has been reclassified to item Borrowings in financial statements.
- 3. The amount of deposits at the bank and current accounts (HRK 61,005 thousand) from item Giro and current accounts in supplementary schedules has been reclassified to item Deposits from customers in financial statements.
- 4. The amount of savings deposits (HRK 14,925 thousand) from item Savings deposits in supplementary schedules has been reclassified to item Deposits from customers in financial statements.

- 5. The amount of term deposits (HRK 3,344 thousand) from item Term deposits in supplementary schedules has been reclassified to item Deposits from banks in financial statements.
- 6. The amount of accrued interest on term deposits with banks (HRK 340 thousand) from item Interest, fees and other liabilities in supplementary schedules has been reclassified to item Deposits from banks in financial statements. The amount of accrued interest on term deposits (HRK 21,934 thousand) from item Interest, fees and other liabilities in supplementary schedules has been reclassified to item Deposits from customers in financial statements. The amount of accrued interest on loans received (HRK 105 thousand) from item Interest, fees and other liabilities in supplementary schedules has been reclassified to item Borrowings in financial statements. The amount of provisions for liabilities and charges (HRK 3,601 thousand) has been reclassified from item Interest, fees and other liabilities in supplementary schedules to item Provisions for liabilities and charges in financial statements.

CAPITAL

- 1. The amount of the share capital (HRK 30,831 thousand) from item Share capital in supplementary schedules has been reclassified to item Share premium in financial statements.
- 2. The amount of profit for the year (HRK 5,105 thousand) from item Current year profit/(loss) in supplementary schedules has been reclassified to item Accumulated losses in financial statements.
- 3. The amount of loss from the previous period (HRK 34,140 thousand) from item Retained earnings/(loss) in supplementary schedules has been reclassified to item Accumulated losses in financial statements.
- 4. The amount of the statutory and other reserves (HRK 3,367 thousand) from item Statutory and other capital reserves in supplementary schedules has been reclassified to item Share premium in financial statements. The amount of the statutory and other reserves (HRK 2,611 thousand) from item Statutory and other capital reserves in supplementary schedules has been reclassified to item Other reserves in financial statements.

RECONCILIATION OF THE INCOME STATEMENT BETWEEN FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES OF THE BANK

INCOME STATEMENT (HRK'000)	Supplementary schedules	Inferest and similar income	Interest expense and similar charges	Fee and commission income	Fee and commission expense	Gains less losses arising from dealing securities	Gains less losses arising from investment securities	Gains less losses arising from dealing in foreign currencies	Other operating income	General and administrati- sesnedaye ev	Depreciation and amor- tisation	Impairment losses on loans and advances to customers and other assets	Provisions for liabilities and charges	(loss)/iñor9	Difference	Ord. No
INCOME STATEMENT - Financial statements		101.710	(59.807)	7.251	(2.248)	2.549	1.956	8.591	2.201	(48.743)	(5.533)	(2.681)	(141)	5.105		
Interest income	101.710	(101.710)	1	1	1	1	1	1	1	1	1	1	1	1	1	
Interest expense	(61.526)	1	59.807	1	1	1	1	1	1	1.719	1	1	ı	1	1	_
Income from commissions and fees	7.264	1	1	(7.264)	1	1	1	1	ı	1	1	1	1	1	1	
Expenses on commissions and fees	(2.248)	1	1	'	2.248	1	1	1	ı	1	1	ı	1	1	1	
Gains/(losses) from investment in subsidiaries, associates and joint ventures	ı	ı	1	1	1	ı	ı	ı	1	ı	1	1	1	1	ı	
Gains/(losses) from trading activities	11.140	1	1	1	1	(2.549)	1	(8.591)	1	1	1	1	1	1	1	7
Gains/(losses) from embedded derivatives	(3)	1	1	ı	1	-	ı	ı	ı	3	-	1	1	1	1	
Gains/(losses) from assets which are not traded, but are designated at fair value through profit or loss	1	ı	ı	1	1	1	ı	1	1	1	1	1	1	1	ı	

