HRVATSKA POŠTANSKA BANKA d.d.

Annual Report 2009

Zagreb, April 2010

Contents

Introduction

The Annual Report comprises the summary of financial information, description of operation and the audited financial statements, including Independent auditors' report for the year ended 31 December 2009, in Croatian and English.

Legal form

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

The Annual Report is prepared in compliance with the Accounting Law and the Companies Act, which prescribe reporting of the Management Board to the shareholders at the General Assembly. According to the Accounting Law the statutory financial statements are balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements, and the Companies Act, paragraph 250.a and 250.b, prescribes submission of the Annual Report showing the position of the Bank and other members of the HPB Group and consolidated Annual Report of the Group.

Abbreviations

In the annual financial statements, Hrvatska poštanska banka d.d. is referred to as “the Bank” or “HPB”, Hrvatska poštanska banka Group is referred to as “HPB Group” or “the Group” , the Croatian National Bank as “the CNB”, the Republic of Croatia as “RH” and the Croatian Bank for Construction and Development as “HBOR”.

Exchange rates

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

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

Summary of operation and key financial indicators

in HRK million

Group	2009	2008	2007	2006	restated 2005
Key indicators					
Net profit for the year	(447)	4,5	129	90	90
Total assets	14,108	14,715	14,561	11,270	7,283
Loans and advances to customers	7,869	8,129	7,288	5,980	2,943
Deposits	10,701	11,116	10,714	8,654	5,056
Equity	637	911	956	825	749
Other indicators					
Return on share capital	-68.29%	0.77%	22.05%	15.33%	15.42%
Return on assets	-3.15%	0.03%	0.89%	0.80%	1.24%
Operating expenses[1]/operating income ratio	88.51%	75.99%	64.17%	73.39%	60.93%
Regulatory capital	1,037	1,197	1,181	888	682
Capital adequacy	10.32%	11,53%	12.19%	11.75%	16.45%

Bank	2009	2008	2007	2006	restated 2005
Key indicators					
Net profit for the year	(449)	9	121	101	90
Total assets	13,981	14,637	14,536	11,278	7,283
Loans and advances to customers	7,823	8,097	7,286	5,998	2,943
Deposits	10,585	11,044	10,691	8,651	5,056
Equity	647	924	964	840	749
Other indicators					
Return on share capital	-68.59%	1.49%	20.68%	17.29%	15.42%
Return on assets	-3.21%	0.06%	0.83%	0.90%	1.24%
Operating expenses[1]/operating income ratio	88.55%	75.66%	63.65%	70.27%	60.93%
Regulatory capital	1,012	1,156	1,135	866	682
Capital adequacy	10.13%	11.19%	11.73%	11.45%	16.45%

[1]*general and administrative expenses and depreciation*

President of the Supervisory Board's Statement of Condition

Dear shareholders, business partners, clients,

I present to you the Annual Report of the HPB Group for the year ended December 31 2009.

In line with events occurring in global economy and spill-over effects of the financial crisis affecting financial and real sector in Croatia, results of the Group and the Bank, reflect, among other things, stagnation of economic activities during 2009. Accordingly, the Bank has taken a market share of 3.7 percent at 2009 year-end, which represents a decrease of 0.3 b.p. in relation to last year, with simultaneous decrease of 4.6 percent of the Bank's total assets. Decrease of market share and assets is a result of formed provisions for impairment losses on loans and other assets in amount of HRK 509.4 million, which also affected the Bank's result for the year, i.e. loss after tax amounting to HRK 448,8 million.

However, it should be emphasized that retail deposits increased by HRK 239.4 million during 2009, wherein the increase in term deposits amounted to HRK 578,9 million, indicating trust in the Bank by its clients in spite of presented losses in conditions characterized by strong market competition.

Bank's capital base was strengthened during 2009 by an investment in additional capital through issued hybrid instruments in amount of HRK 250 million, made by state companies and state units. Hybrid deposit of Croatian Post in amount of HRK 110 million was converted to the Bank's share capital.

Bank's Supervisory Board is aware of the challenges that lie ahead of the Bank in following years in order to fulfill its role in Croatian banking system. To achieve this, an extraordinary engagement of every participant in the Bank's operating and managing processes is required. Therefore, Supervisory Board has undertaken adequate steps which resulted in the change of the Bank's Management Board, in order to realize all goals previously set.

On behalf of the Supervisory Board of Hrvatska poštanska banka, I would like to use the opportunity to thank all our clients and business partners for their confidence during the previous year. I would also like to thank to all the employees of the Group on their high quality and professional performance, and to all Supervisory Board members for their cooperation and to the Management Board of Hrvatska poštanka banka for their management of the Bank.

I would like to thank all clients, business partners and shareholders for their confidence during last couple of years, as well as to all the members of Supervisory Board, Management Board and employees, who represent foundation for future development of the Group and the Bank. I would also like to wish the new Management Board members to be successful in their work full of challenges, and I believe that we shall realize better results in the following year through an optimization of operating process and efficiency, which will improve the Bank's market position.

dr. sc. Zdravko Marić
President of the Supervisory Board

President of the Management Board's Statement of Condition

Dear shareholders, business partners, customers,

On behalf of the Management Board, I am presenting you the results of Hrvatska poštanska banka and HPB Group for the year ended December 31 2009, albeit I have held the position of President of the Management board for a lesser part of the business year, from September 10 2009.

During 2009, Hrvatska poštanska banka has conducted it business activities in conditions of declining economy, not only in Republic of Croatia, but in the better part of the world also. Croatian financial market was characterized by severe lack of liquidity and undermined trust in the first half of 2009, which had consequences on creditworthiness of real sector and citizens. The Bank's assets at December 31 2009 totaled HRK 14.0 billion representing a decrease of 4,5 percent compared to last year, mainly due to formed provisions for impairments on loans and other assets in amount of HRK 509,4 million. On the other hand, Bank's credit activity continued to grow by slower dynamics, reflected through an increase of 1.4 percent of gross loans, while net loans simultaneously decreased by 3.2 percent because o formed provisions for impairment losses. Within structure of gross loans as at December 31 2009, share of loans to companies and state units equals 65 percent, and 35 percent relates to retail clients.

In the deposit structure, retail deposits had a share of 54 percent, corporate deposits represented 43 percent and deposits from other banks had a share of 3 percent. Therein, term deposits increased by 3.3 percent or HRK 204.1 million in relation to last year. In line with the Bank's orientation on stable and more favorable sources of funding, retail term deposits increased by HRK 578,9 million or 19 percent during 2009.

Bank's capital base was strengthened during 2009 by an investment in additional capital through issued hybrid instruments in amount of HRK 250 million, while a hybrid instrument of HRK 110 million was converted to share capital.

After tax loss in 2009 amounting to HRK 448.8 million was mainly influenced by impairment losses on loans and other assets in amount of HRK 509.4 million, wherein HRK 457.6 million relates to provisions for losses on loans and interest receivables, and HRK 35.2 million to impairment losses on financial instruments and equity investments. Operating income during 2009 amounts to HRK 582,8 million, representing a decrease of 1.6 percent in relation to last year, because of negative impact resulting from high interest expenses during first half of the year in conditions of aforementioned narrow liquidity. Net interest income is accordingly lower by 19.3 percent in relation to 2008, while gross interest income increased by 3.8 percent, in spite of a higher share of non-performing loans in the Bank's total assets. At the same time net income from fees and commissions increased by 3.8 percent in 2009. The Bank also realized gains from trading financial instruments in amount of HRK 31.8 million, reversing losses amounting to HRK 95,9 million during 2008.

Positive movements in 2009 can be seen in the Bank's distribution channels – number of ATMs increased by 6.9 percent, EFTPOS terminals increased by 5.0 percent, and number of users of internet-banking services increased by 32.5 percent, compared to last year. At the same time, number of Bank's cards increased by 9.2 percent or 877 thousand. Electronic distribution channel is at December 31 2009 comprised of 218 ATMs and 1651 EFTPOS terminals.

The Bank's branch network at 2009 year-end is consisted of 9 branches, 30 outlets and 13 detached tellers. The Bank has become even more available to its clients throughout the country during 2009, by opening two new outlets, in Zagreb and Šibenik, and nine detached tellers, of which seven were opened through combined business partnership with Croatian Post. Products and services are available to clients through over 1,100 post offices, which makes the Bank's services available in practically every part of Croatia.

On the behalf of the Management Board I would like to emphasize that our efforts, as well as efforts of all employees of the Bank, will be directed on consolidation and rationalization of business processes, which will establish foundation for healthy growth of the Bank in all of its business segments, and will also enable its market expansion.

mr. sc. Čedo Maletić
President of the Management Board

Macroeconomic developments in the Republic of Croatia in 2009

Economic activity has decelerated during 2009. In the first quarter of 2009 real GDP has increased by 4.3% in respect to first quarter of 2008, in the second quarter growth rate decelerated and amounted to 3.4%, and in third – normally strongest – quarter there was further deceleration resulting in 1.6% growth, while according to preliminary data, the growth rate in the fourth quarter amounted to 0.2%, which is the slowest quarterly growth in the period from 2000 to 2009. With respect to quarterly growth rates, the year on year growth rate of economic activity during 2009 was 2.4 percent, which represents a slowdown with respect to 2008 (real growth rate of 5.6%), whereby the growth rate decreased to almost half of multi-year average real growth rate of GDP (4 percent). Physical volume of industrial production (which represents a quarter of GDP) has grown by 1.6 percent during 2009. Slowdown of economic activity in manufacturing industry has begun by mid-year which was manifested through an increase in inventory stock of final products by 10 percent in the second half of 2009. Biggest slowdown was experienced in personal consumption, export of goods and services, and in investments, while there was only a moderate decrease in imports of goods and services. Viewing by sector, manufacturing industry has slowed greatly, followed by trade, hotels and restaurants and a mild deceleration in financial services sector.

At 2009 year-end, there were 1,519 thousand employed, which is an increase of 38 thousand or 2.6% than at 2008 year-end. There were 241 thousand unemployed citizens, which is a decrease of 13 thousand or 5% than at 2008 year-end, whereby, according to official calculation, unemployment rate amounted to 13.7%, i.e. was 1 percentage point lower than at 2008 year-end. Continuation of seasonal reduction in number of employed citizens since summer's end, when the number of unemployed citizens amounted to 1,560 thousand, was influenced by the economic slowdown. Average nominal net salary for the year 2009 (12 months, salary payed) amounted to HRK 5,178, representing a real increase of 0.8% compared to the same period last year, while average nominal gross salary amounted to HRK 7,544, representing a real increase of 0.9% compared to the same period last year.

Prices of goods and services for personal consumption, measured by consumption prices index, in last year were by 6.1% (average on average) higher compared to 2008. Upsurge of inflation rate was a result of the spill-over of foreign prices of energy and raw materials on domestic prices has begun in second half of 2008 and continued until July 2009, when annual inflation rate (July 2009 on July 2008) amounted to 8.4 percent, additionally strengthened by seasonal effects. Influence of passing of seasonal effects and deceleration of foreign prices of energy and raw materials, resulted in decrease of inflation rate, which decreased to 2.9 percent in December. Within the consumer basket, the biggest growth in 2009 (measured by average 2009 on average 2008) was in price levels of food and non-alcohol drinks (10%), fuel and energy (6.8%, whereby prices of liquid fuels rose by 24.6%), alcohol drinks (5%), furnishings and house maintenance (4.8%), while the price of clothing and footwear increased by smallest margin (2.7%).

Total exports of goods of the Republic of Croatia in 2009 amounted to HRK 69.142 million (EUR 9.577 million), while imports of goods amounted to HRK 150.362 million (EUR 20.818 million). Foreign trade deficit amounted to HRK 81.220 million (EUR 11.242 million), whereby export/coverage amounted to 45.9 percent. Most important Croatian foreign trade partners include EU members (60.7%), with Italy (30.5%), Germany (18.0%), Austria (9.4%) and Slovenia (13.1%). Positive trends are evident in trade with CEFTA members after various agreements were signed, whereby the growth rate of exports (24.0%) was significantly higher than import growth rate (+4,9%). Foreign direct investments in the Republic of Croatia have also experienced slowdown and amounted to EUR 2.2 billion during the first three quarters of 2009.

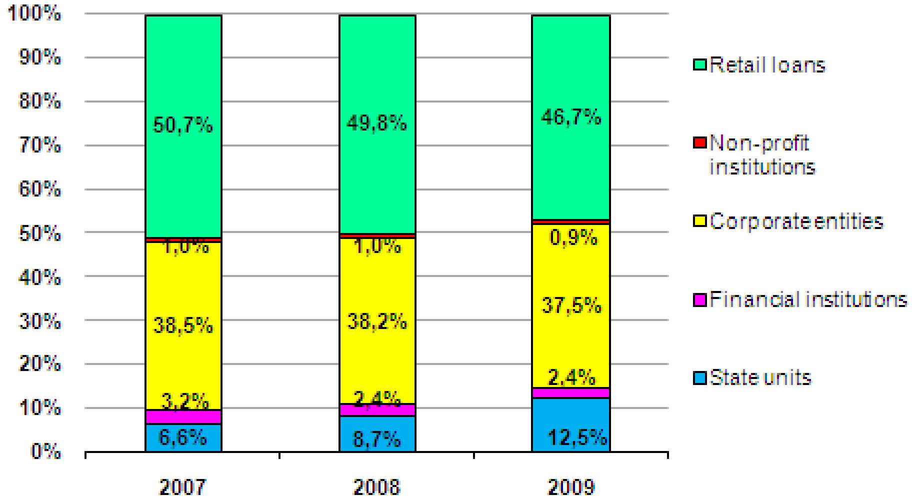
The foreign debt increased by EUR 5.8 billion during 2009, and at the end of December amounted to EUR 39.0 billion, with growth rate of 17.4%. Changes in sectoral structure of the debt continued to occure; State has diminished its share in total debt, while other domestic sectors (mostly commercial companies) have raised their share by than 3 percentage points, and accordingly have a share of 43.8 percent in gross foreign debt of Croatia.

Croatian Kuna has nominally and really strengthened towards main foreign currencies during 2009. Thereby exchange rate towards Euro at 2009 year-end was nominally higher by 1.4 percent in respect to exchange rate at 2008 year-end. Kuna was really (measured by consumer price levels differences) was stronger by 0.4 percent with respect to 2008 year-end.

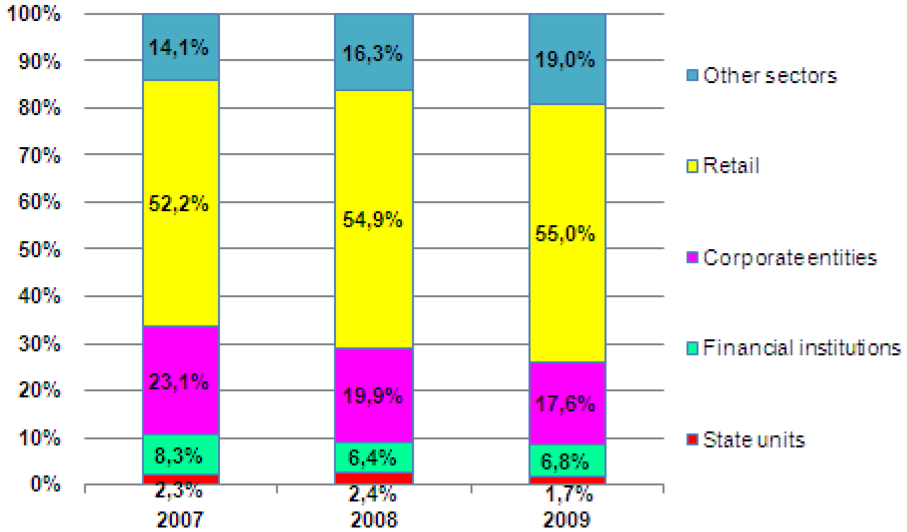
In 2009 Croatian National Bank continued its precautionary monetary policy in scope of limiting the growth of placements and destimulating further foreign indebtedness of banks, up until the end of the year when first signs of slowdown of economic activity were noted. Bank placements to clients have reached HRK 233.0 billion at 2009 year-end, and were on average 11.6 percent higher than at 2008 year-end. At the same time, total liquid assets (M4) have reached HRK 225.0 billion with annual growth rate of 4.3 percent, which due to the economic slowdown is same as the level reached in August.

In spite of the economic slowdown, the banking system of the Republic of Croatia in 2009 was stable, liquid and profitable. Total assets of banks, according to non-audited information published by the CNB, at the 2009 year-end amounted to HRK 370.6 billion, representing 7.4% increase compared to previous year, which compared to 14% in 2008 represents a slowdown of growth. The increase of the banks' assets mostly resulted from the increase in loans, which constituted 67% of total assets. Share of retail loans in the banks' credit portfolio structure amounted to 49.7%, loans to commercial sector amounted to 38.2% and state loans 8.7 percent. Assets increase was enabled with growth in deposits, which have reached HRK 247.8 billion (among them prevailing term retail deposits with foreign currency clause), which is a consequence of return of savers to banking instruments after 50 percent decline in value of equity instruments. According to non-audited information profit before taxation of all banks in 2009 amounted to HRK 5.8 billion which is an increase of almost HRK 700 million or 14% in relation to last year. Interest income had a largest share in these results (77%), followed by fee and commission income with a modest 15 percent share. Return on average asset amounted to 1.6%, while the rate of return on equity remained amounted to 11.6% in 2009.

Total loan structure per sector (in pct.)



Total deposit structure per sector (in pct.)



Description of the Group's operation

Hrvatska poštanska banka d.d.

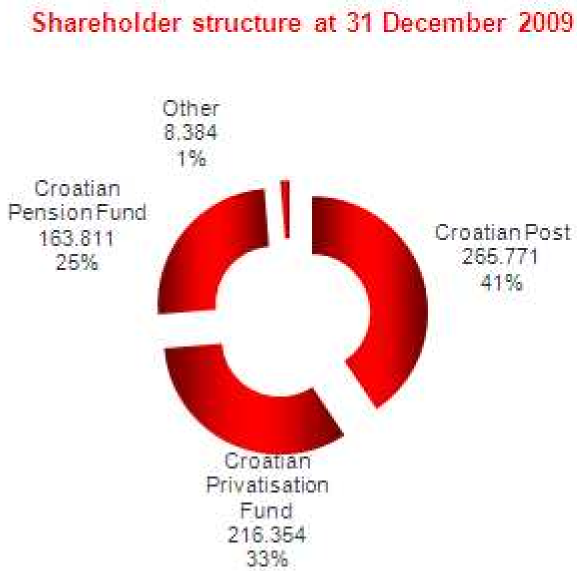
Hrvatska poštanska banka d.d., Zagreb, was founded and registered as a joint stock company in accordance with applicable regulations of the Republic of Croatia, and is authorised to perform banking activities in the Republic of Croatia. The Bank's Management Board is in Jurišićeva 4, in Zagreb. At 31 December 2009, the Bank operated through nine branches, thirty outlets and thirteen detached tellers.

The Bank's main activity is operation in all kinds of deposit and loan activities for corporate and retail customers in domestic and foreign currency, performance of domestic and foreign payment transaction activities, issue of guarantees, sureties and other forms of guarantees, trade in foreign currency and securities and other banking activities.

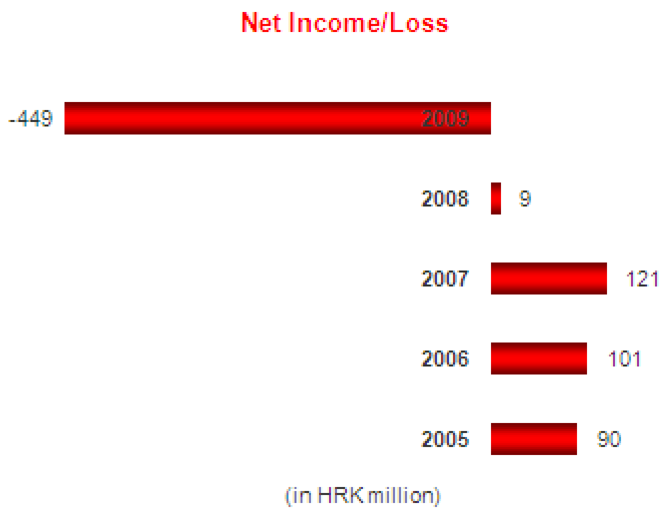
As a domestic bank, HPB is in the group of leading banks in the Republic of Croatia, which, with its assets in the amount of HRK 14,0 billion and its share capital, is ranked seventh among 32 banks altogether.

According to currently applicable Payment Transaction Law, Croatian Post is no longer the main payment system distribution channel, but is authorised to perform cash payment transactions on behalf and for Hrvatska poštanska banka, which makes her a participant in cash payment transactions.

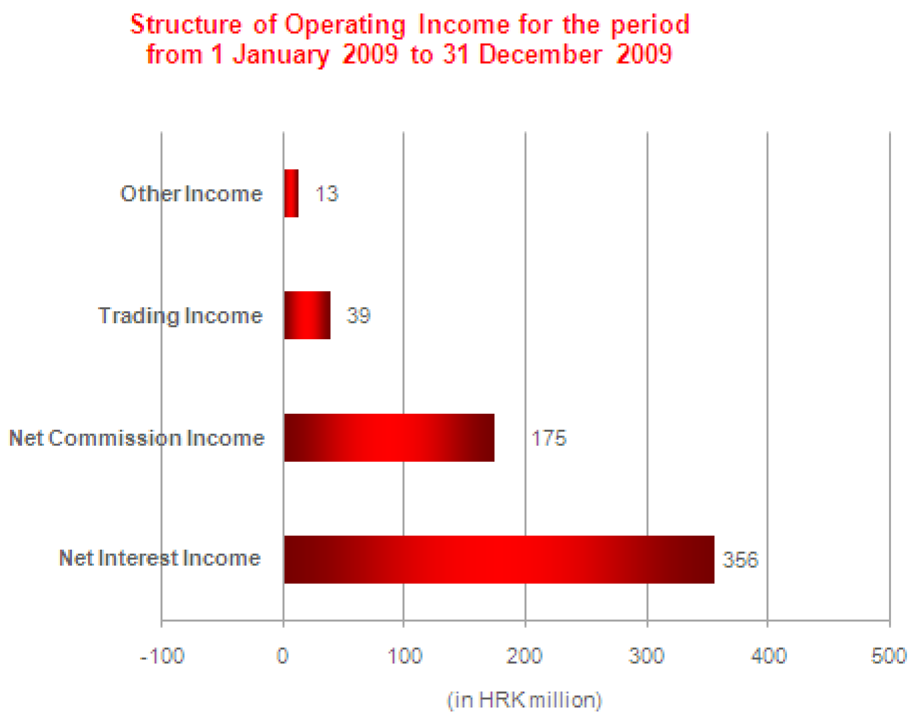
The Bank is 100% owner of HPB Stambena štedionica d.d., HPB Invest d.o.o., the investment fund management company, and HPB Nekretnine d.o.o., the company for real estate and construction, which together form the HPB Group.



In 2009, the Bank made provisions for losses on loans and other securities of assets amounting to HRK 509.4 million. These losses exceeded realized net operating income and therefore loss after tax amounts to HRK 448.8 kuna.

