

BKS Bank d.d.

**Financial statements for the year ended
31 December 2009**

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Report by the President of the Management Board

On behalf of the Management Board of BKS Bank d.d. Rijeka ("the Bank"), I wish to present the business results of the Bank achieved in the year 2009.

The year 2009 was a dynamic year for the Bank. The most important features of this fiscal year consisted of the continuation of the investment cycle through the finalisation and implementation of the ARPIS-HIBIS program for the core business function activities on all modules for the retail business, significant growth of credit activities and the Bank's balance sheet, and as well as positive profits at the end of the fiscal year. A net profit in the amount of HRK 0.7 million (€ 0.1 million) (according to the BKS Bank Group's standard this profit was HRK 2.2 million (€ 0.3 million)) was achieved in 2009. Total assets increased by 40% which amounted to HRK 616.6 million (€ 84.4 million) at year end.

Significant profits were achieved through the purchase of government treasury bills which yielded high interest rates. Significant income in the amount of HRK 3.9 million (€ 0.5 million) was earned from providing services of credit risk analysis of Croatian clients for the purposes of the BKS Bank AG.

Retail and commercial loans increased by 14.7% (loan portfolios are limited by CNB at 12%). Operating income of HRK 27.5 million (€ 3.8 million), 21.3% higher than 2008, was earned during the year and 6.6% less than budgeted for the fiscal 2009. Furthermore, operating expenses increased by 12%, resulting in operating profits before tax of HRK 2.9 million (€ 0.4 million), and after recording new provisions in the amount of HRK 2.2 million (€ 0.3 million), income before tax was HRK 0.7 million (€ 0.1 million). These business results were achieved by 52 employees, 46 in Rijeka, and 6 employees in our Zagreb Branch.

Despite the difficult economic situation in the Croatian economy, our goal is to further develop all activities of the Bank. At the beginning of the current year we will fully implement the retail banking business, and provide all necessary products and distribution channels for clients. After several years of preparation, the new organisational structure is to be fully implemented, in accordance with the standards of banking operations and the requirements of the new Credit Institutions Law which will commence as of 1st March 2010. In the second half of the year we plan to establish a new branch office in Varaždin.

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With the removal of CNB's restrictive measures, we intend to achieve significant growth through placements in business from companies and individual clients, bearing in mind the rapidly increasing risk, due to the economic down turn.

Finally, our main goal is to maintain operations of our Bank profitability with safe and stable measures.



Goran Rameša
President of the Management Board

Macroeconomic conditions in 2009

This business year was characterised by significant decrease in economic activity, both in Croatia and in other countries in the region.

At the end of fiscal 2009, GDP decreased by 4.5%, and economic activities by 5.7%. Unfortunately the situation at the beginning of 2010 does not look any better. The impression is that the cumulative effects of the crisis are fully presented right now. A slightly more favourable trend can be expected in the second half of 2010, due to the tourist season, but even optimistic forecasts do not expect an overall improvement before 2011.

In such conditions, the Croatian National Bank ("CNB") continued to implement a policy of stable exchange rates and prices. At the beginning of 2009 the market was faced with crisis with the liquidity of the Kuna and interest rates on interbank loans rose up to 20%. Over time, the situation stabilised in this area, however further fundamental problems of the Croatian economy consist of: excessive public consumption, lack of competitiveness of domestic products and dependence on imported goods, and continued growth of foreign debt, resulting in total foreign debt at the end of 2009 at levels almost equal to the GDP. In such conditions, the corporate sector suffered the greatest burden. Namely, the necessity of reducing the government deficit has led to a greater tax burden (increase in VAT to 23% and so called *salary crisis tax* of 3%), which has brought additional pressure on the declining economic activity. As a result of this situation there has been increased economic demand for liquid funds, especially due to a significant portion of bank credit resources being absorbed by the State, which has led to a further increase in the demand for money, and its price.

Restrictive measures of the CNB remain, whereby the growth of placements for companies and individuals are limited to 12% per annum. However, due to fears in the increase of credit risk, banks have made the criteria for placements more rigid, so the total increase of placements was only 1% compared to the year 2008. At the end of 2009 the Croatian National Bank revoked this restrictive measure.

Macroeconomic assessments have stated that the stagnation of economic activity in 2010 will continue, and serious programs in the real sector with the bankruptcies and rising unemployment. CNB will continue to maintain a stable exchange rate (which is guaranteed by foreign-exchange reserves of over 10 billion Euro) and stable prices.

Currently the Government, along with the CNB, introduced new measures to revitalise the economy by releasing obligatory reserves (from 14 to 13%) by transferring these sources through the banks to companies. However no further details have been announced for further measures to be implemented.

Financial data from profit and loss account

During the course of fiscal 2009 the Bank recorded a net profit from ordinary activities amounting to HRK 0.7 million.

Interest income in 2009 amounted to HRK 31 million, which was HRK 6 million higher (24%) compared to the previous year. The highest increase in interest income was the result of the growth in the amount of loans and treasury bills. Interest income from loans to customers was for 68% of the total recorded interest income.

Interest expenses for 2009 amounted to HRK 14 million. They consist of interest expenses for clients deposits amounting to HRK 11.5 million (80%) and interest expenses for interbank loans of HRK 2.8 million. Of the HRK 14 million of interest expenses, HRK 10 million was from interest expenses from term deposits. During the year 2009 corporate clients primarily kept term deposits in HRK and in HRK with FX clauses, retail clients also maintained term deposits in foreign currency. Interest expenses on interbank loans and deposits amounted to HRK 2.8 million.

Net income from fees amounted to HRK 7.3 million and has more than doubled compared to the previous year.

Net income in the amount of HRK 3.1 million was the result of buying and selling foreign currency to clients, in comparison to HRK 2.6 million in 2008.

During 2009 operating income amounted to HRK 27.4 million, 21% higher than in 2008.

Expenses arising from the increase of credit risk related provisions amounted to HRK 2.2 million.

For the year 2009 the profit before tax, due to ordinary activities, amounted to HRK 0.8 million. After deducting the income tax expense of HRK 0.1 million, net profit amounted to HRK 0.7 million.

Funds sources

FUND SOURCES

The Bank's total liabilities and equity as at 31 December 2009 increased by 38.6% to HRK 616 million (€ 84.4 million).

Within the total liabilities and equity structure there were changes in relationships of own sources (capital, profit and reserves) and foreign sources (deposits). Compared to the previous year, own sources decreased from 17 to 12%, this has led to foreign sources consisting of 88% of total liabilities. Within foreign sources deposits and other liabilities decreased from 80 to 77%, while secondary sources increased from 20 to 23% partly due to the drawing of HBOR sources, and from taking additional borrowings from our parent bank, BKS Bank AG.

Deposits in kuna and foreign currency have increased significantly compared to prior year (more than 42%), however the share in total liabilities only increased from 63 to 65%. Compared to 2008, when foreign currency deposits were at the same level as the previous year, in 2009 they increased more than 100%. Kuna deposits increased by 20% and their share in the whole deposit portfolio decreased from 75% to 63%. Deposits in foreign currency consist of 70% term deposits and 30% a vista, whereas kuna term deposits were 61% and a vista 39%. Corporate deposits dominate with 75%, while client deposits were 25%.

The Bank did not succeed to diversify the deposit portfolio, and as such has a high concentration of deposits. The ten largest accounts of the Bank hold more than 50% of total deposits. One of many important future tasks of the Bank will be to diversify the deposits portfolio in order to reduce liquidity risk.

OBLIGATORY RESERVE, LIQUIDITY AND TREASURY

During 2009 the restrictive monetary policy of CNB continued which allowed growth of 1% monthly, which the Bank followed, with exception of October 2009 where we purchased obligatory treasury bills in the amount of HRK 1.6 million. These sources were returned to the Bank when the measures were revoked.

The rate of obligatory reserve in 2009 was 14%, and it is expected to decrease to 13% in 2010 in compliance with Government and CNB requirements. During 2009 the Bank had a significant surplus in reserves especially in the second half of the year after buying treasury bills, reserves were between HRK 111 million and HRK 159 million.

The Bank on average has given HRK 25 million in credits to banks and to the Ministry of finance. This was HRK 3 million more than the previous year.

In fiscal 2009 the Bank sold its investment in PBZ Global Fund, whose price were significantly lower than in 2007 due to the unstable capital market conditions and falling share prices.

In periods of high liquidity and no possibilities of placements to other banks, the Bank held overnight deposits in CNB accounts with under 0.5% interest rates.

As at 31 December 2009, the Bank holds treasury bills in the amount of € 15 million with interest rate of 7.8% which were bought in the period from May to August 2009. Since August interest rates on auctions have significantly decreased and are currently at 4.5%.

Funds sources (continued)

Average interest rates in the kuna money market during 2009 declined significantly from 40% in February to 8-13% mid March and have continued to decrease significantly towards the end of the year to 1-2%. The decline is due to improved liquidity conditions within the banking sector. In accordance with market conditions weighted average interest rate under which surplus cash was placed with other banks was 29.84% in February, 11% in March, 7 to 8% in April to October and 1% in November and December. On average a placement of HRK 7.5 million was in overnight credits.

Term credits were approved in terms of one to two week periods with weighted average interest rate of 5-10% at an average amount of HRK 2.7 million. Total revenues for interbank kuna placements were HRK 2.1 million (an increase of HRK 0.5 million than 2008).

As in previous years, the Bank has very rarely borrowed cash for liquidity from other banks, however in order to replace sources to other banks under higher interest rate, the bank applied to CNB repo auctions. The interest paid for these sources amounted to HRK 0.3 million.

In periods of higher demand for liquidity, the Bank resolved liquidity issues by withdrawing credit from the parent BKS Bank AG under favourable conditions. From the parent, € 8 million was obtained at an interest rate of 3 month euribor+0.5%. As at 31 December 2009 total loans of this nature were € 9.67 million.

Foreign currency liquidity was lower than the previous year but was maintained at a level in accordance with the Banks needs and applicable regulations. During 2009 liquid receivables and obligations in foreign currency was higher than minimum requirements. This percentage was between 22 and 28%, in contrast to the minimum requirement of 20%.

Foreign currency sources held by domestic and foreign banks in foreign accounts realised lower revenues due to lower interest rates offered by these accounts.

One part of sources, the Bank kept on account in foreign banks that were accepted by the CNB as first class banks for keeping obligatory reserves (BNL and Intesa Sanpaolo). As per internal policy of the Bank and regulatory requirements, a daily analysis of risk exposure on minimal levels is required.

Operations with corporate clients

Placements in the BKS Bank d.d. are mainly oriented towards the market segment of small and medium-sized companies.

The Banks key products in placements consist of: short and long term commercial loans, loans to craftsmen, guarantees (mostly performance guarantees), documentary credit and discounting bills of exchange.

Total loans (loans and discounting bills of exchange) as at 31 December 2009 amounted to HRK 316.3 million (€ 43.3 million).

Total guarantees as at 31 December 2009 amounted to HRK 47.6 million (€ 6.5 million) and unused loans were in the amount of HRK 29.4 million (€ 4 million).

The breakdown of risks in the loan portfolio is as follow:

	in HRK million				Index 2009/2008	in EUR million	
	2009	%	2008	%		2009	2008
Trade and Commerce	48.6	17	31.7	13	153	6.7	4.3
Construction	66.4	23	59	24	113	9.1	8.1
Metallurgy	8.2	3	10	4	82	1.1	1.4
Transport, warehousing and public services	21.4	7	15.2	6	140	2.9	2.1
Energy	8.4	3	2.4	1	346	1.1	0.3
Shipbuilding	0.8	-	0.5	-	146	0.1	0.1
Services	73.2	25	73.1	29	100	10	10
Individuals and unincorporated businesses	38.6	13	26.3	10	147	5.3	3.6
Miscellaneous	24.1	9	32.9	13	74	3.4	4.5
Total	289.7	100	251.1	100		39.7	34.4

From the above table it is evident that the largest share of loans made is in the service sector. An increase in loans to Trade and Craftsmen can also be seen.

Retail operations

DEPOSITS

Retail deposits as at 31 December 2009 amount to HRK 94 million (€ 12.8 million) which represents an increase of 16.5% compared to 2008. Figures of retail deposits are shown in Table 1.

Table 1.

DESCRIPTION	in HRK million		INDEKS 3 (2/1*100)	in EUR million	
	31.12.2008	31.12.2009		31.12.2008	31.12.2009
0	1	2		4	5
1. KUNA DEPOSITS	46.3	50.5	109	6.3	6.9
- transaction accounts		0	0		0
- resident giro accounts	38.3	42.2	110	5.2	5.8
- non-resident giro accounts	0	0	0	0	0
- saving accounts in HRK	2.1	2.2	104	0.3	0.3
- term deposits in HRK	5.9	5.8	99	0.8	0.8
2. FOREIGN DEPOSITS	34.4	43.6	127	4.7	6
a) residents	33.4	34.2	102	4.6	4.7
- a vista	1.9	3.2	163	0.3	0.4
- term deposits	31.4	31.1	99	4.3	4.3
b) non-residents	1	9.4	922	0.1	1.3
- a vista	0.3	1.4	406	0	0.2
- term deposits	0.7	8	1.2	0.1	1.1
RETAIL DEPOSITS TOTAL (1+2)	80.7	94.2	117	11.1	12.9
BANK DEPOSITS TOTAL	281.7	400.6	142	38.6	54.9
RETAIL DEPOSITS SHARE IN TOTAL BANK DEPOSITS in %	28,64	23,51		4	3

RETAIL LOANS

Retail loans during fiscal 2009 amounted to HRK 38.6 million (€ 5.3 million) which was a growth of 46.8% from the previous year. The increase was, as in previous years, due to loans for residential buildings.

Within the total Bank loan portfolio, retail loans comprised 13.3% which represents an increase of 3.5 % compared to 2008.

RETAIL DEPARTMENT BUSINESS ACTIVITIES IN 2009.

In 2009 a strong focus has been made in the retail segment of the business which resulted in development and implementation of Transaction Multivalue Accounts and Electronic Banking for retail customers. Furthermore, the basic conditions for realisation of ATM projects and card business in 2010 have been set up.

In regards to loan activities, new products which focus on housing loans and overdrafts have been introduced.

Human resources

Fiscal 2009 began with the global economic downturn, which particularly affected the financial sector. In addition, the business year preceding 2009, ended with modest results for the Bank, mostly due to an increase in operating expenses.

BKS Bank d.d. managed to keep, despite the global and local economic downturn, all job positions and avoided reducing the number of employees. This was achieved by eliminating overtime work and providing incentives for efficient use of flexible work time, redistribution of work time, maximum use of the vacation days in the current year, etc.,. Such measures finally resulted in a 50% reducing in the number of unused vacation days and large savings related to payment of overtime in comparison to 2008.