sentary schedules	omission	gnisins sessol ss prisins sessol ss	paisins sessol sa estment securities	gnisins sessol sa aling in foreign se	erating income	-itertsinimbe bne səsr	etion and amor-	ent losses on d advances to cu- and other assets	ns for liabilities rges	(ssc	әэ
terest emooni	similar c Fee and emooni	el snis	el snis		Other of	General ve exper	Deprecia tisation	loans an	Provisio and cha	Profit/(lo	Differen
,		1	(1.956)	ı	'	1	1	1	1	'	1
,		ı	•	ı	1	ı	1	1	1	'	1
ı		1	-	1	1	1	1		'	-	'
,	1	ı	-	ı	1	ı	1	1	1	1	1
1	1	1	1	1	(331)	ı	1	ı	'	-	'
1	1	ı	ı	1	(15)	1.209	ı	ı	'	ı	1
1	1	'	1	ı	(1.870)	1	1	1	1	1	1
,	- 13	'	1	1	1	4.578	1	1	1	1	1
1		1	ı	1	15	41.776	5.533	ı	'	1	
•	1	'	-	'	ı	(542)	1	2.681	141	1	'
•	1	'	1	1	1	•	1	'	'	(5.105)	'
•	1	'	1	'	•	'	'	•	•	'	1

EXPLANATION OF RECONCILIATION OF THE INCOME STATEMENT BETWEEN FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES OF THE BANK

- 1. The amount of the costs of deposit insurance (HRK 1.719 thousand) from item Interest expense in supplementary schedules has been reclassified to item General and administrative expenses in financial statements.
- 2. Gains from trading securities in the portfolio allocated to trading (HRK 2,549 thousand) from item Gains/(losses) from trading activities in supplementary schedules has been reclassified to item Gains less losses from investment securities in financial statements. Amount of gains from trading activities (HRK 8,591 thousand) from item Gains/(losses) from trading activities in supplementary schedules has been reclassified to item Gains less losses from dealing in foreign currencies in financial statements.
- 3. The amount of dividends received (HRK 331) thousand) from item Income from other equity investments in supplementary schedules has been reclassified to item Other operating income in financial statements.
- 4. Profit/loss on foreign exchange (HRK 1,209 thousand) from item Profit/loss from exchange rate differences in supplementary schedules has been reclassified to item General and administrative expenses in financial statements.
- 5. Other operating expenses (HRK 4,578 thousand) from item Other expenses in supplementary schedules has been reclassified to item General and administrative expenses in financial statements.
- 6. The amount of depreciation (HRK 5,533 thousand) from item General administrative expenses and amortisation in supplementary schedules has been reclassified to item Depreciation and amortisation in financial statements.

RECONCILIATION OF THE CASH FLOW STATEMENT BETWEEN FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES OF THE BANK

	Financial statements 2009 (HRK '000)	Supplementary schedules 2009 (HRK '000)	Difference (HRK'000)
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) before tax	5.105	5.105	-
Adjustments:			
- depreciation and amortisation	5.533	5.533	-
- impairment losses on loans and advances to customers and other assets	2,681	2,681	-
- impairment losses from provisions for liabilities and charges	141	-	141
- net foreign exchange losses	1,209	-	1,209
- losses on disposal and write off of property and equipment	1,241	1,241	-
- other profit/(loss)	-	1,350	(1,350)
Cash flows from operating activities before changes in operating assets and liabilities	15.910	15.910	-
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Decrease in placements with and loans to other banks	29	33	(4)
Increase in loans and advances to customers	(3.841)	(5.827)	1.986
Decrease in other assets	589	1.282	(693)
Decrease in deposits from banks	(4.867)	-	(4.867)
Treasury bills issued by the Ministry of Finance and the CNB	-	(75.946)	75.946
Increase in obligatory reserve held with the CNB	(1.059)	(1.059)	-
Decrease in deposits from customers	(49.342)	-	(49.342)
Decrease in demand deposits	-	(71.775)	71.775
Increase in savings and term deposits	-	14.935	(14.935)
Derivative financial liabilities and other obligations that are not traded	-	4	(4)
Decrease in securities and other financial assets available for sale	-	34.794	(34.794)
Decrease in other liabilities	(8.949)	(6.296)	(2.653)
NET DECREASE IN CASH FROM OPERATING ACTIVITIES	(67.440)	(109.855)	42.415
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of property and equipment and intangible assets	(5.504)	(4.489)	(1.015)
Increase in financial assets available for sale	(41.202)	-	(41.202)
Decrease in financial assets held to maturity	48.448	48.665	(217)
NET INCREASE IN CASH FROM INVESTING ACTIVITIES	1.742	44.176	(42.434)
CASH FLOW FROM FINANCING ACTIVITIES			
Increase in hybrid instruments	2.915	2.915	-
Decrease in borrowings	(150.241)	(150.260)	19
Increase in share capital	23.168	23.168	-
NET OUTFLOW FROM FINANCING ACTIVITIES	(124.158)	(124.177)	19
Effect of foreign exchange rate changes on cash and cash equivalents	477	477	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(173.469)	(173.469)	-
Cash and cash equivalents at the beginning of the year	229.834	229.834	-
Cash and cash equivalents at the end of the year	56.365	56.365	-