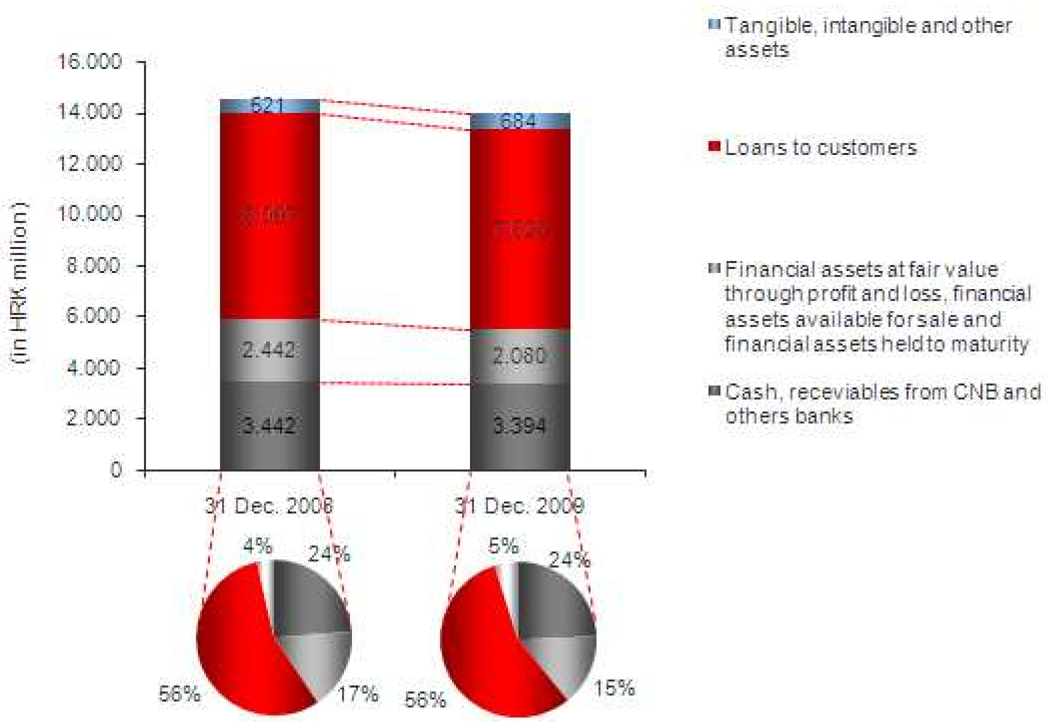


Total operating income decreased by 1,6% compared to 2008. The most significant part of operating income is net interest income, representing 61,1% (HRK 356,3 million) of total income.



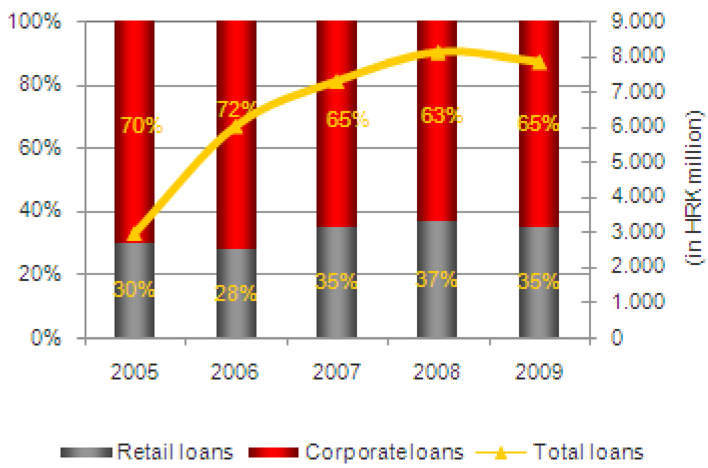
At 2009 year-end, the Bank's assets amounted to HRK 13,981 million, representing a HRK 656,2 million or 4.5% decrease compared to 2008. The most significant part within assets structure are loans and advances to customers (56.0%), placements with and loans to other banks and the CNB obligatory reserve (24.3%), and financial assets at fair value through profit or loss (6.8%).

Assets Structure



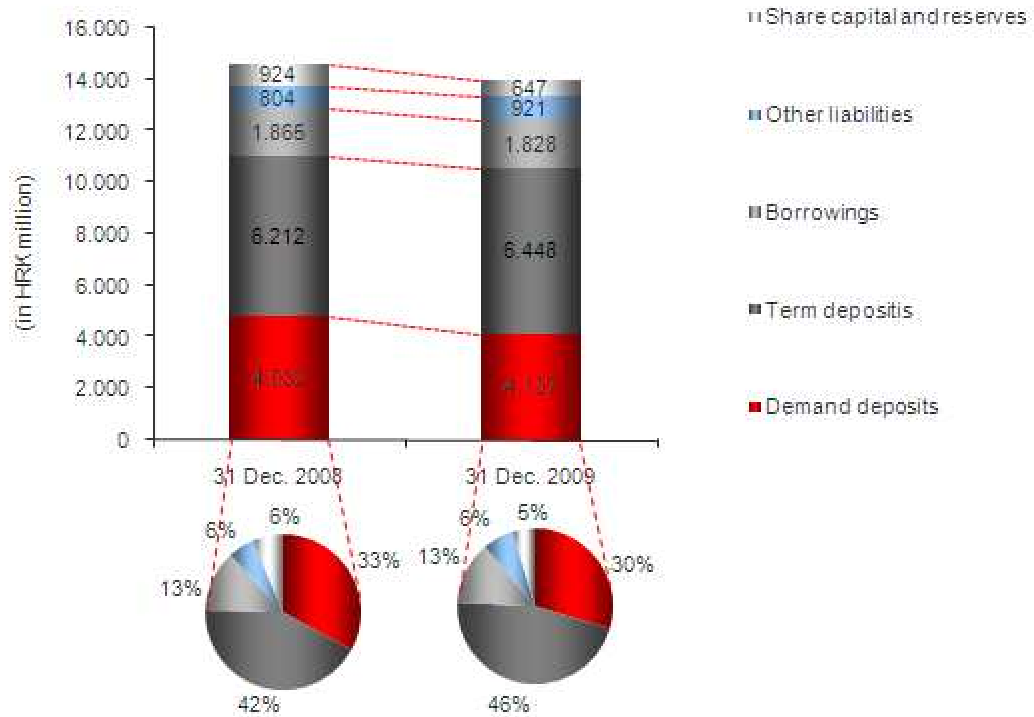
At 31 December 2009, total loans amounted to HRK 7,822.6 million, representing a 3.4% decrease compared to 2008 for established loan losses. The loan portfolio structure is comprised of corporate loans which represent 65.3 percent and retail loans representing 34.7 percent.

Structure and Movement in Net Loans



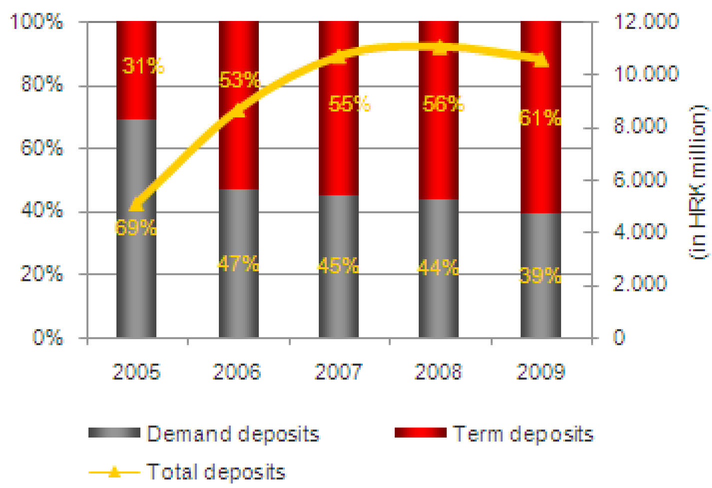
The most significant part within liabilities are term deposits (46.1%), and demand deposits (29.6%).

Liabilities Structrue



In 2009 deposits from customers and banks decreased by 4.2% compared to 2008. The structure of deposits is dominated by term deposits (60.9%), compared to demand deposits (39.1%). In 2009, term deposits increased by 3.3%, and their share within the structure of total deposits increased by 4.6 percentage points (from 56.2% to 60.8%). Demand deposits in 2009 recorded a decline of 14.4 percent, due to economic conditions that influenced the deterioration of the liquidity of the real sector.

Structure and Movement in Deposits



Retail operation

HPB performs retail operation through its own operational network which comprises 9 branches, 30 outlets, 13 detached tellers and through more than 1,100 post offices throughout the territory of the Republic of Croatia.

In accordance with its development strategy aimed at better acquaintance to customers with its products and services, in 2009, the Bank opened new outlets in Zagreb and Šibenik, eight detached tellers, of which seven in the Agro branch Osijek and one in Split Branch.

Besides its operational network expansion, HPB continued to develop and improve direct banking distribution channels and installed 14 new ATMs which represent an increase of 6.9% and 78 EFTPOS terminals or a 5.0% increase compared to last year. At the end of 2009, the Bank had its own network of 218 ATMs and 1,651 EFTPOS terminals.

In scope of developing and improving the relationship with its retail customers, in 2009 the Bank expanded its palette of loans, savings and credit card products.

The overall structure of deposits, retail deposits constitute 54.1 per cent. In the past year increased by 3.2 percent and at 31 December 2009 amounted to HRK 5.7 billion. From that, demand deposits were 2.1 billion and decreased by 15.2 percent from the state at 31 December 2008 and term deposits were 3.6 billion and increased 19.0 percent. The high growth of time deposits is a result of expansion of business networks, and policies stimulating interest on fixed-term savings in the final quarter of 2009.

Total gross loan portfolio in 2009 decreased by 3.5 percent and at 31 December 2009. amounted to HRK 3.0 billion. In total gross loans and advances structure, retail loans make up 36.5 percent, where the main part relates to non-purpose loans and used credit lines .

Among other activities within retail operation we point out the continuation of the improvement of business cooperation with Croatian Post, Financial Agency and other state institutions.

Corporate operation

At the end of 2009 the total gross loans to companies amounted to HRK 5.5 billion, representing an increase of HRK 251.9 million or approximately 4.8 percent. In the loan structure, long term loans make up of 70.7 percent and 29.3 percent relates to short-term loans. For long-term loans funds were used from HBOR and own long-term resources. At 31 December 2009 total deposits of legal entities (excluding deposits of banks) amounted to HRK 4.5 billion, representing a decrease of 12.4 percent compared to 2008.

In line with economic developments during 2009, SME loan portfolio of was slightly reduced, while total gross loans to a business segment of large enterprises and public sector increased by 10.2 percent or 330.0 million, and make up to 65.0 percent in total corporate loans structure.

The Bank also continued its cooperation with institutions providing support to small and medium entrepreneurship (HAMAG, USAID, the Ministry of Economy, Labour and Entrepreneurship, the Ministry of Sea, Tourism, Traffic and Development), and towns, municipalities and counties in the Republic of Croatia.

Investment banking

During 2009, the Investment Banking Division continued with its operations as an agent in trade of securities on the domestic as well as on regional financial markets.

Year 2009 has, given the global situation on capital markets and the impact of stagnation in the U.S. and other economies, seen the through and beginning of renewed growth of capital markets. Decline in the liquidity of shares and reduced investor interest for investment and increased need for liquid funds of clients, which is manifested through the withdrawal of a large portion of assets in the portfolio management segment of customers, had a significant impact on the total value of assets under management, which declined for 84 percent this year.

In 2009, the Croatian Postal Bank as agent and underwriter successfully implemented sales of three tranches of commercial paper of joint-stock company H1 Telekom with a total nominal value of EUR 14.2 million, as well as bonds with foreign currency clause issued by the company HP - Croatian Post in nominal value of EUR 21 million. In addition, by the end of 2009, a contract on arranging bond issues in amount of EUR 20 million was signed with HP-Croatian Post, with implementation planned in January 2010.

In the brokerage business segment, the Bank continued to mediate in trading financial instruments during 2009, both at national and regional financial markets. Throughout the past year, as well as the previous one, the Bank has pursued a policy of reducing credit exposure in the field of business with margin loans that at 31 December 2009. amounted to HRK 28.7 million of which 8.2 million were unused. This amount represents a decrease in placements in the amount of HRK 35,5 million in relation to the end of 2008.

The company's yearly total turnover of the Bank and its clients in the domestic market amounted to HRK 195 million, while the annual turnover in regional financial markets (Montenegro, Macedonia, Serbia and Bosnia and Herzegovina) amounted to HRK 48 million, and directly on global financial market HRK 9 million. In providing services on regional markets, the best turnover was realized in Montenegro, totaling HRK37 million.

Treasury operation

World financial crisis that spilled over to domestic market continued in the first half of 2009. Treasury has managed to maintain a stable situation through sound management of liquidity in spite of great market instability and high growth of interest rates.

In 2009 the Bank was one of the leading banks in domestic money market, as evidenced by a significant increase of repo transactions and transactions concluded on the money market. Good cooperation with a number of investment funds was continued throughout 2009, despite a large asset decline of fund industry and cautious trading.

In conditions of crisis, the Bank has successfully used all measures and instruments of CNB's monetary policy. In fact the most used instruments were Treasury Bills issued by Croatian Ministry of Finance, which were combined in repo auctions and lombard loans. Investment policy concerning Treasury Bills has been successfully demonstrated, as well as importance of the Bank as an investor taking place among leading investors ranked by amount of Treasury Bills subscribed.

Although in 2009 there were no new bond issues of the Ministry of Finance, the Bank continued to cooperate with the Ministry of Finance, taking part as an arranger of all syndicated loans in 2009. Also, the Bank has participated in financing the state through *swap* transactions with the Croatian National Bank.

The Bank has also been a leading participant in the trading of debt securities on the Croatian market, with a substantial portfolio of high quality debt and equity securities.

Although trade of securities in the first half of the year remained low, with calming of the liquidity crisis and overall situation in the market, trade became intensified again at the end of the year, where the Bank, as already mentioned, was one of the most important participants.

Cooperation with customers through the Risk Products Sales Department and Foreign Exchange Trading Department is confirmed by the increased number of foreign exchange transactions. Further narrowing of spreads and increased competition, was compensated with acquiring new customers. Good contacts with foreign banks contributed also to this. The Bank also increased the volume of trading with foreign banks.

Also, the Bank continued successful cooperation with FINA collecting center for foreign currencies. It should be noted that six other banks use the services of our Bank in the business of trading banknotes on a daily basis.

During the year, the Bank continued to advance new interface for Treasury's business operations, that lead to better risk management and processing of increased number of transactions.

Internal controls system and internal audit

Internal controls are a constituent part of the managing process of the Management and all employees of the Bank. Supervision of elements of internal control, which is established by acts and procedural documents, is carried out by accountable persons of business areas and by functions of internal audit.

The Bank’s Management has set out principles of the internal control system that are reflected through:

- clear lines of responsibility;
- separation of duties and activities;
- specific control procedures; and
- effective internal audit function.

The goal of internal controls and control procedures is to ensure the correctness of financial data on Bank’s position, and are divided to:

- administrative – accounting controls;
- detection controls; and
- correction controls.

Internal audit

The internal audit was organised as an independent function which is based on professional principles of internal auditing, beside the associated laws and regulations.

The audit is performed in accordance with general internal audit standards and regulatory requirements, in four following steps:

- planning;
- research;
- reporting; and
- results monitoring.

Planning is conducted through documented risk assessment, and the Yearly Operational Programme is adopted by the Supervisory Board with prior consent of the Management and the opinion of both the Audit Committee.

Report on audit results is submitted to the Bank's Management Board, Audit Committee and the Supervisory Board.

Reporting consists of the:

- Internal audit Report about performed auditing;
- Summary of the report; and
- Report about activities of the Internal audit.

Development plan

In next period, Hrvatska poštanska banka will tend to ensure continuous and healthy growth, applying and respecting security and stability principles. Improvement of cost management system, combined with optimization of business process, will result in increased profitability, with emphasis on operating income, especially non-interest income. Taking into account pronounced orientation of the Bank towards its clients' needs and quality of services rendered, the Bank will continue to develop its branch network, and will also continue to widen the palette of services and products it provides. As a contribution to economic growth, development programs will be supported in cooperation with state institutions, local administration and development banks. In order to realize all of this, the Bank will invest in development of its human resources and intellectual capital.

HPB Invest d.o.o.

HPB Invest d.o.o. (further referred as Company), is a company for investment funds management. The Company is 100% owned by Hrvatska poštanska banka. It was founded on 22 July 2005 and started with operations on 5 October 2005. Shareholders' capital of the Company amounts to HRK 13.5 million.

On 31 December 2009 Company was managing ten open-end investment funds and one closed-end investment fund with the public offer for investment into real estate HPB Real d.d., which entered a process of liquidation at the end of 2009. Assets under management amount to HRK 396.0 million, representing a decrease of 37.2% in relation to previous year.

Open-end investment funds with private offer, HPB Alpha, HPB Omega and HPB ZM-1 fund, had changed the structure of investors, combining with asset outflow, and the reduction in assets under management in this operating segment of the Company was primarily result of negative market impact. Therefore, in September 2009 the company issued a decision declaring a merger of the open-end investment funds with private offer with open-end investment fund with public offer - HPB Global Fund. With the consent of the Agency, funds merger was carried out at 31 December 2009.

Asset structure under management:

Fund	**Asset under management HRK '000**	**Yield from the beginning of the year %**
HPB Novčani fund	159,567	8,41%
HPB Obveznički fund	43,244	6,46%
HPB Global Fund	115,595	11,69%
HPB Dionički fund	23,311	15,49%
HPB Dynamic Fund	27,449	-17,75%
HPB Titan Fund	19,548	16,00%
HPB WAV	6,916	23,69%

Additionally, HPB Invest d.o.o. is managing Pension fund and making payments in accordance with selection of fund members and Pension funds Law. In December 2008 the Company has made payments to members of Pension fund as follows:

Model B, basic register

- HRK 714.0 million, third instalment

Model B, register of family pensions and highest pensions

- HRK 119.5 million, first instalment

As of 31 December 2009 the Company's total balance sheet amounted to HRK 20.1 million, and the Company achieved profit after tax in the amount of HRK 1.9 million.

Development plan

HPB Invest, as an investment fund management company will continue to be devoted to professional asset management as well as to providing high quality services to its clients in order to ensure the preservation of sustainable growth of financial assets. With continuous investment in development policy of the Company, which involves continuous professional, personnel, organizational and technological advancements, with more and more demanding legal and regulatory adjustment of operations, HPB Invest will provide a long lasting and attractive range of funds and investment products, that can, with professional management and adequate yields, meet the needs of investors, depending on their investment objectives, investment horizon and risk appetite.

Risks

The most significant types of financial risks which affect the Company are: credit risk, liquidity risk, market risk and operating risk. Market risk includes exchange rate risk, interest rate change risk and price risk. The Company manages risks in accordance with its prescribed policies and procedures of Hrvatska poštanska banka described in Note 2.

HPB Stambena štedionica d.d.

HPB Stambena štedionica ("the Company") was founded in April 2006. At 2009 year-end there are 37,227 registered savings contracted, with contractual amount of HRK 1,409,622 thousand.

Although the deterioration of economic conditions in 2009 influenced the decline of housing savings contracts at the level of the whole system by 10 percent, compared to the previous year, including the sales results HPB savings banks, unlike other savings banks in the market, whose main characteristic is contract renewal after expiry (after five years savings period), the Company has achieved an increase of the number of contracts exclusively with new clients. This has required more activity from the sales channels and the Company, creativity and the competitiveness of its products, which provides additional quality and performance to the realized sales for 2009. In 2009, as in previous years, the parent company, HPB d.d. was the primary sales channel of the Company and has brokered 85% of new contracts.

Despite the negative trend in sales, thanks to the cumulative effects of fee income from previous years, and to increased net interest income, combined with maximum efficiency of cost management, the Company achieved an operating profit amounting to over HRK 0.4 million, and reported overall profit after tax in amount of HRK 39 thousand. At the same time, the balance amount of 171 million is higher than the previous year by 66 percent.

Development plan

Continuation of the positive features of the financial operations of the Company with the active introduction of the Croatian Post as a strategically important distribution channels, as well as greater synergy with the parent company will be the basic objectives of the Company in the future.

Adding to the mentioned, new legal opportunities through active participation of saving banks in the financing of housing construction, that will activate development assumptions of the whole system, which would with an appropriate regulatory framework to create additional leverage that would encourage affordable housing savings and long-term stable financing of housing needs, modeled on the systems that exist in European countries.

Risk

The most significant types of risk that the Company is exposed to: credit risk, liquidity risk, market risk and operating risk. Market risk includes changes of exchange rates and risk of interest rate gap. The Company develops a comprehensive system of risk management by implementing policies and procedures and determining acceptable limits of risk according to prescribed policies and procedures of Hrvatska poštanska banka described in Note 2. Limits are determined for all types of risks in relation to regulatory capital

HPB Nekretnine d.o.o.

HPB Nekretnine d.o.o. is a company specialized in real estate market in a 100% ownership of the Bank, which started its business activities in August 2005. Shareholders' capital amounts to HRK 20.5 thousand.

The primary business activity of the Company are estimation of the real estate value, advisory services and buying and selling of the real estate.

As of 31 December 2009 balance sheet of the HPB Nekretnine. amounted to HRK 33.55 million, while the net profit for the period amounted to HRK 0.8 million.

Development plan

In the upcoming period the focus will be on the active promotion on the market and rise in quality of services rendered. Total efficiency and business activity will mostly depend on the team of experts, who will through efficient work in a competitive market strive to realize planned goals and measurable financial results. In the future we can expect the rise in demand for specific services which the Company offers and this increase in demand is a basis for the Company's business and development policy. Therefore, the Group will become more recognizable and a synergy effect will be accomplished.

Risk

The most significant types of risk that the Company is exposed to: credit risk, liquidity risk, market risk and operating risk. Market risk includes changes of exchange rates, risk of interest rate gap and price risk. The Company manages its risks according to prescribed policies and procedures of Hrvatska poštanska banka described in Note 2.

Statement on the application of the Corporate Management Codex

Application of the Corporate Management Codex

Aiming to achieve higher standards of corporate management, the Croatian agency for financial services supervision (Hrvatska agencija za nadzor financijskih usluga – "HANFA") and the Zagreb Stock Exchange (Zagrebačka burza d.d.) established a Corporate Management Codex which was adopted by HANFA – Type: 011-02/07-04/28, File number: 326-01-07-02 on 26 April 2007.

The Resolution for adoption of the Corporate Management Codex was published in National Gazette number 46/2007, and the Codex was published on the Internet pages of HANFA and the Zagreb Stock Exchange.

As a company whose shares are publicly quoted on the Zagreb Stock Exchange, the Bank has voluntarily implemented recommendations in accordance with the above-mentioned Codex during 2009, with some exceptions in respect of concentrated ownership structure and specificities of the banking sector. In that context, the Bank does not ensure authorized confidants to shareholders who are not capable to that themselves out of any reason, without uncommon expenses for these shareholders, who are obliged to vote in General Assembly in line with Commercial Companies Act and the Bank's Statute. During the process of increasing share capital of the Bank in 2009, through issue of new shares, existing shareholders were not enabled to participate in this recapitalization according to their shares in then existing share capital, because new shares were issued by converting claims based on cash payments made into Bank's additional regulatory capital, with exclusion of priority rights of existing shares. During 2009, the Supervisory Board did not set up an appointment committee nor a reward committee and no policy for Management and Supervisory Board rewards has been published, the Bank does not have a long term succession plan, and majority of Supervisory Board members do not have independent member status. In 2009, detailed explanations relating to recommendations not adopted, or departures from certain Codex recommendations were included in an annual questionnaire published by the Bank. This questionnaire forms a constituent part of the Codex and is submitted to the Zagreb Stock Exchange together with the annual financial statements for public disclosure, and is published on the Bank's web site.

