

KREDITNA BANKA ZAGREB d.d.

**Financial statements as at
31 December 2009 together with the
Independent Auditor's Report**

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Responsibility for the financial statements

Pursuant to the Croatian Accounting Law (Official Gazette 109/07), the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and statutory accounting regulations applicable to banks in Croatia, which give a true and fair view of the financial position and results of the Bank for that period.

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

In preparing those financial statements, the responsibilities of the Board include ensuring that:

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

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with the Croatian Accounting Law (Official Gazette 109/07). The Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

Nelsi Rončević,
President of the Management Board



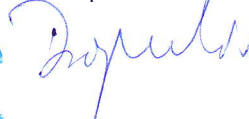
Kreditna banka Zagreb d.d.

Ulica grada Vukovara 74

10000 Zagreb

Republic of Croatia

Ivan Dropulić,
Vice president of the Management Board



16 April 2010

Independent Auditor's Report

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

We have audited the accompanying financial statements of Kreditna banka d.d. (herein below the Bank), which comprise of the balance sheet as at 31 December 2009, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as presented on pages 4 to 57.

Management's Responsibility for the financial statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

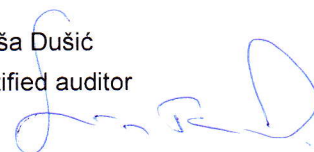
In our opinion, the financial statements presented on pages 4 to 57 give a true and fair view of the financial positions of the Bank as at 31 December 2009 and the results of its operations, changes in equity and cash flows for the year then ended in accordance with statutory accounting regulations applicable to banks in Croatia.

Nexia revizija d.o.o.
Koranska 16, Zagreb

Zagreb, 16 April 2010

NEXIA REVIZIJA d.o.o.
Z A G R E B

Siniša Dušić
Certified auditor



Income statement

For the year ended 31 December 2009

(All amounts are expressed in thousands of kunas)

	<u>Note</u>	<u>2009</u>	<u>2008</u>
Interest and similar income	4	111,187	90,831
Interest and similar expense	5	(59,261)	(47,119)
Net interest income		51,926	43,712
Fee and commission income	6	24,601	25,101
Fee and commission expense	6	(12,277)	(10,918)
Net fee and commission income		12,324	14,183
Net foreign exchange gains	7	15,135	6,868
Dividend income		13	14
Net gain / (loss) from valuation of securities		1,044	(1,332)
Other operating income		1,193	3,455
Operating income		81,635	66,900
Operating expenses	8	(61,408)	(53,392)
Impairment losses and provisions	9	(4,564)	1,598
Profit before tax		15,663	15,106
Income tax expense	10	3,476	3,550
Net profit for the year		12,187	11,556

The financial statements as shown on pages 4 to 57 were approved and signed by the Management Board on 16 April 2010.

Management Board:

Nelsi Rončević,
President of the Management Board

Ivan Dropulić,
Vice president of the Management Board



Balance sheet

As at 31 December 2009

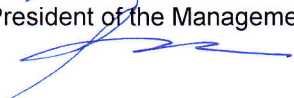
(All amounts are expressed in thousands of kunas)

	<u>Note</u>	<u>31.12.2009</u>	<u>31.12.2008</u>
ASSETS			
Cash and balances with Croatian National Bank	11	203,038	207,837
Placements with other banks	12	185,771	281,728
Assets at fair value through profit or loss	13	2,580	15,652
Loans to customers	14	1,074,437	843,781
Investments held to maturity	15	4,604	1,494
Investments available for sale	16	78,969	41,109
Intangible assets	17	12,634	8,199
Tangible assets	18	33,281	34,476
Other assets	19	51,691	51,463
Total assets		<u>1,647,005</u>	<u>1,485,739</u>
LIABILITIES			
Deposits from banks		5	8
Deposits from customers	20	1,144,895	1,197,602
Borrowings	21	193,514	90,088
Other liabilities	22	31,015	25,624
Provisions for contingent liabilities	26	1,522	1,902
Total liabilities		<u>1,370,951</u>	<u>1,315,224</u>
SHAREHOLDERS' EQUITY			
Share capital	23	186,554	131,995
Share premium	23	44,763	1,116
Unrealized (loss) / gain from assets available for sale		1,406	(829)
Retained earnings and reserves	24	31,144	26,677
Profit for the year		12,187	11,556
Total shareholders' equity		<u>276,054</u>	<u>170,515</u>
Total shareholders' equity and liabilities		<u>1,647,005</u>	<u>1,485,739</u>

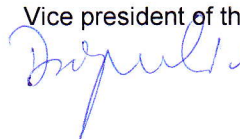
The financial statements as shown on pages 4 to 57 were approved and signed by the Management Board on 16 April 2010.

Management Board:

Nelsi Rončević,
President of the Management Board




Ivan Dropulić,
Vice president of the Management Board



Statement of changes in equity

For the year ended 31 December 2009

(All amounts are expressed in thousands of kunas)

	Note	Share capital	Share premium	Unrealized (loss) / gain from assets available for sale	Retained earnings and reserves	Profit for the year	Total
Balance as at 1 January 2007		131,995	1,116	108	22,384	11,290	166,893
Profit for the year		-	-	-	-	11,556	11,556
Gain / (loss) on assets available for sale		-	-	(937)	-	-	(937)
<i>Total recognized income in 2008</i>		-	-	(937)	-	11,556	10,619
Transfer to reserves		-	-	-	564	(564)	-
Dividend for 2007		-	-	-	-	(6,997)	(6,997)
Transfer of profit to retained earnings		-	-	-	3,729	(3,729)	-
Balance as at 31 December 2008	23	131,995	1,116	(829)	26,677	11,556	170,515
Profit for the year		-	-	-	-	12,187	12,187
Gain / (loss) on assets available for sale		-	-	2,235	-	-	2,235
<i>Total recognized income in 2009</i>		-	-	2,235	-	12,187	14,422
Capital contribution	23	54,559	43,647	-	-	-	98,206
Transfer to reserves	24	-	-	-	578	(578)	-
Dividend for 2008	23	-	-	-	-	(7,089)	(7,089)
Transfer of profit to retained earnings	24	-	-	-	3,889	(3,889)	-
Balance as at 31 December 2009	23	186,554	44,763	1,406	31,144	12,187	276,054

Notes to the financial statements are an integral part of the Statement of changes in equity

Cash flow statement

For the year ended 31 December 2009

(All amounts are expressed in thousands of kunas)