EXPLANATION OF RECONCILIATION OF THE CASH FLOW STATEMENT BETWEEN STATUTORY FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES OF THE BANK

- 1. The difference between the Net decrease in placements with and loans to other banks in the amount of HRK 4 thousand between the financial statements and supplementary schedules refers to cash flow from interest that is in supplementary schedules presented in the position of Interest, fees and other assets, while in the financial statements are presented in the position of placements and loans to other banks.
- 2. The difference between the increase in loans and advances to customers which amounted to HRK 1.986 thousand between the financial statements and supplementary schedules refers to cash flow from interest that is in supplementary schedules presented in the position of Interest, fees and other assets and derivative financial assets that are in supplementary schedules presented as a separate position, while in the financial statements are presented under loans and advances to customers.
- 3. The difference between the decrease in other assets in an amount of HRK 693 thousand between the financial statements and supplementary schedules refers to the following: cash flow from interest that is in supplementary schedules presented in the position of Interest, fees and other assets while in the financial statements are presented within each position to which they relate, and cash flows from intangible assets are presented in the position of Interest, fees and other assets in supplementary schedules, while in the financial statements, within Intangible assets.
- 4. The difference in the amount of HRK 2.631 thousand between the increase of amount of deposits from banks and decrease in deposits presented in the financial statements and the sum of changes in demand deposits and savings and time deposits presented in supplementary schedules relate to cash flow from interest and restricted deposits that are presented in supplementary schedules in the position of Interest, fees and other liabilities, while in the financial statements are presented in the position of bank deposits

- and deposits from customers. The above explanation applies to the difference in the reduction of other liabilities between the financial statements and supplementary schedules.
- 5. The difference between the sum of changes in treasury bills issued by the Ministry of Finance and by the CNB and the Securities and other financial instruments available for sale presented in a supplementary schedules and an increase in financial assets available for sale in the financial statements relate to cash flow from interest on financial assets that are presented in supplementary schedules in paragraph Interest, fees and other assets.
- 6. The difference between the decrease in financial investments held to maturity presented in the financial statements and decrease of financial investments held to maturity presented in the supplementary schedules refers to cash flow from interest that is in supplementary schedules presented in the Interest, fees and other assets, while in the financial statements are presented in the position of Financial investments held to maturity.
- 7. The difference between the cash flow of tangible and intangible assets presented in the financial statements and cash flow of tangible and intangible assets presented in a supplementary schedules refers to the movement of the foreclosed assets, which is in the financial statements presented within the property and equipment and in supplementary schedules within the movement of Interest, fees and other assets, and to the movement of office inventories which are in the financial statements presented within Other assets while they are in supplementary schedules presented in the tangible assets.
- 8. The difference between the decrease of borrowings presented in the financial statements and the decrease of borrowings shown in the supplementary schedules refers to cash flow from interest that is in supplementary schedules presented in the position of Interest, fees and other liabilities while in the financial statements are presented within the borrowings.

www.vaba.hr

Vaba d.d. banka Varaždin Aleja kralja Zvonimira 1 42000 Varaždin, Croatia tel: + 385 42 659 400 fax: + 385 42 659 401