Together with Codex recommendations, considerable efforts were made with the aim of constructing adequate corporate management in the Bank with awareness of and focus on the Bank's structure and organization, as well as strategy and business goals, the distribution of authority and responsibility with particular emphasis on efficient procedures for the determination, measurement and monitoring of risks in the Bank's operations, as well as establishing corresponding internal control mechanisms.

A description of basic items of internal supervision in the Company and risk management in respect of financial reporting are provided in the description of the Bank's operations in Note 2.

Significant shareholders and limitations on share rights

The Republic of Croatia is the major indirect shareholder within the Bank's ownership structure, through funds which are not included in the state budget (the Croatian Institute for Pension Insurance and the Croatian Privatisation Fund) and public companies (Croatian Post), so that the Republic of Croatia holds an indirect share amounting to over 98% of total share capital and with its voting rights at the General Assembly entirely controls the Bank. Besides the above, there are no shareholders in the Bank's ownership structure with special controlling rights. According to the Bank's Statute, voting rights are not limited in any way, nor are there any other limitations in respect of the realization of voting rights.

Rules for the appointment and removal of Management Board members, bringing amendments to the Statute and certain Management Board authorities

In accordance with the Bank's Statute, the Management Board consists of a minimum of two and maximum of five members, and decisions regarding the number of members are brought by the Supervisory Board. Members of the Management Board and the President of the Management Board are appointed by the Supervisory Board for a period of up to five years, and can be reappointed with no restriction. Only individuals who meet the criteria prescribed in the Credit Institutions Act and who have the prior approval of the Croatian National Bank can be appointed as Management Board members.

The Supervisory Board can bring a decision to remove the President of the Management Board and Members of the Board when there are valid grounds for such a decision, and the President and Members of the Management Board can resign by submitting their resignation in writing.

The Statute can only be amended with a General Assembly decision. A decision is considered brought if voted for by members representing at least three quarters of share capital represented at the General Assembly. A proposed Decision on amendments to the Statue are presented by the Management Board to the Supervisory Board who is authorized to accept the proposal and refer it to the General assembly for consideration, whereupon the proposed Decision on amendments to the Statue is published in the "National Gazette".

The authority, responsibilities and obligations of The Bank's Management Board in managing the Bank's operations, and in representation and presentation of the Bank are determined by the Commercial Companies Act, the Credit Institutions Act and the Bank's Statute.

The Bank's Management Board is authorized, with the prior written approval of the Supervisory Board, during the period up to June 30 2014, to bring one or more decisions to increase the Bank's share capital with a cash payment, by issuing new shares where the total amount of such share capital increase must not exceed HRK 300,000,000.00. The Bank's Management Board is authorized, with the prior written approval of the Supervisory Board, in respect of shares issued based on the above-mentioned authority, to exclude priority in the subscription of new shares. In respect of the rights from the shares issued based on the above-mentioned authority, and of the terms and conditions for the issue of such shares, decisions are made by the Management Board with the prior written approval of the Supervisory Board. It is the obligation of the Supervisory Board to grant all approvals based on a majority vote of all members.

Supervisory Board members and activities

In accordance with the Commercial Companies Act and the Bank's Statute, the Supervisory Board's main responsibility is the constant supervision of the Bank's business management, and appointment and removal of the President and Members of the Management Board. Also, in accordance with the Credit Institutions Act, the Supervisory Board approves the Management Board's decisions on the Bank's business policies, financial planning and the framework annual internal audit programme.

Members of the Supervisory Board during 2009 were, until the XXIX. General Assembly held on June 19 2009:

dr.sc. Zdravko Marić	President
Vedran Duvnjak	Vice President
prof.dr.sc. Drago Jakovčević	Member
dr.sc. Miro Kovač	Member
mr.sc. Grga Ivezić	Member
Robert Jukić	Member
Mario Dragun	Member

By the decisions of the XXIX. General Assembly of the Bank, held on June 17 2009, member of the Supervisory Board, dr.sc. Miro Kovač wes recalled, and a new member was chosen:

Maja Vrtarić	Member

The Supervisory Board has set up an Audit Committee as a supporting body.

Structure and operations of the Management Board

In accordance with the Commercial Companies Act and the Bank's Statute, the main responsibility of the Management Board is managing of the Bank's operations and representation of the Bank towards third parties, in accordance with the Credit Institutions Act. Among other things, the Management Board is responsible to ensure that the Bank operates in accordance with the regulations on the risk management, as prescribed by the Credit Institutions Act and related regulations which are framework for the banking operations, in accordance with regulations on providing other financial services and regulations based on the Credit Institutions Act and other regulations, and monitoring of the risk to which the Bank is exposed to in its operations and adopting adequate procedures according to which the Bank manages risks, monitoring, estimating and developing strategy of maintaining, i.e. achieving adequate level of the capital in relation to the risks the Bank is exposed to in its operations, functioning of the internal control system in all of the Bank's business segments and ensuring independent operations of internal audit. In addition, the Management Board is responsible to monitor that the Bank maintains its business and other records and business documentation, prepares accounting documentation, realistically estimates its assets and liabilities, compiles financial and other reports in accordance with the accounting rules and standards and applicable regulations, reports to the Croatian National Bank in accordance with the Credit Institutions Act and applicable regulations, as well as implements measures proposed by the Croatian National Bank.

During 2009, until September 10 2009, the Management Board consisted of the following members:

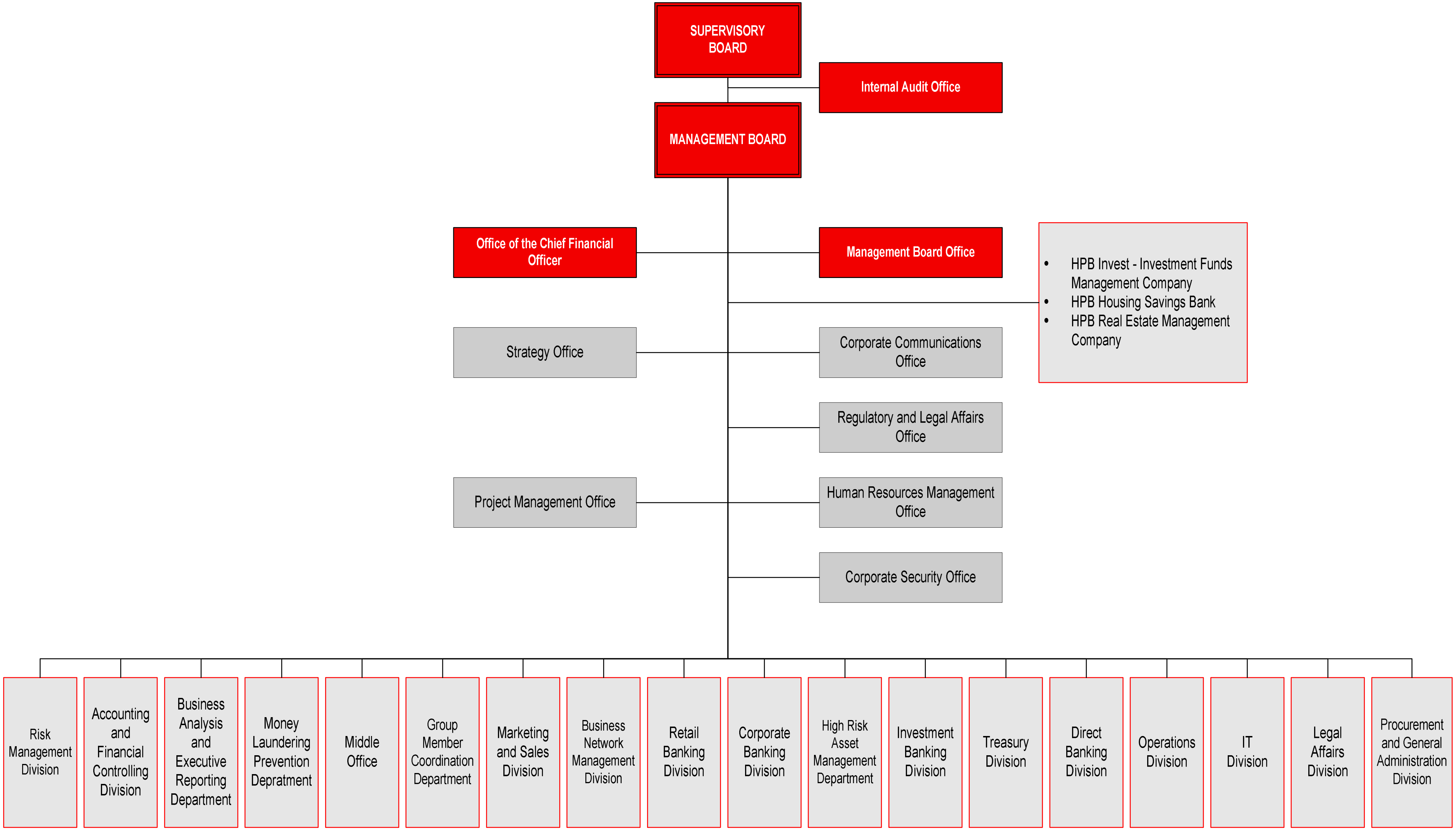
Josip Protega	President of the Management Board
Ivan Sladonja	Member of the Management Board

From September 10 2009 onwards, the Management Board consisted of the following members:

Čedo Maletić	President of the Management Board
Dubravka Kolarić	Member of the Management Board

The Management Board, in accordance with the business processes requirements, sets up permanent and temporary boards and delegations. Permanent Boards are: Executive Committee, Loan Approval Committee, Assets and Liability Management Committee, Change Management and Compliance Committee, Strategy Implementation Committee and Information System Management Committee.

Hrvatska poštanska banka d.d. - Organizational structure



Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements

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

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

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

The unconsolidated and consolidated and financial statements set out on pages 30 to 141 were authorized by the Management Board on April 27 2010 for issue to the Supervisory Board and are signed below to signify this.

On behalf of Hrvatska poštanska banka d.d.:

Čedo Maletić

President of the Management Board

Dubravka Kolarić

Member of the Management Board

BDO Croatia d.o.o. za reviziju
10000 ZAGREB, Trg J. F. Kennedy 6b
Tel: 385 1 2395-741, Fax: 385 1 2303-691
E-mail: revizija-zagreb@bdo.hr

INDEPENDANT AUDITOR'S REPORT

To the shareholders and the owners of Hrvatska poštanska banka d.d.

We have audited the accompanying consolidated financial statements of Hrvatska poštanska banka d.d. and its branches (together referred as: „the Group“) for the year ended December 31, 2009, which comprise the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and notes to the financial statements. We have also audited the accompanying unconsolidated financial statements of Hrvatska poštanska banka d.d. (hereinafter: "the Bank") for the year ended December 31, 2009, which comprise the unconsolidated balance sheet, unconsolidated income statement, unconsolidated statement of changes in equity and unconsolidated cash flow statement for the year then ended, and a summary of significant accounting policies and notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated and unconsolidated financial statements in accordance with the statutory accounting framework for the Banks in the Republic of Croatia. This responsibility includes: determining, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated and unconsolidated 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 consolidated and unconsolidated statements based on our audit. We conducted our audit in accordance with International Audit Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated and unconsolidated financial statements are free from significant material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of significant material misstatement of the consolidated and unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's and Group's preparation and fair presentation of the consolidated and unconsolidated 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 and Group's internal controls. 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 consolidated and unconsolidated financial statements.

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

Registrirano kod Trgovačkog suda u Zagrebu
pod brojem 080044149
OIB 76394522236

Opinion

In our opinion, the consolidated and unconsolidated financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2009, and of its operating results and its cash flows for 2009 in accordance with International Financial Reporting Standards approved for usage in the Republic of Croatia.

Emphasis of matter

Without further qualification of our opinion we draw attention to the following:

As described in the Note 47 to the financial statements, on 30 March 2010 the Bank issued Bonds with the nominal value of HRK 200 million. The total issue of bonds is subordinated with all other Bank's liabilities, and is included in the Bank's supplementary capital as a hybrid instrument. The capital adequacy ratio at 31 March 2010 amounts to 12.47 percent.

Other legal and regulatory obligations

Based on the Decision on the form and content of the annual financial statements of banks dated 30 May 2008 (Official Gazette 62/08), the Management Board of the Bank made forms shown on pages 142 to 145 ("Forms") which include alternative balance sheet as of 31 December 2009, income statement, statement of changes in equity and reserves and cash flow statement for 2009, as well as reconciliation ("Reconciliation") of the Forms with the financial statements shown on pages 146 to 156. These forms and Reconciliation are the responsibility of the Bank' Management Board. Financial information's in the Forms are correctly derived from the Bank's financial statements shown on pages 34 to 37, on which we have expressed unqualified opinion as above stated.

In Zagreb, 29 April 2010

BDO Croatia d.o.o.
Trg J. F. Kennedy 6b
10000 Zagreb

Marijana Pranjić, certified auditor	Guy Sadeh, Member of the Management Board

BDO
BDO Croatia d.o.o.
za pružanje revizorskih,konzalting
i računovodstvenih usluga
Zagreb, J.F. Kennedy 6/b

Consolidated balance sheet
for the year ended 31 December 2009

	Notes	Group 2009 HRK '000	Group 2008 HRK '000
ASSETS			
Cash and amounts due from banks	5	1,118,648	936,127
Obligatory reserve with Croatian National Bank	6	1,128,341	1,119,720
Placements with and loans to other banks	7	1,160,955	1,407,963
Financial assets at fair value through profit or loss	8	947,607	1,558,597
Financial assets available for sale	9	648,448	334,622
Financial assets held to maturity	10	596,574	607,188
Loans and advances to customers	11	7,868,666	8,128,505
Assets held for sale	12	21,551	26,833
Property and equipment	14	165,396	191,847
Investment property	15	10,956	8,671
Intangible assets	16	200,052	186,193
Net deferred tax asset	17	29,896	47,524
Tax prepayment		17,595	7,123
Other assets	18	193,747	149,265
TOTAL ASSETS		**14,108,432**	**14,709,818**
LIABILITIES			
Financial liabilities at fair value through profit or loss	19	1,550	6,741
Deposits from banks	20	363,380	413,349
Deposits from customers	21	10,337,575	10,702,700
Borrowings	22	1,827,935	1,865,250
Hybrid instruments	23	456,950	310,871
Provisions for liabilities and charges	24	34,971	32,907
Other liabilities	25	449,352	466,681
TOTAL LIABILITIES		**13,471,712**	**13,798,499**
EQUITY			
Share capital	26	654,320	584,780
Capital gain	26	40,460	-
Treasury shares		(874)	(874)
Statutory reserve	26	19,258	19,258
General banking risk reserve	26	170,836	170,836
Fair value reserve	26	9,398	(52,878)
Revaluation reserve	26	4,888	4,922
Other reserves	26	36,606	36,606
Retained earnings/(loss)	26	(298,172)	148,669
TOTAL EQUITY		**636,720**	**911,319**
TOTAL LIABILITIES AND EQUITY		**14,108,432**	**14,709,818**

The significant accounting policies and other notes on pages 38 to 141 form an integral part of these consolidated financial statements.

Consolidated income statement
for the year ended 31 December 2009

	Notes	Group 2009 HRK '000	Group 2008 HRK '000
Interest and similar income	27	949,858	911,730
Interest expense and similar charges	28	(587,591)	(466,152)
Net interest income		**362,268**	**445,578**
Fee and commission income	29	610,825	599,889
Fee and commission expense	30	(420,820)	(410,353)
Net fee and commission income		**190,005**	**189,536**
Gains less losses arising from dealing securities	31	31,767	(95,926)
Gains less losses arising from investment securities	32	(20,861)	12,059
Gains less losses arising from dealing in foreign currencies		27,815	19,975
Other operating income	33	11,247	43,587
Dealing and other (expense)/income		**49,968**	**(20,305)**
Operating income		**602,240**	**614,809**
General and administrative expenses	34	(428,273)	(401,561)
Other expenses	9	(24,854)	-
Depreciation and amortisation	14,15,16	(79,947)	(65,685)
Impairment losses on loans and advances to customers and other assets	35	(509,863)	(139,399)
Provisions for liabilities and charges	24	(3,954)	(5,938)
Operating expenses		**(1,046,891)**	**(607,652)**
PROFIT/(LOSS) BEFORE TAX		**(444,651)**	**7,157**
Income tax expense	36	(2,190)	(2,637)
PROFIT/ (LOSS) FOR THE YEAR		**(446,841)**	**4,520**

The significant accounting policies and other notes on pages 38 to 141 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2009

Group	Share capital HRK '000	Capital gain HRK '000	Treasury shares HRK '000	Statutory reserve HRK '000	General banking risk reserve HRK '000	Fair value reserve HRK '000	Revaluation reserve HRK '000	Other reserves HRK '000	Retained earnings HRK '000	Total HRK '000
Balance at 1 January 2008	**584,780**	**-**	**(874)**	**18,822**	**170,836**	**(3,493)**	**4,956**	**36,606**	**144,585**	**956,218**
Net unrealised losses on financial assets available for sale	-	-	-	-	-	(49,673)	-	-	-	(49,673)
Realised gains on financial assets available for sale	-	-	-	-	-	(12,059)	-	-	-	(12,059)
Revaluation reserve	-	-	-	-	-	-	(42)	-	-	(42)
Deferred tax	-	-	-	-	-	12,347	8	-	-	12,355
Net (expense) / income recognised directly in equity	-	-	-	-	-	*(49,385)*	*(34)*	-		(49,419)
Profit for the year	-	-	-	-	-	-	-	-	4,520	4,520
Total recognised income and expense for 2008	-	-	-	-	-	(49,385)	(34)	-	4,520	(44,899)
Transfer to statutory reserve	-	-	-	436	-	-	-	-	(436)	-
Balance at 31 December 2008	**584,780**	**-**	**(874)**	**19,258**	**170,836**	**(52,878)**	**4,922**	**36,606**	**148,669**	**911,319**
Balance at 1 January 2009	**584,780**	**-**	**(874)**	**19,258**	**170,836**	**(52,878)**	**4,922**	**36,606**	**148,669**	**911,319**
Share capital increase	69,540	-	-	-	-	-	-	-	-	69,540
Capital gain	-	40,460	-	-	-	-	-	-	-	40,460
Net unrealised losses on financial assets available for sale	-	-	-	-	-	78,576	-	-	-	78,576
Realised gains on financial assets available for sale	-	-	-	-	-	(730)	-	-	-	(730)
Revaluation reserve	-	-	-	-	-	-	2,666	-	-	2,666
Deferred tax	-	-	-	-	-	(15,570)	(2,700)		-	(18,270)
Net (expense) / income recognised directly in equity	-	-	-	-	-	*62,276*	*(34)*	-	-	62,242
Loss for the year	-	-	-	-	-	-	-	-	(446,841)	(446,841)
Total recognised income and expense for 2009	-	-	-	-	-	62,276	(34)	-	(446,841)	(384,599)
Balance at 31 December 2009	**654,320**	**40,460**	**(874)**	**19,258**	**170,836**	**9,398**	**4,888**	**36,606**	**(298,172)**	**636,720**

The significant accounting policies and other notes on pages 38 to 141 form an integral part of these consolidated financial statements.

Consolidated cash flow statement
for the year ended 31 December 2009

	Notes	Group 2009 HRK '000	Group 2008 HRK '000
Cash flows from operating activities			
Profit before tax		(444,651)	7,157
Adjustment for:			
- Depreciation and amortisation	14, 15, 16	79,947	65,685
- Foreign exchange (gains) / losses	33, 34	(3,565)	(853)
- Impairment losses on loans and advances to customers and other assets	35	509,863	139,399
- Impairment losses on provisions for liabilities and charges	24	3,954	1,007
- Net unrealised losses/(gains) on financial assets at fair value through profit or loss	31	(31,767)	88,484
- Reversal of impairment loss on land and buildings	33	(41)	-
Changes in operating assets and liabilities			
Net decrease/(increase) in placements and loans to other banks		7,932	139,391
Net (increase)/decrease in financial assets at fair value through profit or loss		662,125	(424,503)
Net increase in loans and advances to customers		(197,257)	(978,940)
Net increase in other assets		(62,847)	(69,112)
Net decrease in deposits from banks		(49,978)	(64,090)
Net increase in deposits from customers		(320,750)	447,862
Net (decrease)/increase in other liabilities		(30,382)	(226,726)
Net cash (outflow)/inflow from operating activities before tax		**122,582**	**(875,239)**
Income tax received/(paid)		(10,472)	16,034
Net cash (outflow)/inflow from operating activities		**112,110**	**(859,205)**
Cash flow from investing activities			
Purchase of property and equipment and intangible assets		(69,603)	(119,977)
Proceeds from sale of investment property		-	1,409
Disposal of financial assets available for sale		282,045	29,416
Acquisition of financial assets available for sale		(562,870)	(222,942)
Maturity/(acquisition) of financial assets held to maturity		(6,462)	34,411
Dividend receipts		4,876	27,346
Net cash outflow from investing activities		**(352,014)**	**(250,337)**
Cash flow from financing activities			
Increase in hybrid instruments		139,733	110,000
Increase in borrowings		27,601,006	16,470,759
Decrease in borrowings		(27,651,258)	(16,644,607)
Chare capital increase		110,000	**-**
Net cash (outflow)/inflow from financing activities		**199,481**	**(63,848)**
Effect of foreign exchange differences on cash and cash equivalents		(12,354)	1,825
Net (decrease)/increase in cash and cash equivalents		**(52,777)**	**(1,171,565)**
Cash and cash equivalents at the beginning of the year	39	**3,383,120**	**4,554,685**
Cash and cash equivalents at the end of the year	39	**3,330,343**	**3,383,120**

The significant accounting policies and other notes on pages 38 to 141 form an integral part of these consolidated financial statements.