	<u>Note</u>	<u>2009</u>	<u>2008</u>
Net cash flow from operating activities			
Profit before tax		15,663	15,106
Depreciation		2,777	3,227
Increase / (decrease) in allowance for other assets		139	(386)
Increase / (decrease) in allowance for loans		4,806	(1,527)
Net gain / (loss) on fair value adjustments of assets available for sale		2,235	(937)
(Decrease) / increase in contingent liabilities		(381)	315
Total items not affecting cash		<u>25,239</u>	<u>15,798</u>
Decrease / (increase) in receivables from Croatian National Bank and other banks		49,226	(1,562)
Decrease in loans and advances to customers		(235,462)	(79,318)
Increase in deposits from other banks		(3)	-
(Decrease) / increase in deposits from customers		(52,707)	196,166
Increase in other assets		(3,975)	(20,618)
Increase / (decrease) in other liabilities		5,328	(8,030)
Income tax paid		195	(8,089)
Net cash flow (used in) / generated from operating activities		<u>(212,159)</u>	<u>94,347</u>
Cash flow from investing activities			
Purchases of tangible and intangible assets		(6,016)	(1,086)
Purchase of assets available for sale		(37,860)	(32,718)
Proceeds from sale of assets at fair value through profit or loss		13,072	1,605
Decrease of assets held to maturity		(3,110)	(1,101)
Net cash flow from investing activities		<u>(33,914)</u>	<u>(33,300)</u>
Cash flow from financing activities			
Proceeds from borrowings		11,666,273	8,188,115
Repayments of borrowings		(11,562,847)	(8,209,372)
Capital contribution		54,559	-
Share premium from capital contribution		43,647	-
Dividend paid		(7,089)	(6,997)
Net cash flow from / (used in) financing activities		<u>194,543</u>	<u>(28,254)</u>
Net (decrease)/increase in cash and cash equivalents		<u>(51,530)</u>	<u>32,793</u>
Cash and cash equivalents at the beginning of the year	28	<u>327,623</u>	<u>294,830</u>
Cash and cash equivalents at the end of the year	28	<u>276,093</u>	<u>327,623</u>

1. General information

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

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

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

Management Board

Nelsi Rončević	President of the Management Board
Ivan Dropulić	Vice president of the Management Board

Supervisory Board

Mirjana Krile	President of the Supervisory Board
Ankica Čeko	Vice president of the Supervisory Board
Nadira Eror	Member of the Supervisory Board
Gordana Letica	Member of the Supervisory Board
Irena Severin	Member of the Supervisory Board

2. Basis of preparation of the financial statements

The principal accounting policies applied in preparation of these financial statements are summarized below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards ("IFRS"), reference may be made to certain Standards in describing the accounting policies of the Bank. Unless otherwise stated, these references are to Standards applicable as at 31 December 2009.

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

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

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

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

2.2. Basis of preparation

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

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

3. Summary of significant accounting policies

3.1 Interest and similar income and expenses

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Loan origination fees for loans which are probable of being drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

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

3.2 Fee and commission income

Fee and commission income is comprised mainly of fees receivable from enterprises for loans and guarantees granted and other services provided by the Bank, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions.

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

3.3 Operating income

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

3.4 Foreign currencies

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

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

3. Summary of significant accounting policies (continued)

3.4 Foreign currencies (continued)

As such the Bank revalue its receivables and liabilities linked to this clause by the agreed reference rate valid at the date of the balance sheet or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher.

3.5 Personnel social contributions

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

	2009	2008
Contributions for Pension Fund	20%	20%
Contributions for State Health Fund	15%	15%
Contributions for Unemployment Fund	1.7%	1.7%
Occupational injury	0.5%	0.5%

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

3.6 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Current tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is the tax expected to be payable or recoverable based on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, calculated using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available on the possible use of deductible temporary differences.

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

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

The Bank is subject to various indirect taxes which are included in administrative expenses.

3. Summary of significant accounting policies (continued)

3.6 Income tax (continued)

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

3.7 Cash and cash equivalents

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

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

3.8 Financial assets and liabilities

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

The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities held by the Bank are categorized into portfolios in accordance with the Bank's intent on the acquisition and pursuant to the Bank's investment strategy. Financial assets and liabilities are classified as „At fair value through profit or loss“, "Held to maturity", "Assets available for sale" or as "Loans and receivables". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements as described below.

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

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

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

3. Summary of significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

Assets at fair value through profit or loss

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

Measurement:

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

Held to maturity investments

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

The Bank assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of assets is identified, the Bank recognizes allowances through the profit and loss statement line 'Allowance for impairment losses on securities'.

Assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

3. Summary of significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

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

For available-for-sale assets, gains and losses arising from changes in fair value are recognized directly in equity under the caption "Reserves and retained earnings", until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale. This portfolio comprises loans provided to customers.

Loans originated by the Bank by providing money directly to the borrower are categorized as loans granted by the Bank and are carried at amortized cost, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income. All loans and advances are recognized when loans are issued, or cash is advanced to borrowers.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

3. Summary of significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

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

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

Collateral pending sale

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

Sale and repurchase agreements

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

3.9 Tangible and intangible assets

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

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

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

3. Summary of significant accounting policies (continued)

3.9 Tangible and intangible assets (continued)

Land is not depreciated.

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

3.10 Foreign currency translation

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

31 December 2008	1 EUR = 7.324425 HRK	1 USD = 5.155504 HRK
31 December 2009	1 EUR = 7.306199 HRK	1 USD = 5.089300 HRK

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

3.11 Off-balance sheet financial instruments

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

3.12 Provisions

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

3.13 Derivative financial instruments

As at 31 December 2009 and 31 December 2008, the Bank had not purchased any derivative financial instruments. The Bank has assets and liabilities originated in HRK, which are linked to foreign currency with a one-way currency clause. Due to this clause the Bank has an option to revalue the asset by the greater of: foreign exchange rate valid as of the date of maturity, or foreign exchange rate valid as of the date of origination of the financial instrument. Due to the special circumstances of the market in Republic of Croatia the fair value of this option cannot be calculated as the forward rates for HRK for periods over 6 months are not available.

3. Summary of significant accounting policies (continued)

3.13 Derivative financial instruments (continued)

As such, the Bank values its assets and liabilities related to this clause by middle rate of Croatian National Bank valid at the date of balance sheet or foreign exchange rate agreed by the option (rate valid at origination) if higher.

3.14 Cash flow statement

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

3.15 Managed funds

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

3.16 Accounting for financial guarantee contracts

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

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

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

3. Summary of significant accounting policies (continued)

3.17 Significant accounting judgments and estimates

Judgments

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

Held to maturity investments

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Allowances for impairment of loans and receivables

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

4. Interest and similar income

	<u>2009</u>	<u>2008</u>
Loans to corporate clients	73,706	52,569
Loans to retail clients	30,990	28,564
Placements with other banks	1,778	5,429
Croatian National Bank	762	1,088
Debt securities	2,035	1,936
Other companies	1,916	1,245
	<u>111,187</u>	<u>90,831</u>

a) Analysis by product

	<u>2009</u>	<u>2008</u>
Loans to customers	106,612	82,378
Placements with banks	2,540	6,517
Debt securities	2,035	1,936
	<u>111,187</u>	<u>90,831</u>

5. Interest and similar expense

	<u>2009</u>	<u>2008</u>
Retail clients	32,427	22,393
Corporate clients	11,115	9,724
Banks	9,570	6,484
Other companies	5,567	8,500
Other borrowed funds	582	18
	<u>59,261</u>	<u>47,119</u>

a) Analysis by product

	<u>2009</u>	<u>2008</u>
Deposits	49,078	40,546
Borrowings	10,183	6,573
	<u>59,261</u>	<u>47,119</u>