Although, the budget for education was reduced we continued to satisfy the need for employees' professional training, additional education, etc. As such, certain employees attended various external professional trainings and internal training at the BKS AG in Klagenfurt. Permanent education and skill developments remain one of the basic corporate values, and we will do our best to provide greater resources for this form of investment in our employees in the coming period.

In regards to the new Law on Credit Institutions and regulations of CNB and other relevant regulations, 2009 remains a challenging period. For this reason a new job position - officer for the prevention of money laundering and terrorist financing in the Legal, personnel and general affairs department was opened, and as well as two control functions: the compliance function and risk control function, were formed. Furthermore, all preliminary actions and general acts of the Bank were performed in order to organizationally divide front and back-office activities, and implement the new organization of the bank.

From the perspective of personnel changes in 2009 there was a change in the Management Board. In July, Mr. Milivoj Debelić, member of Management Board who was to the position in 2001 left the Bank, and in his place Mr. Christian Pettinger was appointed, who took over duties of the former member of the Board, including human resources. A further three employees changed their job positions within the Bank, including changes to the Head of Controlling and accounting department. During 2009 three new employees were employed, while one person retired. Plans related to the opening of new branches have been suspended and postponed for a future period, and the planned activities regarding recruitment and selection of new employees, continued. By the end of the year there were 52 employees in the Bank (Management Board included) with an average age of 36. Currently 46 people are employed at the head office of the Bank in Rijeka and 6 in the Branch office in Zagreb.

We continued the occasional engagement of excellent full-time students as assistants in performing simple tasks, among which we try to identify potential future employees of the Bank.

In the forthcoming period the key activities linked to human resources will be based on the implementation of a new organization structure and any further regulations linked to the various aspects of labour relations.

Human resources (continued)

Data about employees:

- As at 31st December 2009, there were 52 employees (Management Board included) - 46 in the Banks head office in Rijeka and 6 in the branch office in Zagreb
- Gender: 41 female, 11 men
- Average age: 36.14
- Qualification structure
 - MR = Master of science (2 – 3.8%)
 - VSS = University degree (36 – 69.2%)
 - VŠS = Two- year post secondary school degree (2 – 3.8%)
 - SSS = Secondary school degree (12 – 23.1%)
- 47 employed under indefinite period work contract (open-ended work contract); 5 employed under fixed-term contract (1 trainee; 2 replacements for maternity leave)

Information technology

During 2009, the IT department has installed and implemented the technology infrastructure necessary to run electronic banking for physical persons. Additionally, all the network and infrastructure support was implemented for the project ATM, HROK, debit and credit cards.

The IT department has installed a security and patch management solution for the entire bank. Additionally, new services that communicate with BKS AG has been put in place, such as Intranet.

The IT department has concluded phase I of the project business continuity plan by making the business impact analysis for all departments. The disaster recovery and incident management procedures were also written and put in place. The IT handbook for end users aligned with the BKS AG handbook was also written and distributed to all employees in the bank.

The function of Chief Information Security Officer was installed. The IT department has implemented the methodology for risk assessment for information security, backed up by a software solution. The first analysis of operational risk assessment for information security was successfully concluded.

Bank corporate management report

Corporate management consists of a set of relations between the Management Board, the Supervisory Board, the managers, the shareholders and all other interested parties. It represents a structure in the framework where the company's goals are defined together with the ways of achieving them and of monitoring the results.

Responsible corporate management in BKS Bank d.d. is a prerequisite for the creation of durable values both for the shareholders and for all others who are interested in the successful, safe and stable activity of the Bank accompanied by permanent maintenance and strengthening of confidence in the Bank.

As such, the Bank implements both the applicable external and internal regulations, and the rules of its parent company – BKS Bank AG, Klagenfurt, while ensuring that the latter are not contrary to the regulations in force in the Republic of Croatia, and it also monitors the alignment of its organizational structure, to be able to modify, i.e. adjust it promptly.

In addition to fulfilling the regulatory requirements, the Bank shall promote its corporate management by promoting the corporate culture and the awareness of the importance of the corporate management system.

The key principles of corporate management in the Bank are accomplished through:

- (1) the safeguarding of the shareholders' rights,
- (2) the establishment of an organizational structure that permits the setting of strategic goals and the affirmation of basic corporate values as well as an adequate infrastructure focused on their realization and monitoring. This is accomplished, among other things, through the monitoring of the business activities by the Supervisory Board and the functioning of the internal controls system,
- (3) the successful cooperation of the Supervisory Board and the Management Board of the Bank,
- (4) the setting up of a clear responsibility line in to the Bank,
- (5) maintaining good and transparent relations and communication with all banking bodies, employees, management, shareholders, Bank clients and the general public.

The Bank's Management and Supervisory Boards are obliged to ensure the implementation of the corporate management's basic principles. The Bank intends to document the external principles of good corporate management as well as its own practice in writing, in an internal document. The Bank implements the corporate management principles in the following way:

1. Shareholders and Bank General Meeting

1.1. Shareholders

The shareholders realize their voting right at the Bank General Meeting, and the right to participate goes to all subjects that have been registered as shareholders 15 days before the General Meeting is held.

Each share entitles its holder to one vote, to dividends and other rights stemming from the law and the Bank Statute.

Bank corporate management report (continued)

1.2. General Meeting

The Bank Management Board calls a General Meeting at least once a year by publishing the invitation, together with draft decisions, in the «Official Gazette». The Bank General Meeting may not decide on items of the agenda that have not been properly announced. The Ordinary General Meeting shall be called by the Bank Management Board with no delay after the Supervisory Board has examined the annual financial reports, the Bank's Business Report and the draft decision on profit allocation. The General Meeting takes notice of the annual financial reports and the Management Board Report regarding the situation in the Bank, and in line with this passes the statement of release, approving the way in which the members of the Bank Management and Supervisory Boards managed the Bank's business in the business year in question and also approving the decision on profit allocation.

In line with the law and the Bank Statute, the General Meeting decides on Statute amendments, share capital increases or reductions, appointment and release of the Supervisory Board members and the appointment of an auditor to audit the Bank's activities.

2. Cooperation between the Bank Management and Supervisory Boards

An efficient cooperation has been established between the Bank Management Board and the Supervisory Board. To this end the Management Board, with the approval of the Supervisory Board, adopts the basic business documents – the budget (financial plan) for the current year, the Bank medium-term development plan (five-year period) and the development strategy.

The Management Board reports regularly (through financial reports submitted on a quarterly and a yearly basis) to the Supervisory Board about the Bank's activities and about plan fulfilments.

In addition to the activities that, by law, need to be approved by the Bank Supervisory Board, the Management Board, in line with the Rule Book on Management Board (MB) Operations, must obtain approval also for the establishment of new companies and /or for the purchase or sale of shares, for the participation in other legal entities, for the acquisition and the sale of real estate, for the stipulation of contracts of lease of real estate, movables and equipment the duration of which exceeds one year if the annual rental fees exceed the amount of HRK 0.1 million, for investments of the single value exceeding HRK 0.3 million or of the total value in one year is above HRK 1 million, for taking loans from a client or related group of clients if the value of one deal i.e. the total value exceeds the amount of HRK 10 million (except for money market and interbank market transactions), for the conclusion of deals causing the exposure towards a single client and the persons related to it in excess of the amounts foreseen by the Bank lending rules, for the definition of the Bank's business policy and strategy, for the definition of the Bank's financial plans, of the yearly general internal audit programme, giving of procuration, setting up or cessation of branches or subsidiaries, representative offices, etc.

Bank corporate management report (continued)

An important element for a successful cooperation is the presentation of diligently prepared, true and timely reports to the Supervisory Board by the Bank Management Board, in written form – as a rule - on financial plans, risks management, operations that could have an impact on business profitability and Bank liquidity, on the course of business, especially the cash flow and the Bank Balance Sheet as well as on other principled issues of the business activity. At the same time, the Supervisory Board may require any information from the Bank Management Board regarding issues related to the Bank's activity, which have or could have a material impact on its position.

The good cooperation is manifested in the always open debate between the Bank Management Board and the Supervisory Board, as well as among the members in both these bodies.

3. Bank Management Board

The Management Board manages the Bank's activity on its own responsibility and represents the Bank before third parties. The Management Board shall act in the Bank's best interest and shall not be guided by personal interests, nor shall it ask or accept any type of benefit from third parties.

3.1. Competence, structure and remuneration of the Management Board members

Managing the activity the Bank Management Board ensures in particular: that the Bank operates in line with risk management regulations; that it monitors the risks it is exposed to in its activity and that it secures and maintains the adequate level of capital in terms of the risks the Bank is exposed to; the functioning of control functions; the undisturbed performance of external and internal audit; that it conducts business and other books and business documentation, compiles accounting documents, assesses assets and liabilities realistically, draws up financial and other reports in line with accounting rules and standards; that it reports and informs the Croatian National Bank in line with the regulations and that it implements the measures set by the Central Bank.

The Bank Management Board consists of three members at the most. By law, the minimal number of members is two. The exact number of Management Board members shall be defined by the decision of the Supervisory Board. One of the members has to be appointed President of the Management Board.

All Management Board members manage the activity jointly while the single members manage specific business areas as defined by the Rule Book. If the Management Board consists of two members, decisions must be made unanimously. The Management Board members are in charge and responsible for specific business areas. The bank is jointly represented by at least two Management Board members.

The remuneration of the Management Board members consist of an agreed fixed pay and a variable portion decided by the Supervisory Board upon the presentation of business and financial reports, taking into account the result that the Bank achieved in the previous year. The variable part of the income (yearly reward – bonus) is limited to a maximum corresponding to 25% of the annual basic pay of the Management Board member. The Supervisory Board and the Bank Management Board take into account the adequacy of income of the MB members compared to the Bank employees, other similar institutions in Croatia and the comparability with similar positions within BKS Bank AG.

Bank corporate management report (continued)

3.2. Conflict of interests

The regulations (internal and external) which regulate the conflict of interests are transparent and are followed in the Bank in the best possible way.

Pursuant to the mentioned regulations, and particularly the provisions of the Code of Professional Conduct, the Rule Book on MB Operations as well as the contracts on the managers' rights and obligations, the Bank Management Board members: (1) may not take over any commitment through self-employment or employment or engagement in another company besides their commitments in the Bank without the approval of the Supervisory Board President, (2) must not, without the consent of the Supervisory Board, participate in third parties or partnerships, either directly or indirectly (3) must not, either for their own or for some other's account, perform activities falling under the scope of the activity of the Bank (competition ban), (4) may not be Management or Supervisory Board members of a third company without the consent of the Supervisory Board, (5) are obliged to report to the Bank Supervisory Board any activity whereby a Management Board members or his kin of first degree, acquires or sells - directly or indirectly – shares or other securities issued by the Bank, (6) are obliged to inform the Supervisory Board about any transaction on the basis of which a member of their immediate family has acquired or sold directly or indirectly, individually or jointly shares or business shares in the legal entity that exceed or fall below the qualified share limit (10%, 20%, 33%, 50% and 75% of the share capital). Likewise, the Management Board members shall not use, either for their own or for the account of third parties any notions, information and business contacts, that they can obtain while carrying out their office of Management members.

Pursuant to statutory regulations, Bank lending to the Management Board members, to the members of their immediate family, to legal entities related to the Bank Management Board members – is subject to prior Supervisory Board approval.

In performing their duties, the Management Board members must not be guided by their personal interests, nor are they allowed to ask or accept any benefit and/or advantage, either for themselves or for any other party, nor to promise or grant any such benefit and/or advantage – on behalf and for account of the Bank - to these parties. Moreover, the Management Board is obliged to undertake all adequate and reasonable measures in order to ensure that the members of the Management Board and the Bank employees do not act contrary to the ban on divulgation and utilization of privileged information prescribed by the Securities Market Act.

3.3. Bank Management Board Committees

The Bank Management Board may establish various permanent or temporary bodies to assist it in the performance of its functions (e.g. ALCO Committee, etc.)

Bank corporate management report (continued)

4. Bank Supervisory Board

4.1. Competence, structure and remuneration of the Supervisory Board members

Once a year the Bank Supervisory Board submits to the Bank General meeting a report on its work and the work of the committees it has established.

The Bank Supervisory Board monitors the performance of the Bank's operations and in particular: appoints and recalls the members of the Management Board, convokes the General Meeting as required, participates in the definition of the annual financial reports, submits a written report on performed supervision to the General Meeting, adopts internal audit regulations as well as the annual internal audit work programmes, represents the Bank before the Management Board, gives prior approval to the Management Board decisions when this is prescribed by law, the Statute or the Rule Book on MB Operations. In this way, the Supervisory Board directs the Bank' activity and supervises the business management actively.

In line with the Bank's Statute, the Supervisory Board may have at least three, five or seven members appointed by the Bank's General Meeting. The General Meeting also decides which of the mentioned number of members to choose. The Supervisory Board members appoint the president and his deputy among themselves.

The Supervisory Board members may be granted a reward for their work in the Board. The decision in this respect is made by the General Meeting. Since BKS Bank AG acquired the majority ownership, no reward has been paid to the Supervisory Board members with the exception of Mr. Ključariček.

4.2. Conflict of interests

All the Bank Supervisory Board members are obliged to act in the Bank's best interest and in making decisions they cannot be guided by their own profit nor may they use their position in order to acquire some personal benefit.

The Supervisory Board members may not point out their membership in the Supervisory Board in public with the purpose of gaining any illicit, personal or professional benefit which may jeopardize the Bank's reputation or any other interest of the Bank. They are also compelled to report to the bank any operation whereby the member or any of their kin of first degree, acquires or disposes of the shares or any other securities issued by the Bank, either directly or indirectly.

The Supervisory Board members shall inform the CNB about the appointment or termination of their office in management or supervisory boards of other legal entities, as well as about any deals based on which they or the members of their immediate family have, directly or indirectly, individually or jointly, acquired shares in the legal entity, based on which they have acquired or their shares have fallen below the qualified share.

Bank corporate management report (continued)

4.3. Bank Supervisory Board Committees

For the purpose of quality preparations under the competence of the Bank Supervisory Board and the monitoring of the implementation of the decisions made and in order to increase the Supervisory Board's efficiency, the Audit Committee, the Personnel Committee and the Working Committee have been established to perform the monitoring within the scope of their competence and to make the decisions that fall under the competence of the Supervisory Board, prepare the draft decisions to be adopted at the Supervisory Board. The committees also report their activities to the Supervisory Board.