Unconsolidated balance sheet
as at 31 December 2009

	Notes	Bank 2009 HRK '000	Bank 2008 HRK '000
ASSETS			
Cash and amounts due from banks	5	1,118,618	936,119
Obligatory reserve with Croatian National Bank	6	1,128,341	1,119,720
Placements with and loans to other banks	7	1,146,701	1,386,235
Financial assets at fair value through profit or loss	8	947,607	1,558,577
Financial assets available for sale	9	611,318	320,162
Financial assets held to maturity	10	521,365	562,823
Loans and advances to customers	11	7,822,590	8,096,536
Assets held for sale	12	21,551	26,833
Investment in subsidiaries	13	73,990	53,550
Property and equipment	14	165,327	191,393
Intangible assets	16	199,739	185,710
Net deferred tax asset	17	28,961	46,438
Tax prepayment		16,792	18,063
Other assets	18	177,997	134,892
TOTAL ASSETS		**13,980,897**	**14,637,051**
LIABILITIES			
Financial liabilities at fair value through profit or loss	19	1,550	6,741
Deposits from banks	20	363,380	413,349
Deposits from customers	21	10,221,168	10,630,774
Borrowings	22	1,827,935	1,865,250
Hybrid instruments	23	456,950	310,871
Provisions for liabilities and charges	24	34,949	32,902
Other liabilities	25	428,121	452,714
TOTAL LIABILITIES		**13,334,053**	**13,712,601**
EQUITY			
Share capital	26	654,320	584,780
Capital gain	26	40,460	
Treasury shares	26	(874)	(874)
Statutory reserve	26	19,258	19,258
General banking risk reserve	26	170,836	170,836
Fair value reserve	26	10,834	(50,409)
Revaluation reserve	26	4,888	4,922
Other reserves	26	36,606	36,606
Retained earnings/(loss)	26	(289,484)	159,331
TOTAL EQUITY		**646,844**	**924,450**
TOTAL LIABILITIES AND EQUITY		**13,980,897**	**14,637,051**

The significant accounting policies and other notes on pages 38 to 141 form an integral part of these unconsolidated financial statements.

Unconsolidated income statement
for the year ended 31 December 2009

	Notes	Bank 2009 HRK '000	Bank 2008 HRK '000
Interest and similar income	27	941.587	906.873
Interest expense and similar charges	28	(585.259)	(465.195)
Net interest income		**356.328**	**441.678**
Fee and commission income	29	593.295	571.568
Fee and commission expense	30	(418.576)	(403.462)
Net fee and commission income		**174.719**	**168.106**
Gains less losses arising from dealing securities	31	31.767	(95.926)
Gains less losses arising from investment securities	32	(20.519)	12.144
Gains less losses arising from dealing in foreign currencies		27.796	19.954
Other operating income	33	12.690	46.379
Dealing and other (expense)/ income		**51.734**	**(17.449)**
Operating income		**582.781**	**592.335**
General and administrative expenses	34	(411.733)	(382.994)
Other expenses		(24.854)	-
Depreciation and amortisation	14, 16	(79.494)	(65.385)
Impairment losses on loans and advances to customers and other assets	35	(509.403)	(137.774)
Provisions for liabilities and charges	24	(3.937)	(5.933)
Operating expenses		**(1.029.421)**	**(587.160)**
PROFIT BEFORE TAX		**(446.640)**	**5.175**
Income tax expense	36	(2.175)	3.542
PROFIT/(LOSS) FOR THE YEAR		**(448.815)**	**8.717**
		kn	**kn**
Earnings/(Loss) per share	37	**(797,99)**	**16,42**

The significant accounting policies and other notes on pages 38 to 141 form an integral part of these unconsolidated financial statements.

Unconsolidated statement of changes in equity for the year ended 31 December 2009

Bank	Share capital HRK '000	Capital gain HRK '000	Treasury shares HRK '000	Statutory reserve HRK '000	General banking risk reserve HRK '000	Fair value reserve HRK '000	Revaluation reserve HRK '000	Other reserves HRK '000	Retained earnings HRK '000	Total HRK '000
Balance at 1 January 2008	**584,780**	**-**	**(874)**	**18,822**	**170,836**	**(1,896)**	**4,956**	**36,606**	**151,050**	**964,280**
Net unrealised losses on financial assets available for sale	-	-	-	-	-	(48,498)	-	-	-	(48,498)
Realised gains on financial assets available for sale	-	-	-	-	-	(12,144)	-	-	-	(12,144)
Revaluation reserve	-	-	-	-	-	-	(42)	-	-	(42)
Deferred tax	-	-	-	-	-	12,129	8	-	-	12,137
Net (expense) / income recognised directly in equity	-	-	-	-	-	*(48,513)*	*(34)*	-	-	*(48,547)*
Profit for the year	-	-	-	-	-		-	-	8,717	8,717
Total recognised income and expense for 2008	-	-	-	-	-	(48,513)	(34)	-	8,717	(39,830)
Transfer to statutory reserve	-	-	-	436	-	-	-	-	(436)	-
Balance at 31 December 2008	**584,780**	**-**	**(874)**	**19,258**	**170,836**	**(50,409)**	**4,922**	**36,606**	**159,331**	**924,450**
Balance at 1 January 2009	**584,780**	**-**	**(874)**	**19,258**	**170,836**	**(50,409)**	**4,922**	**36,606**	**159,331**	**924,450**
Share capital increase	69,540	-	-	-	-	-	-	-	-	69,540
Capital gain	-	40,460	-	-	-	-	-	-	-	40,460
Net unrealised gains on financial assets available for sale	-	-	-	-	-	77,626	-	-	-	77,626
Realised gains/(losses) on financial assets available for sale	-	-	-	-	-	(1,072)	-	-	-	(1,072)
Revaluation reserve	-	-	-	-	-	-	2,666	-	-	2,666
Deferred tax	-	-	-	-	-	(15,311)	(2,700)			(18,011)
Net (expense) / income recognised directly in equity	-	-	-	-	-	*61,243*	*(34)*	-	-	*61,209*
Loss for the year	-	-	-	-	-	-	-	-	(448,815)	(448,815)
Total recognised income and expense for 2009	-	-	-	-	-	61,243	(34)	-	(448,815)	(448,815)
Balance at 31 December 2009	**654,320**	**40,460**	**(874)**	**19,258**	**170,836**	**10,834**	**4,888**	**36,606**	**(289,484)**	**646,843**

The significant accounting policies and other notes on pages 38 to 141 form an integral part of these unconsolidated financial statements.

Unconsolidated cash flow statement
for the year ended 31 December 2008

	Notes	Bank 2009 HRK '000	Bank 2008 HRK '000
Cash flows from operating activities			
Profit before tax		(446,640)	5,175
Adjustment for:			
- Depreciation and amortisation	14, 16	79,494	65,385
- Foreign exchange (gains)/ losses	33, 34	(3,565)	(843)
- Impairment losses on loans and advances to customers and other assets	35	509,403	137,774
- Impairment losses on provisions for liabilities and charges	24	3,937	1,007
- Net unrealised losses / (gains) on financial assets at fair value through profit or loss	31	(31,112)	88,484
- Reversal of impairment loss on land and buildings	33	(41)	-
Changes in operating assets and liabilities			
Net decrease/(increase) in placements and loans to other banks		458	148,343
Net (increase)/decrease in financial assets at fair value through profit or loss		641,665	(424,483)
Net increase in loans and advances to customers		(183,150)	(950,372)
Net increase in other assets		(61,621)	(74,304)
Net decrease in deposits from banks		(49,978)	(64,090)
Net increase in deposits from customers		(365,231)	398,279
Net (decrease)/increase in other liabilities		(80,091)	(155,104)
Net cash (outflow)/inflow from operating activities before tax		**13,528**	**(824,749)**
Income tax received/(paid)		1,271	18,063
Net cash (outflow)/inflow from operating activities		**14,799**	**(806,686)**
Cash flow from investing activities			
Investments in subsidiaries		(20,440)	-
Purchase of property and equipment and intangible assets		(67,513)	(119,739)
Disposal of financial assets available for sale		250,956	57,565
Acquisition of financial assets available for sale		(562,870)	(244,083)
Maturity/(acquisition) of financial assets held to maturity		24,382	51,004
Dividend receipts		4,876	31,914
Net cash outflow from investing activities		**(370,608)**	**(223,339)**
Cash flow from financing activities			
Increase in hybrid instruments		139,733	110,000
Increase in borrowings		27,710,344	16,402,891
Decrease in borrowings		(27,651,258)	(16,644,607)
Share capital increase		110,000	-
Net cash (outflow)/inflow from financing activities		**308,819**	**(131,716)**
Effect of foreign exchange differences on cash and cash equivalents		(12,354)	1,825
Net (decrease)/increase in cash and cash equivalents		**(59,344)**	**(1,159,916)**
Cash and cash equivalents at the beginning of the year	40	**3,375,404**	**4,535,320**
Cash and cash equivalents at the end of the year	40	**3,316,060**	**3,375,404**

The significant accounting policies and other notes on pages 38 to 141 form an integral part of these unconsolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Hrvatska poštanska banka d.d. Zagreb ("the Bank") is a joint stock company incorporated and domiciled in the Republic of Croatia. The Bank is the parent of the Hrvatska poštanska banka d.d. Group ("the Group").These financial statements comprise both the separate and the consolidated financial statements of the Bank as defined in International Accounting Standard 27 "Consolidated and Separate Financial Statements".

These financial statements were authorised for issue by the Management Board on 27 April 2010 for approval by the Supervisory Board.

The principal accounting policies applied in the preparation of these financial statements are summarised below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards, reference may be made to certain Standards in describing the accounting policies of the Group; unless otherwise stated, these references are to Standards applicable at 31 December 2009.

a) Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia, and represent a translation into English of the statutory financial statements presented in Croatian. The Group's financial reporting is regulated by 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 accounting regulations of the CNB are based on International Financial Reporting Standards. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

- The CNB requires banks to recognise impairment losses, in income, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value). The Group and Bank have made portfolio-based provisions of HRK 129,544 thousand and HRK 128,167 thousand respectively (2008: HRK 140,517 thousand and HRK 139,598 thousand respectively) in compliance with these regulations and have recognised income in respect of the write back of such provisions of HRK 10,973 thousand and HRK 11,431 thousand respectively as income within the charge for impairment losses on loans and advances to customers and other assets for the year (2008: expense of HRK 2,746 thousand and HRK 3,177 thousand respectively). Although, in accordance with International Financial Reporting Standards, such provisions should more properly be presented as an appropriation within equity, the Group and Bank continue to recognise such provisions in the income statement as a substitute for unidentified impairment losses calculated in accordance with the requirements of International Financial Reporting Standards.

- Although the Group calculates impairment losses on corporate lending as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate, in accordance with International Financial Reporting Standards, the CNB requires the amortisation of the discount calculated to be presented in the income statement within the movement on impairment losses on loans and advances to customers and other assets, rather than as interest income, as required by International Financial Reporting Standards.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Statement of compliance (continued)

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

b) Basis of preparation

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

The financial statements have been prepared in a format generally adopted and internationally recognised by banks.

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

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

Judgments made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Standards, interpretations and amendments to published standards that are not yet effective (continued)

Certain regulations have been issued by the CNB as of the date on which these financial statements were authorised for issue, which were not effective at the balance sheet date, but which will be mandatory for accounting periods beginning on or after 1 January 2010. The Group considers that the following regulations may have a significant impact on the financial statements or otherwise have a significant financial impact on its operations:

- The Credit Institutions Act enters into force on 31 March 2010. It enacts new regulations on risk management in credit institutions based on all three pillars of the Basel II standard. From 31 March 2010, the minimum capital adequacy ratio required under the act is increased to 12 % (from 10% as required under the previous Banking Act).

d) Functional and presentation currency

The Group's and the Bank's financial statements are presented in Croatian kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Basis of consolidation

Financial statements are presented for the Group and the Bank. The Group financial statements comprise the consolidated financial statements of the Bank and its subsidiaries: HPB Nekretnine d.o.o., a real estate agency; HPB Invest d.o.o., an investment fund management company; and HPB Stambena štedionica d.o.o., a specialised financial institution, involved in deposit collection from retail customers and eventual granting of subsided housing loans to Croatian citizens in the Republic of Croatia. All subsidiaries are 100% owned by the Bank and are incorporated and domiciled in Croatia.

Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases.

The purchase cost method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired including intangible assets is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

g) Interest income and expense

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Fee and commission income and expense

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

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment fund management are recognised on an accruals basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

i) Dividend income

Dividend income from equity securities is recognised in the income statement when the rights to receive the dividend are established.

j) Gains less losses from dealing and investment securities

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

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

k) Gains less losses arising from dealing in foreign currencies

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Foreign currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates ruling at the dates when the fair values were determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at the balance sheet date.

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

m) Financial instruments

i) Classification

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

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

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

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

Loans and receivables

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

Financial instruments held to maturity

This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Financial instruments (continued)

Financial assets available for sale

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

Other financial liabilities

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

ii) Recognition and derecognition

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Financial instruments (continued)

iii) Initial and subsequent measurement

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

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

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

iv) Gains and losses

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

Gains or losses arising from a change in the fair value of available-for-sale monetary assets are recognised directly in a fair value reserve within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount on available-for-sale monetary assets are recognised in the income statement. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in equity.

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

Gains or losses arising from financial assets and financial liabilities carried at amortised cost are recognised as interest in the income statement over the period of amortisation. Gains or losses may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired.

v) Determination of fair value of financial instruments

The fair value of quoted financial assets in an active market is based on their average prices. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Group uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, by reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) ***Financial instruments (continued)***

vi) Impairment of financial assets

Impairment of assets identified as impaired

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

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

If any evidence of impairment exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

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

Impairment of assets not identified as impaired

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

Debt securities carried at fair value were excluded from the basis of such calculation at the balance sheet date.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Specific financial instruments

Cash and cash equivalents

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

Derivative financial instruments

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

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

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed as an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealised gains and losses recognised in the income statement, unless there is no reliable measure of their fair value.

Changes in the fair value of derivatives are included in gains less losses arising from dealing securities.

Treasury bills and debt securities

Treasury bills and debt securities that the Group holds for the purpose of short-term profit taking are classified as at fair value through profit or loss or as available-for-sale assets, and are carried at fair value. Treasury bills and debt securities that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets.

Equity securities and investments in open-ended investment funds

Equity securities and investments in open-ended investment funds are classified as at fair value through profit or loss or as available-for-sale assets.

Placements with banks

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Specific financial instruments (continued)

Loans and advances to customers

Loans and advances are presented net of impairment losses. Purchased loans that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets.

In accordance with CNB requirements, the amortisation of any discounts included within impairment losses is presented in impairment losses.

Investments in subsidiaries

In the Bank's separate financial statements investments in subsidiaries are accounted for at cost less impairment losses.

Other equity securities are classified as at fair value through profit or loss or available-for-sale financial assets and measured at fair value.

Borrowings

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

Repurchase agreements and linked transactions

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Income tax

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

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

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

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

p) Property and equipment

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

Recognition and measurement

During 2007 the Group and the Bank changed the accounting policy for property, comprising land and buildings, from the cost to revaluation model which is applied prospectively in line with IAS 16 *Property, Plant and Equipment*, meaning that the opening balance of equity is not adjusted and comparatives are not restated. To account for the effect of revaluation both the gross carrying amount of land and buildings and the related accumulated depreciation are adjusted proportionally.

After recognition as an asset, property whose fair value can be measured reliably is carried at the revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that he carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The fair value of land and buildings is determined by the independent professional surveyor.

Any surplus arising on revaluation is recognised directly in a revaluation reserve within equity except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognised in profit or loss, in which case the credit, to that extent, is recognised in profit or loss. Any deficit on revaluation is recognised in profit or loss except to the extent that it reverses a previous revaluation surplus on the same asset, in which case it is taken directly to the revaluation reserve.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Equipment is measured at cost less accumulated depreciation and impairment losses.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Property and equipment (continued)

The estimated useful lives are as follows:

	2009	2008
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and equipment	3-4 years	3-4 years
Motor vehicles	5 years	5 years
Other assets	10 years	10 years

Residual values are not taken into account. Depreciation methods and useful lives are reassessed at the reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in the income statement.

q) Investment property

Investment properties are properties which are held by the Group either to earn rental income or for capital appreciation or both. Investment property is carried at cost less accumulated depreciation and any impairment losses.

Depreciation is provided on all investment property, except for investment property not yet brought into use, on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset as follows:

	2009	2008
Investment property	40 years	40 years

Residual amounts are not taken into account.

r) Intangible assets

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

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

	2009	2008
Leasehold improvements	4 years	4 years
Software	3-7 years	3-7 years
Licences	3-7 years	3-7 years

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Assets held for sale

Assets are classified as held for sale when the criteria set out in IFRS 5 *Non-current Assets Held for Sale and Discounted Operations* are met.

Initially, assets held for sale are recognised at the lower of carrying amount and fair value less costs to sell.

The Group discontinues classifying assets as held for sale if the sale is no longer highly probable. The Group measures assets that cease to be classified as held for sale at the lower of the asset's carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluations and its recoverable amount at the date of subsequent decision not to sell. Any gain or loss from disposal or reclassification of assets held for sale is recognised in the income statement as incurred.

t) Impairment of non-financial assets

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

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

u) Provisions for liabilities and charges

The Group recognises a provision when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the obligation.

Provision for liabilities and charges are maintained at a level which management believes is adequate to absorb probable future losses. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Operating leases

Leases where the Group as lessor retains substantially all the risks and rewards incidental to ownership are included in tangible and intangible assets at cost net of accumulated depreciation. Rental income under operating leases is recognised in the income statement on a straight-line basis over the term of the lease.

The Group leases office space under operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

w) Employee benefits

Defined pension contributions

The Group pays contributions to insurance plans on a mandatory, contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Provisions for severance payments and jubilee awards

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

x) Share capital and reserves

Share capital and reserves

Share capital is stated in HRK at nominal value. The amount of consideration paid on repurchase of share capital, including directly attributable costs, is recognised as a deduction from equity and classified as treasury shares.

Dividends

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

Reserve for general banking risks

The Group recognises a reserve for general banking risks, which represents a reserve for potential losses in excess of those expected and provided for through recognised impairment losses. The reserve is calculated in accordance with applicable regulations which require that a certain percentage of net profit for the year be set aside as a reserve within equity if the growth of risk assets on an annual basis exceeds a specific level. The reserve for general banking risk cannot be transferred to retained earnings or other reserves or be otherwise distributed until the expiry of a consecutive three year period in which the Group has recorded annual growth not exceeding 15%.

Retained earnings

Any profit for the year after appropriations is transferred to reserves, in accordance with General Assembly decisions.

Earnings per share

The Bank presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. EPS is not presented for the Group.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Group enters into credit-related commitments which are recorded in off-balance-sheet accounts and primarily comprise guarantees, letters of credit and undrawn loan commitments. Such financial commitments are recorded in the Group's balance sheet if and when they become payable.

z) Managed funds for and on behalf of third parties

The Group manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Group's assets and are excluded from the balance sheet. For the services rendered, the Group charges a fee which is recognised in the income statement on an accruals basis. The Group also manages seven open-ended funds: HPB Dionički fund, HPB Global fund, HPB Novčani fund, HPB Obveznički fund, HPB Dynamic fund, HPB Titan fund and HPB World Apsolute Value, and three open-ended funds with private offer: HPB Alpha fund, HPB Omega fund and HPB ZM-1 fund. During 2009 the Group managed one closed investment fund with the public offer for real estate investments HPB Real, that according to decision made by General assembly dating 28 december 2009 ceased to exist and was liquidated. The Group also manages HPB Umirovljenički fund, a special purpose fund, established by the Government, for payment of debt to retired persons.

aa) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group has identified four primary segments: corporate banking; retail banking; treasury; and investment banking and asset management (business segments) and its operations, total assets and the majority of its clients are located in Croatia (geographical segment).

2. RISK MANAGEMENT POLICIES

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

An integrated system of risk management is established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group and monitoring their implementation. The limits are set in respect to the amount of regulatory capital and apply to all types of risk. Additionally, the Bank sets limits for annual potential losses measured by Value-at-Risk techniques for its currency risk exposure and securities price risk exposure. Methodologies and models for managing operational risk are being developed.

The responsibility for determining the framework of the Group's risk management lies with the Bank's Management Board which has founded, for this purpose, an Asset and Liability Committee and a Credit Committee. Through these committees, the Bank's Management Board supervises activities related to risk management.

2.1 Credit risk

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

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

At the balance sheet date, the Group's credit risk exposure to financial instruments classified as at fair value through profit or loss or as available for sale is presented by the positive fair value of these instruments, as recorded in the balance sheet. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties in derivative transactions and do not measure the Group's exposure to the credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The Group's primary exposure to credit risk arises from loans to and advances to customers. The amount of credit exposure in this regard, and in respect of held-to-maturity debt securities recognised at amortised cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk in respect of the off-balance-sheet items, through commitments arising from unused facilities and guarantees issued, as disclosed in Note 40.

Credit risk management comprises assessment of credit risk, subsequent monitoring and supervision of credit risk and quarterly assessment of the adequacy of impairment losses identified, and reporting to the Management Board of the Bank.

2.1.1. Assessment of credit risk

Assessment of the individual credit risk exposure comprises the following:

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

Monitoring of credit risk includes continuous assessment whether elements exist which would indicate a deterioration of the client’s financial position, the client’s exposure to currency risk or an increase in risk due to the decrease of collateral value.

2.1.2. Classification of placements into risk categories

The Bank classifies placements into risk categories depending on the estimated recovery of placements, and in accordance with the CNB’s Decision on Classification of Placements and Contingent Liabilities of Banks. All placements that the Bank estimates are fully recoverable are classified in risk category A. Upon initial approval, the Bank classifies all placements into risk category A. Placements that the Bank estimates are partly recoverable are classified into risk category B, depending on the recovery percentage (in subcategory B1 – the recoverable amount is estimated at between 70% and 100%; in subcategory B2 – the recoverable amount is estimated at between 30% and 70%; and in subcategory B3 – the recoverable amount is estimated at between 10% and 30%. Placements estimated to be substantially irrecoverable (recoverable amount less than or equal to 10%), are classified into risk category C.

2.1.3. *Impairment policy of placements*

When estimating the recoverable amount of placements, the Bank divides placements into those which belong to the portfolio of small placements and those which do not belong to the portfolio of small placements.

Placements which belong to the portfolio of small placements are those whose gross value (before any impairment loss) does not exceed HRK 700 thousand towards one debtor at the date of estimation.

Generally, the Bank estimates the recoverability of placements to retail customers according to the criteria established for the small portfolio, whereas the recoverability of placements to corporate clients is estimated according to criteria which do not relate to the small portfolio.

2. RISK MANAGEMENT POLICIES (continued)

2.1.3. *Impairment policy of placements (continued)*

Identified losses

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

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

Unidentified losses

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

The following tables present the classification of exposures into risk categories for the Group and the Bank and the allocation of the corresponding impairment losses as a percentage of gross principal. The analysis includes unquoted debt securities classified as available for sale, which are recognised at cost less impairment.

2.1.4. Classification of placements into risk categories

The Bank classifies placements into risk categories depending on the estimated recovery of placements, and in accordance with the CNB's Decision on Classification of Placements and Contingent Liabilities of Banks. All placements that the Bank estimates are fully recoverable are classified in risk category A. Upon initial approval, the Bank classifies all placements into risk category A. Placements that the Bank estimates are partly recoverable are classified into risk category B, depending on the recovery percentage (in subcategory B1 – the recoverable amount is estimated at between 70% and 100%; in subcategory B2 – the recoverable amount is estimated at between 30% and 70%; and in subcategory B3 – the recoverable amount is estimated at between 10% and 30%. Placements estimated to be substantially irrecoverable (recoverable amount less than or equal to 10%), are classified into risk category C.