6. Fee and commission income and expense

	<u>2009</u>	<u>2008</u>
Fee and commission income		
Commission income from corporate clients	16,160	16,900
Commission income from retail clients	4,616	4,709
Commission income from banks	3,825	3,492
	<u>24,601</u>	<u>25,101</u>
Fee and commission expense		
Commission for domestic payments	8,659	8,420
Other fees and commissions	3,618	2,498
	<u>12,277</u>	<u>10,918</u>

7. Net foreign exchange gains

	<u>2009</u>	<u>2008</u>
Income from foreign currency trading	15,972	7,820
Translation losses	(837)	(952)
	<u>15,135</u>	<u>6,868</u>

8. Operating expenses

	<u>2009</u>	<u>2008</u>
Personnel expenses (Note 8.1)	26,382	25,216
Material and services	27,197	20,370
Depreciation (Note 17 and 18)	2,777	3,227
Marketing and administration expenses	1,941	1,678
Insurance premiums	1,038	998
Taxes and contributions	626	580
Other expenses	1,447	1,323
	<u>61,408</u>	<u>53,392</u>

8.1. Personnel expenses

	<u>2009</u>	<u>2008</u>
Net salaries	13,916	13,166
Taxes and contributions from salaries	7,587	7,568
Contributions on salaries	3,699	3,541
Other personnel expenses	1,180	941
	<u>26,382</u>	<u>25,216</u>

The number of employees as at 31 December 2009 was 176 (2008:163).

9. Impairment losses and provisions

	<u>Note</u>	<u>2009</u>	<u>2008</u>
Loans to customers	14	(7,686)	(8,027)
Interest	19	(784)	(423)
Other assets	19	(331)	(540)
Contingent liabilities	26	(222)	(418)
		<u>(9,023)</u>	<u>(9,408)</u>
<i>Less: amounts collected and reversed</i>			
Loans to customers	14	3,476	9,116
Interest	19	188	861
Other assets	19	192	926
Contingent liabilities	26	603	103
Total		<u>(4,564)</u>	<u>1,598</u>

10. Income tax

Income tax is determined by applying the rate of 20% to taxable profits (2008: 20%).

Reconciliation of income tax:

	<u>2009</u>	<u>2008</u>
Current tax	3,122	4,143
Deferred tax	<u>354</u>	<u>(593)</u>
	<u>3,476</u>	<u>3,550</u>

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

Reconciliation between accounting profit and taxable profit is as follows:

	<u>2009</u>	<u>2008</u>
Accounting profit before tax	15,663	15,106
Expected tax rate of 20%	3,133	3,021
Tax effect of non-taxable income	1,757	1,511
Tax effect of tax deductible costs	<u>(1,414)</u>	<u>(982)</u>
Income tax expense	<u>3,476</u>	<u>3,550</u>
Effective tax rate	<u>22.26%</u>	<u>23.50%</u>

11. Cash and balances with Croatian National Bank

	<u>31.12.2009</u>	<u>31.12.2008</u>
Cash in hand	34,505	33,801
Instruments in the course of collection	17	13
Total cash	<u>34,522</u>	<u>33,814</u>
Cash account with the Croatian National Bank	57,632	12,081
Obligatory reserve in HRK	95,870	83,621
Obligatory reserve in foreign currency	15,014	18,267
Other deposits with the Croatian National Bank	-	60,054
Total assets with the Croatian National Bank	<u>168,516</u>	<u>174,023</u>
Total cash and balances with the Croatian National Bank	<u>203,038</u>	<u>207,837</u>

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

The obligatory reserve requirement as at 31 December 2009 amounted to 14% (until 10 December 2008: 17%) of kuna and foreign currency deposits, borrowings and issued debt securities.

As at 31 December 2009, the required rate for the kuna part of the obligatory reserve to be deposited 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 part of the obligatory reserve (2008: 60%) is deposited 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). From 14 January 2009 75% (2008: 50%) of the foreign currency obligatory reserve is required to be held in HRK and is added to the kuna part of the obligatory reserve (see above).

Compulsory CNB bills had to be subscribed if growth of eligible assets and off-balance-sheet items was in excess of thresholds determined by the CNB. This measure was introduced in 2007. The rate of purchase of compulsory CNB bills was 75% with maturity of 360 days from the date of subscription. The interest rate was 0.25%. The decision requiring purchase of CNB bills was abolished on 23 November 2009.

12. Placements with other banks

	<u>31.12.2009</u>	<u>31.12.2008</u>
Current accounts with other banks		
- denominated in foreign currency	86,914	107,737
Loans and time deposits with other banks		
- denominated in foreign currency	98,857	123,991
- denominated in HRK	-	53,349
Total placements with other banks	<u>185,771</u>	<u>285,077</u>
Provisions for impairment losses	-	(3,349)
Total placements with other banks, net	<u>185,771</u>	<u>281,728</u>

Of the total amount of placements with other banks 1,832 thousand relates to guarantee deposits at Erste Bank with original maturities greater than 3 months.

Movements in provision:

	<u>2009</u>	<u>2008</u>
Balance as at 1 January	3,349	3,349
New impairment losses	-	-
Amounts collected	-	-
Amounts written off	3,349	-
Balance as at 31 December	<u>-</u>	<u>3,349</u>

During the year the Bank has made a write-off of previously fully impaired receivables from Gold štedionica d.o.o in bankruptcy and Mediteran štedionica d.o.o in bankruptcy.

12. Placements with other banks (continued)

Loans to other banks comprises of loans as follows:

Bank	Interest rate	31.12.2009	Interest rate	31.12.2008
Privredna banka Zagreb d.d.	-	-	2.5%	35,000
Karlovačka banka d.d.	-	-	2.5%	15,000
Total	-	-	-	50,000

Geographical analysis:

	31.12.2009	31.12.2008
Belgium	304	205
Germany	5,962	45,317
Italy	5,262	30,384
Croatia	7,432	57,722
Switzerland	4,765	38,800
Sweden	572	133
Denmark	34,820	37,261
The Netherlands	1,310	7,886
Austria	50,949	4,776
USA	20,999	23,160
Spain	50,799	35,951
Canada	2,551	93
Norway	46	40
	185,771	281,728

All placements are kept with first-class international banks.

13. Assets at fair value through profit or loss

	<u>31.12.2009</u>	<u>31.12.2008</u>
Bonds from Government of Croatia – listed on stock exchange	2,580	15,652
Total	<u>2,580</u>	<u>15,652</u>

As at 31 December 2009, assets at fair value through profit or loss consists of foreign currency bond issued by the Government of Croatia, with a total nominal value in currency of EUR 353 thousand (2008: EUR 334 thousand) which is listed on stock exchange.

During 2009 the Bank has sold two bonds from Government of Croatia and realized net gain of HRK 15 thousand.