The Auditing Committee supervises the financial reporting; it monitors the efficiency of the system of internal control, audit and risk management systems; it supervises the financial reports' auditing, monitors the auditors' independence and gives recommendations to the Supervisory Board for the appointment of an independent auditor and performs other tasks in line with statutory regulations.

The Working Committee monitors all loans, assessments and other asset-related commercial activities (assets BKS Bank d.d.). Moreover the Committee is responsible for the monitoring of the Bank's overall activities that are subject to Supervisory Board approval.

The Personnel Committee monitors and deals with the relations between the Management Board and the Bank itself. Given the fact that the decision on appointment and revocation of the Management Board members as well as on the Bank's representation before the Management Board falls under the competence of the Supervisory Board, the Personnel Committee shall supervise and examine the relevant documentation to the extent of its powers, it will discuss the problems and the measures and prepare the draft decisions for the decisions to be adopted by the Supervisory Board.

5. Internal controls system

The internal controls system is a system of processes and procedures set up to monitor the Bank's business efficiency, the reliability of its financial information and the compliance with the laws, regulations and good practice, all in order to protect the Bank's assets.

For this purpose an internal controls system has been established in the bank as a system of procedures and processes for monitoring the efficiency of the Bank's operations, the reliability of financial reporting and adherence to statutory regulations and good business practice. This system is structured according to the size, structure and scope of activity and of the identified risks. This system is the subject of permanent upgrading and adjustment to the standards of the parent bank.

In addition to the members of the Bank Management Board and of the Supervisory Board, all employees and organizational units of the Bank take also part in the implementation of the mentioned control measures, integrated either directly or indirectly in the business processes.

Bank corporate management report (continued)

5. Internal controls system (continued)

The internal controls system in the Bank functions through three mutually independent functions:

(1) the risks monitoring function, (2) the compliance monitoring function and (3) the internal audit function. Here we also add the activities linked to the prevention of both money laundering and the financing of terrorist activities.

A well established internal controls system enables the Bank a timely monitoring and detection of any materially significant risk to which it may be exposed while performing its activity.

The Bank develops an internal controls system adjusted to the standards of its parent Bank.

6. Transparent and timely reporting, external and internal communication

The responsibility for communicating with the public lies with the Management Board. PR as well as the marketing functions are centralized at BKS Bank AG level, wherefrom, with the agreement of the Management Board, both public relations and internal communications get coordinated and managed. The Bank puts special emphasis on relations and communication with the clients, which are subject to provisions of the Code of Professional Conduct and Procedures, and the Ethics Code in Business, approved by the Croatian Chamber of Commerce, which has been accepted by the Bank.

The Bank's shareholders and the general public receive timely information through the mass media about the Bank's business, the financial results and the material facts that could have an impact on the Bank's structure and the value of its capital.

The Bank's financial statements are audited on a regular basis by a recognised auditing company that, in principle, belongs to the same auditing group as the company that audits the reports of the parent bank.

In line with the above mentioned, BKS Bank d.d. Rijeka hereby declares that a corporative structure has been established in the Bank, adequate to the business size, scope and structure and to the risks the Bank is exposed to, and that the Bank, considering its position in the Group BKS Bank AG as well as the environment in which it operates, is well organized and that business in 2008 was conducted adhering to the principles and guidelines of corporative management, which will continue to be followed in future as well.


Goran Rameša
President of the Management Board

General data

Bank Bodies

General Meeting

Chairman is elected among the Supervisory Board members

Supervisory Board

**Herta Stockbauer, President
Heimo Penker, Deputy President
Josef Morak, member
Marijan Ključariček, member
Dubravko Orlovac, member**

Management Board

**Goran Rameša, President
Milivoj Debelić, member, resigned in July 2009
Peter Christian Pettinger, member, appointed in July 2009**

Address

Mljekarski trg 3, 51000 Rijeka, Hrvatska

SWIFT :

BFKKHR22

Web :

www.bks.hr

Giro account:

2488001-1011111116

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 its 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 22 to 73 were authorised by the Management Board on 8 March 2010 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of BKS Bank d.d.:

Goran Rameša
President of the Management Board



Peter Christian Pettinger
Member of the Management Board





Independent Auditors' Report to the shareholder of BKS Bank d.d.

We have audited the accompanying financial statements of BKS Bank d.d. ("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.

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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of BKS Bank d.d. as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.



Independent Auditors' Report to the shareholder of BKS Bank d.d. (continued)

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 74 to 80 ("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 22 to 73. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Bank set out on pages 22 to 73 on which we have expressed an opinion as set out above.

Zagreb, 8 March 2010

KPMG Croatia d.o.o. za reviziju

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

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

Joško Džida
Director and Croatian Certified Auditor

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

<i>(in thousands of HRK)</i>	Note	2009	2008
Interest and similar income	4a	30,926	24,906
Interest expense and similar charges	4c	(14,030)	(10,135)
Net interest income		16,896	14,771
Fee and commission income	5a	10,559	6,323
Fee and commission expense	5b	(3,233)	(2,523)
Net fee and commission income		7,326	3,800
Net trading income from dealing in foreign currencies		3,136	2,657
Net income from investment securities	6	45	721
Other operating income		77	712
Total operating income		27,480	22,661
Impairment losses on investment securities	7	-	(2,024)
Impairment losses on loans and advances to customers	14b	(2,155)	(278)
Other impairment losses and provisions	8	(161)	35
Operating expenses	9	(24,366)	(21,890)
Profit/(Loss) before income tax		798	(1,496)
Income tax (expense)/benefit	10a	(127)	246
Profit/(Loss) for the period		671	(1,250)
		HRK	HRK
Basic and diluted earnings/(loss) per share	33	1.12	(2.08)

The accompanying accounting policies and other notes on pages 26 to 73 form an integral part of these financial statements.

BALANCE SHEET**AS AT***(in thousands of HRK)*

	<u>Note</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
ASSETS			
Cash reserves	11	39,488	22,867
Obligatory reserve with the Croatian National Bank	12	43,756	28,083
Loans and advances to banks	13	77,217	59,946
Loans and advances to customers	14a	280,230	243,749
Available-for-sale financial assets	15	1,376	3,351
Held-to-maturity investments	16	133,061	45,212
Income tax prepayment		210	702
Property and equipment	17	24,788	26,126
Intangible assets	18	10,092	9,996
Deferred tax assets	10b	520	647
Other assets	19	5,863	4,012
Total assets		<u>616,601</u>	<u>444,691</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	20	22,021	-
Deposits from customers	21	378,602	281,695
Borrowings	22	125,289	74,795
Provisions	23	1,755	1,599
Other liabilities	24	14,769	13,108
Total liabilities		<u>542,436</u>	<u>371,197</u>
EQUITY			
Issued share capital	25	60,000	60,000
Statutory reserve	26a	2,724	2,724
Reserve for general banking risks	26b	1,842	1,842
Retained earnings	26c	9,599	8,928
Total equity		<u>74,165</u>	<u>73,494</u>
Total liabilities and equity		<u>616,601</u>	<u>444,691</u>

The accompanying accounting policies and other notes on pages 26 to 73 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

<i>(in thousands of HRK)</i>	Issued share capital	Statutory reserve	Reserve for general banking risks	Fair value reserve	Retained earnings	Total
Balance at 1 January 2008	60,000	2,553	1,842	19	10,349	74,763
Change in fair value of AFS portfolio	-	-	-	(2,048)	-	(2,048)
Deferred tax on change in fair value of AFS portfolio	-	-	-	410	-	410
Cumulative impairment loss transferred to income statement	-	-	-	2,024	-	2,024
Deferred tax on cumulative impairment loss transferred to income statement	-	-	-	(405)	-	(405)
<i>Net expense recognised directly in equity</i>	-	-	-	-	-	-
Loss for the period	-	-	-	-	(1,250)	(1,250)
<i>Total recognised expenses for 2008</i>	-	-	-	-	(1,250)	(1,250)
Transfer to statutory reserve	-	171	-	-	(171)	-
Balance at 31 December 2008	60,000	2,724	1,842	-	8,928	73,494
Balance at 1 January 2009	60,000	2,724	1,842	-	8,928	73,494
Profit for the period	-	-	-	-	671	671
<i>Total recognised income for 2009</i>	-	-	-	-	671	671
Balance at 31 December 2009	60,000	2,724	1,842	-	9,599	74,165

The accompanying accounting policies and other notes on pages 26 to 73 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>2009</u>	<u>2008</u>
Cash flows from operating activities			
Profit/(Loss) before taxation		798	(1,496)
<i>Adjustment for:</i>			
Depreciation and amortisation		4,675	3,535
Foreign exchange (gains)/losses		(96)	35
Impairment losses on loans to and receivables from customers		2,155	278
Impairment losses on financial assets		-	2,024
Other impairment losses and provisions		161	(35)
Cash flows from operating activities before changes in operating assets and liabilities		7,693	4,341
<i>Changes in operating assets and liabilities</i>			
Net (increase)/decrease in obligatory reserve with the Croatian National Bank		(15,673)	8,614
Net (increase)/decrease in loans to and receivables from banks		(17,271)	26,741
Net increase in loans to and receivables from customers		(36,481)	(52,373)
Net increase in other assets		(1,851)	(1,278)
Net increase in deposits from banks		22,021	-
Net increase/(decrease) in deposits from customers		96,907	(24,650)
Net (decrease)/increase in other liabilities		(109)	5,616
Net cash inflow/(outflow) from operating activities before tax		55,236	(32,989)
Net income tax inflow/(outflow)		492	(842)
Net cash inflow/(outflow) from operating activities		55,728	(33,831)
Cash flows from investing activities			
Purchase of property and equipment		(547)	(3,083)
Purchase of intangible assets		(3,072)	(8,017)
Net decrease in financial assets available for sale		1,975	-
Net (increase)/decrease in financial assets held to maturity		(87,849)	4,114
Net cash outflow from investing activities		(89,493)	(6,986)
Cash flows from financing activities			
Net increase in borrowings		50,494	36,293
Net cash inflow from financing activities		50,494	36,293
Effect of foreign exchange differences on cash and cash equivalents		(108)	(295)
Net increase/(decrease) in cash and cash equivalents		16,621	(4,819)
Cash and cash equivalents at beginning of year	11	22,867	27,686
Cash and cash equivalents at end of year	11	39,488	22,867

The accompanying accounting policies and other notes on pages 26 to 73 form an integral part of these financial statements.

1 REPORTING ENTITY

BKS Bank d.d., Rijeka ("the Bank") is a joint stock company incorporated and domiciled in the Republic of Croatia. The Bank was formerly known as Kvarner banka d.d. Rijeka. The registered office is at Mljekarski trg 3, in Rijeka. The Bank started its activities in April 1993 and its operations include receiving cash deposits, granting loans and making other placements. The Bank is regionally oriented and focused on medium-sized companies and sole traders. The Bank is registered at the Commercial Court in Rijeka with authorised share capital in the amount of HRK 60,000 thousand.

The financial statements were approved by the Bank's Management Board on 8 March 2010 for approval by the Supervisory Board.

2 SIGNIFICANT ACCOUNTING PRINCIPLES

A) Basis of preparation

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia.

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

The 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, reference may be made to certain Standards in describing the accounting policies of the Bank; unless otherwise stated, these references are to Standards applicable at 31 December 2009.

The accounting regulations based on which these financial statements have been prepared differ from International Financial Reporting Standards ("IFRS") in terms of presentation as well as in terms of recognition and measurement. We draw attention to the following differences between the accounting regulations of the CNB and recognition and measurement requirements of IFRS:

- The CNB requires banks to recognise impairment losses, in income, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value). The Bank has made portfolio-based provisions of HRK 6,293 thousand (2008: HRK 5,051 thousand) carried in the balance sheet in compliance with these regulations, and has recognised a charge against income in respect of such provisions of HRK 1,242 thousand within the charge for impairment losses for the year (2008: charge of HRK 50 thousand). Although, in accordance with IFRS, such provisions should more properly be presented as an appropriation within equity, the Bank continues to recognise such provisions in the income statement as a substitute for existing but 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 International Financial Reporting Standards, the CNB requires the amortisation of the discount calculated to be presented in the income statement within the movement on impairment losses on loans and advances to customers and other assets, rather than as interest income, as required by International Financial Reporting Standards.

2 SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

A) Basis of preparation (continued)

- 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.
- The CNB has eliminated the choice afforded in IFRS for regular way purchases and sales of financial instruments to be accounted for at either trade or settlement date, and requires banks to recognise and derecognise financial instruments when delivered or transferred (settlement date accounting).

The financial statements are prepared on the fair value basis for financial assets available for sale, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

B) Use of estimates and judgements

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the balance sheet date, as well as amounts of income and expense for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the result of which form the basis for making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in the next year are discussed in Note 32.

C) Functional and presentation currency

The financial statements are presented in Croatian kuna (HRK), which is the Bank's functional and presentation currency. Amounts are rounded to the nearest thousand (unless otherwise stated). As at 31 December 2009 the exchange rates used for translation were HRK 5.09 to USD 1 and HRK 7.306 to EUR 1 (31 December 2008: HRK 5.155 to USD 1 and HRK 7.324 to EUR 1).

D) Changes in presentation or classification of items in the financial statements

Where necessary, comparative information has been reclassified to achieve consistency with current financial year amounts and other disclosures.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been consistently applied to all periods presented in these financial statements.

3.1 Interest income and expense

Interest income and expense are recognised in the income statement as they accrue for all interest-bearing financial instruments measured at amortised cost, using the effective interest rate method, i.e. at the rate that discounts estimated future cash flows to net present value over the life of the underlying contract, or an applicable floating rate. At the balance sheet date the Bank did not have any interest-earning assets carried at fair value. Such income and expenses are presented as interest and similar income or interest expense and similar charges in the income statement.

Interest income and expense also include fee and commission income and expense in respect of loans and advances to customers or borrowings from other banks, premium or discount amortisation, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognised on an effective interest basis.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3.2 Fee and commission income and expense

Fees and commissions mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit and commission for credit risk analysis of cross-border loans, and are recognised in the income statement upon performance of the relevant service, unless they have been included in the effective interest calculation.

Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective 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. Other service fees are recognised based on the applicable service contracts.

3.3 Net trading income from dealing in foreign currencies

This category includes spreads earned from foreign exchange trading.

3.4 Net income from investment securities

This category includes gains and losses from disposals of available-for-sale financial assets (units in investment funds) and dividend income.

Dividend income on equity securities is credited to the income statement when the right to receive the dividend is established.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Foreign currency translation

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 balance sheet 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 security. 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 operating expenses in the income statement. 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.