Group

%	**Loans to customers**	Impairment losses	**Placements with and loans to other banks**	Impairment losses	**Financial assets available for sale**	Impairment losses	**Financial assets held to maturity**	Impairment losses	**Other assets**	Impairment losses
2009										
A	78.62	1.45	99.96	-	91.73	0.86	96.70	0.86	98.32	-
A (until 90 days overdue)	1.28	1.00	-	-	-	-	-	-	-	-
B and C	20.10	34.52	0.04	100.00	8.27	33.34	3.30	100.00	1.68	100.00
	100		**100**		**100**		**100**		**100**	
2008										
A	89.83	1.41	99.96	-	98.43	0.83	97.53	0.98	95.35	-
A (until 90 days overdue)	2.18	-	0.04	-	-	-	-	-	0.78	-
B and C	7.99	27.82	-	100	1.57	58.99	2.47	46.65	3.87	100.00
	100		**100**		**100**		**100**		**100**	

2. RISK MANAGEMENT POLICIES (continued)

2.1.4. *Impairment policy of placements (continued)*

Bank

%	**Loans to customers**	Impairment losses	**Placements with and loans to other banks**	Impairment losses	**Financial assets available for sale**	Impairment losses	**Financial assets held to maturity**	Impairment losses	**Other assets**	Impairment losses
2009										
A	78.51	1.46	99.96	-	91.24	0.92	96.24	0.99	98.18	-
A (until 90 days overdue)	1.28	1.00	-	-	-	-	-	-	-	-
B and C	20.21	34.52	0.04	100.00	8.76	33.34	3.76	100.00	1.82	100.00
	100		**100**		**100**		**100**		**100**	
2008										
A	89.79	1.41	99.96	-	98.36	0.83	97.33	0.99	95.70	-
A (until 90 days overdue)	2.19	-	0.04	-	-	-	-	-	0.86	-
B and C	8.02	27.82	-	100	1.64	60.08	2.67	48.30	3.44	100.00
	100		**100**		**100**		**100**		**100**	

Maximum exposure to credit risk before consideration of collateral

This table shows the maximum exposure to credit risk as at 31 December 2009 and 2008, where existing collateral is not taken into account.

The exposure shown in the table below is exposure net of impairment losses.

Maximum exposure		**Group**		**Bank**	
	Notes	**2009 HRK '000**	**2008 HRK '000**	**2009 HRK '000**	**2008 HRK '000**
Amounts due from banks	5	716,665	568,224	716,665	568,224
Obligatory reserve with Croatian National Bank	6	1,128,341	1,119,720	1,128,341	1,119,720
Placements with and loans to other banks	7	1,160,955	1,407,963	1,146,701	1,386,235
Loans and advances to customers	11	7,868,666	8,128,505	7,822,590	8,096,536
Financial assets available for sale	9	648,448	334,622	611,318	320,162
Financial assets held to maturity	10	596,574	607,188	521,365	562,823
Other assets	19	193,747	149,265	177,997	134,892
Off balance sheet exposure	41	**1,904,750**	**2,345,023**	**1,902,115**	**2,344,411**
Unused facilities		1,309,843	1,590,035	1,307,208	1,589,423
Guarantees		424,371	546,576	424,371	546,576
Other exposure		170,536	208,412	170,536	208,412
Total credit exposure		**14,218,146**	**14,660,510**	**14,027,092**	**14,533,003**

2. RISK MANAGEMENT POLICIES (continued)

2.1.5. Assets exposed to credit risk

Group 2009	Loans to customers HRK '000	Placements with and loans to other banks HRK '000	Financial assets available for sale HRK '000	Financial assets held to maturity HRK '000	Other assets HRK '000
Loans without delay and no impairment	6,684,945	1,146,701	579,560	526,573	177,997
Loans with delay but no impairment	109,327	-	-	-	-
Impaired loans	1,720,793	500	55,633	20,556	3,303
Total gross loans	**8,515,065**	**1,147,201**	**635,192**	**547,129**	**181,300**
Identified losses	(594,057)	(500)	(18,548)	(20,556)	(3,303)
Unidentified losses	(98,418)	-	(5,326)	(5,208)	-
Total losses	**(692,475)**	**(500)**	**(23,874)**	**(25,764)**	**(3,303)**
Total	**7,822,590**	**1,146,701**	**611,318**	**521,365**	**177,997**

Group 2008	Loans to customers HRK '000	Placements with and loans to other banks HRK '000	Financial assets available for sale HRK '000	Financial assets held to maturity HRK '000	Other assets HRK '000
Loans without delay and no impairment	7,567,470	1,407,963	336,054	602,930	148,063
Loans with delay but no impairment	183,733	-	-	-	1,200
Impaired loans	672,891	500	5,349	15,300	6,015
Total gross loans	**8,424,094**	**1,408,463**	**341,403**	**618,230**	**155,278**
Identified losses	(187,215)	(500)	(4,000)	(5,151)	(6,013)
Unidentified losses	(108,374)	-	(2,781)	(5,891)	-
Total losses	**(295,589)**	**(500)**	**(6,781)**	**(11,042)**	**(6,013)**
Total	**8,128,505**	**1,407,963**	**334,622**	**607,188**	**149,265**

2. RISK MANAGEMENT POLICIES (continued)

2.1.5 Assets exposed to credit risk (continued)

Bank 2009	Loans to customers HRK '000	Placements with and loans to other banks HRK '000	Financial assets available for sale HRK '000	Financial assets held to maturity HRK '000	Other assets HRK '000
Loans without delay and no impairment	6,731,595	1,160,955	616,831	602,423	193,747
Loans with delay but no impairment	109,327	-	-	-	-
Impaired loans	1,720,793	500	55,633	20,556	3,303
Total gross loans	**8,561,715**	**1,161,455**	**672,463**	**622,979**	**197,050**
Identified losses	(594,057)	(500)	(18,548)	(20,556)	(3,303)
Unidentified losses	(98,991)	-	(5,467)	(5,849)	-
Total losses	**(693,048)**	**(500)**	**(24,015)**	**(26,405)**	**(3,303)**
Total	**7,868,666**	**1,160,955**	**648,448**	**596,574**	**193,747**

Bank 2008	Loans to customers HRK '000	Placements with and loans to other banks HRK '000	Financial assets available for sale HRK '000	Financial assets held to maturity HRK '000	Other assets HRK '000
Loans without delay and no impairment	7,535,087	1,386,235	321,471	558,188	133,692
Loans with delay but no impairment	183,733	-	-	-	1,200
Impaired loans	672,891	500	5,349	15,300	4,813
Total gross loans	**8,391,711**	**1,386,735**	**326,820**	**573,488**	**139,705**
Identified losses	(187,215)	(500)	(4,000)	(5,151)	(4,813)
Unidentified losses	(107,960)	-	(2,658)	(5,514)	-
Total losses	**(295,175)**	**(500)**	**(6,658)**	**(10,665)**	**(4,813)**
Total	**8,096,536**	**1,386,235**	**320,162**	**562,823**	**134,892**

2. RISK MANAGEMENT POLICIES (continued)

2.1.5 Assets exposed to credit risk (continued)

In accordance with applicable acts, the Bank utilises the following basic collateral instruments as insurance for placements: bank guarantees; HAMAG ("Croatian Agency for Small Entrepreneurship") and other legal entity guarantees; bills of exchange accepted by a bank; pledged property and equipment; insurance policies; pledged shares, bonds, commercial papers, and units in open-ended investment funds; transfer of receivables (cessions) from corporate clients and the Government; pledged concessions; pledged industrial and intellectual property; and other common financial execution instruments, such as bills of exchange and promissory notes.

The valuation of property is performed by an authorised valuer: HPB – Nekretnine; while the valuation of securities and units in investment funds is performed by HPB – Invest.

Collateral value is reviewed in accordance with general market trends.

The gross amount of unimpaired placements, which were not overdue over 90 days and without provisions on imparement losses at the balance sheet day, together with the Group's estimate of the fair value of the related collateral, expressed as a percentage of the amount net of provisions for unidentified losses, is as follows:

(a) Assets exposed to credit risk without impairment (risk category A)

Group 2009 HRK '000	State units	Non-banking financial institutions	Companies	Housing loans	Mortgage loans	Credit card loans	Other loans	**Total**	**Placements with and loans to other banks**	**Financial assets available for sale**	**Financial assets held to maturity**	**Other assets**
Gross loans	434,997	88,530	3,579,707	337,386	1,972	128,146	2,160,856	**6,731,595**	1,160,955	616,831	602,423	193,747
Total unidentified losses	(4,350)	(885)	(35,905)	(3,373)	(20)	(1,281)	(52,084)	**(97,898)**	-	(5,467)	(5,849)	-
Net loans	**430,647**	**87,644**	**3,543,803**	**334,013**	**1,952**	**126,865**	**2,108,772**	**6,633,697**	**1,160,955**	**611,364**	**596,574**	**193,747**
Collateral value	109,593	-	1,206,081	450,333	-	-	534,069	**2,300,076**	-	-	-	-
% collateral coverage	25.45	0.00	34.03	134.82	0.00	0.00	25.33	**34.67**	-	-	-	-

Group 2008 HRK '000	State units	Non-banking financial institutions	Companies	Housing loans	Mortgage loans	Credit card loans	Other loans	**Total**	**Placements with and loans to other banks**	**Financial assets available for sale**	**Financial assets held to maturity**	**Other assets**
Gross loans	298,229	104,719	4,134,721	281,455	2,099	86,589	2,659,658	**7,567,470**	1,407,963	336,054	602,930	148,063
Total unidentified losses	(4,199)	(1,474)	(58,210)	(3,962)	(30)	(1,219)	(37,443)	**(106,537)**	-	(2,781)	(5,891)	-
Net loans	**294,030**	**103,245**	**4,076,511**	**277,493**	**2,069**	**85,370**	**2,622,215**	**7,460,933**	**1,407,963**	**333,273**	**597,039**	**148,063**
Collateral value	-	-	1,071,446	369,866	468	-	633,394	**2,075,174**	-	-	-	-
% collateral coverage	-	-	26.28	133.29	22.62	-	24.15	**27.81**	-	-	-	-

2. RISK MANAGEMENT POLICIES (continued)

2.1.5 Assets exposed to credit risk (continued)

(a) Assets exposed to credit risk without impairment (risk category A) (continued)

Bank 2009 HRK '000	State units	Non-banking financial institutions	Companies	Housing loans	Mortgage loans	Credit card loans	Other loans	**Total**	**Placements with and loans to other banks**	**Financial assets available for sale**	**Financial assets held to maturity**	**Other assets**
Gross loans	434,997	88,530	3,590,466	279,978	1,972	128,146	2,160,856	**6,684,945**	1,146,701	579,560	526,573	177,997
Total unidentified losses	(4,350)	(885)	(35,905)	(2,800)	(20)	(1,281)	(52,084)	**(97,325)**	-	(5,326)	(5,208)	-
Net loans	**430,647**	**87,644**	**3,554,562**	**277,178**	**1,952**	**126,865**	**2,108,772**	**6,587,620**	**1,146,701**	**574,234**	**521,365**	**177,997**
Collateral value	109,593	-	1,206,081	396,651	-	-	534,069	**2,246,394**	-	-	-	-
% collateral coverage	25.45	-	33.93	143.10	-	-	25.33	**34.10**	-	-	-	-

Bank 2008 HRK '000	State units	Non-banking financial institutions	Companies	Housing loans	Mortgage loans	Credit card loans	Other loans	**Total**	**Placements with and loans to other banks**	**Financial assets available for sale**	**Financial assets held to maturity**	**Other assets**
Gross loans	298,229	113,826	4,134,721	239,965	2,099	86,589	2,659,658	**7,535,087**	1,386,235	321,471	558,188	133,692
Total unidentified losses	(4,200)	(1,603)	(58,233)	(3,380)	(30)	(1,220)	(37,457)	**(106,123)**	-	(2,658)	(5,514)	-
Net loans	**294,029**	**112,223**	**4,076,488**	**236,585**	**2,069**	**85,369**	**2,622,201**	**7,428,964**	**1,386,235**	**318,813**	**552,674**	**133,692**
Collateral value	-	-	1,071,446	369,866	468	-	633,394	**2,075,174**	-	-	-	-
% collateral coverage	-	-	26.28	156.34	22.62	-	24.16	**27.93**	-	-	-	-

2. RISK MANAGEMENT POLICIES (continued)

2.1.5 Assets exposed to credit risk (continued)

(b) Assets exposed to credit risk at risk category A over 90 days overdue but not impaired

Loans that are more that 90 days overdue are not considered to be impaired, unless other information confirms otherwise.

The gross amount of such assets and the Group's estimate of the fair value of related collateral expressed as a percentage of the amount net of provisions for unidentified losses, are disclosed below:

Group 2009 HRK '000	**Loans to customers**		
	Companies	**Total**	**Other assets**
Gross loans	109,327	**109,327**	-
Total unidentified losses	(1,093)	**(1,093)**	-
Net loans	**108,234**	**108,234**	**-**
Collateral value	-	**-**	-
% collateral coverage	**-**	**-**	**-**

Group 2008 HRK '000	**Loans to customers**		
	Companies	**Total**	**Other assets**
Gross loans	183,733	**183,733**	1,200
Total unidentified losses	(1,837)	**(1,837)**	-
Net loans	**181,896**	**181,896**	**1,200**
Collateral value	110,000	**110,000**	-
% collateral coverage	**60.47**	**60.47**	**-**

2. RISK MANAGEMENT POLICIES (continued)

2.1.5 Assets exposed to credit risk (continued)

(b) Assets exposed to credit risk at risk category A over 90 days overdue but not impaired (continued)

Bank 2009 HRK '000	**Loans to customers**		
	Companies	**Total**	**Other assets**
Gross loans	109,327	**109,327**	-
Total unidentified losses	(1,093)	**(1,093)**	-
Net loans	**108,234**	**108,234**	**-**
Collateral value	-	**-**	-
% collateral coverage	**-**	**-**	**-**

Bank 2008 HRK '000	**Loans to customers**		
	Companies	**Total**	**Other assets**
Gross loans	183,733	**183,733**	1,200
Total unidentified losses	(1,837)	**(1,837)**	-
Net loans	**181,896**	**181,896**	**1,200**
Collateral value	110,000	**110,000**	-
% collateral coverage	**60.47**	**60.47**	**-**

2. RISK MANAGEMENT POLICIES (continued)

2.1.5 Assets exposed to credit risk (continued)

(c) Impaired assets in risk categories B and C exposed to credit risk

The table below shows the amount of specifically impaired lending, gross and net of specific provisions, compared with the Bank's estimate of the fair value of the collateral held in respect of these assets, expressed as a percentage of the amount net of specific provisions.

Group 2009	**Loans to customers**					**Placements**			
HRK '000	Companies	Housing loans	Mortgage loans	Other loans	**Total**	**with and loans to other banks**	**Financial assets available for sale**	**Financial assets held to maturity**	**Other assets**
Gross loans	1,301,362	16,995	-	402,436	**1,720,793**	500	55,633	20,556	3,303
Total identified losses	(349,167)	(5,135)	-	(239,755)	**(594,057)**	(500)	(18,548)	(20,556)	(3,303)
Net loans	**952,195**	**11,860**	**-**	**162,681**	**1,126,736**	**-**	**37,084**	**-**	**-**
Collateral value	437,143	25,729	-	389,823	**852,695**	-	-	-	-
% collateral coverage	**45.91**	**216.94**	**-**	**239.62**	**75.68**	**-**	**-**	**-**	**-**

Group 2008	**Loans to customers**							
HRK '000	Companies	Housing loans	Mortgage loans	Other loans	**Total**	**Placements with and loans to other banks**	**Financial assets available for sale**	**Other assets**
Gross loans	501,619	1,914	342	169,016	**672,891**	500	5,349	15,300
Total identified losses	(105,407)	(1,107)	(296)	(80,405)	**(187,215)**	(500)	(4,000)	(5,151)
Net loans	**396,212**	**807**	**46**	**88,611**	**485,676**	**-**	**1,349**	**10,149**
Collateral value	32,451	2,477	69	133,584	**168,581**	-	-	-
% collateral coverage	**8.19**	**306.94**	**150.00**	**150.75**	**34.71**	**-**	**-**	**-**

2. RISK MANAGEMENT POLICIES (continued)

2.1.5 Assets exposed to credit risk (continued)

(c) Impaired assets in risk categories B and C exposed to credit risk (continued)

Bank 2009 HRK '000	**Loans to customers** Companies	Housing loans	Mortgage loans	Other loans	**Total**	**Placements with and loans to other banks**	**Financial assets available for sale**	**Financial assets held to maturity**	**Other assets**
Gross loans	1,301,362	16,995	-	402,436	**1,720,793**	500	55,633	20,556	3,303
Total identified losses	(349,167)	(5,135)	-	(239,755)	**(594,057)**	(500)	(18,548)	(20,556)	(3,303)
Net loans	**952,195**	**11,860**	**-**	**162,681**	**1,126,736**	**-**	**37,084**	**-**	**-**
Collateral value	437,143	25,729	-	389,823	**852,695**	-	-	-	-
% collateral coverage	**45.91**	**216.94**	**-**	**239.62**	**75.68**	**-**	**-**	**-**	**-**

Bank 2008 HRK '000	**Loans to customers** Companies	Housing loans	Mortgage loans	Other loans	**Total**	**Placements with and loans to other banks**	**Financial assets available for sale**	**Other assets**
Gross loans	501.619	1.914	342	169.016	**672.891**	500	5.349	15.300
Total identified losses	(105.407)	(1.107)	(296)	(80.405)	**(187.215)**	(500)	(4.000)	(5.151)
Net loans	**396.212**	**807**	**46**	**88.611**	**485.676**	**-**	**1.349**	**10.149**
Collateral value	32.451	2.477	69	133.584	**168.581**	-	-	-
% collateral coverage	**8.19**	**306.94**	**150.00**	**150.75**	**34.71**	**-**	**-**	**-**

2. RISK MANAGEMENT POLICIES (continued)

2.1.5 Assets exposed to credit risk (continued)

(d) Prolongued and rescheduled loans to customers

Prolongation of a loan is approved to clients because of common and current financing needs of their business activities.

Loans are most often rescheduled in certain cases where borrowers' business activities are disrupted, whereby previous conditions of the loan agreement change considerably.

		Bank
	2009 HRK '000	2008 HRK '000
Net loans to customers		
Large companies	1,037,010	832,785
Small and medium companies	419,702	33,716
Retail	22,348	239,745
Total	**1,479,060**	**1,106,246**

The increase in 2009 reflects the economic situation in Croatia, characterized by narrow liquidity of the real sector.

2.1.6. Concentration of credit risk by industry

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

		Group		Bank
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Agriculture and forestry	241,070	235,064	241,070	235,064
Industry	2,007,316	2,038,939	2,007,316	2,038,939
Construction	464,072	519,711	464,072	519,711
Transport, storage and communication	203,520	162,283	203,520	162,283
Retail	988,426	978,040	988,426	978,040
Tourism	302,603	364,319	302,603	364,319
Services	680,915	454,980	691,673	464,087
Ministry of Finance RH	154,610	204,159	154,610	204,159
Other	417,255	252,078	417,257	252,078
Total gross loans to corporate	**5,459,787**	**5,209,573**	**5,470,547**	**5,218,680**
Loans to retail customers (gross)	3,031,449	3,124,737	2,974,144	3,083,326
- covered by collateral	542,057	487,115	488,375	445,626
Accrued interest	70,478	89,784	70,374	89,705
Impairment losses	(693,048)	(295,589)	(692,475)	(295,175)
Total	**7,868,666**	**8,128,505**	**7,822,590**	**8,096,536**

2. RISK MANAGEMENT POLICIES (continued)

2.2. Liquidity risk

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

- structural liquidity risk – inability to settle liabilities as a result of the maturity gap between cash inflow and outflow; and
- liquidity risk of financial instruments (financial assets held for trading, financial assets available for sale) - risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe.

The Group's liquidity risk management is conducted in compliance with regulatory requirements. Alongside legal regulations on liquidity risk management, the following internal acts exist:

- asset and liability management policy,
- liquidity risk management policy and
- procedure for liquidity risk management.

The liquidity risk management policy is the basis for managing the Bank's liquidity risk, while asset and liability management policies define measurement of the Bank's exposure toward structural risks (liquidity risk and interest rate risk of non-trading portfolios). The system for managing liquidity risk, in line with defined polices, includes:

- estimation and measurement of liquidity risk exposure,
- setting limits for exposure to liquidity risk and
- reporting and supervision of limits used.

The Group identifies its own internal exposure to liquidity risk limits alongside regulatory limits, which it implements. The risk management sector reports to the Asset and Liability Management Committee quarterly on the Bank's exposure to liquidity risk, and monthly on movements in the Bank's liquidity reserves. The Management Board is responsible for liquidity risk management. The Group achieves liquidity management through operational management of daily and short-term liquidity which includes:

- maintaining minimum reserve requirements in kuna and foreign currency,
- maintaining regular liquidity in foreign currency and kuna,
- planning and budgeting daily/weekly/monthly cash flow and monitoring the realisation of planned cash inflow and outflow,
- managing long-term liquidity by maintaining positions in accordance with liquidity risk exposure limits and
- diversification of sources of financing.

2. RISK MANAGEMENT POLICIES (continued)

2.2 Liquidity risk (continued)

Together with monitoring movements in liquidity reserves (required and achieved), and taking into account deposit concentrations and oscillation in demand deposit movements, the Group prescribes and performs liquidity stress tests. Long-term management of liquidity is achieved by maintaining positions within liquidity risk exposure limits.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings, hybrid instruments and share capital. The Group continually assesses liquidity risk by identifying and monitoring changes in the level of funding required to acheive business goals and strategic targets. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management.

The Group is aware of the increased uncertainty in financial markets caused by the global economic crisis, and has, for this reason, increased its monitoring of liquidity reserves during 2009, in accordance with on liquidity risk management.

The Bank managed to maintain liquidity reserves on a high level, combining its own liquidity reserves and operations on open market, in conditions of high interest rates and narrow liquidity on money markets during the first half of 2009. Defined measures and procedures prescribed by internal policies and manuals have contributed to this, with the goal to collect additional retail and corporate deposits and to intensify the process of collecting matured loans.

One of the measures the Bank uses to measure liquidity limits is monitoring the percentage share of loans to customers in total assets (suggested limit is < 60%).

	Bank
Share of loans to customers in total assets	
2009	56%
2008	55%

2.2.1. Maturity analysis

A maturity analysis of assets and liabilities of the Group and the Bank, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss which are analysed as current based on their classification and the Group's and the Bank's trading intention, as at 31 December 2009 and 31 December 2008, is presented in the tables furtheron.