In the period from 7th December to 14th December 2009. the Bank has bought and sold foreign currency bond from Agrokor d.d. and achieved a net profit of HRK 530 thousand.

The Bank incurred net profit on fair measurement of those bonds in the amount of HRK 470 thousand (2008: net loss in the amount of HRK 1,342 thousand).

Investments in securities classified at fair value through profit or loss are as follows:

Bonds	Maturity date	Interest rate	Currency	<u>31.12.2009</u>	<u>31.12.2008</u>
XS0163495004	24.02.2010	4.625%	EUR	2,580	2,449
RHMF-O-125A3	23.05.2012	6.875%	EUR	-	3,754
RHMF-O-172A5	28.02.2017	4.75%	HRK	-	9,449
				<u>2,580</u>	<u>15,652</u>

14. Loans to customers

a) Analysis of lending portfolio

	<u>31.12.2009</u>	<u>31.12.2008</u>
Retail clients	317,008	321,327
Corporate clients	780,435	573,559
Other companies	1,463	212
Financial institutions	5,600	-
Gross loans and advances	<u>1,104,506</u>	<u>895,098</u>
Less: impairment allowance	(30,069)	(51,317)
Total loans to customers	<u>1,074,437</u>	<u>843,781</u>

14. Loans to customers (continued)

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

In the period from 1 January to 31 December 2009, the interest rates on loans to corporate clients were set at 9% to 12.9% (2008: 8% to 12.5%), and for loans to retail clients at 6 % to 13.99% (2008: 6.25% to 13.99%).

b) Changes in the principal of statutory substandard and non-performing loans

	2009		2008	
	Statutory substandard loans	Statutory non-performing loans	Statutory substandard loans	Statutory non-performing loans
As at 1 January	34,973	30,588	49,154	46,244
Transfer from performing loans	6,252	1,755	7,423	279
Transfer from fully unrecoverable loans	35	-	61	-
Transfer from partly recoverable loans	-	42	-	2,806
Transfer to performing loans	(230)	(61)	(6,824)	(426)
Transfer to fully unrecoverable loans	(42)	-	(2,806)	-
Transfer to partly recoverable loans	-	(35)	-	(61)
Amounts collected	(4,808)	(1,334)	(11,934)	(1,632)
Amounts written off	-	(23,100)	-	(16,650)
Other increases	-	75	3	503
Other decreases	(265)	(109)	(104)	(475)
As at 31 December	35,915	7,821	34,973	30,588

14. Loans to customers (continued)

c) Movements in provisions

	Specific provision	Impairment allowance on collective assessment basis	Total
Balance as at 31 December 2007	58,660	10,322	68,982
New impairment losses (Note 9)	4,991	3,036	8,027
Amounts collected (Note 9)	(7,379)	(1,737)	(9,116)
Amounts written off	(16,613)	-	(16,613)
Foreign exchange differences	37	-	37
Balance as at 31 December 2008	39,696	11,621	51,317
New impairment losses (Note 9)	7,241	445	7,686
Amounts collected (Note 9)	(426)	(3,050)	(3,476)
Amounts written off	(25,766)	-	(25,766)
Foreign exchange differences	308	-	308
Balance as at 31 December 2009	21,053	9,016	30,069

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

	31.12.2009	31.12.2008
As at 1 January	7,497	4,678
Collected and deferred fees	6,629	8,733
Fees recognized	(7,856)	(5,914)
As at 31 December	6,270	7,497

e) Concentration of credit risk

The Bank has a diversified lending portfolio that covers various industries, with the largest concentration in the retail sector, which was 19.2% (2008: retail sector 32.3%) of the total credit portfolio at the year-end.

14. Loans to customers (continued)

	31.12.2009		31.12.2008	
	Amount	%	Amount	%
Manufacturing	233,187	12.1	127,931	13.5
Trade	296,095	15.4	155,975	16.4
Retail customers	367,163	19.1	306,186	32.3
Financial intermediaries	290,162	15.1	35,809	3.8
Construction industry	141,235	7.3	112,149	11.8
Transport, storage and communication	91,253	4.7	55,502	5.9
Services	261,685	13.6	99,721	10.5
Agriculture and forestry	29,025	1.5	23,179	2.4
Tourism, hotels and restaurants	4,468	0.2	3,453	0.4
Other	211,884	11.0	28,439	3.0
	1,926,157	100.0	948,344	100.0

15. Investments held to maturity

	31.12.2009	31.12.2008
Investments held to maturity		
Corporate bills of exchange	4,677	1,567
Allowance for impairment losses	(73)	(73)
Total investments held to maturity	4,604	1,494

Bills of exchange were issued by different corporate entities, with an interest rate from 9.7% to 11.5% and are due over the period to 20 October 2010. Bills of exchange are carried at amortized cost less any allowance for impairment. As at 31 December 2009, HRK 73 thousand of the total amount of bills of exchange became due (2008: HRK 73 thousand).

In the year 2009 and 2008, there have been no changes in the movement of provisions of financial assets available for sale.

16. Investments available for sale

	31.12.2009	31.12.2008
Debt securities available for sale	32,320	40,324
Equity securities available for sale	46,649	785
	78,969	41,109

16. Investments available for sale (continued)

Debt securities available for sale

	<u>31.12.2009</u>	<u>31.12.2008</u>
Treasury bills from Ministry of Finance	23,959	-
Factoring	1,825	5,303
Commercial bills	<u>6,536</u>	<u>-</u>
	33,320	5,303
Listed	30,495	-
Unlisted	<u>1,825</u>	<u>5,303</u>

Equity securities available for sale

	<u>31.12.2009</u>	<u>31.12.2008</u>
Participation in investment fund	45,840	35,021
Securities listed on stock exchange	62	38
Securities unlisted on stock exchange	<u>747</u>	<u>747</u>
	46,649	35,806

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

During the year 2009, the Bank made an investment in the investment fund Agram Cash in the amount of HRK 6,400 thousand and in Agram Euro Cash in the amount of HRK 2,270 thousand. During the year the Bank also had investment in the investment fund Erste Cash in the amount of HRK 4,000 thousand and made net income in the amount of HRK 91 thousand.

Movement in equity securities during the year:

	<u>2009</u>	<u>2008</u>
As at 1 January	35,806	828
Change in fair value of shares	24	(43)
Investment fund stake purchase	12,670	35,850
Investment fund stake sale	(4,000)	-
Increase in fair value of stake	(8,640)	(4,023)
Foreign exchange differences	<u>10,789</u>	<u>3,194</u>
As at 31 December	46,649	35,806

17. Intangible assets

	<u>Software and other rights</u>	<u>Assets acquired but not brought into use</u>	<u>Total</u>
Cost			
At 31 December 2007	9,330	5,913	15,243
Additions	-	914	914
Brought into use	1,399	(1,399)	-
At 31 December 2008	10,729	5,428	16,157
Additions	-	4,942	4,942
Brought into use	350	(350)	-
At 31 December 2009	11,079	10,020	21,099
Accumulated depreciation			
At 31 December 2007	7,401	-	7,401
Charge for the year	557	-	557
At 31 December 2008	7,958	-	7,958
Charge for the year	507	-	507
At 31 December 2009	8,465	-	8,465
Net book value			
At 31 December 2008	<u>2,771</u>	<u>5,428</u>	<u>8,199</u>
At 31 December 2009	<u>2,614</u>	<u>10,020</u>	<u>12,634</u>

At the beginning of 2009, the Management Board made a decision to launch development of "Split 3" software and to establish a project team for that purpose. During the year, a contract on technical cooperation was signed with Dialog d.o.o. Osijek for development of components for software application and for implementation of the application. Deadline for the finish of the project is 1 March 2012, and it is expected it will be met.