3.6 Employee benefits

Defined pension contributions

The Bank has obligations for defined contributions to pension funds on a mandatory, contractual basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Provisions for severance payments and jubilee awards

In calculating provisions for severance payments and jubilee awards, the Bank discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Bank's management, best represent the time value of money.

3.7 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

3.8 Financial instruments

Classification

The Bank classifies its financial instruments in the following categories: loans and receivables, available-for-sale financial assets, held-to-maturity investments or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments upon initial recognition and, where appropriate, re-evaluates this designation at every reporting date.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

A) Loans and receivables

Loans and receivables are 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 advances to banks, loans and advances to customers and the obligatory reserve with the Croatian National Bank.

B) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. These include Ministry of Finance treasury bills and corporate bills of exchange.

C) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Financial assets designated as available for sale 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 or foreign exchange rates. Available-for-sale financial assets include equity securities and units in investment funds.

D) Other financial liabilities

Other financial liabilities comprise 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 instruments 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 other financial liabilities 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 on financial assets. This 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, ie when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognising that 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 weighted average cost method.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus 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 available for sale at their fair value, without any deduction for selling costs. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

Loans and receivables and held-to-maturity investments and other financial liabilities are measured at amortised cost using the effective interest method.

Gains and losses

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 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.

Dividend income is recognised in the income statement. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to the income statement.

Gains or losses arising from financial instruments carried at amortised cost may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired.

Fair value measurement principles

The fair values of quoted available-for-sale financial assets are based on current closing bid prices. 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 price, the Bank establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

Impairment of financial assets

Impairment of financial assets identified as impaired

A) *Financial assets carried at amortised cost*

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- I) significant financial difficulty of the issuer or obligor;
- II) a breach of contract, such as a default or delinquency in interest or principal payments;
- III) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that it would not otherwise consider;
- IV) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- V) the disappearance of an active market for the financial asset because of financial difficulties; or
- VI) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan and receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Those individually significant assets which are not impaired are included in the basis for collective impairment assessment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

Impairment of financial assets identified as impaired (continued)

A) Financial assets carried at amortised cost (continued)

When a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a reversal of impairment losses in the income statement.

B) Financial assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If any such evidence 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. Impairment losses recognised in the income statement on equity securities are not reversed through the income statement.

C) Financial assets carried at cost

These include equity securities classified as available for sale for which there is no reliable fair value. The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Impairment of financial assets not identified as impaired

In addition to the above described impairment losses on financial assets identified as impaired, the Bank recognises impairment losses, in income, on on- and off-balance-sheet credit risk exposures not identified as impaired at rates from 0.85% to 1.20% in accordance with the accounting regulations of the Croatian National Bank.

Specific instruments

A) Debt securities

Debt securities are classified as financial assets held to maturity or as loans and receivables, depending on the purpose for which the debt security was acquired.

B) Loans and advances to banks

Loans and advances to banks are classified as loans and receivables.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

Specific instruments (continued)

C) 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.

D) Equity securities

Equity securities are classified as available for sale and carried at fair value, unless there is no reliable measure of the fair value, in which case equity securities are stated at cost, less impairment.

E) Units in investments funds

Units in investments are classified as available for sale.

F) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, items in the course of collection and current accounts with banks.

G) Interest-bearing 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 on an effective interest basis.

H) Current accounts and deposits from banks and customers

Current accounts and deposits are classified as other liabilities and initially measured at fair value less transaction costs, and subsequently stated at their amortised cost (using the effective interest method).

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**3.9 Property and equipment**

Property and equipment are tangible items that are held for use in the supply of services or for administrative purposes. 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 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	40 years	40 years
IT equipment	4 years	4 years
Office furniture and other equipment	5-10 years	5-10 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

3.10 Intangible assets

Intangible assets acquired by the Bank are stated at cost less accumulated amortisation and impairment losses.

Expenditure on development activities are capitalised if all of the features required by International Accounting Standard 38 "*Intangible Assets*" are satisfied. Intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

	2009	2008
Software	4 years	4 years
Leasehold improvements	5 years	5 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Income tax

The income tax charge is based on taxable profit for the year and comprises 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. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities, based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are not discounted and are classified as non-current in the balance sheet. Deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax asset 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.

3.12 Impairment of property and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortisation and depreciation and are tested at least annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets still not brought into use are reviewed at each reporting date. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount of property and equipment and intangible assets is the higher of an asset's fair value less costs to sell and value in use. For the purposes 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 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. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made, 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 section 3.8 of "*Significant Accounting Policies*".

Provisions for liabilities and charges are maintained at the level that the Bank's management considers sufficient for absorption of incurred losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as 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.

3.14 Issued share capital

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

Dividends are recognised as a liability in the period in which they are declared.

3.15 Retained earnings

Any profit for the year retained after appropriations is transferred to reserves.

3.16 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 risks cannot be transferred to retained earnings or other reserves or be otherwise distributed until the expiry of a consecutive three year period in which the Bank has recorded annual growth not exceeding 15%.

3.17 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 accounts 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Managed funds 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 are excluded from the balance sheet. For the services rendered the Bank charges a fee.

3.19 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) information for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

NOTE 4 – NET INTEREST INCOME

	<u>2009</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>	
a) Interest and similar income – analysis by source		
Companies	19,034	17,617
Individuals	2,206	1,977
State and public sector	5,958	1,328
Banks and other financial institutions	2,890	3,885
Other organisations	838	99
	<u>30,926</u>	<u>24,906</u>
b) Interest and similar income – analysis by product		
Loans and advance to customers	20,535	17,123
Debt securities and bills of exchange	7,501	3,898
Obligatory reserve with the Croatian National Bank	265	297
Loans and advances to banks and other financial institutions	2,625	3,588
	<u>30,926</u>	<u>24,906</u>
	<u>2009</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>	
c) Interest expense and similar charges – analysis by source		
Companies	8,662	6,224
Individuals	2,549	1,664
Banks	2,804	2,230
Other organisations	15	17
	<u>14,030</u>	<u>10,135</u>
d) Interest expense and similar charges – analysis by product		
Deposits from companies and other organisations	8,677	6,241
Deposits from individuals	2,549	1,664
Borrowings and deposits from banks	2,804	2,230
	<u>14,030</u>	<u>10,135</u>

Notes to the financial statements for the year ended 31 December 2009**NOTE 5 – NET FEE AND COMMISSION INCOME**

	<u>2009</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>	
a) Fee and commission income		
Domestic payment transactions	4,061	3,504
International payment transactions	1,128	822
Guarantees and letter of credits given	1,298	1,330
Commission for credit risk analysis	3,935	596
Other	137	71
	<u>10,559</u>	<u>6,323</u>
b) Fee and commission expense		
Domestic payment transactions	3,020	2,301
International payment transactions	131	127
Other	82	95
	<u>3,233</u>	<u>2,523</u>

NOTE 6 – NET INCOME FROM INVESTMENT SECURITIES

	<u>2009</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>	
Realised gain on disposal of available-for-sale financial assets	45	-
Dividend income from available-for-sale financial assets	-	721
	<u>45</u>	<u>721</u>

NOTE 7 – IMPAIRMENT LOSSES ON INVESTMENT SECURITIES

	<u>2009</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>	
Impairment loss on available-for-sale financial assets	-	2,024
	<u>-</u>	<u>2,024</u>

Impairment losses represented unrealised losses on quoted units in investment funds where there has been a significant and prolonged decline in their fair value below cost. The cumulative loss, measured as the difference between the acquisition cost and the fair value as of 31 December 2008, has been transferred from equity and recognised in the income statement.

NOTE 8 – OTHER IMPAIRMENT LOSSES AND PROVISIONS

	<u>2009</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>	
Release in provisions for off-balance-sheet exposures	(69)	(228)
Increase in provisions for severance payments and jubilee awards	225	167
Impairment loss on other assets	5	26
	<u>161</u>	<u>(35)</u>

NOTE 9 – OPERATING EXPENSES

	<u>2009</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>	
Personnel expenses	10,417	10,370
Professional services and material costs	3,545	3,472
Depreciation and amortisation	4,675	3,535
Software maintenance costs	3,200	2,240
Rent expenses	1,422	702
Administration and marketing expenses	714	891
Supervisory Board remuneration	-	166
Savings deposit insurance expenses	116	79
Net foreign exchange (gain)/loss from translation of monetary assets and liabilities	(96)	35
Other	373	400
	<u>24,366</u>	<u>21,890</u>

Personnel expenses include HRK 1,730 thousand (2008: HRK 1,668 thousand) of defined pension contributions payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries.

During 2009, the Bank had 54 employees on average (2008: 44 employees).

NOTE 10 – INCOME TAX

a) Income tax expense recognised in the income statement

	<u>2009</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>	
Current tax	-	(192)
Deferred tax	<u>(127)</u>	<u>438</u>
Income tax (expense)/benefit	<u>(127)</u>	<u>246</u>

b) Movement in income tax asset and liabilities

	<u>2009</u>	<u>Credited to income statement</u>	<u>Charged / (credited) to equity</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>			
Deferred tax assets				
Provisions for severance payments and jubilee awards and unused holiday accrual	239	(3)	-	242
Deferred fee and interest income	281	281	-	-
Unrealised loss on available-for-sale financial assets transferred from fair value reserve to income statement	-	<u>(405)</u>	-	<u>405</u>
Total deferred tax assets	<u>520</u>	<u>(127)</u>	<u>-</u>	<u>647</u>

	<u>2008</u>	<u>Credited to income statement</u>	<u>Charged / (credited) to equity</u>	<u>2007</u>
	<i>(in thousands of HRK)</i>			
Deferred tax assets				
Provisions for severance payments and jubilee awards and unused holiday accrual	242	33	-	209
Unrealised loss on available-for-sale financial assets transferred from fair value reserve to income statement	405	<u>405</u>	-	<u>-</u>
Total deferred tax assets	<u>647</u>	<u>438</u>	<u>-</u>	<u>209</u>

Deferred tax liabilities

Unrealised gain on available-for-sale financial assets in fair value reserve	-	-	<u>5</u>	<u>(5)</u>
Total deferred tax liabilities	<u>-</u>	<u>-</u>	<u>5</u>	<u>(5)</u>

NOTE 10 – INCOME TAX (continued)

c) Reconciliation of the profit before tax and income tax expense

The reconciliation between tax expense and profit before tax is shown as follows:

	<u>2009</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>	
Profit/(Loss) before income tax	798	(1,496)
Income tax at 20% (2008: 20%)	160	(299)
Non deductible expenses	303	385
Tax exempt income	(82)	(332)
Tax losses not recognised as deferred tax asset	(254)	-
Income tax (expense)/benefit	127	(246)
Effective income tax rate	15.91%	-%

d) Tax losses carried forward

Gross tax loss amounting to HRK 1,271 thousand is available for offset against the future profits of the Bank. A tax loss may be carried forward for five years subsequent to the year in which it was incurred by the Bank. The availability of the tax losses against future periods, calculated at the tax rate of 20% enacted at reporting date, subject to review by Ministry of Finance, is as follows:

	<u>2009</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>	
No more than 1 year	-	-
No more than 2 years	-	-
No more than 3 years	-	-
No more than 4 years	-	-
No more than 5 years	254	-
Total tax losses available for carry forward	254	-

Notes to the financial statements for the year ended 31 December 2009**NOTE 11 – CASH RESERVES**

	31 December 2009	31 December 2008
	<i>(in thousands of HRK)</i>	
Cash in hand	2,413	2,236
Current accounts with other banks	26,390	11,480
Current accounts with the Croatian National Bank	10,685	9,151
	39,488	22,867

NOTE 12 – OBLIGATORY RESERVE WITH THE CROATIAN NATIONAL BANK

	31 December 2009	31 December 2008
	<i>(in thousands of HRK)</i>	
Obligatory reserve		
- in kuna	38,184	24,446
- in foreign currency	5,572	3,637
	43,756	28,083

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 obligatory reserve requirement at 31 December 2009 amounted to 14% (2008: 14%) of kuna and foreign currency deposits, borrowings and issued debt securities.

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

60% of the foreign currency 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).

75% (2008: 50%) of the foreign currency obligatory reserve is required to be held in HRK and is added to the kuna obligatory reserve.

In 2009, compulsory Croatian National Bank treasury bills were subscribed due to the growth of eligible assets and off-balance-sheet items in excess of the threshold determined by the CNB, pursuant to the CNB decision from 2007. These bills earned interest of 0.25% and were issued to mature in 360 days from the date of subscription. The decision to hold compulsory CNB treasury bills was withdrawn by the CNB on 26 September 2009.

NOTE 13 – LOANS AND ADVANCES TO BANKS

	31 December 2009	31 December 2008
	<i>(in thousands of HRK)</i>	
Domestic banks	20,959	24,791
Foreign banks	56,548	35,445
Impairment allowance	(290)	(290)
	77,217	59,946

All receivables from other banks are with variable rates.

NOTE 14 – LOANS AND ADVANCES TO CUSTOMERS

	31 December 2009	31 December 2008
a) analysis by recipient	<i>(in thousands of HRK)</i>	
Companies and similar organisations - in kuna	251,103	224,778
Individuals and unincorporated businesses - in kuna	38,615	26,347
Total loans	289,718	251,125
Impairment allowance	(9,488)	(7,376)
	280,230	243,749
Total impairment allowance as a percentage of gross loans and advances to customers	3.27%	2.94%
Total impairment allowance as a percentage of gross value of specifically impaired loans and advances to customers	68.47%	55.96%

Notes to the financial statements for the year ended 31 December 2009**NOTE 14 – LOANS AND ADVANCES TO CUSTOMERS (continued)**

	<u>2009</u>	<u>2008</u>
b) Movements in impairment allowance for loans to and receivables from customers:		
	<i>(in thousands of HRK)</i>	
Balance as at 1 January	<u>7,376</u>	<u>8,249</u>
Impairment losses	2,414	2,464
Reversal of impairment losses	(259)	(2,186)
<i>Impairment losses on loans and advances to customers recognised in the income statement</i>	2,155	278
Amounts written off	(43)	(1,151)
Balance as at 31 December	<u>9,488</u>	<u>7,376</u>

NOTE 15 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>31 December 2009</u>	<u>31 December 2008</u>
	<i>(in thousands of HRK)</i>	
Units in investment funds	-	1,975
Unlisted equity securities	1,376	1,376
	<u>1,376</u>	<u>3,351</u>

NOTE 16 – HELD-TO-MATURITY INVESTMENTS

	<u>31 December 2009</u>	<u>31 December 2008</u>
	<i>(in thousands of HRK)</i>	
<i>Unlisted</i>		
Republic of Croatia Ministry of Finance treasury bills	106,424	9,840
Corporate bills of exchange	26,637	35,372
	<u>133,061</u>	<u>45,212</u>

NOTE 17 – PROPERTY AND EQUIPMENT

<i>(in thousands of HRK)</i>	Buildings	IT equipment	Office furniture and other equipment	Other	Assets acquired but not brought into use	TOTAL
Cost						
At 1 January 2009	24,723	4,707	3,558	349	30	33,367
Additions	-	-	-	-	547	547
Transfers	-	25	95	-	(120)	-
Write off	-	(336)	(25)	(12)	-	(373)
At 31 December 2009	24,723	4,396	3,628	337	457	33,541
Accumulated depreciation						
At 1 January 2009	3,085	2,664	1,445	47	-	7,241
Charge for the year	618	760	312	9	-	1,699
Write off	-	(150)	(25)	(12)	-	(187)
At 31 December 2009	3,703	3,274	1,732	44	-	8,753
Carrying value at 1 January 2009	21,638	2,043	2,113	302	30	26,126
Carrying value at 31 December 2009	21,020	1,122	1,896	293	457	24,788
Cost						
At 1 January 2008	24,723	3,383	1,889	289	-	30,284
Additions	-	1,324	1,669	60	30	3,083
At 31 December 2008	24,723	4,707	3,558	349	30	33,367
Accumulated depreciation						
At 1 January 2008	2,467	1,936	1,222	42	-	5,667
Charge for the year	618	728	223	5	-	1,574
At 31 December 2008	3,085	2,664	1,445	47	-	7,241
Carrying value at 1 January 2008	22,256	1,447	667	247	-	24,617
Carrying value at 31 December 2008	21,638	2,043	2,113	302	30	26,126

Depreciation charge for the period is included in operating expenses (Note 9).