2. RISK MANAGEMENT POLICIES (continued)

2.2 Liquidity risk (continued)

2.2.1 Maturity analysis (continued)

Group 2009
HRK '000

	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
ASSETS						
Cash and amounts due from banks	1,118,648	-	-	-	-	1,118,648
Obligatory reserve with Croatian National Bank	1,128,341	-	-	-	-	1,128,341
Placements with and loans to other banks	526,464	550,687	21,649	226	61,929	1,160,955
Financial assets at fair value through profit and loss	941,687	5,920	-	-	-	947,607
Financial assets available for sale	1,375	30,423	379,493	162,574	74,584	648,448
Financial assets held to maturity	1,379	119,033	38,611	45,674	391,876	596,574
Loans and advances to customers	2,058,479	701,571	1,965,965	1,228,609	1,914,042	7,868,666
Assets held for sale	-	-	-	-	21,551	21,551
Property and equipment	(10,956)	-	-	-	176,352	165,396
Investment property	10,956	-	-	-	-	10,956
Intangible assets	-	-	-	-	200,052	200,052
Net deferred tax asset	-	-	72	-	29,824	29,896
Tax prepayment	-	-	17,595	-	-	17,595
Other assets	44,668	850	10,544	935	136,750	193,747
TOTAL ASSETS	**5,821,041**	**1,408,484**	**2,433,930**	**1,438,018**	**3,006,960**	**14,108,432**
LIABILITIES						
Financial liabilities at fair value through profit or loss	1,550	-	-	-	-	1,550
Deposits from banks	111,964	128,416	123,000	-	-	363,380
Deposits from customers	5,370,737	1,058,782	3,034,528	776,870	96,658	10,337,575
Borrowings	310,585	233,325	226,935	296,290	760,800	1,827,935
Hybrid instruments	6,245	-	-	200,604	250,101	456,950
Provisions for liabilities and charges	-	12,992	22	1,885	20,072	34,971
Other liabilities	359,244	2,929	31,998	16,800	38,381	449,352
Total equity					636,720	636,720
TOTAL LIABILITIES AND EQUITY	**6,160,325**	**1,436,444**	**3,416,483**	**1,292,449**	**1,802,731**	**14,108,432**
MATURITY GAP	**(339,284)**	**(27,960)**	**(982,554)**	**145,569**	**1,204,229**	**-**
CUMULATIVE MATURITY GAP	**(339,284)**	**(367,244)**	**(1,349,798)**	**(1,204,229)**	**-**	**-**

2. RISK MANAGEMENT POLICIES (continued)

2.2 Liquidity risk (continued)

2.2.1 Maturity analysis (continued)

Group 2008
HRK '000

	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
ASSETS						
Cash and amounts due from banks	936,127	-	-	-	-	936,127
Obligatory reserve with Croatian National Bank	1,119,720	-	-	-	-	1,119,720
Placements with and loans to other banks	1,301,767	9,000	24,020	1,511	71,665	1,407,963
Financial assets at fair value through profit and loss	1,555,385	3,212	-	-	-	1,558,597
Financial assets available for sale	2,689	26,836	69,981	50,665	184,451	334,622
Financial assets held to maturity	11,508	55,835	100,797	21,091	417,957	607,188
Loans and advances to customers	1,309,586	803,593	1,949,549	1,595,993	2,469,784	8,128,505
Assets held for sale	-	-	26,833	-	-	26,833
Property and equipment	-	-	-	-	191,487	191,487
Investment property	-	-	-	-	8,671	8,671
Intangible assets	-	-	-	-	186,193	186,193
Net deferred tax asset	-	-	1,086	-	46,438	47,524
Tax prepayment	-	-	7,123	-	-	7,123
Other assets	71,285	457	18,976	1,392	57,155	149,265
TOTAL ASSETS	**6,308,067**	**898,933**	**2,198,365**	**1,670,652**	**3,633,801**	**14,709,818**
LIABILITIES						
Financial liabilities at fair value through profit or loss	6,741	-	-	-	-	6,741
Deposits from banks	395,415	17,934	-	-	-	413,349
Deposits from customers	6,778,922	1,612,533	1,550,481	670,804	89,960	10,702,700
Borrowings	495,203	53,849	210,579	297,801	807,818	1,865,250
Hybrid instruments	270	-	-	-	310,601	310,871
Provisions for liabilities and charges	-	7,367	5	2,069	23,466	32,907
Other liabilities	374,209	11,440	28,838	16,800	35,394	466,681
Total equity	-	-	-	-	911,319	911,319
TOTAL LIABILITIES AND EQUITY	**8,050,760**	**1,703,123**	**1,789,903**	**987,474**	**2,178,558**	**14,709,818**
MATURITY GAP	**(1,742,693)**	**(804,190)**	**408,462**	**683,178**	**1,455,243**	**-**
CUMULATIVE MATURITY GAP	**(1,742,693)**	**(2,546,883)**	**(2,138,421)**	**(1,455,243)**	**-**	**-**

2. RISK MANAGEMENT POLICIES (continued)

2.2 Liquidity risk (continued)

Bank 2009
HRK '000

	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
ASSETS						
Cash and amounts due from banks	1,118,618	-	-	-	-	1,118,618
Obligatory reserve with Croatian National Bank	1,128,341	-	-	-	-	1,128,341
Placements with and loans to other banks	515,859	548,687	20,000	226	61,929	1,146,701
Financial assets at fair value through profit and loss	941,687	5,920	-	-	-	947,607
Financial assets available for sale	1,375	9,813	379,493	150,578	70,060	611,318
Financial assets held to maturity	1,379	111,373	14,694	40,467	353,451	521,365
Loans and advances to customers	2,055,898	701,173	1,964,142	1,223,469	1,877,907	7,822,590
Assets held for sale	-	-	-	-	21,551	21,551
Investments in subsidiaries	-	-	-	-	73,990	73,990
Property and equipment	-	-	-	-	165,327	165,327
Intangible assets	-	-	-	-	199,739	199,739
Net deferred tax asset	-	-	-	-	28,961	28,961
Tax prepayment	-	-	16,792	-	-	16,792
Other assets	35,328	293	3,726	935	137,715	177,997
TOTAL ASSETS	**5,798,485**	**1,377,259**	**2,398,847**	**1,415,675**	**2,990,630**	**13,980,897**
LIABILITIES						
Financial liabilities at fair value through profit or loss	1,550	-	-	-	-	1,550
Deposits from banks	111,964	128,416	123,000	-	-	363,380
Deposits from customers	5,375,159	1,056,611	3,024,934	716,496	47,968	10,221,168
Borrowings	310,585	233,325	226,935	296,290	760,800	1,827,935
Hybrid instruments	6,245	-	-	200,604	250,101	456,950
Provisions for liabilities and charges	-	12,992	-	1,885	20,072	34,949
Other liabilities	345,979	2,929	24,368	16,800	38,045	428,121
Total equity	-	-	-	-	646,844	646,844
TOTAL LIABILITIES AND EQUITY	**6,151,482**	**1,434,273**	**3,399,237**	**1,232,075**	**1,763,829**	**13,980,897**
MATURITY GAP	**(352,997)**	**(57,014)**	**(1,000,390)**	**183,600**	**1,226,801**	**-**
CUMULATIVE MATURITY GAP	**(352,997)**	**(410,011)**	**(1,410,401)**	**(1,226,801)**	**-**	**-**

2. RISK MANAGEMENT POLICIES (continued)

2.2 Liquidity risk (continued)

2.2.1 Maturity analysis (continued)

Bank 2008
HRK '000

	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Total
ASSETS						
Cash and amounts due from banks	936,119	-	-	-	-	936,119
Obligatory reserve with Croatian National Bank	1,119,720	-	-	-	-	1,119,720
Placements with and loans to other banks	1,294,059	9,000	10,000	1,511	71,665	1,386,235
Financial assets at fair value through profit and loss	1,555,365	3,212	-	-	-	1,558,577
Financial assets available for sale	2,689	26,836	69,981	50,665	169,991	320,162
Financial assets held to maturity	11,508	55,457	95,354	21,091	379,413	562,823
Loans to customers	1,308,516	803,414	1,948,426	1,592,788	2,443,392	8,096,536
Assets held for sale	-	-	26,833	-	-	26,833
Investments in subsidiaries	-	-	-	-	53,550	53,550
Property and equipment	-	-	-	-	191,393	191,393
Intangible assets	-	-	-	-	185,710	185,710
Net deferred tax asset	-	-	-	-	46,438	46,438
Tax prepayment	-	-	18,063	-	-	18,063
Other assets	67,324	450	8,572	1,392	57,154	134,892
TOTAL ASSETS	**6,295,300**	**898,369**	**2,177,229**	**1,667,447**	**3,598,706**	**14,637,051**
LIABILITIES						
Financial liabilities at fair value through profit or loss	6,741	-	-	-	-	6,741
Deposits from banks	395,415	17,934	-	-	-	413,349
Deposits from customers	6,780,169	1,614,209	1,544,224	643,100	49,072	10,630,774
Borrowings	495,203	53,849	210,579	297,801	807,818	1,865,250
Hybrid instruments	270	-	-	-	310,601	310,871
Provisions for liabilities and charges	-	7,367	-	2,069	23,466	32,902
Other liabilities	368,822	8,981	22,717	16,800	35,394	452,714
Total equity	-	-	-	-	924,450	924,450
TOTAL LIABILITIES AND EQUITY	**8,046,620**	**1,702,340**	**1,777,520**	**959,770**	**2,150,801**	**14,637,051**
MATURITY GAP	**(1,751,320)**	**(803,971)**	**399,709**	**707,677**	**1,447,905**	**-**
CUMULATIVE MATURITY GAP	**(1,751,320)**	**(2,555,291)**	**(2,155,582)**	**(1,447,905)**	**-**	**-**

2. RISK MANAGEMENT POLICIES (continued)

2.3. Market risk

The exposure to market risk occurs in respect of balance sheet and off-balance-sheet positions recognised at fair value:

- financial assets held for trading,
- financial assets available for sale,
- positions denominated in foreign currency (including placements and liabilities linked to foreign currencies).

All dealing instruments are subject to market risk, that is, the risk that future changes in market conditions may make an instrument less valuable or could lead to the need to recognise impairment. Dealing financial instruments are recognised at fair value, and all changes in market conditions directly affect dealing income. The Bank manages its use of dealing instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with the risk limits set by the management through acquisitions or disposals of financial instruments.

Market risk management of the Bank is conducted in accordance with regulatory requirements, which is defined in internal policies and procedures regarding market risks which are regularly revised by the Risk Management Division.

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

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

- Capital requirement calculated by the standard method calculated in accordance with the Croatian National Bank's Decision on the capital adequacy of banks;
- Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors (interest rates, exchange rate and share prices) for a period of retaining the same position for 10 days at statistical accuracy of 99%. VaR is calculated at the end of the day and does not include daily exposure arising from a change in position. To calculate VaR, a database containing 250 historical figures is used.
- Capital requirement calculated by an internal model (VaR x 4)

The Risk Management Division reports daily to the Treasury Division on the usage of market risk exposure limits, daily to the Accounting and Financial Control Division regarding the capital requirements for currency risk and position risks, and monthly to the Asset and Liability Management Committee on market risk exposure.

2. RISK MANAGEMENT POLICIES (continued)

2.4. Interest rate risk

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

Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

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

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

- Duration (measure of the sensitivity of debt security prices to changes in interest rates)
- PV01 which represents the decline in price value of the portfolio in case of interest rate increase by 0.01% and
- Value at risk (VaR).

a) Investment in equity securities risk

Financial assets at fair value through profit or loss

The Bank uses value at risk (VaR) figures to measure exposure to risks in investment in equity securities.

The table below shows the movement in given figures as at 31 December 2009 and 31 December 2008.

Bank

2009	**Position HRK'000**	**VaR HRK'000**
Currency risk	58,308	(830)
Interest rate risk	804,279	(7,815)
Investment risk in equity securities	51,145	(5,018)
Correlation effect	-	4,320
Market risk	**-**	**(9,227)**
2008		
Currency risk	59,798	(592)
Interest rate risk	1,449,839	(8,790)
Investment risk in equity securities	40,464	(6,969)
Correlation effect	-	4,128
Market risk	**-**	**(12,207)**

2. RISK MANAGEMENT POLICIES (continued)

2.4. Interest rate risk (continued)

Available-for-sale portfolio

The available-for-sale portfolio consists of debt and equity securities.

The table below shows the movement in market values and the risk values for the portfolio of debt securities within the portfolio available for sale.

Bank

Debt securities	Market value HRK'000	VaR HRK'000
2009	586,690	(1,626)
2008	271,134	(2,819)

Equity securities	Market value HRK'000	VaR HRK'000
2009	39,844	(7,259)
2008	46,812	(5,154)

2. RISK MANAGEMENT POLICIES (continued)

2.4. Interest rate risk (continued)

b) Interest rate risk for the non-commercial part of the balance sheet

The interest rate risk for the non-commercial part of the balance sheet is assessed from two perspectives - profit perspective and the perspective of economic value of capital.

Profit perspective

The profit perspective takes into account the potential decrease in net interest income as a result of a change in market interest rates. The measurement of interest rate risk from the profit perspective requires the Bank to simulate basic parallel movements in interest rates ± 2%, through a time period of 12 months and the potential decrease in net interest income is to be maintained within a 10% limit of planned net interest income for the current year.

The table illustrates the potential decrease in net interest income and the usage of limits as at 31 December 2009 and 31 December 2008.

Bank	**Potential decrease in net interest income HRK'000**	**% of planned net interest income**
2009		
31 December 2009	6,006	1.16
Average during 2009	6,291	1.22
Minimum during 2009	550	0.11
Maximum during 2009	9,842	1.90
2008		
31 December 2008	4,473	0.97
Average during 2008	9,087	1.98
Minimum during 2008	4,473	0.97
Maximum during 2008	12,366	2.65

2. RISK MANAGEMENT POLICIES (continued)

2.4. Interest rate risk (continued)

Perspective of economic value of capital

The perspective of economic value of capital relates to a potential decrease in the market value of capital as a result of a change in the prevailing market interest rates.

The Bank calculates the market value of capital by discounting the balance sheet positions using real interest rates for product lines for which they are defined, and a universal and unique interest rate of 5% for balance sheet position where the Bank did not define a interest rate. Accordingly, the economic value of capital is expressed as the difference between the present value of assets and the present value of liabilities. The Bank seeks to maintain the difference in the market value of capital in case of a parallel interest rate change by ± 2% within a limit of 10% of the market value of capital. The prescribed limit was breached on few occasions, which is a result of interest rate volatility and significant decrease of market value of capital.

Bank	**Capital market value HRK'000**	**Change at interest rate change by 200 bp**	**Change at interest rate change by -200 bp**
2009			
31 December 2009	441,518	(12.76)	14.76
Average during 2009	634,994	(10.96)	11.54
Minimum during 2009	441,518	(12.76)	9.30
Maximum during 2009	805,488	(8.13)	14.76
2008			
31 December 2008	756,652	(5.89)	6.89
Average during 2008	816,087	(4.20)	4.30
Minimum during 2008	756,652	(5.89)	4.12
Maximum during 2008	858,348	(3.42)	6.89

2.4.1. Interest rate gap analysis

The following tables present the Group's and the Bank's assets and liabilities and equity analysed according to repricing periods determined as the earlier of remaining contractual maturity and contractual repricing,

The tables presented furtheron represent the management's estimate of the interest rate risk for the Group and the Bank as at 31 December 2009 and 31 December 2008 and are not necessarily indicative for the positions in different periods, but provide some indication of the sensitivities of the Group's and the Bank's earnings to movements in interest rates.

2. RISK MANAGEMENT POLICIES (continued)

2.4. Interest rate risk (continued)

2.4.1. Interest rate gap analysis (continued)

Group 2009 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Without interest	Total	Fixed interest
ASSETS								
Cash and amounts due from banks	657,210	-	-	-	-	461,438	1,118,648	-
Obligatory reserve with Croatian National Bank	1,127,592	-	-	-	-	749	1,128,341	-
Placements with and loans to other banks	588,619	549,965	21,649	-	-	722	1,160,955	1,039,962
Financial assets at fair value through profit and loss	800,999	-	-	-	-	146,608	947,607	800,999
Financial assets available for sale	1,375	6,295	379,472	162,567	31,537	67,202	648,448	581,246
Financial assets held to maturity	1,379	111,831	38,611	45,674	391,876	7,202	596,574	589,372
Loans to customers	7,506,038	2,260	103,357	53,238	133,296	70,477	7,868,666	217,027
Assets held for sale	-	-	-	-	-	21,551	21,551	-
Property and equipment	-	-	-	-	-	165,396	165,396	-
Investment property	-	-	-	-	-	10,956	10,956	-
Intangible assets	-	-	-	-	-	200,052	200,052	-
Net deferred tax asset	-	-	-	-	-	29,896	29,896	-
Tax prepayment	-	-	-	-	-	17,595	17,595	-
Other assets	-	-	-	-	-	193,747	193,747	-
TOTAL ASSETS	**10,683,213**	**670,351**	**543,090**	**261,479**	**556,709**	**1,393,591**	**14,108,432**	**3,228,605**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	1,550	1,550	-
Deposits from banks	111,961	125,000	123,000	-	-	3,419	363,380	333,774
Deposits from customers	8,127,295	1,021,931	1,008,585	74,094	51,117	54,553	10,337,575	2,580,753
Borrowings	1,460,039	194,591	50,835	27,528	85,544	9,398	1,827,935	476,515
Hybrid instruments	-	-	-	200,604	250,101	6,245	456,950	450,705
Provisions for liabilities and charges	-	-	-	-	-	34,971	34,971	-
Other liabilities	-	-	-	-	-	449,352	449,352	-
Total equity	-	-	-	-	-	636,720	636,720	-
TOTAL LIABILITIES AND EQUITY	**9,699,295**	**1,341,522**	**1,182,420**	**302,226**	**386,762**	**1,196,207**	**14,108,432**	**3,841,747**
INTEREST RATE GAP	**983,918**	**(671,171)**	**(639,330)**	**(40,747)**	**169,947**	**197,384**	**-**	**(613,142)**

2. RISK MANAGEMENT POLICIES (continued)

2.4. Interest rate risk (continued)

2.4.1. Interest rate gap analysis (continued)

Group 2008 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Without interest	Total	Fixed interest
ASSETS								
Cash and amounts due from banks	568,229	-	-	-	-	367,898	936,127	-
Obligatory reserve with Croatian National Bank	1,118,946	-	-	-	-	774	1,119,720	-
Placements with and loans to other banks	1,372,743	9,000	24,020	-	-	2,200	1,407,963	1,320,290
Financial assets at fair value through profit and loss	1,449,860	-	-	-	-	108,737	1,558,597	1,449,840
Financial assets available for sale	2,689	21,706	69,981	50,665	133,766	55,815	334,622	278,807
Financial assets held to maturity	16,951	48,667	95,354	21,091	417,957	7,168	607,188	594,587
Loans and advances to customers	7,817,490	946	3,598	5,244	211,443	89,784	8,128,505	222,875
Assets held for sale	-	-	-	-	-	26,833	26,833	-
Property and equipment	-	-	-	-	-	193,968	193,968	-
Investment property	-	-	-	-	-	6,190	6,190	-
Intangible assets	-	-	-	-	-	186,193	186,193	-
Net deferred tax asset	-	-	-	-	-	47,524	47,524	-
Tax prepayment	-	-	-	-	-	7,123	7,123	-
Other assets	-	-	-	-	-	149,265	149,265	-
TOTAL ASSETS	**12,346,908**	**80,319**	**192,953**	**77,000**	**763,166**	**1,249,472**	**14,709,818**	**3,866,399**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	6,741	6,741	-
Deposits from banks	395,404	17,520	-	-	-	425	413,349	33,421
Deposits from customers	9,511,690	429,067	598,768	91,858	43,692	27,625	10,702,700	2,065,851
Borrowings	1,705,021	17,381	3,038	27,657	103,517	8,636	1,865,250	496,843
Subordineted debt	-	-	-	-	310,601	270	310,871	310,601
Provisions for liabilities and charges	-	-	-	-	-	32,907	32,907	-
Other liabilities	-	-	-	-	-	466,681	466,681	-
Total equity	-	-	-	-	-	911,319	911,319	-
TOTAL LIABILITIES AND EQUITY	**11,612,115**	**463,968**	**601,806**	**119,515**	**457,810**	**1,454,604**	**14,709,818**	**2,906,716**

2. RISK MANAGEMENT POLICIES (continued)

2.4. Interest rate risk (continued)

2.4.1. Interest rate gap analysis (continued)

Bank 2009 **HRK '000**	**0-30 days**	**31-90 days**	**91-360 days**	**1 to 3 years**	**More than 3 years**	**Without interest**	**Total**	**Fixed interest**
ASSETS								
Cash and amounts due from banks	657,210	-	-	-	-	461,408	1,118,618	-
Obligatory reserve with Croatian National Bank	1,127,592	-	-	-	-	749	1,128,341	-
Placements with and loans to other banks	578,014	547,965	20,000	-	-	722	1,146,701	1,018,241
Financial assets at fair value through profit and loss	800,999	-	-	-	-	146,608	947,607	800,999
Financial assets available for sale	1,375	6,295	379,472	150,571	27,013	46,592	611,318	564,726
Financial assets held to maturity	1,379	104,583	14,694	40,467	353,451	6,790	521,365	514,575
Loans to customers	7,514,235	1,690	100,733	45,737	89,821	70,374	7,822,590	160,295
Assets held for sale	-	-	-	-	-	21,551	21,551	-
Investments in subsidiaries	-	-	-	-	-	73,990	73,990	-
Property and equipment	-	-	-	-	-	165,327	165,327	-
Intangible assets	-	-	-	-	-	199,739	199,739	-
Net deferred tax asset	-	-	-	-	-	28,961	28,961	-
Tax prepayment						16,792	16,792	
Other assets	-	-	-	-	-	177,997	177,997	-
TOTAL ASSETS	**10,680,805**	**660,533**	**514,900**	**236,775**	**470,285**	**1,417,600**	**13,980,897**	**3,058,835**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	1,550	1,550	-
Deposits from banks	111,961	125,000	-	-	-	3,419	363,380	333,774
Deposits from customers	8,131,717	1,019,760	13,720	2,427	54,553	10,221,168	13,720	2,464,346
Borrowings	1,460,039	194,591	27,528	85,544	9,398	1,827,935	27,528	476,515
Hybrid instruments	-	-	-	200,604	250,101	6,245	456,950	450,705
Provisions for liabilities and charges	-	-	-	-	-	34,949	34,949	-
Other liabilities	-	-	-	-	-	428,121	428,121	-
Total equity	-	-	-	-	-	646,844	646,844	-
TOTAL LIABILITIES AND EQUITY	**9,703,717**	**1,339,351**	**1,172,826**	**241,852**	**338,072**	**1,185,079**	**13,980,897**	**3,725,340**
INTEREST RATE GAP	**977,088**	**(678,818)**	**(657,926)**	**(5,077)**	**132,213**	**232,521**	**-**	**(666,505)**

2. RISK MANAGEMENT POLICIES (continued)

2.4. Interest rate risk (continued)

2.4.1. Interest rate gap analysis (continued)

Bank 2008 HRK '000	0-30 days	31-90 days	91-360 days	1 to 3 years	More than 3 years	Without interest	Total	Fixed interest
ASSETS								
Cash and amounts due from banks	568,224	-	-	-	-	367,895	936,119	-
Obligatory reserve with Croatian National Bank	1,118,946	-	-	-	-	774	1,119,720	-
Placements with and loans to other banks	1,365,035	9,000	10,000	-	-	2,200	1,386,235	1,298,562
Financial assets at fair value through profit and loss	1,449,840	-	-	-	-	108,737	1,558,577	1,449,840
Financial assets available for sale	2,689	21,706	69,981	50,665	119,435	55,686	320,162	264,476
Financial assets held to maturity	11,508	48,667	95,354	21,091	379,413	6,790	562,823	556,033
Loans to customers	7,824,771	769	2,475	184	178,632	89,705	8,096,536	182,712
Assets held for sale	-	-	-	-	-	26,833	26,833	-
Investments in subsidiaries	-	-	-	-	-	53,550	53,550	-
Property and equipment	-	-	-	-	-	191,393	191,393	-
Intangible assets	-	-	-	-	-	185,710	185,710	-
Net deferred tax asset	-	-	-	-	-	46,438	46,438	-
Tax prepayment	-	-	-	-	-	18,063	18,063	-
Other assets	-	-	-	-	-	134,892	134,892	-
TOTAL ASSETS	**12,341,013**	**80,142**	**177,810**	**71,940**	**677,480**	**1,288,666**	**14,637,051**	**3,751,623**
LIABILITIES								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	6,741	6,741	-
Deposits from banks	395,404	17,520	-	-	-	425	413,349	33,421
Deposits from customers	9,512,936	430,744	592,511	64,154	2,804	27,625	10,630,774	1,988,756
Borrowings	1,705,021	17,381	3,038	27,657	103,517	8,636	1,865,250	496,843
Hybrid instruments	-	-	-	-	310,601	270	310,871	310,601
Provisions for liabilities and charges	-	-	-	-	-	32,902	32,902	-
Other liabilities	-	-	-	-	-	452,714	452,714	-
Total equity	-	-	-	-	-	924,450	924,450	-
TOTAL LIABILITIES AND EQUITY	**11,613,361**	**465,645**	**595,549**	**91,811**	**416,922**	**1,453,763**	**14,637,051**	**2,829,621**

2. RISK MANAGEMENT POLICIES (continued)

2.5. Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies.