Notes to the financial statements

For the year ended 31 December 2009

(All amounts are expressed in thousands of kunas)

18. Tangible assets

	<u>Buildings</u>	<u>Computers</u>	<u>Furniture and equipment</u>	<u>Vehicles</u>	<u>Assets acquired but not brought into use</u>	<u>Total</u>
Cost						
At 31 December 2007	47,272	5,067	14,301	938	1,826	69,404
Additions	-	-	-	-	172	172
Brought into use	1,785	46	156	-	(1,987)	-
Disposals	-	-	-	(286)	-	(286)
At 31 December 2008	49,057	5,113	14,457	652	11	69,290
Additions	-	-	-	-	1,075	1,075
Brought into use	-	536	486	17	(1,039)	-
At 31 December 2009	49,057	5,649	14,943	669	47	70,365
Accumulated depreciation						
At 31 December 2007	15,745	4,247	11,555	883	-	32,430
Charge for the year	1,481	348	786	55	-	2,670
Disposals	-	-	-	(286)	-	(286)
At 31 December 2008	17,226	4,595	12,341	652	-	34,814
Charge for the year	1,486	207	574	3	-	2,270
At 31 December 2009	18,712	4,802	12,915	655	-	37,084
Net book value						
At 31 December 2008	31,831	518	2,116	-	11	34,476
At 31 December 2009	30,345	847	2,028	14	47	33,281

There are no pledges on property for borrowings as at 31 December 2009

19. Other assets

	<u>31.12.2009</u>	<u>31.12.2008</u>
Accrued interest	15,804	14,043
Reposessed assets	11,603	11,603
Fees and commissions	2,020	2,819
Receivables from card operations	1,678	1,550
Prepaid expenses	4,467	5,061
Bails	6,929	4,798
Other receivables	14,066	13,699
	<u>56,567</u>	<u>53,573</u>
Less allowance for impairment:		
- other assets	(4,876)	(2,110)
Total other assets	<u>51,691</u>	<u>51,463</u>

Changes in allowances

	<u>Interest</u>	<u>Other assets</u>
Balance as at 31 December 2007	-	2,602
New allowances (Note 9)	423	540
Amounts collected (Note 9)	(861)	(926)
Amounts written off	(423)	(106)
Other	861	-
Balance as at 31 December 2008	<u>-</u>	<u>2,110</u>
New allowances (Note 9)	784	331
Amounts collected (Note 9)	(188)	(192)
Amounts written off	(784)	(710)
Other	188	-
Balance as at 31 December 2009	<u>-</u>	<u>1,539</u>

All funds are due within one year.

20. Deposits from customer

	<u>31.12.2009</u>	<u>31.12.2008</u>
Demand deposits		
Retail clients	75,307	76,347
Corporate clients	115,578	160,545
Other companies	42,152	32,213
Total demand deposits	<u>233,037</u>	<u>269,105</u>
Term deposits		
Retail clients	627,943	540,407
Corporate clients	140,964	240,186
Other companies	142,951	147,904
Total term deposits	<u>911,858</u>	<u>928,497</u>
Total deposits from customers	<u>1,144,895</u>	<u>1,197,602</u>

The interest rate on demand deposits varied from 0.5% to 0.75% during the year 2009 and 2008.

The interest rate on time retail deposits varied from 1 % to 8.8 % and from 1% to 8.5% during the year 2009 and 2008, respectively while the interest rate for time corporate deposits varied from 2% to 10% during the year 2009.

21. Borrowings

	<u>31.12.2009</u>	<u>31.12.2008</u>
Denominated in HRK	156,983	90,088
Denominated in foreign currency	36,531	-
Total borrowed funds	<u>193,514</u>	<u>90,088</u>

Interest rate on loans from the Croatian Bank for Reconstruction and Development denominated in HRK varied from 2.75% to 5.20%, while for the end user the interest rate varied from 4% to 7% during the year 2009.

21. Borrowings (continued)

Loans received comprise of borrowings as follows:

	<u>2009</u>	<u>2008</u>
Istarska kreditna banka d.d.	4,000	5,000
Šted banka d.d.	7,000	-
Privredna banka Zagreb d.d.	10,000	-
Croatia banka d.d.	11,000	-
Banka kovanica d.d.	15,000	6,000
Slatinska banka d.d.	5,000	-
Podravska banka d.d.	27,500	-
Obrtnička štedna banka d.d.	2,000	-
Jadranska banka d.d.	20,000	-
Erste&steiermärkische bank d.d.	7,000	-
Hypo Alpe Adria bank d.d.	7,000	-
Hrvatska poštanska banka d.d.	15,000	25,000
Adria bank ag Wien	36,531	
HBOR d.d.	26,483	28,588
BKS bank d.d.	-	3,000
Banka Brod d.d.	-	3,500
Samoborska banka d.d.	-	4,000
Imex banka d.d.	-	15,000
	<u>193,514</u>	<u>90,088</u>

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

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

Collaterals

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

22. Other liabilities

	<u>31.12.2009</u>	<u>31.12.2008</u>
Accrued interest	18,042	12,705
Liabilities to suppliers	1,852	2,468
Deferred income	7,770	7,497
Liabilities for card operations	673	1,041
Other liabilities	<u>2,678</u>	<u>1,913</u>
Total other liabilities	<u>31,015</u>	<u>25,624</u>

23. Share capital

Based on decision from General Assembly held on 30 June 2008 and HANFA's Resolution on approval of prospect for issuing shares with an private offer dated 11 December, capital increase has been made during January 2009.

The share capital has increased by issuing of 545,587 new ordinary shares (KBZ-R-A) with nominal value of HRK 100. In this way the share capital has increased from HRK 131,994,500 to HRK 186,553,200 and comprises of 1,865,532 ordinary shares (KBZ-R-A) with nominal value of HRK 100.

The following shareholders held over 5% of the Bank's equity at 31 December 2009 and 31 December 2008:

Shareholders'	Percentage of share capital held (%)	
	<u>31.12.2009</u>	<u>31.12.2008</u>
Euroherc osiguranje d.d.	18.38	19.90
Jadransko osiguranje d.d.	16.79	16.93
Agram životno osiguranje d.d.	16.40	16.66
Euroleasing d.o.o.	11.79	11.42
Euro Daus d.d.	9.18	8.89
Others	<u>27.46</u>	<u>26.20</u>
Total share capital	<u>100.00</u>	<u>100.00</u>

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

23. Share capital (continued)

Share premium

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

Dividend

On General Shareholders Meeting as of 10 July 2009 the Shareholders of Kreditna banka Zagreb d.d., took a decision on the distribution of a dividend of HRK 7,089 thousand. The dividend amounted HRK 3.8 per share.