NOTE 18 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Software	Leasehold improvement	Assets acquired but not brought into use	TOTAL
Cost				
At 1 January 2009	13,489	1,515	159	15,163
Additions	-	-	3,072	3,072
Transfers	607	-	(607)	-
At 31 December 2009	14,096	1,515	2,624	18,235
Accumulated amortisation				
At 1 January 2009	5,138	29	-	5,167
Charge for the year	2,674	302	-	2,976
At 31 December 2009	7,812	331	-	8,143
Carrying value at 1 January 2009	8,351	1,486	159	9,996
Carrying value at 31 December 2009	6,284	1,184	2,624	10,092
Cost				
At 1 January 2008	6,044	-	1,102	7,146
Additions	6,502	1,515	-	8,017
Transfers	943	-	(943)	-
At 31 December 2008	13,489	1,515	159	15,163
Accumulated amortisation				
At 1 January 2008	3,206	-	-	3,206
Charge for the year	1,932	29	-	1,961
At 31 December 2008	5,138	29	-	5,167
Carrying value at 1 January 2008	2,838	-	1,102	3,940
Carrying value at 31 December 2008	8,351	1,486	159	9,996

Amortisation charge for the period is included in operating expenses (Note 9).

NOTE 19 – OTHER ASSETS

	31 December 2009	31 December 2008
	<i>(in thousands of HRK)</i>	
Accrued interest – not yet due	1,814	1,057
Accrued interest – due	1,478	1,987
Accrued fees	1,976	486
Property in lieu of uncollected receivables	383	383
Other	377	259
	6,028	4,172
Impairment allowance against accrued fees	(165)	(160)
	(165)	(160)
	5,863	4,012

The movements in impairment allowances for other assets are as follows:

	2009	2008
	<i>(in thousands of HRK)</i>	
Balance as at 1 January	160	233
Reversal of impairment losses	(42)	-
Impairment losses	47	26
<i>Movement of impairment allowance recognised in income statement</i>	5	26
Amounts written off	-	(99)
Balance as at 31 December	165	160

Notes to the financial statements for the year ended 31 December 2009

NOTE 20 – DEPOSITS FROM BANKS

	31 December 2009	31 December 2008
	<i>(in thousands of HRK)</i>	
Current accounts	102	-
Term deposits	21,919	-
	22,021	-

NOTE 21 – DEPOSITS FROM CUSTOMERS

	31 December 2009	31 December 2008
	<i>(in thousands of HRK)</i>	
Companies and similar organisations		
- current accounts	85,799	81,188
- term deposits	198,600	119,624
Individuals and unincorporated businesses		
- current accounts and demand deposits	49,305	42,882
- term deposits	44,898	38,001
	378,602	281,695

Notes to the financial statements for the year ended 31 December 2009

NOTE 22 – BORROWINGS

In accordance with their terms, borrowings from the Croatian Bank for Reconstruction and Development (“HBOR”) are used to fund loans to customers for eligible construction and development projects at preferential interest rates.

As at 31 December 2009 all borrowings were at variable interest rates.

				31 December 2009	31 December 2008
<i>(in thousands of HRK)</i>					
Borrowings by Croatian Bank for Reconstruction and Development					
Currency	Principal ‘000	Maturity	Interest rate		
HRK	12,000	2009	3.50%	-	12,000
EUR linked	334	2018	2.75%	2,442	2,448
EUR linked	805	2013	Euribor + 1.70%	2,731	3,579
EUR linked	1,590	2014	2.00%	8,297	9,981
EUR linked	209	2014	2.00%	865	1,071
EUR linked	300	2013	4.00%	1,174	1,491
EUR linked	250	2009	4.00%	-	458
EUR linked	632	2017	Euribor + 1.70%	4,184	4,629
EUR linked	1,093	2013	2.00%	5,588	7,202
EUR linked	95	2012	4.00%	346	486
EUR linked	2,200	2023	Euribor + 1.70%	16,074	16,114
EUR linked	41	2018	4.00%	257	288
EUR linked	54	2011	2.50%	232	399
EUR linked	276	2020	3.00%	602	-
EUR linked	1,632	2010	5.50%	11,922	-
				54,714	60,146
Borrowings by other foreign banks – BKS Bank AG Klagenfurt, Austria					
Currency	Principal ‘000	Maturity	Interest rate		
EUR	2,000	2011	Euribor + 0.50%	14,612	14,649
EUR	7,660	2010	Euribor + 0.50%	55,963	-
				70,575	14,649
Total borrowings				125,289	74,795

NOTE 23 – PROVISIONS

<i>(in thousands of HRK)</i>	Provision for off balance sheet exposures	Provisions for severance payments and jubilee awards	Total
Balance at 1 January 2009	875	724	1,599
Net (release)/increase to income statement	(69)	225	156
Balance at 31 December 2009	806	949	1,755
Balance at 1 January 2008	1,103	557	1,660
Net (release)/increase to income statement	(228)	167	(61)
Balance at 31 December 2008	875	724	1,599

Movement in provisions for off-balance-sheet exposures are recognised in other impairment losses and provisions in the income statement (Note 8).

NOTE 24 – OTHER LIABILITIES

	31 December 2009	31 December 2008
	<i>(in thousands of HRK)</i>	
Interest payable – not yet due	9,167	6,770
Interest payable – due	247	484
Fees payable	427	219
Deferred interest income	1,301	1,255
Deferred fee income	105	232
Payables to suppliers	1,180	1,693
Accrued salary expenses	763	784
Unused holiday accrual	246	488
Items in transfer	85	225
Other liabilities	1,248	958
	14,769	13,108

NOTE 25 – ISSUED SHARE CAPITAL

	<u>Number of shares issued</u>	<u>Ordinary shares</u>	<u>Total share capital</u>
			<i>(in thousands of HRK)</i>
At 31 December 2009 and 31 December 2008	600,000	600,000	60,000

As at 31 December 2009 the registered, subscribed and fully paid capital comprises 600,000 ordinary shares (2008: 600,000) with a nominal value of HRK 100 each (2008: HRK 100).

The following are the shareholders of the Bank:

	At 31 December 2009		At 31 December 2008	
	Number of shares issued	%	Number of shares issued	%
BKS Bank AG, Klagenfurt	600,000	100.00	598,713	99.79
Other	-	-	1,287	0.21
Total	600,000	100	600,000	100

Dividends

Dividends payable are accounted for as a liability after having been ratified at the Annual General Meeting.

NOTE 26 – OTHER RESERVES, FAIR VALUE RESERVE AND RETAINED EARNINGS

a) Statutory reserve

A statutory reserve has been created in accordance with Croatian law, which requires 5% of the profit for the year to be transferred to this reserve until it reaches 5% of issued share capital. The statutory reserve, in the amount of up to 5% of issued share capital, can be used for the coverage of current and prior year losses.

b) Reserve for general banking risks

In accordance with CNB regulations, the Bank is required to create and maintain provisions for general banking risks, as a result of the rapid growth of the Bank's balance sheet and off-balance-sheet exposure. As a result of an increase in certain categories of risk exposure by more than 15% from 31 December 2005 to 31 December 2006, the Bank has recognised an increase in the reserve for general banking risks in the amount of HRK 1,842 thousand as an appropriation within equity from retained earnings.

The Bank was not obliged to make further appropriations to general banking risk reserve in 2008 and 2009.

c) Retained earnings

Retained earnings include accumulated profits from prior years.

Notes to the financial statements for the year ended 31 December 2009

NOTE 27 – CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts due from and to the Republic of Croatia, as follows:

	Note	31 December 2009	31 December 2008
<i>(in thousands of HRK)</i>			
Current accounts with the Croatian National Bank	11	10,685	9,151
Obligatory reserve with the Croatian National Bank	12	43,756	28,083
Overnight placement with the Croatian National Bank		10,000	-
Republic of Croatia Ministry of Finance Treasury bills	16	106,424	9,840
Income tax prepayment		210	702
Accrued interest and other assets		767	548
Other liabilities		(358)	(367)
		<u>171,484</u>	<u>47,957</u>

NOTE 28 – MANAGED FUNDS FOR AND ON BEHALF OF THIRD PARTIES

The Bank manages a number of loans on behalf of third parties. These assets are not the Bank's assets and are not recognised on the Bank's balance sheet.

Managed funds for and on behalf of third parties are as follows:

	31 December 2009	31 December 2008
<i>(in thousands of HRK)</i>		
Assets		
Loans and advances to customers		
- companies	32	38
- individuals and unincorporated businesses	124	214
Interest receivable	2	4
	<u>158</u>	<u>256</u>
Liabilities		
Deposits from local government	156	252
Interest payable	2	4
	<u>158</u>	<u>256</u>

NOTE 29 – CONTINGENT LIABILITIES AND COMMITMENTS***Legal proceedings***

As at 31 December 2009 there were no significant legal proceedings outstanding against the Bank.

Non-cancellable operating lease

The following table indicates the Bank's contractual amounts relating to non-cancellable operating lease payables:

	31 December 2009	31 December 2008
	<i>(in thousands of HRK)</i>	
Commitments due within one year	1,585	1,528
Commitments due after one but within five years	4,145	5,730
	5,730	7,258

In 2008 the Bank commenced to lease business premises under operating non-cancellable lease arrangements for a period of five years. The lease is due to expire in June 2013.

Off-balance-sheet exposure

The following table indicates the contractual amounts of the Bank's off-balance-sheet financial instruments:

	31 December 2009	31 December 2008
	<i>(in thousands of HRK)</i>	
Guarantees and letters of credit	47,637	47,808
Commitments for facilities not withdrawn	29,419	35,420
	77,056	83,228

NOTE 30 – RELATED PARTY TRANSACTIONS

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

As at 31 December 2009 the sole shareholder of the Bank is Bank für Kaernten und Steiermark AG, Klagenfurt, Austria ("BKS Bank AG"). The Bank considers that it has an immediate related party relationship with BKS Bank and its subsidiaries and associates; the Supervisory and Management Board members ("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").

A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates.

In 2009, the total remuneration of the Management Board was HRK 1,474 thousand (2008: HRK 1,313 thousand) and consists of short-term benefits only. As of the date of approving these financial statements by the Management Board, no management bonuses were accrued for.

BKS Leasing Croatia is a related company which has deposits with the Bank.

As Mr. Goran Rameša, President of the Management Board is also the President of the Supervisory Board of the company, Rapska plovidba d.d. Rab, the Bank considers it to be a related party.

As Mr. Ključariček, member of the Supervisory Board is also the President of the Management Board of Transadria d.d. Rijeka which is, in addition, the parent company of Trans RI d.o.o. Rijeka, the Bank considers these companies to be related parties.

No benefits to Supervisory Board members were paid during 2009.

Notes to the financial statements for the year ended 31 December 2009

NOTE 30 – RELATED PARTY TRANSACTIONS (continued)

Key transactions with immediate related parties and related amounts arising from transactions with immediate related parties were as follows:

2009	<u>Assets HRK'000</u>	<u>Liabilities HRK'000</u>	<u>Income HRK'000</u>	<u>Expense HRK'000</u>
Key shareholder				
BKS Bank AG, Klagenfurt	27,795	92,794	4,573	1,120
Other related companies				
BKS Leasing Croatia d.o.o.	-	17,308	18	92
Key management personnel				
Management Board and related parties				
Short-term benefits (bonuses, salaries and fees)	-	97	-	1,474
Loans and deposits	130	257	7	7
Other key management personnel				
Short-term benefits (bonuses, salaries and fees)	-	36	-	481
Loans and deposits	1,434	-	58	-
Companies under the significant influence of key management personnel and their close family members and Supervisory Board members				
Rapska plovidba d.d., Rab	5,812	928	201	13
Transadria d.d. Rijeka	5,707	11,050	785	597
Trans RI d.o.o.	1,064	34	-	-
Other	-	219	-	1
Total	41,942	122,723	5,642	3,785
2008	<u>Assets HRK'000</u>	<u>Liabilities HRK'000</u>	<u>Income HRK'000</u>	<u>Expense HRK'000</u>
Key shareholder				
BKS Bank AG, Klagenfurt	1,708	14,723	178	3
Key management personnel				
Management Board and related parties				
Short-term benefits (bonuses, salaries and fees)	-	50	-	1,313
Loans and deposits	171	595	9	19
Supervisory Board				
Short-term benefits (bonuses, salaries and fees)	-	-	-	166
Other key management personnel				
Short-term benefits (bonuses, salaries and fees)	-	35	-	268
Loans and deposits	1,467	-	2	-
Companies under the significant influence of key management personnel and their close family members and Supervisory Board members				
Rapska plovidba d.d., Rab	6,607	41	185	2
Transadria,d.d. Rijeka	4,032	19,247	802	779
Trans RI d.o.o.	1,064	34	721	-
Other	-	88	-	1
Total	15,049	34,813	1,897	2,551

NOTE 31 – FINANCIAL RISK MANAGEMENT

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

An integrated system of risk management is being established by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Bank and monitoring its implementation. Methodologies and models for managing operational risk are being developed.

a) 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.