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

The Bank directs its business activities trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency.

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

The Bank is primarily exposed to EUR. As at 31 December 2009 the value of assets denominated in EUR or in EURO linked currencies amounted to HRK 4,761,151 thousand (2008: HRK 3,229,362 thousand) while liabilities denominated in EUR or EURO linked currencies amounted to HRK 4,849,821 thousand (2008: HRK 3,542,688 thousand). Hence, a 1 percentage fall in the HRK/EUR exchange rate (appreciation of the HRK) would affect the result in the amount of HRK 887 thousand.

2.5.1. Currency risk analysis

The following tables illustrate the value of total assets and liabilities of the Group and Bank at 31 December 2009 and 31 December 2008 in HRK and foreign currencies (values denominated in HRK with foreign currency clause are mostly linked to EUR).

2. RISK MANAGEMENT (continued)

2.5.1 Currency risk analysis (continued)

Group 2009 HRK '000	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	936,282	-	132,389	49,977	**1,118,648**
Obligatory reserve with Croatian National Bank	1,046,775	-	81,566	-	**1,128,341**
Placements with and loans to other banks	231,784	-	927,064	2,107	**1,160,955**
Financial assets at fair value through profit and loss	759,079	173,515	2,990	11,995	**947,579**
Financial assets available for sale	74,078	499,125	74,557	688	**648,448**
Financial assets held to maturity	432,358	147,959	16,257	-	**596,574**
Loans to customers	4,957,265	2,456,578	367,897	86,954	**7,868,694**
Assets held for sale	21,551	-	-	-	**21,551**
Property and equipment	165,396	-	-	-	**165,396**
Investment property	10,956	-	-	-	**10,956**
Intangible assets	200,052	-	-	-	**200,052**
Net deferred tax asset	29,896	-	-	-	**29,896**
Tax prepayment	17,595	-	-	-	**17,595**
Other assets	188,354	994	4,381	18	**193,747**
TOTAL ASSETS	**9,071,421**	**3,278,171**	**1,607,101**	**151,739**	**14,108,432**
LIABILITIES					
Financial liabilities at fair value through profit or loss	359	-	456	735	**1,550**
Deposits from banks	326,831	-	30,295	6,254	**363,380**
Deposits from customers	6,412,396	161,777	3,618,756	144,646	**10,337,575**
Borrowings	713,684	902,271	211,980	-	**1,827,935**
Hybrid instruments	406,815	50,135	-	-	**456,950**
Provisions for liabilities and charges	34,971	-	-	-	**34,971**
Other liabilities	449,352	-	-	-	**449,352**
Total equity	636,720	-	-	-	**636,720**
TOTAL LIABILITIES AND EQUITY	**8,981,127**	**1,114,183**	**3,861,487**	**151,635**	**14,108,432**
NET FOREIGN EXCHANGE POSITION	**90,294**	**2,163,988**	**(2,254,386)**	**104**	**-**

2. RISK MANAGEMENT (continued)

2.5.1 Currency risk analysis (continued)

Group 2008

HRK '000	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	780,473	-	108,354	47,300	**936,127**
Obligatory reserve with Croatian National Bank	1,017,565	-	102,095	60	**1,119,720**
Placements with and loans to other banks	260,891	-	1,110,124	36,948	**1,407,963**
Financial assets at fair value through profit and loss	1,422,637	3,554	120,001	12,405	**1,558,597**
Financial assets available for sale	128,457	111,361	93,852	952	**334,622**
Financial assets held to maturity	564,281	19,878	-	23,029	**607,188**
Loans to customers	6,337,051	1,393,249	238,016	160,189	**8,128,505**
Assets held for sale	26,833	-	-	-	**26,833**
Property and equipment	191,487	-	-	-	**191,487**
Investment property	8,671	-	-	-	**8,671**
Intangible assets	186,193	-	-	-	**186,193**
Net deferred tax asset	47,524	-	-	-	**47,524**
Tax prepayment	7,123	-	-	-	**7,123**
Other assets	144,603	751	3,859	52	**149,265**
TOTAL ASSETS	**11,123,789**	**1,528,793**	**1,776,301**	**280,935**	**14,709,818**
LIABILITIES					
Financial liabilities at fair value through profit or loss	1,014	-	5,727	-	**6,741**
Deposits from banks	361,688	-	37,377	14,284	**413,349**
Deposits from customers	8,056,061	101,383	2,400,387	144,869	**10,702,700**
Borrowings	794,614	826,760	243,816	60	**1,865,250**
Hybrid instruments	310,871	-	-	-	**310,871**
Provisions for liabilities and charges	32,907	-	-	-	**32,907**
Other liabilities	9,631	4,331	2	452,717	**466,681**
Total equity	911,319	-	-	-	**911,319**
TOTAL LIABILITIES AND EQUITY	**10,478,105**	**932,474**	**2,687,309**	**611,930**	**14,709,818**
NET FOREIGN EXCHANGE POSITION	**645,684**	**596,319**	**(911,008)**	**(330,995)**	**-**

2. RISK MANAGEMENT (continued)

2.5.1 Currency risk analysis (continued)

Bank 2009

HRK '000	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	936,252	-	132,389	49,977	1,118,618
Obligatory reserve with Croatian National Bank	1,046,775	-	81,566	-	1,128,341
Placements with and loans to other banks	217,530	-	927,064	2,107	1,146,701
Financial assets at fair value through profit and loss	759,107	173,515	2,990	11,995	947,607
Financial assets available for sale	53,618	482,455	74,557	688	611,318
Financial assets held to maturity	407,824	97,284	16,257	-	521,365
Loans to customers	4,967,996	2,399,743	367,897	86,954	7,822,590
Assets held for sale	21,551	-	-	-	21,551
Investments in subsidiaries	73,990	-	-	-	73,990
Property and equipment	165,327	-	-	-	165,327
Intangible assets	199,739	-	-	-	199,739
Net deferred tax asset	28,961	-	-	-	28,961
Tax prepayment	16,792	-	-	-	16,792
Other assets	172,545	1,053	4,381	18	177,997
TOTAL ASSETS	**9,068,007**	**3,154,050**	**1,607,101**	**151,739**	**13,980,897**
LIABILITIES					
Financial liabilities at fair value through profit or loss	359	-	456	735	1,550
Deposits from banks	326,831	-	30,295	6,254	363,380
Deposits from customers	6,421,838	35,928	3,618,756	144,646	10,221,168
Borrowings	713,684	902,271	211,980	-	1,827,935
Hybrid instruments	406,815	50,135	-	-	456,950
Provisions for liabilities and charges	34,949	-	-	-	34,949
Other liabilities	428,121	-	-	-	428,121
Total equity	646,844	-	-	-	646,844
TOTAL LIABILITIES AND EQUITY	**8,979,441**	**988,334**	**3,861,487**	**151,635**	**13,980,897**
NET FOREIGN EXCHANGE POSITION	**88,566**	**2,165,716**	**(2,254,386)**	**104**	**-**

2. RISK MANAGEMENT (continued)

2.5.1 Currency risk analysis (continued)

Bank 2008
HRK '000

	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	780,465	-	108,354	47,300	**936,119**
Obligatory reserve with Croatian National Bank	1,017,565	-	102,095	60	**1,119,720**
Placements with and loans to other banks	239,163	-	1,110,124	36,948	**1,386,235**
Financial assets at fair value through profit and loss	1,422,617	3,554	120,001	12,405	**1,558,577**
Financial assets available for sale	128,327	97,030	93,852	953	**320,162**
Financial assets held to maturity	539,794	-	-	23,029	**562,823**
Loans and advances to customers	6,346,079	1,352,252	238,016	160,189	**8,096,536**
Assets held for sale	26,833	-	-	-	**26,833**
Investments in subsidiaries	53,550	-	-	-	**53,550**
Property and equipment	191,393	-	-	-	**191,393**
Intangible assets	185,710	-	-	-	**185,710**
Net deferred tax asset	46,438	-	-	-	**46,438**
Tax prepayment	18,063	-	-	-	**18,063**
Other assets	130,755	225	3,859	53	**134,892**
TOTAL ASSETS	**11,126,752**	**1,453,061**	**1,776,301**	**280,937**	**14,637,051**
LIABILITIES					
Financial liabilities at fair value through profit or loss	1,014	-	5,727	-	**6,741**
Deposits from banks	361,688	-	37,377	14,284	**413,349**
Deposits from customers	8,061,228	24,288	2,400,387	144,871	**10,630,774**
Borrowings	794,614	826,760	243,816	60	**1,865,250**
Hybrid instruments	310,871	-	-	-	**310,871**
Provisions for liabilities and charges	32,902	-	-	-	**32,902**
Other liabilities	33	4,331	2	448,348	**452,714**
Total equity	924,450	-	-	-	**924,450**
TOTAL LIABILITIES AND EQUITY	**10,486,800**	**855,379**	**2,687,309**	**607,563**	**14,637,051**

2. RISK MANAGEMENT (continued)

2.6. Operational risk management

The Group is subject to operational risk in all its business activities. The Group seeks to manage its operational risk in accordance with defined principles and policies at the Group level, with the final purpose being to mitigate or avoid operational risk.

The Group recognises the possibility of operational risk which, as a consequence, exposes the Group to financial losses, gains or missed profits, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk but does not include strategic and reputation risk.

2.7. Capital management

Capital allocation

Capital allocation is governed primarily by regulatory requirements. The process of capital allocation to specific activities is conducted independent of managers responsible for each section.

Even though maximisation of returns on weighted capital is one of the fundamental bases of capital allocation to particular activities within the Group, it is not the only basis for decision-making. Other reasons for capital management include synergy with other activities, accessibility of the Management Board and other resources, and correlation of activities with the long-term strategic goals of the Group. Management regularly assesses the Group’s capital management and allocation policy.

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

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

	2009 HRK '000	2008 HRK '000
REGULATORY CAPITAL		
Basic capital	615,830	903,846
Additional capital	450,000	310,000
Deductions from regulatory capital	(54,253)	(57,946)
Total regulatory capital	**1,011,576**	**1,155,900**
Credit risk weighted assets	9,733,468	10,063,862
Exoposure of foreign exchange position to the currency risk	53,308	21,960
Exposure to position risks	169,030	214,776
Exposure to settlement risk and counterparty risk	22,119	27,575
CREDIT RISK WEIGHTED ASSETS AND EXPOSURE TO OTHER RISKS	**9.982.826**	**10.328.173**
CAPITAL ADEQUACY RATIO	**10.13**	**11.19**

2. RISK MANAGEMENT (continued)

2.7 Capital management (continued)

The Bank, through the Asset and Liability Management Committee, continuously monitors the capital adequacy rate and in accordingly undertakes necessary measures in line with the Bank's policies, especially the Bank's policy regarding loan placements.

The CNB requires the Bank to reach a minimum capital adequacy ratio of 12% by 31 March 2010, calculated in accordance with the methodology prescribed by the banking regulations applicable in accordance with the new Credit Institutions Act dating October 13 2009, with which the Bank will be obliged to comply. In order to achieve this, the Bank will consider the options of raising regulatory capital, including a possible recapitalization, hybrid instruments and active management of credit portfolio in order to comply with new regulatory requirements.

The Bank has been aware of the shortfall in capital, which is necessary to ensure long-term growth. In order to bridge the period until the increase of basic capital, the Bank has, by the end of 2009, increased additional regulatory capital by issuing subordinated hybrid instrument in the total amount of HRK 100 million.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment losses on loans and receivables

The Group monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Group's on- and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans and advances to corporate and retail customers (summarised in Note 11), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of guarantees, documentary credits and undrawn loan commitments (summarised in Notes 24 and 40). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

The following tables represent the summary of impairment losses of loans and advances to customers.

Group	**Notes**	**2009 HRK '000**	**2008 HRK '000**
Impairment losses on loans and advances to customers	11	693,048	295,589
Provisions for off-balance-sheet exposures	24	19,237	23,471
Total		**712,285**	**319,060**

Bank	**Notes**	**2009 HRK '000**	**2008 HRK '000**
Impairment losses on loans and advances to customers	11	692,475	295,175
Provisions for off-balance-sheet exposures	24	19,215	23,466
Total		**711,690**	**318,641**

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Financial assets carried at amortized cost

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

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

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

At the year end, the gross value of specifically impaired loans and advances, and the rate of impairment loss recognized, was as follows:

Group and Bank

			2009 HRK'000			**2008 HRK'000**
	Corporate	**Retail**	**Total**	**Corporate**	**Retail**	**Total**
Gross value of exposure	1,381,353	419,431	**1,800,784**	529,495	171,272	**700,767**
Impairment rate	28.4%	58.4%	**35.4%**	22.6%	47.8%	**28.8%**

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2009 would lead to the recognition of an additional impairment loss of HRK 18,001 thousand (2008: HRK 7,008 thousand).

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

The amount of impairment allowance at 31 December 2009 estimated on a portfolio basis amounted to HRK 129,544 thousand (2008: HRK 140,523 thousand) of the relevant on- and off-balance-sheet exposure of the Group, and HRK 128,167 thousand (2008: HRK 139,598 thousand) of the relevant on- and off-balance-sheet exposure of the Bank.

At the minimum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 25.088 thousand (2008: HRK 21,078 thousand) lower than the amount recognised by the Group and HRK 19,422 thousand (2008: HRK 17,819 thousand) lower than the amount recognised by the Bank.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Financial assets carried at amortized cost (continued)

At the maximum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 29,541 thousand (2008: HRK 28,104 thousand) higher than the amount recognised by the Group and HRK 25,355 thousand (2008: HRK 27,919 thousand) higher than the amount recognised by the Bank.

Market value of pledged property and foreclosed assets

As disclosed in Note 2.1.5 (c), loans and advances to customers at 31 December 2009 include exposures with a carrying value of HRK 1,720,793 thousand classified by the Bank as impaired in view of delinquencies in payment, a significant proportion of which are secured on collateral in the form of property, plant and equipment. In assessing loan recoverability based on pledged property, market value of pledged property is discounted to present value by applying periods prescribed by internal acts. In addition, as disclosed in Note 18, other assets at 31 December 2009 include property, plant and equipment with a carrying value of HRK 135,958 thousand which represent foreclosed assets collected in settlement of non-performing debts. In view of the impact of the global financial and economic crisis on the fair market value of foreclosed assets, an impairment of these assets was made at 2009 year-end, by reconciling their carrying value with current market value. Accordingly, an impairment loss was recognized in amount of HRK 23,648 thousand, resulting in book value of foreclosed assets recognized in the Bank’s balance sheet amounting to HRK 112,379 thousand, as at December 31 2009.

Fair value of derivatives

The fair value of OTC derivatives is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

Fair value of treasury bills

The Group determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia, using an internal model which considers their remaining maturity and the latest available auction prices of equivalent instruments. As at 31 December 2009, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss was to HRK 1,249,870 thousand (2008: HRK 961,258 thousand). As at 31 December 2009, the carrying amount of treasury bills classified as financial assets available for sale was to HRK 332,283 thousand (2008: -).

Fair value of the financial instruments quoted in an active market

In estimating the fair value of quoted financial instruments, the Bank does not use closing prices at the date of estimation, but applies average prices which are based on the individual transaction volumes of the specified instruments during the day of estimation. This method provides a more realistic indication of the real price of the instrument, and decreases the risk of inadequate or inappropriate estimation of fair value which may result from limited trading in the instrument just before the end of the trading period, at a price which significantly differs from the daily average. This policy resulted in financial assets at fair value through profit or loss of HRK 199,961 thousand (2008: HRK 199,969 thousand) being carried at amounts HRK 5,048 thousand higher (2008: HRK 1,598 thousand lower), and financial assets available for sale of HRK 165,074 thousand (2008: HRK 264,411 thousand) being carried at amounts HRK 735 thousand lower (2008 HRK 2,187 thousand higher), than had closing prices been applied.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Provisions for court cases initiated against the Group

In calculating provisions for court expenses, severance payments and jubilee awards, the Group discounts expected future cash flows in respect of the liabilities, using CNB's discount rate or other rates that best represent the time value of money.

Taxation

The Group provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records.

4 SEGMENT REPORTING

Limited segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure. As the Group does not allocate overhead expenses and equity to segments, segment profitability is not reported.

Business segments

The Group comprises the following primary business segments:

- *Corporate Banking* — Includes loans, deposits and other transactions and balances with corporate customers;
- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers;
- *Treasury* — Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities;
- *Investment Banking and Asset Management* — Includes the Group's corporate and retail finance activities and asset management activities.

4 SEGMENT REPORTING (continued)

Group	Corporate	Retail	Treasury	Investment banking and asset management	Unallocated	2009 HRK'000 Total
Net interest income	224,136	92,653	35,861	3,256	6,362	362,268
Net fee and commission income	12,248	150,074	67	11,827	15,789	190,005
Dealing and investment income	-	-	42,609	-	(323)	42,286
Other income	584	585	4,491	468	1,554	7,682
Operating income	**236,968**	**243,312**	**83,028**	**15,551**	**23,381**	**602,240**
General and administrative expenses	-	-	-	-	(428,273)	(428,273)
Depreciation and amortisation	-	-	-	-	(79,947)	(79,947)
Impairment losses on loans and advances to customers and other assets	-	-	-	-	(509,863)	(509,863)
Other expenses	-	-	-	-	(24,854)	(24,854)
Provisions for liabilities and charges	-	-	-	-	(3,954)	(3,954)
Operating expenses	**-**	**-**	**-**	**-**	**(1,046,891)**	**(1,046,891)**
Loss before tax	**-**	**-**	**-**	**-**	**-**	(444,652)
Income tax expense	-	-	-	-	(2,190)	(2,190)
Loss for the year	**-**	**-**	**-**	**-**	**(2,190)**	**(446,841)**
Segment assets	5,390,875	3,022,341	5,122,140	121,803	-	13,657,159
Unallocated assets					451,273	451,273
Total assets	**5,390,875**	**3,022,341**	**5,122,140**	**121,803**	**451,273**	**14,108,432**
Segment liabilities	5,974,631	5,802,544	1,400,325	64,929	-	13,242,429
Unallocated equity and liabilities	-	-	-	-	866,003	866,003
Total equity and liabilities	**5,974,631**	**5,802,544**	**1,400,325**	**64,929**	**866,003**	**14,108,432**

4 SEGMENT REPORTING (continued)

Group						2008 HRK'000
	Corporate	**Retail**	**Treasury**	**Investment banking and asset management**	**Unallocated**	**Total**
Net interest income	235,770	142,843	52,471	14,494	-	445,578
Net fee and commission income	16,895	138,672	(1,004)	34,973	-	189,536
Dealing and investment income	-	-	(63,892)	-	-	(63,892)
Other income	6,380	2,943	3,314	23,900	7,050	43,587
Operating income	**259,045**	**284,458**	**(9,111)**	**73,367**	**7,050**	**614,809**
General and administrative expenses	-	-	-	-	(401,561)	(401,561)
Depreciation and amortisation	-	-	-	-	(65,685)	(65,685)
Impairment losses on loans and advances to customers and other assets	(88,290)	(51,109)	-	-	-	(139,399)
Provisions for liabilities and charges	-	(361)	-	-	(646)	(1,007)
Operating expenses	**(88,290)**	**(51,470)**	**-**	**-**	**(467,892)**	**(607,652)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	7,157
Income tax expense	-	-	-	-	(2,637)	(2,637)
Profit for the year	**-**	**-**	**-**	**-**	**(2,637)**	**4,520**
Segment assets	5,517,863	3,270,162	5,439,360	109,917	-	14,337,302
Unallocated assets	-	-	-	-	372,516	372,516
Total assets	**5,517,863**	**3,270,162**	**5,439,360**	**109,917**	**372,516**	**14,709,818**
Segment liabilities	6,305,148	5,568,709	1,671,226	35,893	-	13,580,976
Unallocated equity and liabilities	-	-	-	-	1,128,842	1,128,842
Total equity and liabilities	**6,305,148**	**5,568,709**	**1,671,226**	**35,893**	**1,128,842**	**14,709,818**

4 SEGMENT REPORTING (continued)

Bank						2009 HRK'000
	Corporate	**Retail**	**Treasury**	**Investment banking and asset management**	**Unallocated**	**Total**
Net interest income	224,558	92,653	35,861	3,256	-	356,328
Net fee and commission income	12,751	150,074	67	11,827	-	174,719
Dealing and investment income	-	-	42,609	-	-	42,609
Other income	584	585	4,491	468	2,996	9,124
Operating income	**237,893**	**243,312**	**83,028**	**15,551**	**2,996**	**582,780**
General and administrative expenses	-	-	-	-	(411,732)	(411,732)
Depreciation and amortisation	-	-	-	-	(79,494)	(79,494)
Impairment losses on loans and advances to customers and other assets	-	-	-	-	(509,403)	(509,403)
Other expenses	-	-	-	-	(24,854)	(24,854)
Provisions for liabilities and charges	-	-	-	-	(3,937)	(3,937)
Operating expenses	**-**	**-**	**-**	**-**	**(1,029,420)**	**(1,029,420)**
Loss before tax	**-**	**-**	**-**	**-**		(446,640)
Income tax expense	-	-	-	-	(2,175)	(2,175)
Loss for the year	**-**	**-**	**-**	**-**	**(2,175)**	**(448,815)**
Segment assets	5,401,634	3,022,341	5,122,140	121,803	-	13,667,918
Unallocated assets					312,979	312,979
Total assets	**5,401,634**	**3,022,341**	**5,122,140**	**121,803**	**312,979**	**13,980,897**
Segment liabilities	5,984,073	5,802,544	1,400,325	64,929	-	13,251,871
Unallocated equity and liabilities	-	-	-	-	729,026	729,026
Total equity and liabilities	**5,984,073**	**5,802,544**	**1,400,325**	**64,929**	**729,026**	**13,980,897**