Regulatory capital

Regulatory capital according to CNB requirements, calculated for the Bank only, is as follows:

	31.12.2009	31.12.2008
	HRK'000	HRK'000
Basic capital		
Issued share capital	230,200	131,995
Legal, statutory and other reserves	<u>32,256</u>	<u>26,964</u>
Total basic capital	262,456	158,959
Supplementary capital		
Specific reserves for unidentified losses	<u>14,585</u>	<u>13,523</u>
Gross additional share	14,585	13,523
Deductions		
Specific reserves for unidentified losses that are not included in supplementary capital	<u>(14,585)</u>	<u>(13,523)</u>
Total deductions from supplementary capital	(14,585)	(13,523)
Total supplementary capital (gross supplementary capital less deductions)	-	-
Gross regulatory capital	262,456	158,959
Risk weighted assets		
Credit risk weighted assets	1,609,244	1,260,062
Other weighted assets	<u>18,354</u>	<u>9,267</u>
Total risk weighted assets	1,627,598	1,269,329
Capital adequacy ratio	16.13%	12.52 %

24. Retained earnings and reserves

Retained earnings include accumulated profits from prior years.

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

Based on General Assembly's decision from 10 July 2009 the Bank allocated the amount of HRK 3,889 thousand into retained earnings and the amount of HRK 578 thousand into legal reserves.

25. Earnings per share

Basic

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

	<u>2009</u>	<u>2008</u>
Profit for the year in HRK	12,186,822	11,555,600
Profit attributable to equity holders of the Bank	12,186,822	11,555,600
Weighted average number of ordinary shares in issue	1,865,532	1,319,945
Earnings per share in HRK	6.53	8.75

Diluted

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

26. Contingences and commitments

a) Legal proceedings

There are several legal proceedings outstanding against the Bank. There are no provisions made for these legal proceedings due to Bank's management judgment of likelihood of outcome of the legal proceedings.

26. Contingences and commitments (continued)

b) Guarantees and credit commitments

As at 31 December 2009 and 31 December 2008, the total amount of guarantees, letters of credit and unused revolving credits was as follows:

	<u>31.12.2009</u>	<u>31.12.2008</u>
Guarantees in HRK	85,576	68,517
Guarantees in foreign currency	935	5,684
Letters of credit	8,564	20,123
Credit commitments	<u>83,929</u>	<u>129,440</u>
Total guarantees and credit commitments	<u>179,004</u>	<u>223,764</u>

c) Movements in provisions

	<u>2009</u>	<u>2008</u>
Balance as at 1 January	1,903	1,588
New provisions (Note 9)	222	418
Decreases (Note 9)	<u>(603)</u>	<u>(103)</u>
Balance as at 31 December	<u>1,522</u>	<u>1,903</u>

27. Managed funds

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

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

	<u>31.12.2009</u>	<u>31.12.2008</u>
Assets		
Retail clients	89	89
Corporate clients	<u>598</u>	<u>598</u>
Total assets	<u>687</u>	<u>687</u>
Liabilities		
Retail clients	53	53
Corporate clients	<u>634</u>	<u>634</u>
Total liabilities	<u>687</u>	<u>687</u>

28. Cash and cash equivalents

Cash and cash equivalents comprise the following items with an original maturity of up to 3 months:

	<u>31.12.2009</u>	<u>31.12.2008</u>
Cash account at Croatian National Bank (Note 11)	57,632	12,081
Cash in hand (Note 11)	34,505	33,801
Instruments in the course of collection (Note 11)	17	13
Placements with other banks (Note 12)	<u>183,939</u>	<u>281,728</u>
Total cash and cash equivalents	<u>276,093</u>	<u>327,623</u>

29. Risk management

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

a) Credit risk

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

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

29. Risk management (continued)

a) Credit risk (continued)

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

- performing loans – A Risk Group – measured on a collective basis
- substandard loans – B Risk Group – measured on an individual basis, or on a collective basis for a „small loans portfolio“ that are not sued
- non-performing loans (bad debt) – C Risk Group – measured on an individual basis, or on a collective basis for a „small loans portfolio“ that are not sued

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

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

b) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and loan drawdown's.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The liquidity risk analysis is presented within the maturity analysis of assets and liabilities at 31 December 2009 and 31 December 2008 (see Note 29).

29. Risk management (continued)

c) Market risk

Most trading instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income. The Bank manages its use of trading instruments in response to changing market conditions.

The limits are defined following the needs and strategy of the Bank and in accordance with the senior management risk policy indications.

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

d) Interest rate risk

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

e) Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions.

Foreign currency balance sheet and foreign exchange risk table summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2009 and 31 December 2008. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by domestic currency and foreign currency (see Note 33).

f) Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other derivative instruments.

The primary exposure to equity prices arises from the Bank's holding of equity instruments available for sale. The Bank does not actively trade in equity securities.

29. Risk management (continued)

g) Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk. In order to efficiently measure and manage the operational risk exposure at the Bank level, the Bank is developing internal models for the operational risk exposure management in line with the Basel II prescribed framework. The main goals of this internal model are: to implement techniques enabling a detailed insight in the profile of the risk exposure of the Bank such as (quantitative 'ex-post' and qualitative 'ex-ante' risk exposure assessment); to support the management decision making process by developing efficient policies for the management and mitigation of the operational risk at the Bank level; adjustment of the pricing/provisioning policy by incorporating the expected losses and allocating the adequate economic/regulatory capital for unexpected losses.

30. Credit risk**a) Total credit risk exposure – balance sheet and off- balance sheet**

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

30. Credit risk (continued)

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

As at 31 December 2008	Gross placements	Specific provisions	General provisions	Net placements
A. Balance sheet exposure				
Cash and balances with Croatian National Bank	207,837	-	1,473	206,364
Placements with other banks	285,077	3,349	2,395	279,333
Assets at fair value through profit or loss	15,652	-	-	15,652
Assets available for sale	41,109	-	349	40,760
Assets held to maturity	1,567	73	13	1,481
Loans to customers	894,994	39,696	7,078	848,220
- performing loans	832,782	-	7,078	825,704
- substandard loans	34,973	12,457	-	22,516
- non-performing loans	27,239	27,239	-	-
Interest, fees and other assets	37,527	2,112	319	35,096
Total balance sheet exposure	<u>1,483,763</u>	<u>45,230</u>	<u>11,627</u>	<u>1,426,906</u>
B. Off-balance sheet exposure				
Other banks	-	-	-	-
Customers	255,176	-	1,914	253,262
- fully recoverable	255,176	-	1,914	253,262
- partially recoverable	-	-	-	-
- completely irrecoverable	-	-	-	-
Total off-balance sheet exposure	<u>255,176</u>	<u>-</u>	<u>1,914</u>	<u>253,262</u>
TOTAL EXPOSURE (A+B)	<u>1,738,939</u>	<u>45,230</u>	<u>13,541</u>	<u>1,680,168</u>