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank deals with counterparties of good credit standing, and when appropriate, obtains collateral.

The Bank's primary exposure to credit risk arises through its loans and advances to banks and customers, and held-to-maturity investments. The amount of credit exposure in this regard, and in respect of held-to-maturity debt 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 off-balance-sheet credit risk through commitments to extend credit and guarantees issued (refer to Note 29).

Exposure to credit risk is managed in accordance with the Bank's policies. Credit exposures to portfolios and individual client/group exposures are reviewed on a regular basis taking into account limits set. Any proposed substantial increases in credit exposure are reviewed by an appropriate decision-making level. The Management Board is regularly informed of all significant changes in quantity and quality of the portfolio, including proposed impairment losses. Credit risk assessment is continuously monitored and reported, thus enabling the early identification of impairment in the credit portfolio. The Management Board believes that the Bank continually applies prudent methods in the process of credit risk assessment.

A significant part of credit risk exposures is secured with collateral in the form of cash, guarantees, mortgages and other forms of security.

Geographic concentrations of assets, liabilities and off balance sheet items

<i>(in thousands of HRK)</i>	31 December 2009			31 December 2008		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
Croatia	534,522	437,275	77,056	400,039	355,441	83,228
European Union	80,221	105,161	-	41,670	15,756	-
Other	1,858	-	-	2,982	-	-
	616,601	542,436	77,056	444,691	371,197	83,228

Notes to the financial statements for the year ended 31 December 2009

NOTE 31 – FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Industry segmentation of loans and advances:

<i>(in thousands of HRK)</i>	31 December 2009	%	31 December 2008	%
Gross balances before impairment allowances				
Trade and Commerce	48,596	17	31,710	13
Construction	66,348	23	58,956	23
Metallurgy	8,179	3	10,030	4
Transport, warehousing and public services	21,360	7	15,229	6
Energy	8,358	3	2,413	1
Shipbuilding	788	-	538	-
Services	73,196	25	73,084	29
Individuals and unincorporated businesses	38,615	13	26,347	11
Miscellaneous	24,278	9	32,818	13
	289,718	100	251,125	100

Maximum exposure to credit risk relating to balance sheet assets and off-balance sheets items

<i>(in thousands of HRK)</i>	Note	31 December 2009	31 December 2008
ASSETS			
Current accounts with CNB and other banks	11	37,075	20,631
Obligatory reserve with the Croatian National Bank	12	43,756	28,083
Loans and advances to banks	13	77,217	59,946
Loans and advances to customers	14a	280,230	243,749
Held-to-maturity investments	16	133,061	45,212
Income tax prepayment		210	702
Accrued interest and fees	19	5,268	3,530
Total credit risk exposed assets		576,817	401,853
OFF-BALANCE SHEET			
Guarantees and letters of credit	29	47,637	47,808
Commitments for facilities not withdrawn	29	29,419	35,420
		77,056	83,228

The above table represents maximum credit risk exposure of the Bank as at 31 December 2009 and 31 December 2008, without taking into account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 48.6% of the total maximum exposure is derived from loans and advances to customers (2008: 60.7%), while 13.4% refers to loans and advances to banks (2008: 14.9%).

NOTE 31 – FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Impairment losses

(in thousands of HRK)

	31 December 2009		31 December 2008	
CNB rating	Loans	Impairment allowance	Loans	Impairment allowance
A	283,875	-	245,396	-
B	3,260	1,418	3,455	934
C	2,583	2,583	2,274	2,266
	289,718	4,001	251,125	3,200

Impairment allowance coverage of non-performing loan portfolio is 68.4% (2008: 55.9%).

Impairment allowance shown in the above table includes specific impairment allowance on loans and advances to customers, and differs from the value of total impairment allowance (Note 14) which amounts to HRK 9,488 thousand (2008: HRK 7,376 thousand), which also includes general provisions for other assets and all other items for which a general provision is formed in accordance with the CNB regulations.

Loans and advances to individuals and unincorporated business

31 December 2009 **31 December 2008**

(in thousands of HRK)

Not due and not impaired	37,974	25,876
Due but not impaired	73	97
Due and impaired	568	374
Impaired	(565)	(338)
Net loans and advances to individuals and unincorporated business	38,050	26,009

Loans and advances to companies

31 December 2009 **31 December 2008**

(in thousands of HRK)

Not due and not impaired	244,444	214,063
Due but not impaired	1,384	5,371
Due and impaired	5,275	5,344
Impaired	(3,436)	(2,862)
Net loans and advances to companies	247,667	221,916

Total impairment allowance for loans and receivables is HRK 9,488 thousand (2008: HRK 7,376 thousand) of which HRK 4,001 thousand (2008: HRK 3,200 thousand) represents specific impairment allowance and the remaining amount of HRK 5,487 thousand (2008: HRK 4,176 thousand) represents the general provision calculated on a portfolio basis.

b) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees and other cash settled calls. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Management Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Bank manages liquidity reserves daily, ensuring also accomplishment of all customer needs.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date, except for the obligatory reserve which is presented as maturing within one month; and investment funds, classified as available for sale, which do not have contractual maturity and are presented as maturing within one month based on their high secondary liquidity.

<i>(in thousands of HRK)</i>	Up to 1 month	1-3 months	3-12 months	1 - 3 years	Over 3 years	Total
As at 31 December 2009						
ASSETS						
Cash reserves	39,488	-	-	-	-	39,488
Obligatory reserve with CNB	43,756	-	-	-	-	43,756
Loans and advances to banks	55,298	21,919	-	-	-	77,217
Loans and advances to customers	45,910	21,556	123,453	39,460	49,851	280,230
Available-for-sale financial assets	-	-	-	-	1,376	1,376
Held-to-maturity investments	19,100	5,347	108,614	-	-	133,061
Income tax prepayment	-	-	-	210	-	210
Property and equipment	-	-	-	-	24,788	24,788
Intangible assets	-	-	-	-	10,092	10,092
Deferred tax assets	-	-	-	520	-	520
Other assets	5,353	123	387	-	-	5,863
Total assets	208,905	48,945	232,454	40,190	86,107	616,601
LIABILITIES AND EQUITY						
Deposits from banks	102	21,919	-	-	-	22,021
Deposits from customers	161,376	73,480	112,966	14,250	16,530	378,602
Borrowings	15,136	12,654	46,632	28,356	22,511	125,289
Provisions	-	806	-	-	949	1,755
Other liabilities	8,122	3,058	3,313	97	179	14,769
Total equity	-	-	-	-	74,165	74,165
Total liabilities and equity	184,736	111,917	162,911	42,703	114,334	616,601
Net liquidity gap	24,169	(62,972)	69,543	(2,513)	(28,227)	-

NOTE 31 – FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

<i>(in thousands of HRK)</i>	Up to 1 month	1-3 months	3-12 months	1 - 3 years	Over 3 years	Total
As at 31 December 2008						
ASSETS						
Cash reserves	22,867	-	-	-	-	22,867
Obligatory reserve with CNB	28,083	-	-	-	-	28,083
Loans and advances to banks	59,946	-	-	-	-	59,946
Loans and advances to customers	15,264	28,005	106,216	48,167	46,097	243,749
Available-for-sale financial assets	1,975	-	-	-	1,376	3,351
Held-to-maturity investments	14,785	15,679	14,748	-	-	45,212
Income tax prepayment	-	-	-	702	-	702
Property and equipment	-	-	-	-	26,126	26,126
Intangible assets	-	-	-	-	9,996	9,996
Deferred tax assets	-	-	-	647	-	647
Other assets	3,509	6	497	-	-	4,012
Total assets	146,429	43,690	121,461	49,516	83,595	444,691
LIABILITIES AND EQUITY						
Deposits from banks	-	-	-	-	-	-
Deposits from customers	154,999	50,424	49,091	19,601	7,580	281,695
Borrowings	1,103	367	17,671	28,030	27,624	74,795
Provisions	-	875	-	-	724	1,599
Other liabilities	8,483	3,328	1,125	152	20	13,108
Total equity	-	-	-	-	73,494	73,494
Total liabilities and equity	164,585	54,994	67,887	47,783	109,442	444,691
Net liquidity gap	(18,156)	(11,304)	53,574	1,733	(25,847)	-

NOTE 31 – FINANCIAL RISK MANAGEMENT (continued)

c) Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored regularly, in accordance with legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Bank manages its currency risk by setting principles and limits for foreign currency exposures and monitoring against these limits. The Bank directs its business activities towards trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency, and maintaining the daily business activities within daily potential loss limits.

In measuring foreign currency exposure, the Bank relies on regulations prescribed by the CNB. In calculating the capital requirement for currency risk the standard method has been used in accordance with the CNB prescribed regulation on capital adequacy.

Significant foreign assets and liabilities of the Bank have been analysed as follows:

<i>(in thousands of HRK)</i>	EUR	EUR linked	USD	Other currencies	HRK	Total
As at 31 December 2009						
ASSETS						
Cash reserves	22,087	-	3,251	1,540	12,610	39,488
Obligatory reserve with CNB	3,974	-	1,598	-	38,184	43,756
Loans and advances to banks	67,217	-	-	-	10,000	77,217
Loans and advances to customers	-	152,692	-	-	127,538	280,230
Available-for-sale financial assets	12	-	-	-	1,364	1,376
Held-to-maturity investments	-	106,424	-	-	26,637	133,061
Income tax prepayment	-	-	-	-	210	210
Property and equipment	-	-	-	-	24,788	24,788
Intangible assets	-	-	-	-	10,092	10,092
Deferred tax assets	-	-	-	-	520	520
Other assets	51	877	-	-	4,935	5,863
Total assets	93,341	259,993	4,849	1,540	256,878	616,601
LIABILITIES AND EQUITY						
Deposits from banks	22,021	-	-	-	-	22,021
Deposits from customers	120,666	81,688	4,887	1,482	169,879	378,602
Borrowings	70,575	54,714	-	-	-	125,289
Provisions	-	-	-	-	1,755	1,755
Other liabilities	1,845	1,218	77	4	11,625	14,769
Total equity	-	-	-	-	74,165	74,165
Total liabilities and equity	215,107	137,620	4,964	1,486	257,424	616,601
Net foreign exchange position	(121,766)	122,373	(115)	54	(546)	-

NOTE 31 – FINANCIAL RISK MANAGEMENT (continued)

c) Currency risk (continued)

<i>(in thousands of HRK)</i>	EUR	EUR linked	USD	Other currencies	HRK	Total
As at 31 December 2008						
ASSETS						
Cash reserves	7,107	-	3,849	1,134	10,777	22,867
Obligatory reserve with CNB	2,688	-	949	-	24,446	28,083
Loans and advances to banks	43,946	-	-	-	16,000	59,946
Loans and advances to customers	-	107,336	-	-	136,413	243,749
Available-for-sale financial assets	12	-	-	-	3,339	3,351
Held-to-maturity investments	-	-	-	-	45,212	45,212
Income tax prepayment	-	-	-	-	702	702
Property and equipment	-	-	-	-	26,126	26,126
Intangible assets	-	-	-	-	9,996	9,996
Deferred tax assets	-	-	-	-	647	647
Other assets	16	449	1	-	3,546	4,012
Total assets	53,769	107,785	4,799	1,134	277,204	444,691
LIABILITIES AND EQUITY						
Deposits from banks	-	-	-	-	-	-
Deposits from customers	66,070	30,185	4,679	1,116	179,645	281,695
Borrowings	14,649	48,146	-	-	12,000	74,795
Provisions	-	-	-	-	1,599	1,599
Other liabilities	708	273	41	3	12,083	13,108
Total equity	-	-	-	-	73,494	73,494
Total liabilities and equity	81,427	78,604	4,720	1,119	278,821	444,691
Net foreign exchange position	(27,658)	29,181	79	15	(1,617)	-

Notes to the financial statements for the year ended 31 December 2009

NOTE 31 – FINANCIAL RISK MANAGEMENT (continued)

d) Interest rate risk

In the course of its business operations, the Bank is exposed to interest rate risk to the extent to which its interest-earning assets and interest-bearing liabilities mature or their interest rates change at various times and in various amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in re-pricing characteristics of the various floating rate indices, and different types of interest. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

The majority of loans and receivables to companies and individuals and deposits from companies and individuals are initially contracted at an interest rate that allows the Bank to vary the interest rate at the Management Board's decision. These financial instruments are classified as instruments that bear variable interest rates.

The table below summarises the Bank's exposure to interest rate risks. The tables are management's estimate of the interest rate risk for the Bank as at 31 December 2009 and 31 December 2008 and are not necessarily indicative of the positions at other times but provide some indication of the sensitivities of the Bank's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities and equity. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates:

<i>(in thousands of HRK)</i>	Up to 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	Non-interest bearing	Total	Fixed interest
As at 31 December 2009								
ASSETS								
Cash reserves	429	-	-	-	-	39,059	39,488	-
Obligatory reserve with CNB	43,756	-	-	-	-	-	43,756	43,756
Loans and advances to banks	55,298	21,919	-	-	-	-	77,217	-
Loans and advances to customers	275,635	193	844	2,281	1,277	-	280,230	4,685
Available-for-sale financial assets	-	-	-	-	-	1,376	1,376	-
Held-to-maturity investments	19,100	5,347	108,614	-	-	-	133,061	133,061
Income tax prepayment	-	-	-	-	-	210	210	-
Property and equipment	-	-	-	-	-	24,788	24,788	-
Intangible assets	-	-	-	-	-	10,092	10,092	-
Deferred tax assets	-	-	-	-	-	520	520	-
Other assets	-	-	-	-	-	5,863	5,863	-
Total assets	394,218	27,459	109,458	2,281	1,277	81,908	616,601	181,502
LIABILITIES AND EQUITY								
Deposits from banks	102	21,919	-	-	-	-	22,021	-
Deposits from customers	246,077	36,327	79,966	883	15,349	-	378,602	177,192
Borrowings	125,289	-	-	-	-	-	125,289	-
Provisions	-	-	-	-	-	1,755	1,755	-
Other liabilities	-	-	-	-	-	14,769	14,769	-
Total equity	-	-	-	-	-	74,165	74,165	-
Total liabilities and equity	371,468	58,246	79,966	883	15,349	90,689	616,601	177,192
Interest sensitivity gap	22,750	(30,787)	29,492	1,398	(14,072)	(8,781)	-	4,310

NOTE 31 – FINANCIAL RISK MANAGEMENT (continued)

d) Interest rate risk (continued)

<i>(in thousands of HRK)</i>	Up to 1 month	1-3 months	3-12 months	1 -3 years	Over 3 years	Non- interest bearing	Total	Fixed interest
As at 31 December 2008								
ASSETS								
Cash reserves	1,338	-	-	-	-	21,529	22,867	-
Obligatory reserve with CNB	28,083	-	-	-	-	-	28,083	28,083
Loans and advances to banks	59,946	-	-	-	-	-	59,946	-
Loans and advances to customers	231,275	187	4,418	2,861	5,008	-	243,749	12,482
Available-for-sale financial assets	-	-	-	-	-	3,351	3,351	-
Held-to-maturity investments	14,785	15,679	14,748	-	-	-	45,212	45,212
Income tax prepayment	-	-	-	-	-	702	702	-
Property and equipment	-	-	-	-	-	26,126	26,126	-
Intangible assets	-	-	-	-	-	9,996	9,996	-
Deferred tax assets	-	-	-	-	-	647	647	-
Other assets	-	-	-	-	-	4,012	4,012	-
Total assets	335,427	15,866	19,166	2,861	5,008	66,363	444,691	85,777
LIABILITIES AND EQUITY								
Deposits from banks	-	-	-	-	-	-	-	-
Deposits from customers	240,729	7,710	7,988	3,431	6,867	14,970	281,695	42,557
Borrowings	74,795	-	-	-	-	-	74,795	-
Provisions	-	-	-	-	-	1,599	1,599	-
Other liabilities	-	-	-	-	-	13,108	13,108	-
Total equity	-	-	-	-	-	73,494	73,494	-
Total liabilities and equity	315,524	7,710	7,988	3,431	6,867	103,171	444,691	42,557
Interest sensitivity gap	19,903	8,156	11,178	(570)	(1,859)	(36,808)	-	43,220

NOTE 31 – FINANCIAL RISK MANAGEMENT (continued)

d) Interest rate risk (continued)

The table below summarises the average interest rates by major currencies for monetary financial instruments:

2009	EUR	USD	HRK (including EUR linked)
	%	%	%
Assets			
Cash and balances with the Croatian National Bank	0.73	0.08	0.75
Loans and advances to banks	1.05	-	7.33
Loans and advances to customers	-	-	7.52
Held-to-maturity investments	-	-	8.02
Liabilities			
Deposits from banks	1.11	-	-
Deposits from customers	2.53	2.02	3.14
Deposits and loans from financial institutions	4.75	-	5.81
Borrowings	1.22	-	3.05

2008	EUR	USD	HRK (including EUR linked)
	%	%	%
Assets			
Cash and balances with the Croatian National Bank	1.93	1.11	0.75
Loans and advances to banks	4.00	2.30	5.02
Loans and advances to customers	-	-	7.62
Held-to-maturity investments	-	-	7.67
Liabilities			
Deposits from banks	-	-	-
Deposits from customers	2.15	1.48	2.77
Deposits and loans from financial institutions	-	-	3.48
Borrowings	3.55	-	3.50

e) Price risk

Price risk is the possibility that prices will fluctuate, affecting the fair value of investments and other instruments that derive their value from a particular investment. It primarily relates to equity investments. The Bank's exposure to this risk is limited as it relates to investment in unlisted equity securities of HRK 1,376 thousand as of 31 December 2009.

NOTE 31 – FINANCIAL RISK MANAGEMENT (continued)

f) Operational risk

Operational risk is possibility of financial loss due to errors breaches, terminations or damages caused by internal processes, employees of the Bank systems as well as by events caused by external factors. Definition of operational risk includes legal and compliance risk but does not include strategic and reputational risk.

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 or avoid operational risk. Methodologies and models for managing operational risk are being developed.

g) Capital adequacy

Amount of capital allocated by individual activity is based primarily on regulatory requirements. The procedure of capital allocation for specific activities is performed independently from responsible personnel for certain activities.

The rate of capital adequacy is calculated as the ratio between guarantee capital and the sum of credit risk weighted assets, exposure to position risks (capital requirements for position risks are enlarged 10 times) and the estimated exposure of the open foreign exchange position to currency risk.

	31 December 2009	31 December 2008
	<i>(in thousands of HRK)</i>	
GUARANTEE CAPITAL		
Ordinary share capital	73,493	74,743
Supplementary capital	-	-
Deductions	(1,564)	(1,638)
Total guarantee capital	71,929	73,105
Credit risk weighted assets	505,889	448,675
Position risk exposure	2,164	2,373
CREDIT RISK WEIGHTED ASSETS AND OTHER RISK EXPOSURES	508,053	451,048
Capital adequacy ratio	14.15%	16.21%

NOTE 32 – ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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 such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

a) Impairment losses on loans and advances to customers

The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with 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 (summarised in note 14b), and as provisions arising from off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees and letters of credit (summarised in note 23). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

A summary of impairment allowances on exposures to customers is presented below:

	Note	31 December 2009	31 December 2008
		<i>(in thousands of HRK)</i>	
Impairment allowance on loans and advances to customers	14b	9,488	7,376
Provisions for off-balance-sheet exposures	23	806	875
		10,294	8,251

**NOTE 32 – ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING
ACCOUNTING POLICIES (continued)**

Financial assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures) and collectively for assets that are not individually significant (mainly retail exposures). However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

The Bank estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults.

The Bank takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgment in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Bank also has regard to the ranges of specific impairment loss rates prescribed by the CNB.

The Bank has recognised an impairment allowance calculated on a portfolio basis in accordance with the range of impairment loss rates of 0.85% to 1.20% prescribed by the CNB to be calculated on all credit risk exposures except those carried at fair value through profit or loss, including off-balance-sheet amounts (including undrawn lending commitments) and sovereign risk. Amounts assessed as impaired are excluded from this calculation.

The amount of impairment allowance at 31 December 2009 calculated on a portfolio basis in accordance with local regulations amounted to HRK 5,487 thousand (2008: HRK 4,176 thousand) and HRK 806 thousand (2008: HRK 875 thousand) of the relevant on- and off-balance-sheet exposure for the Bank respectively. The total of these portfolio based impairment losses amounted to 1.92% (2008: 1.68%) and to 1.05% (2008: 1.05%) of loans and advances to customers and commitments and contingencies of the Bank respectively, in both cases net of amounts individually assessed as impaired. The amount of total portfolio based impairment losses against loans and advances to customers also includes portfolio based impairment losses calculated on debt securities classified as held to maturity and loans and advances to banks.

At the minimum rate prescribed by the CNB, these portfolio based impairment losses would be HRK 684 thousand (2008: HRK 676 thousand) lower than the amount recognized by the Bank. At the maximum rate prescribed by the CNB, portfolio based impairment losses would be HRK 1,625 thousand (2008: HRK 766 thousand) higher than the amount recognised by the Bank.

b) Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. The impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

NOTE 32 – ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)*c) Held-to-maturity investments*

The Bank follows the guidance of IAS 39 on classifying non derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

d) 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.

e) Regulatory requirements

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

f) Litigation and claims

The Bank performs individual assessment of all court cases. The initial assessment is made by the Bank's Legal Department. The Bank is a defendant in several lawsuits that have arisen in the course of the Bank's ordinary business. Management is of the opinion that the final outcome of these court cases will be in the Bank's favour therefore no provision has been made.

NOTE 33 – 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 equity holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares (none in 2009 or 2008). The weighted average number of ordinary shares used for basic earnings per share was 600,000 (2008: 600,000). 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: 600,000 (2008: 600,000). The Bank has no preference shares.

	<u>31 December 2009</u>	<u>31 December 2008</u>
Profit/(Loss) attributable to shareholders of the Bank <i>(in HRK thousands)</i>	671	(1,250)
Weighted average number of ordinary shares <i>(in thousands)</i>	600	600
Basic and diluted earnings/(loss) per share <i>(in HRK)</i>	<u>1.12</u>	<u>(2.08)</u>

NOTE 34 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial assets available for sale are measured at cost less impairment. Loans and receivables and held-to-maturity assets are measured at amortised cost less impairment.

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

Loans and advances

The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. The carrying value of loans with variable interest rate approximates their fair value. It is not practicable to calculate the fair value of the Bank's portfolio of fixed rate loans. However, as the Bank has a limited portfolio of loans and advances with both fixed rate and longer term maturity, management believes that the fair value of loans and advances is not significantly different from their carrying value at the balance sheet date, not taking into account general provisions as required by the CNB and expected future losses.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values. The carrying value of the Bank's deposits which are given with variable rate, being market rate, approximates their fair value. It is not practicable to calculate the fair value of deposits with fixed interest rates, however, since these deposits are with short term maturity the Bank believes that their fair value is not significantly different to their carrying value.

Borrowings

Most of the Bank's long-term debt has no quoted market prices and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the balance sheet date to the Bank for new debt of similar type and remaining maturity. As the Bank's long-term debt is with variable interest there is no significant difference between the carrying amount of borrowings and their fair value.

Supplementary information prescribed by a decision of the Croatian National Bank

Schedules prepared in accordance with CNB decision**a) Balance sheet**

Assets	31 December 2009	31 December 2008
	<i>(in thousands of HRK)</i>	
1. Cash and deposits with CNB		
1.1. Cash	2,413	2,236
1.2. Accounts and deposits with CNB	54,441	37,234
2. Deposits with banks	93,607	55,426
3. Treasury bills of Ministry of finance and Treasury bills of CNB	106,424	9,840
4. Securities and other financial instruments classified as held for trading	-	-
5. Securities and other financial instruments classified as available for sale	1,376	3,351
6. Securities and other financial instruments classified as held to maturity	26,637	35,372
7. Securities and other financial instruments not actively traded but measured at fair value through profit or loss	-	-
8. Derivative financial assets	-	-
9. Loans and advances to banks	10,000	16,000
10. Loans and advances to customers	280,230	243,749
11. Investments in subsidiaries, associates and joint ventures	-	-
12. Foreclosed assets	383	383
13. Property and equipment (net of depreciation)	24,788	26,126
14. Interest, fees and other assets	16,302	14,974
Total assets	616,601	444,691

Supplementary information prescribed by a decision of the Croatian National Bank
Schedules prepared in accordance with CNB decision (continued)
a) Balance sheet (continued)

Liabilities and equity	31 December 2009	31 December 2008
	<i>(in thousands of HRK)</i>	
1. Borrowings from financial institutions		
1.1. Short term borrowings	67,885	-
1.2. Long term borrowings	57,404	74,795
2. Deposits		
2.1. Deposits on gyro and current accounts	95,470	120,666
2.2. Savings deposits	39,736	40,723
2.3. Term deposits	265,417	120,306
3. Other borrowings	-	-
3.1. Short term borrowings	-	-
3.2. Long term borrowings	-	-
4. Derivative and other trading financial	-	-
5. Issued debt securities	-	-
5.1. Short term issued debt securities	-	-
5.2. Long term issued debt securities	-	-
6. Issued subordinated instruments	-	-
7. Issued hybrid instruments	-	-
8. Interest, fees and other liabilities	16,524	14,707
Total liabilities	542,436	371,197
Equity		
1. Share capital	60,000	60,000
2. Profit/(Loss) for the year	671	(1,250)
3. Retained earnings	8,928	10,178
4. Legal reserves	2,724	2,724
5. Statutory and other equity reserves	1,842	1,842
6. Unrealised gain/(loss) on fair value measurement of available-for-sale financial assets	-	-
Total equity	74,165	73,494
Total liabilities and equity	616,601	444,691

Supplementary information prescribed by a decision of the Croatian National Bank
Schedules prepared in accordance with CNB decision (continued)
b) Income statement for the year ended 31 December

	2009	2008
	<i>(in thousands of HRK)</i>	
1. Interest income	31,002	24,906
2. (Interest expense)	<u>(14,030)</u>	<u>(10,189)</u>
3. Net interest income	16,972	14,717
4. Fee and commission income	10,559	6,323
5. (Fee and commission expense)	<u>(3,233)</u>	<u>(2,523)</u>
6. Net fee and commission income	7,326	3,800
7. Gain/(Loss) from investments in subsidiaries, associates and joint ventures	-	-
8. Gain/(Loss) from trading activities	3,136	2,657
9. Gain/(Loss) from embedded derivatives	-	-
10. Gain/(Loss) from assets not actively traded but measured as at fair value through profit or loss	-	-
11. Gain/(Loss) from financial assets classified as available for sale	45	(1,303)
12. Gain/(Loss) from financial assets classified as held to maturity	-	-
13. Gain/(Loss) arising from hedging transactions	-	-
14. Income from investments in subsidiaries, associates and 1 joint ventures	-	-
15. Income from other equity investments	-	-
16. Gain/(Loss) from foreign exchange differences	12	(35)
17. Other income	65	712
18. Other expenses	-	-
19. General administrative expenses and depreciation	<u>(24,603)</u>	<u>(21,968)</u>
20. Net income from business activities before impairment losses and provisions	2,953	(1,420)
21. Impairment losses and provisions	<u>(2,155)</u>	<u>(76)</u>
22. Profit/(Loss) before tax	798	(1,496)
23. Income tax	<u>(127)</u>	<u>246</u>
24. Profit/(Loss) for the year	<u>671</u>	<u>(1,250)</u>
25. Earnings per share	1.12	(2.08)

Supplementary information prescribed by a decision of the Croatian National Bank
Schedules prepared in accordance with CNB decision (continued)
c) Cash flow statement for the year ended 31 December

	<u>2009</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>	
Operating activities		
1.1. (Loss)/Profit before taxation	798	(1,496)
1.2. Impairment losses and provisions	2,385	77
1.3. Depreciation and amortisation	4,675	3,535
1.4. Net unrealised (gain)/loss from financial assets classified as fair value through profit or loss	-	2,024
1.5. (Gain)/loss from disposal of tangible assets	12	35
1.6. Other (gains)/losses	(69)	167
1. Cash flows from operating activities before changes in operating assets (1.1. to 1.6.)	<u>7,801</u>	<u>4,342</u>
2.1. Deposits with CNB	(15,677)	8,614
2.2. Treasury bills of Ministry of finance and treasury bills of CNB	(96,583)	(840)
2.3. Deposits with banks and loans and advances to financial institutions	(22,181)	26,741
2.4. Loans and advances to customers	(36,481)	(52,373)
2.5. Securities and other financial instruments classified as held for trading	-	-
2.6. Securities and other financial instruments classified as available for sale	1,975	-
2.7. Securities and other financial instruments not actively traded but measured at fair value through profit or loss	-	-
2.8. Other operating assets	3,239	(435)
2. Net (increase)/decrease of operating assets (2.1 to 2.8.)	<u>(165,708)</u>	<u>(18,293)</u>
Increase/(decrease) of operating liabilities		
3.1. A vista deposits	9,870	(34,848)
3.2. Savings and term deposits	109,058	10,198
3.3. Derivative financial liabilities and other trading liabilities	-	-
3.4. Other liabilities	(501)	5,616
3. Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	<u>118,427</u>	<u>(19,034)</u>
4. Net cash flow from operating activities before tax (1+2+3)	(39,480)	(32,985)
5. Income tax paid	492	(843)
6. Net inflow/(outflow) of cash from operating activities (4-5)	<u>(38,988)</u>	<u>(33,828)</u>
Investment activities		
7.1. Proceeds from disposal/(consideration paid) of/for tangible and intangible assets	(3,620)	(11,101)
7.2. Proceeds from disposal/(consideration paid) of/for investments in subsidiaries, associates and joint ventures	-	-
7.3. Proceeds from disposal/(consideration paid) of/for financial assets and other financial instruments classified as held to maturity	8,735	4,114
7.4. Dividends received	-	720
7.5. Other inflow/(outflow) from investment activities	-	(719)
7. Net cash flow from investment activities (7.1. to 7.5)	<u>5,115</u>	<u>(6,986)</u>