30. Credit risk (continued)**b) Past due claims**

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

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

As at 31 December 2008	Due up to 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 365 days	Due between 1 and 2 years	Due between 2 and 3 years	Due over 3 years
Placements with other banks	-	-	-	-	-	-	3,349
Loans to customers	89,510	47,282	52,595	18,030	4,648	675	69,998
- retail customers	28,850	4,379	4,049	4,201	2,469	244	5,257
- corporate customers	60,660	42,904	48,546	13,829	2,179	431	64,741
- public and other sectors	-	-	-	-	-	-	-
Other past due claims	2,008	1,532	1,694	9,996	4,302	1,202	105,631
Total past due claims	91,518	48,815	54,289	28,026	8,950	1,877	178,978

30. Credit risk (continued)

c) placements secured by collaterals

As at 31 December 2009

	Deposits	Housing mortgage	Business mortgage	Other instruments	No collateral
A. Balance sheet exposure					
Cash and balances with Croatian National Bank	-	-	-	-	167,084
Derivative financial assets					
Placements with other banks	-	-	-	-	184,191
Loans to customers	85,523	31,029	138,319	370,796	448,770
Assets available for sale	-	-	-	-	78,200
Assets held to maturity	-	-	-	-	4,492
Other assets	-	-	-	-	36,560
Total balance sheet exposure	85,523	31,029	138,319	370,796	919,297
B. Off-balance sheet exposure					
Other banks	-	-	-	-	-
Clients	13,616	723	-	-	163,143
Total off-balance sheet exposure	13,616	723	-	-	163,143
Total exposure (A+B)	99,139	31,752	138,319	370,796	1,082,440

As at 31 December 2008

	Deposits	Housing mortgage	Business mortgage	Other instruments	No collateral
Total balance sheet exposure	46,597	39,836	128,659	247,735	924,742
Total off-balance sheet exposure	13,616	723	-	-	240,837
Total exposure	60,213	40,559	128,659	247,735	1,165,579

30. Credit risk (continued)

d) Provision ratio in loans to customers

	31.12.2009		31.12.2008	
	Loans to customers (%)	Provision ratio (%)	Loans to customers (%)	Provision ratio (%)
Performing loans	96	0.85	93	0.85
Substandard loans	3	32.59	4	35.62
Non-performing loans	1	100.00	3	100.00
Total	100		100	

31. Liquidity risk

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

As at 31 December 2009	0- 30 days	1-3 months	3-12 months	1 - 2 years	2 - 3 years	Over 3 years	Total
Assets							
Cash and balances with Croatian National Bank	127,709	14,765	40,709	10,288	3,603	5,965	203,039
Placements with other banks	150,240	41,131	-	-	-	-	191,371
Treasury bills from Ministry of finance	-	7,909	16,050	-	-	-	23,959
Assets at fair value through profit or loss	-	2,580	-	-	-	-	2,580
Loans to customers	166,848	165,158	285,557	105,653	79,872	261,701	1,064,789
Investments available for sale	47,850	6	6,600	102	125	1,037	55,720
Investments held to maturity	1,367	1,050	2,187	-	-	-	4,604
Tangible and intangible assets	166	66	36	105	301	45,241	45,915
Repossessed property	-	-	11,603	-	-	-	11,603
Other assets	37,403	1,877	1,231	755	834	1,325	43,425
Total assets	531,583	234,542	363,973	116,903	84,735	315,269	1,647,005
Liabilities							
Deposits from banks	5	-	-	-	-	-	5
Deposits from customers	386,467	119,290	429,604	108,569	38,019	62,946	1,144,895
Borrowings	145,440	36,911	1,558	2,047	37,667	5,540	229,163
Other liabilities	6,123	18,259	1,852	1,349	1,082	2,351	31,016
Provisions for other liabilities	819	269	290	98	29	17	1,522
	538,854	174,729	433,304	112,063	76,797	70,854	1,406,601
Maturity gap	(7,271)	59,813	(69,331)	4,840	7,938	244,415	240,404
As at 31 December 2008							
Total assets	607,476	81,727	355,183	108,191	85,686	247,475	1,485,739
Total liabilities	433,177	174,425	331,688	192,164	104,766	79,004	1,315,224
Maturity gap	174,299	(92,698)	23,495	(83,973)	(19,080)	168,472	170,515

32. Interest rate risk

The Bank is exposed to various risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following table is the Management's estimate of the interest rate risk for the Bank at 31 December 2009 and 31 December 2008 and is not necessarily indicative of the positions at other times. The table provides some indication of the sensitivity of the Bank's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities.

As at 31 December 2009	0 - 30 days	1-3 months	3-12 months	1 - 3 years	Over 3 years	Non- interest bearing	Total
Assets							
Cash and balances with Croatian National Bank	168,516	-	-	-	-	34,522	203,038
Placements with other banks	144,640	41,131	-	-	-	-	185,771
Assets at fair value through profit or loss	-	2,580	-	-	-	-	2,580
Loans to customers	1,074,437	-	-	-	-	-	1,074,437
Investments available for sale	78,969	-	-	-	-	-	78,969
Investments held to maturity	-	-	-	-	-	4,604	4,604
Repossessed property	-	-	-	-	-	11,603	11,603
Tangible and intangible assets	-	-	-	-	-	45,915	45,915
Other assets	-	-	-	-	-	40,088	40,088
Total assets	1,466,562	43,711	0	0	0	136,732	1,647,005
Liabilities							
Deposits from banks	-	-	-	-	-	5	5
Deposits from customers	552,761	86,386	340,220	107,207	46,950	11,371	1,144,895
Borrowings	193,514	-	-	-	-	-	193,514
Provisions for contingent liabilities	819	269	290	127	17	-	1,522
Other liabilities	-	-	-	-	-	31,016	31,016
Of which at fixed interest rate	331,095	86,386	340,220	107,207	46,950	-	911,858
Total liabilities	747,094	86,655	340,510	107,334	46,967	42,392	1,370,952
As at 31 December 2008	0 - 30 days	1-3 months	3-12 months	1 - 3 years	Over 3 years	Non- interest bearing	Total
Total assets	1,299,532	-	-	-	15,652	170,555	1,485,739
Total liabilities	836,615	52,385	205,612	127,521	60,697	32,394	1,315,224

32. Interest rate risk (continued)

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

	31.12.2009		31.12.2008	
	HRK %	Foreign currency %	HRK %	Foreign currency %
Assets				
Cash and balances with Croatian National Bank	0.125	0.55	0.39	0.81
Placements with other banks	6.26	1.11	2.5	1.43
Assets at fair value through profit or loss	-	4.625	5.35	4.625
Loans to customers	10.83	4.29	9.4	8.59
Investments available for sale	10.33	-	7	-
Investments held to maturity	10.28	-	10	-
Tangible and intangible assets	-	-	-	-
Other assets	-	-	-	-
Of which at fixed interest rate	8.63	4.625	6.07	4.625
Total assets	9.59	1.20	7.45	0.87
Liabilities				
Deposits from banks	-	-	-	-
Deposits from customers	4.07	5.21	3.78	4.47
Borrowings	3.975	2.19	3.56	-
Provisions for contingent liabilities	-	-	-	-
Other liabilities	-	-	-	-
Of which at fixed interest rate	5.2	4.94	5.08	4.91
Total liabilities	4.05	5.04	3.76	4.47