Supplementary information prescribed by a decision of the Croatian National Bank

Schedules prepared in accordance with CNB decision (continued)
c) Cash flow statement for the year ended 31 December (continued)
Financing activities

8.1. Net increase/(decrease) of borrowings	50,494	36,293
8.2. Net increase/(decrease) of issued debt securities	-	-
8.3. Net increase/(decrease) of subordinated and hybrid instruments	-	-
8.4. Inflow from share capital issue	-	-
8.5. (Dividend paid)	-	-
8.6. Other inflow/(outflow) from financing activities	-	-
8. Net cash flow from financing activities (8.1. to 8.6.)	50,494	36,293
9. Net increase/(decrease) of cash and cash equivalents (6+7+8)	16,621	(4,521)
10. Effect of foreign exchange differences on cash and cash equivalents	-	(298)
11. Net increase/(decrease) of cash and cash equivalents (9+10)	16,621	(4,819)
12. Cash and cash equivalents at the beginning of the year	22,867	27,686
13. Cash and cash equivalents at the end of the year	39,488	22,867

Supplementary information prescribed by a decision of the Croatian National Bank
Schedules prepared in accordance with CNB decision (continued)
d) Statement of changes in equity

In thousands of HRK	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings / (losses)	Profit/ (Loss) for the year	Unrealised loss/gain on measurement of financial assets available for sale	Minority interest	Total
1. Balance at 1 January 2009	60,000	-	4,566	8,928	-	-	-	73,494
2. Change of accounting policies and correction of errors	-	-	-	-	-	-	-	-
3. Restatement of balance at 1 January of current year (1+2)	60,000	-	4,566	8,928	-	-	-	73,494
4. Disposal of financial assets available for sale	-	-	-	-	-	-	-	-
5. Change of fair value of available for sale portfolio	-	-	-	-	-	-	-	-
6. Tax on items directly recognised in equity	-	-	-	-	-	-	-	-
7. Other gains and losses directly recognised in equity	-	-	-	-	-	-	-	-
8. Net gains/losses recognised directly in equity (4+5+6+7)	-	-	-	-	-	-	-	-
9. Profit/(loss) for the year	-	-	-	-	671	-	-	671
10. Total recognised income and expenses for the year (8+9)	-	-	-	-	671	-	-	671
11. Increase/decrease of share capital	-	-	-	-	-	-	-	-
12. Increase/decrease of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	-	-	-	-	-	-
14. Transfers to reserves	-	-	-	-	-	-	-	-
15. Payment of dividends	-	-	-	-	-	-	-	-
16. Profit distribution (14+15)	-	-	-	-	671	-	-	(1,250)
17. Balance at 31 December 2009 (3+10+11+12+13+16)	60,000	-	4,566	8,928	671	-	-	74,165

Supplementary information prescribed by a decision of the Croatian National Bank

Schedules prepared in accordance with CNB decision (continued)

d) Statement of changes in equity (continued)

In thousands of HRK	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (losses)	Profit/ (Loss) for the year	Unrealised loss/gain on measurement of financial assets available for sale	Minority interest	Total
1. Balance at 1 January 2008	60,000	-	4,395	10,349	-	19	-	74,763
2. Change of accounting policies and correction of errors	-	-	-	-	-	-	-	-
Restatement of balance at 1 January of current year (1+2)	60,000	-	4,395	10,349	-	19	-	74,763
3. Disposal of financial assets available for sale	-	-	-	-	-	-	-	-
4. Change of fair value of available for sale portfolio	-	-	-	-	-	(19)	-	(19)
5. Tax on items directly recognised in equity	-	-	-	-	-	-	-	-
6. Other gains and losses directly recognised in equity	-	-	-	-	-	-	-	-
Net gains/losses recognised directly in equity (4+5+6+7)	-	-	-	-	-	(19)	-	(19)
9. Profit/(loss) for the year	-	-	-	-	(1,250)	-	-	(1,250)
Total recognised income and expenses for the year (8+9)	-	-	-	-	(1,250)	(19)	-	(1,269)
11. Increase/decrease of share capital	-	-	-	-	-	-	-	-
12. Increase/decrease of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	-	-	-	-	-	-
14. Transfers to reserves	-	-	171	(171)	-	-	-	-
15. Payment of dividends	-	-	-	-	-	-	-	-
Profit distribution (14+15)	-	-	171	(171)	-	-	-	-
Balance at 31 December 2008 (3+10+11+12+13+16)	60,000	-	4,566	10,178	(1,250)	-	-	73,494

Retained earnings line in the Annual report includes profit or loss for the year. The CNB schedules show result for the year as a separate line.

Legal, statutory and other reserves in the Annual report are presented separately. In the CNB schedules, these items are presented within single line – Legal, statutory and other reserves.

Reconciliation between financial statements and CNB schedules - BALANCE SHEET - ASSETS

Financial statements

CNB prescribed schedules

ASSETS	31 December 2009	Cash in	Current	Other cash	Obligatory	Clearing	Loans to	Loans and	Treasury	Foreclosed	PPE	Intangible	Income tax	Deferred tax	Other	Total	31 December 2009
		hand	accounts with	amounts	reserve	account	banks	advances to	bills	assets		assets	prepayment	assets	assets		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14		
Cash reserves	39.488	(2.413) 2.413	(26.390)	(1.921)		(8.764)										1. Cash and deposits with CNB	
				1.921	43.756	8.764										2.413 1.1. Cash	2.413
Obligatory reserve with the Croatian National Bank	43.756				(43.756)											54.441 1.2. Accounts and deposits with CNB	54.441
Loans and advances to banks	77.217		26.390				(10.000)									93.607 2. Deposits with banks	93.607
									106.424							3. Treasury bills of Ministry of finance and Treasury bills of CNB	106.424
Loans and advances to customers	280.230							(280.230)								4. Securities and other financial instruments classified held for trading	-
Available-for-sale financial assets	1.376															5. Securities and other financial instruments classified as available for sale	1.376
Held-to-maturity investments	133.061								(106.424)							6. Securities and other financial instruments classified as held to maturity	26.637
																7. Securities and other financial instruments not actively traded but measured at fair value through profit or loss	-
							10.000									8. Derivative financial assets	-
								280.230								10.000 9. Loans and advances to banks	10.000
																280.230 10. Loans and advances to customers	280.230
																11. Investments in subsidiaries, associates and joint ventures	-
																383 12. Foreclosed assets	383
											24.788					24.788 13. Property and equipment (net of depreciation)	24.788
												10.092	210	520	5.480	16.302 14. Interest, fees and other assets	16.302
																616.601 Total assets	616.601
Income tax prepayment	210												(210)				
Property and equipment	24.788										(24.788)						
Intangible assets	10.092											(10.092)					
Deferred tax assets	520													(520)			
Other assets	5.863														(5.480)		
Total assets	616.601																
control		0	0	0	0	0	0	0	0	0	0	0	0	0	0		

Clarification of adjustments

- 1, 2, 3, 4, 5 - Cash and deposits with CNB, Deposits with banks and Loans and advances to banks are separately presented in CNB schedules. In the financial statements these items are presented within Cash reserves, Obligatory reserve with the CNB and Loans and advances to banks.
- 8 - Treasury bills of Ministry of finance and Treasury bills of CNB are individually presented in CNB schedules. In the financial statements these assets are included in Held-to-maturity investments.
- 9 - Foreclosed assets is an item separately presented in the CNB schedules. In the financial statements it is included in Other assets.
- 11 - Intangible assets are separately presented in the financial statements. In the CNB schedules these assets are included in Interest, fees and other assets.
- 12, 13, 14 - Interest, fees and other assets item in the CNB schedules includes tax prepayment, deferred tax and other assets, all of which are separately presented in the financial statements.

Reconciliation between financial statements and CNB schedules - BALANCE SHEET - LIABILITIES

Financial statements

CNB prescribed schedules

LIABILITIES AND EQUITY

	31 December 2009	Deposits from customers 1	Deposits from banks 2	Other liabilities 3	Statutory reserves 4	Reserve for general banking risk 5	Result for the year 6	Retained earnings 7	Total in HRK '000	31 December 2009
Deposits from banks	22.021		(22.021)							
Deposits from customers	378.602	(378.602)								
Borrowings	125.289								125.289	1. Borrowings from financial institutions
										1.1. Short term borrowings
										67.885
										1.2. Long term borrowings
										57.404
		378.602	22.021						400.623	2. Deposits
										2.1. Deposits on gyro and current accounts
										95.470
										2.2. Savings deposits
										39.736
										2.3. Term deposits
										265.417
										3. Other borrowings
										3.1. Short term borrowings
										-
										3.2. Long term borrowings
										-
										4. Derivative and other financial liabilities not actively traded
										-
										5. Issued debt securities
										-
										5.1. Short term issued debt securities
										-
										5.2. Long term issued debt securities
										-
										6. Issued subordinated instruments
										-
										7. Issued hybrid instruments
										-
Provisions	1.755			14.769					16.524	8. Interest, fees and other liabilities
Deferred tax liability	-									16.524
Other liabilities	14.769			(14.769)					542.436	Total liabilities
Total liabilities	542.436									542.436
EQUITY										
Share capital	60.000								60.000	Equity
Statutory reserve	2.724				(2.724)		671		671	1. Share capital
Reserve for general banking risks	1.842					(1.842)		8.928	8.928	2. Profit/(loss) for the year
Fair value reserve	-								2.724	671
Retained earnings	9.599				2.724		1.842	(671)	(8.928)	3. Retained earnings
									1.842	8.928
										2.724
										4. Legal reserves
										1.842
										5. Statutory and other equity reserves
										6. Unrealised gain/(loss) on fair value measurement of available-for-sale financial assets
										-
Total equity	74.165								74.165	Total equity
Total liabilities and equity	616.601								616.601	Total liabilities and equity
control		0	0	0	0	0	0	0	0	

Clarification of adjustments

- 3 - Interest, fees and other liabilities item in the CNB schedules includes Provisions and other liabilities. These items are individually presented in the financial statements.
- 4 - Statutory reserves in CNB schedules are named Legal reserves.
- 5 - Reserve for general banking risks from the financial statements is presented within Statutory and other equity reserves in the CNB schedules.
- 6, 7 - Retained earnings from financial statements include retained earnings and (Loss)/profit for the year. CNB schedules present those items separately.

Reconciliation between financial statements and CNB schedules - INCOME STATEMENT

Financial statements	CNB prescribed schedules							For the y/e 31 December 2009		
	For the y/e 31 December 2009	Savings deposits insurance 1	Gain on disposal of AFS securities 2	Provision for unused holiday 3	Operating expenses 4	Foreign currency exchange differences 5	Other impairment losses and provisions 6		Imp. losses on loans and advances 7 in HRK '000	Total
Income statement										
Interest and similar income	30.926	76						31.002	1. Interest income	31.002
Interest expense and similar charges	(14.030)							(14.030)	2. Interest expense	(14.030)
Net interest income	16.896							16.972	3. Net interest income	16.972
Fee and commission income	10.559							10.559	4. Fee and commission income	10.559
Fee and commission expense	(3.233)							(3.233)	5. Fee and commission expense	(3.233)
Net fee and commission income	7.326							7.326	6. Net fee and commission income	7.326
Net trading income from dealing in foreign currencies	3.136							3.136	7. Gain/(Loss) from investments in subsidiaries, associates and joint ventures	-
Net income from investment securities	45		(45)						8. Gain/(loss) from trading activities	3.136
									9. Gain/(Loss) from embedded derivatives	-
									10. Gain/(Loss) from assets not actively traded but measured at fair value through profit or loss	-
			45					45	11. Gain/(Loss) from financial assets classified as available for sale	45
									12. Gain/(Loss) from financial assets classified as held to maturity	-
									13. Gain/(Loss) arising from hedging transactions	-
									14. Income from investments in subsidiaries, associates and joint ventures	-
									15. Income from other equity investments	-
						12		12	16. Gain/(Loss) from foreign currency exchange differences	12
Other operating income	77					(12)		65	17. Other income	65
									18. Other expenses	-
Operating income	27.480	(76)		(161)	(24.366)			(24.603)	19. General administrative expenses and depreciation	(24.603)
Impairment losses on investment securities										
Impairment losses on loans and advances to customers	(2.155)									
Other impairment losses and provisions	(161)			161				2.155		
Operating expenses	(24.366)				24.366					
(Loss)/Profit before income tax	798							2.953	20. Net income from business activities before impairment losses and provisions	2.953
								(2.155)	21. Impairment losses and provisions	(2.155)
Income tax expense	(127)								22. Profit/(Loss) before tax	798
(Loss)/Profit for the period	671							(127)	23. Income tax	(127)
Basic (loss)/earnings per share	HRK 1,12							1,12	24. Profit/(loss) for the year	671
control		0	0	0	0	0	0	0	25. Earnings per share	1,12

Clarification of adjustments

- 1 - Insurance for saving deposits is presented in Interest expense in the CNB schedules. In the financial statements, this item is included in operating expenses.
- 3 - Provisions for unused holiday are included in Other impairment losses and provisions in the financial statements. In the CNB schedules, this item is included General administrative expenses and depreciation.
- 5 - Foreign currency exchange differences are separately presented in the CNB schedules in Gain/(Loss) from foreign currency exchange differences. In the financial statements, this item is presented in Operating income
- 6 - Other impairment losses and provisions are included in Other impairment losses and provisions line in the financial statements. In the CNB schedules, this item is included in Impairment allowances and provisions for losses line.
- 7 - Impairment losses on loans and advances to customers is separately presented in the financial statements while in CNB schedules, this item is included in Impairment allowances and provisions for losses line.