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

	Assumed interest rate growth	Impact on profit and loss account 2009	Impact on profit and loss account 2008
Assets			
Cash and balances with Croatian National Bank	-%	-	-
Placements with other banks	1.00%	1,858	2,817
Loans to customers	1.00%	10,744	8,438
Other assets	-%	-	-
Liabilities			
Due to banks	1.00%	-	-
Due to customers	1.00%	9,794	10,130
Other borrowed funds	1.00%	1,935	989
Impact on net interest income		873	136

33. Currency risk

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

	<u>EUR</u>	<u>USD</u>	<u>Other foreign currencies</u>	<u>Total foreign currencies</u>	<u>HRK</u>	<u>Total</u>
Assets						
Cash and balances with Croatian National Bank	20,887	-	-	20,887	182,151	203,038
Placements with other banks	150,936	23,930	10,905	185,771	-	185,771
Assets at fair value through profit or loss	2,580	-	-	2,580	-	2,580
Loans to customers	533,187	1,486	-	534,673	539,764	1,074,437
Investments available for sale	39,359	-	-	39,359	39,610	78,969
Investments held to maturity	-	-	-	-	4,604	4,604
Tangible and intangible assets	-	-	-	-	45,915	45,915
Repossessed property	-	-	-	-	11,603	11,603
Other assets	5,059	9	-	5,068	35,020	40,088
Total assets	752,008	25,425	10,905	788,338	858,667	1,647,005
Liabilities						
Deposits from banks	5	-	-	5	-	5
Deposits from customers	683,268	21,241	40,476	744,985	399,910	1,144,895
Borrowings	48,214	-	-	48,214	145,299	193,513
Other liabilities	13,642	575	-	14,217	16,799	31,016
Provisions for contingent liabilities	-	-	-	-	1,522	1,522
	745,129	21,816	40,476	807,421	563,530	1,370,951
Net foreign exchange position	6,879	3,609	(29,571)	(19,083)	295,137	276,054
Contingent liabilities and commitments	11,433	6,752	-	18,184	160,820	179,004

33. Currency risk (continued)

As at 31 December 2008, the Bank had following foreign exchange position:

	<u>EUR</u>	<u>USD</u>	<u>Other foreign currencies</u>	<u>Total foreign currencies</u>	<u>HRK</u>	<u>Total</u>
Total assets	233,218	24,832	5,040	263,090	1,222,649	1,485,739
Total liabilities	417,760	26,180	10,981	454,921	860,303	1,315,224
Net foreign exchange position	(184,542)	(1,348)	(5,941)	(191,831)	362,346	170,515
Contingent liabilities and commitments	15,146	10,380	285	25,811	197,953	223,764

The table below presents the sensitivity of the Bank's net assets and profit or loss to fluctuations in the CNB's middle exchange rate. If the same assumed percent change would be applied to the decrease in the middle exchange rate of the CNB, the impact on profit or loss by individual currency on a net basis would be equal and opposite, that is, the total impact on all currencies would be a charge to the 2009. The result of the exchange rate changes is reflected in the income statement as foreign exchange gains or losses.

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

Currency as at 31 December 2008	Assumed increase of CNB's middle exchange rate	Impact on profit and loss account	Impact on profit and loss account	Impact on profit and loss account
		Assets	Liabilities	Net
EUR	0.34%	1,804	2,097	(293)
USD	1.86%	476	544	(68)
Other currencies		57	53	4

34. Fair value of financial assets and liabilities

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

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

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

Loans

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

Deposits from banks and customers

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

Borrowings

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

35. Related party transactions

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

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

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

As at 31 December 2009 and 31 December 2008, the major part of the Bank's share capital is held by Agram Group companies (Euroherc osiguranje d.d., Jadransko osiguranje d.d., Agram životno osiguranje d.d., Euro daus d.d.d i Euroleasing d.o.o.).

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

Transaction type	Board members		Related companies	
	2009	2008	2009	2008
Loans				
Opening balance	1,693	486	25,422	65,173
New loans granted	51	1,302	161,838	257,025
Loans repaid	(90)	(95)	(154,425)	(296,776)
Closing balance	1,654	1,693	32,835	25,422
Interest income	77	71	4,048	10,665
Loans and deposits received				
Opening balance	1,610	1,636	136,905	174,776
New deposits and loans received	578	-	348,849	399,174
Deposits and loans repaid	0	(26)	(384,772)	(437,045)
Closing balance	2,188	1,610	100,982	136,905
Interest expense	(21)	(50)	(3,938)	(9,277)
Fee and rental income	1	7	660	4,404
Fee and other expenses	-	-	(10,032)	(11,847)
Personnel and fee expenses	(846)	(843)	-	-
Total income	78	78	4,708	15,069
Total expenses	(867)	(893)	(13,970)	(21,124)
Dividends paid	-	-	7,089	3,947
Fee and other receivables				
Interest and fees receivables	-	-	746	1,116
Other receivables	-	-	7,666	14,476
Liabilities				
Interest payable	-	-	-	69
Liabilities to suppliers	-	-	414	110
Liabilities for credit cards operations	-	-	586	-
Off-balance sheet items				
Guarantees issued	-	-	18,267	40,645
Revolving loans	-	-	2,276	1,623

35. Related party transactions (continued)

In the year 2009, remunerations to the Supervisory Board members amounted to HRK 486 thousand (2008.: HRK 486 thousand).

36. Contracted liabilities for operating lease of vehicles and equipment

As at 31 December 2009 the Bank has 74 operating lease agreements for vehicles and equipments. Contracted annual operating lease liabilities are as follows:

	<u>2009</u>	<u>2008</u>
Within a year	2,962	3,415
From two to five years	<u>6,005</u>	<u>9,731</u>
	<u>8,967</u>	<u>13,146</u>

37. Contracted liabilities for business premises leases

As at 31 December 2009 the Bank has 16 lease agreements for business premises. Contracted annual lease liabilities for business premises are as follows:

	<u>2009</u>	<u>2008</u>
Within a year	6,361	2,634
From two to five years	25,043	10,536
From five to ten years	<u>31,255</u>	<u>13,170</u>
	<u>62,659</u>	<u>26,340</u>

Notes to the financial statements

For the year ended 31 December 2009

(All amounts are expressed in thousands of kunas)

38. Approval of financial statements

The financial statements as shown on pages 4 to 57 were approved and signed by the Management Board on 16 April 2010.

Signed by the Management Board:

President

Nelsi Rončević



Vice president

Ivan Dropulić