4 SEGMENT REPORTING (continued)

Bank

2008 HRK'000

	Corporate	Retail	Treasury	Investment banking and asset management	Unallocated	Total
Net interest income	235,770	142,843	48,571	14,494	-	441,678
Net fee and commission income	11,204	137,396	(1,004)	20,510	-	168,106
Dealing and investment income	-	-	(63,828)	-	-	(63,828)
Other income	6,380	2,943	3,250	28,192	5,614	46,379
Operating income	**253,354**	**283,182**	**(13,011)**	**63,196**	**5,614**	**592,335**
General and administrative expenses	-	-	-	-	(382,994)	(382,994)
Depreciation and amortisation	-	-	-	-	(65,385)	(65,385)
Impairment losses on loans and advances to customers and other assets	(88,318)	(49,456)	-	-	-	(137,774)
Provisions for liabilities and charges	-	(361)	-	-	(646)	(1,007)
Operating expenses	**(88,318)**	**(49,817)**	**-**	**-**	**(449,025)**	**(587,160)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	5,175
Income tax expense	-	-	-	-	3,542	3,542
Profit for the year	**-**	**-**	**-**	**-**	**3,542**	**8,717**
Segment assets	5,517,863	3,229,086	5,439,360	109,917	-	14,296,226
Unallocated assets	-	-	-	-	340,825	340,825
Total assets	**5,517,863**	**3,229,086**	**5,439,360**	**109,917**	**340,825**	**14,637,051**
Segment liabilities	6,305,148	5,568,709	1,671,226	35,893	-	13,580,976
Unallocated equity and liabilities	-	-	-	-	1,056,075	1,056,075
Total equity and liabilities	**6,305,148**	**5,568,709**	**1,671,226**	**35,893**	**1,056,075**	**14,637,051**

5 CASH AND RECEIVABLES FROM BANKS

Group	2008 HRK '000			2007 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Cash in hand						
Held by the Group	118,727	122,905	241,632	92,454	105,440	197,894
Held by other parties	160,346	-	160,346	170,008	-	170,008
Cheques in the course of collection	-	5	5	-	1	1
	279,073	**122,910**	**401,983**	**262,462**	**105,441**	**367,903**
Amounts due from banks						
Current accounts with domestic banks	-	1,951	1,951	-	3,019	3,019
Current accounts with foreign banks	-	57,504	57,504	-	47,194	47,194
Giro account with the CNB	657,210	-	657,210	518,011	-	518,011
	657,210	**59,455**	**716,665**	**518,011**	**50,213**	**568,224**
Total	**936,283**	**182,365**	**1,118,648**	**780,473**	**155,654**	**936,127**

Bank	2008 HRK '000			2007 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Cash in hand						
Held by the Bank	118,697	122,905	241,602	92,446	105,440	197,886
Held by other parties	160,346	-	160,346	170,008	-	170,008
Cheques in the course of collection	-	5	5	-	1	1
	279,043	**122,910**	**401,953**	**262,454**	**105,441**	**367,895**
Amounts due from banks						
Current accounts with domestic banks	-	1,951	1,951	-	3,019	3,019
Current accounts with foreign banks	-	57,504	57,504	-	47,194	47,194
Giro account with the CNB	657,210	-	657,210	518,011	-	518,011
	657,210	**59,455**	**716,665**	**518,011**	**50,213**	**568,224**
Total	**936,253**	**182,365**	**1,118,618**	**780,465**	**155,654**	**936,119**

6 OBLIGATORY RESERVE WITH CROATIAN NATIONAL BANK

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Obligatory reserve				
- in HRK	1,046,026	1,016,851	1,046,026	1,016,851
- in foreign currency	81,566	102,095	81,566	102,095
Mandatory Croatian National Bank treasury bills	-	-	-	-
Interest receivable – due	749	714	749	714
Interest receivable – not due	-	60	-	60
Total	**1,046,775**	**1,119,720**	**1,046,775**	**1,119,720**

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

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

At 31 December 2009 the required minimum rate of maintenance of the kuna obligatory reserve with the CNB amounted to 70% (2008: 70%), while the remaining 30% (2008: 30%) could be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK (see below). In 2009, the annual interest rate on the HRK obligatory reserve payable by the CNB was 0.75% (2008: 0.75%).

60% of the foreign currency obligatory reserve (2008: 60%) is maintained with the CNB, while the remaining 40% (2008: 40%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). 75% (2008: 50%) of the foreign currency obligatory reserve is required to be held in HRK and is added to the HRK obligatory reserve (see above).

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7 PLACEMENTS WITH AND LOANS TO OTHER BANKS

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Short-term placements with domestic banks	278,847	506,213	264,593	485,004
Short-term placements with foreign banks	815,371	822,558	815,371	822,558
Short-term loans to domestic banks	-	-	-	-
Total short-term placements and loans	**1,094,218**	**1,328,771**	**1,079,964**	**1,307,562**
Guarantee deposits with foreign banks	3,860	3,297	3,860	3,297
Long-term placements with domestic banks	61,724	70,317	61,724	70,317
Total long-term placements and loans	**65,584**	**73,614**	**65,584**	**73,614**
Short-term placements with domestic non-bank financial institutions	500	500	500	500
Long-term placements with domestic non-bank financial institutions	431	2,859	431	2,859
Total placements with non-bank financial institutions	**931**	**3,359**	**931**	**3,359**
Specific provision for placements with non-bank financial institutions	**(500)**	**(500)**	**(500)**	**(500)**
Interest receivable – not due	722	2,719	722	2,200
Total interest receivable	**722**	**2,719**	**722**	**2,200**
Total	**1,160,955**	**1,407,963**	**1,146,701**	**1,386,235**

Long-term placements with domestic banks include an amount of HRK 61,724 thousand (2008: HRK 70,713 thousand) held at domestic banks, pledged as collateral for the repayment of long-term borrowings repayable in 17 installments from 14 September 2008 to 14 September 2015. Guarantee deposits mainly relate to deposits for card operations.

Movement in impairment allowance for placements with and loans to other banks

The movement in the impairment allowance for placements with and loans to other banks, recognised in the income statement, is as follows:

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Balance as at 1 January	500	500	500	500
(Decrease)/increase in impairment loss on placements with loans to other banks	-	-	-	-
Balance as at 31 December	**500**	**500**	**500**	**500**

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Trading instruments				
Debt securities, quoted on active markets				
Domestic government bonds	199,961	197,345	199,961	197,345
Corporate debt securities	-	2,624	-	2,624
Debt securities, quoted on active markets	**199,961**	**199,969**	**199,961**	**199,969**
Debt securities, not-quoted on active markets				
Treasury bills issued by Ministry of Finance	601,038	1,249,870	601,038	1,249,870
Units in investment funds, quoted on active markets	87,426	58,117	87,426	58,097
Equity securities, quoted on active markets	51,145	40,464	51,145	40,464
	939,570	**1,548,420**	**939,570**	**1,548,400**
Positive fair value of foreign exchange derivatives				
- forward contracts, OTC	1,893	6,965	1,893	6,965
- futures, quoted on active markets	224	-	224	-
	2,117	**6,965**	**2,117**	**6,965**
Interest receivable – not due	**5,920**	**3,212**	**5,920**	**3,212**
Total	**947,607**	**1,558,597**	**947,607**	**1,558,577**

9 FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Debt securities, quoted on active markets				
Domestic government bonds	190,291	208,181	193,728	193,728
Bills of exchange	29,327	6,723	6,724	6,723
Corporate bonds	6,724	-	29,327	
Commercial paper	55,259	70,683	55,259	70,683
	281,601	**285,587**	**264,939**	**271,134**
Equity securities, non-quoted on active markets				
- Treasury bills	323,283	70,683	323,283	70,683
Equity securities, non- quoted on active markets				
- corporate	2,243	2,410	2,243	2,410
- non-banking financial institutions	21,794	1,334	1,334	1,334
	24,037	**3,744**	**3,577**	**3,744**
Equity securities, quoted on active markets				
- corporate	25,059	17,465	25,059	17,465
- non-banking financial institutions	14,785	29,347	14,785	29,347
	39,844	**46,812**	**39,844**	**46,812**
Interest receivable – not due	3,698	5,260	3,548	5,130
Impairment allowance	(24,015)	(6,781)	(23,873)	(6,658)
Total	**648,448**	**334,622**	**611,318**	**320,162**

In accordance with the applicable accounting policies, the Bank recognizes available-for-sale financial assets at fair value with changes in fair value recognized in a fair value reserve in equity.

9 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Movement in impairment allowance for financial assets available for sale

Available-for-sale financial assets include unquoted debt securities which are measured at cost less impairment charges. Additionally, under CNB regulations, the Bank and Group are required to recognize provisions for unidentified losses.

The movement in the impairment allowance for financial assets available for sale, recognized in the income statement, is as follows:

Group			**2009 HRK'000**			**2008 HRK'000**
	Identified losses	**Unidentified losses**	**Total**	**Identified losses**	**Unidentified losses**	**Total**
At January 1	**4,000**	**2,781**	**6,781**	**1,499**	**1,043**	**2,542**
Increase in impairment losses	14,548	2,686	**17,234**	2,501	1,738	**4,239**
At December 31	**18,548**	**5,467**	**24,015**	**4,000**	**2,781**	**6,781**

Bank			**2009 HRK'000**			**2008 HRK'000**
	Identified losses	**Unidentified losses**	**Total**	**Identified losses**	**Unidentified losses**	**Total**
At January 1	**4,000**	**2,658**	**6,658**	**1,499**	**723**	**2,222**
Increase in impairment losses	14,548	2,668	**17,216**	2,501	1,935	**4,436**
At December 31	**18,548**	**5,326**	**23,874**	**4,000**	**2,658**	**6,658**

10 FINANCIAL ASSETS HELD TO MATURITY

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Domestic government bonds	390,556	383,557	346,284	344,636
Bonds issued by Croatian Bank for Reconstruction and Development	17,299	23,029	17,299	23,029
Corporate bonds	30,357	29,958	30,357	29,958
Bonds issued by banks	6,920	6,852	6,920	6,852
Bills of exchange	140,520	162,223	140,520	162,223
Treasury bills	31,165	5,443	-	-
	616,817	**611,062**	**541,380**	**566,698**
Interest receivable – not due	**6,162**	**7,168**	**5,749**	**6,790**
Impairment allowance	**(26,405)**	**(11,042)**	**(25,764)**	**(10,665)**
Total	**596,574**	**607,188**	**521,365**	**562,823**

Movement in impairment allowance for financial assets held to maturity

The movement in the impairment allowance for financial assets held to maturity recognised in the income statement, is as follows:

Group			**2009 HRK'000**			**2008 HRK'000**
	Identified losses	**Unidentified losses**	**Total**	**Identified losses**	**Unidentified losses**	**Total**
At January 1	**5,151**	**5,891**	**11,042**	**-**	**2,275**	**2,275**
Increase in impairment losses	15,405	(42)	**8,767**	5,151	3,616	**8,767**
At December 31	**20,556**	**5,849**	**26,405**	**5,151**	**5,891**	**11,042**

Bank			**2009 HRK'000**			**2008 HRK'000**
	Identified losses	**Unidentified losses**	**Total**	**Identified losses**	**Unidentified losses**	**Total**
At January 1	**5,151**	**5,514**	**10,665**	**-**	**2,275**	**2,275**
Increase in impairment losses	15,405	(306)	**15,099**	5,151	3,239	**8,390**
At December 31	**20,556**	**5,208**	**25,764**	**5,151**	**5,514**	**10,665**

11 LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Short-term loans				
Corporate	1,600,777	1,296,034	1,600,778	1,296,034
Retail	866,338	737,957	866,338	737,957
Total short-term loans	**2,467,115**	**2,033,991**	**2,467,116**	**2,033,991**
Long-term loans				
Corporate	3,859,010	3,913,539	3,869,769	3,922,646
Retail	2,165,111	2,386,780	2,107,806	2,345,369
Total long-term loans	**6,024,121**	**6,300,319**	**5,977,575**	**6,268,015**
Total gross loans	**8,491,236**	**8,334,310**	**8,444,691**	**8,302,006**
Interest receivable – due	53,608	68,430	53,504	68,353
Interest receivable – not due	16,870	21,354	16,870	21,352
Impairment allowance	**(693,048)**	**(295,589)**	**(692,475)**	**(295,175)**
Total	**7,868,666**	**8,128,505**	**7,822,590**	**8,096,536**
Total impairment allowance as a percentage of gross loans and advances to customers	**8,16%**	**3,55%**	**8,20%**	**3,56%**

11 LOANS AND ADVANCES TO CUSTOMERS (continued)

Movement in impairment allowance for loans and advances to customers

The movement in impairment allowance on loans and advances to customers is presented as follows:

Group			**2009 HRK'000**			**2008 HRK'000**
	Identified losses	**Unidentified losses**	**Total**	**Identified losses**	**Unidentified losses**	**Total**
At 1 January	**187,215**	**108,374**	**295,589**	**147,829**	**117,706**	**265,535**
Increase/(decrease) in impairment losses	425,703	(9,383)	**416,320**	134,765	(9,332)	**125,433**
Amounts recovered during the year	(1,814)		**(1,814)**	(1,425)	-	**(1,425)**
Net foreign exchange loss/(gain)	(25)		**(25)**	12	-	**12**
Usage	(17,022)		**(17,022)**	(93,966)	-	**(93,966)**
At 31 December	**594,057**	**98,991**	**693,048**	**187,215**	**108,374**	**295,589**

Bank			**2009 HRK'000**			**2008 HRK'000**
	Identified losses	**Unidentified losses**	**Total**	**Identified losses**	**Unidentified losses**	**Total**
At 1 January	**187,215**	**107,960**	**295,175**	**147,829**	**117,586**	**265,415**
Increase/(decrease) in impairment losses	425,703	(9,542)	**416,161**	134,765	(9,626)	**125,139**
Amounts recovered during the year	(1,814)		**(1,814)**	(1,425)	-	**(1,425)**
Net foreign exchange loss/(gain)	(25)		**(25)**	12	-	**12**
Usage	(17,022)		**(17,022)**	(93,966)	-	**(93,966)**
At 31 December	**594,057**	**98,418**	**692,475**	**187,215**	**107,960**	**295,175**

12 ASSETS HELD FOR SALE

a) The Group's assets held for sale include:

	Industry	Domicile	Ownership at 31 December 2009 %
H1 Telekom d,d,	Telecomunications	Croatia	41.25

On 25 March 2008 the Bank made an agreement with H1 Telecom d.d. on the conversion of the Bank's receivables based on a long term loan contract dated 9 February 2006 and its annex dated 27 March 2008 into share capital.

Given that the Bank has no intention to hold its equity stake over a long-term period, in accordance with IFRS 5: *Non-Current Assets held for Sale and Discontinuing Operations*, it is classified as assets held for sale.

Taking into account that the Bank as at December 31 2009 still possesses the equity stake in H1 Telekom, in spite of intention to sell it, estimation of fair market value has determined that the fair value is lower than the carrying value. Based on this, an impairment loss in amount of HRK 5.282 thousand was recognized in profit or loss statement.

The business results of H1 Telekom d.d. are not reflected in the consolidated financial statements of the Group.

b) Assets held for sale are as follows:

	Group and Bank	
	2009 HRK '000	2008 HRK '000
H1 Telekom d.d.	21,551	26,833

c) Movement in assets held for sale is as follows:

	Group and Bank	
	2009 HRK'000	2008 HRK '000
Balance at January 1	**26,833**	**-**
H1 Telekom d,d,	26.833	26.833
Impairment loss	(5,282)	-
Balance at December 31	**21,551**	**26,833**

13 INVESTMENTS IN SUBSIDIARIES

a) The Group's subsidiaries are as follows:

	Industry	Domicile	Ownership at 31 December 2009 %
HPB Invest d.o.o.	Investment fund management	Croatia	100
HPB Nekretnine d.o.o.	Real estate agency	Croatia	100
HPB Stambena štedionica d.d.	Banking	Croatia	100

All subsidiaries are fully consolidated in the Group's financial statements.

b) Investments in subsidiaries are as follows:

	Bank	
	2009 HRK '000	2008 HRK '000
HPB Invest d.o.o.	13,500	13,500
HPB Nekretnine d.o.o.	20,490	50
HPB Stambena štedionica d.d.	40,000	40,000
Total	**73,990**	**53,550**

c) Movements in investment in subsidiaries were as follows:

	Bank	
	2009 HRK '000	2008 HRK '000
Balance as at 1 January	**53,550**	**53,550**
Investment in HPB Nekretnine d.o.o.	20,440	-
Balance as at 31 December	**79,990**	**53,550**

14 PROPERTY AND EQUIPMENT

Group

2009	Land and buildings HRK '000	Computers, equipment and vehicles HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost				
Balance as at 1 January 2009	157,896	215,392	4,720	378,008
Additions		39	22,828	22,867
Written-off		(1,498)	(4)	(1,502)
Brought into use	187	26,965	(27,167)	(15)
Balance as at 31 December 2009	**158,083**	**240,898**	**377**	**399,358**
Accumulated depreciation				
Balance as at 1 January 2009	(46,727)	(139,794)		(186,521)
Charge for the year	(3,891)	(44,887)		(48,778)
Written-off		1,337		1,337
Balance as at 31 December 2009	**(50,618)**	**(183,344)**	**-**	**(233,962)**
Carrying value				
Balance as at 1 January 2009	111,169	75,598	4,720	191,487
Balance as at 31 December 2009	**107,465**	**57,554**	**377**	**165,396**

Group

2008	Land and buildings HRK '000	Computers, equipment and vehicles HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost				
Balance as at 1 January 2008	153,087	181,987	13,906	348,980
Additions	-	33	31,748	31,781
Written-off	-	(2,753)		(2,753)
Brought into use	4,809	36,125	(40,934)	-
Balance as at 31 December 2008	**157,896**	**215,392**	**4,720**	**378,008**
Accumulated depreciation				
Balance as at 1 January 2008	(42,932)	(101,874)		(144,806)
Charge for the year	(3,795)	(40,533)		(44,328)
Written-off	-	2,613		2,613
Balance as at 31 December 2008	**(46,727)**	**(139,794)**		**(186,521)**
Carrying value				
Balance as at 1 January 2008	110,155	80,113	13,906	204,174
Balance as at 31 December 2008	**111,169**	**75,598**	**4,720**	**191,487**

Assets in the course of construction comprise equipment at cost of HRK 377 thousand (2008: HRK 4,720 thousand).

14. PROPERTY AND EQUIPMENT (continued)

Bank

2009	**Land and buildings HRK '000**	**Computers, equipment and vehicles HRK '000**	**Assets in the course of construction HRK '000**	**Total HRK '000**
Cost				
Balance as at 1 January 2009	157,896	215,203	4,717	377,816
Additions	-	-	22,813	22,813
Written-off	-	(1,498)	-	(1,498)
Brought into use	187	26,965	(27,152)	-
Balance as at 31 December 2009	**158,083**	**240,670**	**378**	**399,131**
Accumulated depreciation				
Balance as at 1 January 2009	(46,727)	(139,696)	-	(186,423)
Charge for the year	(3,891)	(44,827)	-	(48,718)
Written-off	-	1,337	-	1,337
Balance as at 31 December 2009	**(50,618)**	**(183,186)**	**-**	**(233,804)**
Carrying value				
Balance as at 1 January 2009	111,169	75,507	4,717	191,393
Balance as at 31 December 2009	**107,465**	**57,484**	**378**	**165,327**

Bank

2008	**Land and buildings HRK '000**	**Computers, equipment and vehicles HRK '000**	**Assets in the course of construction HRK '000**	**Total HRK '000**
Cost				
Balance as at 1 January 2008	153,087	181,849	13,903	348,839
Additions	-	-	31,730	31,730
Written-off	-	(2,753)	-	(2,753)
Brought into use	4,809	36,107	(40,916)	-
Balance as at 31 December 2008	**157,896**	**215,203**	**4,717**	**377,816**
Accumulated depreciation				
Balance as at 1 January 2008	(42,932)	(101,823)	-	(144,755)
Charge for the year	(3,795)	(40,486)	-	(44,281)
Written-off	-	2,613	-	2,613
Balance as at 31 December 2008	**(46,727)**	**(139,696)**	**-**	**(186,423)**
Carrying value				
Balance as at 1 January 2008	110,155	80,026	13,903	204,084
Balance as at 31 December 2008	**111,169**	**75,507**	**4,717**	**191,393**

Assets in the course of construction comprise equipment at cost of HRK 378 thousand (2008: HRK 4,717 thousand).

15 INVESTMENT PROPERTY

Group and Bank	2009, '000 kn	2008 '000 kn
Cost		
Balance as at 1 January	9,089	10,876
Increase	2,507	
Written - off	-	(321)
Sales	-	(1,466)
Balance at 31 December	**11,596**	**9,089**
Accumulated depreciation		
Balance as at 1 January 2009	(418)	(252)
Sales	-	57
Charge for the year	(222)	(223)
Balance at 31 December	**(640)**	**(418)**
Carrying value		
Balance as at 1 January	8,671	10,624
Balance at 31 December	**10,956**	**8,671**

16 INTANGIBLE ASSETS

Group 2009	Software HRK '000	Leasehold improvements HRK '000	Licences HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost					
Balance as at 1 January 2009	29,540	56,323	30,339	127,753	243,955
Additions				44,861	44,861
Brought into use	17,348	8,551	8,245	(34,144)	-
Written-offs	(35)	-	-	-	(35)
Balance at 31 December 2009	**46,853**	**64,874**	**38,584**	**138,470**	**288,781**
Accumulated depreciation					
Balance as at 1 January 2009	(19,119)	(23,985)	(14,658)	-	(57,762)
Charge for the year	(7,716)	(14,651)	(8,636)	-	(31,002)
Written-offs	35	-	-	-	35
Balance at 31 December 2009	**(26,800)**	**(38,636)**	**(23,294)**	**-**	**(88,729)**
Carrying value					
Balance at 1 January 2009	10,421	32,338	15,681	127,753	186,193
Balance at 31 December 2009	**20,053**	**26,238**	**15,290**	**138,470**	**200,052**

Group 2008	Software HRK '000	Leasehold improvements HRK '000	Licences HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost					
Balance as at 1 January 2008	23,947	46,330	21,387	63,688	155,352
Additions	508	-	-	88,150	88,658
Brought into use	5,140	9,993	8,952	(24,085)	-
Written-offs	(55)	-	-	-	(55)
Balance at 31 December 2008	**29,540**	**56,323**	**30,339**	**127,753**	**243,955**
Accumulated depreciation					
Balance as at 1 January 2008	(15,356)	(11,591)	(9,694)	-	(36,641)
Charge for the year	(3,818)	(12,394)	(4,964)	-	(21,176)
Written-offs	55	-	-	-	55
Balance at 31 December 2008	**(19,119)**	**(23,985)**	**(14,658)**	**-**	**(57,762)**
Carrying value					
Balance at 1 January 2008	8,591	34,739	11,693	63,688	118,711
Balance at 31 December 2008	**10,421**	**32,338**	**15,681**	**127,753**	**186,193**

As at 31 December 2009 assets in the course of construction comprise application software and licences at a cost of HRK 138,740 thousand (2008: HRK 127,753 thousand), which are being prepared for use by the Group. During 2009. the Group did not conduct a test of the recoverable amount under IAS 36, due to current lack of elements needed to conduct the test.

16 INTANGIBLE ASSETS (continued)

Bank

2009	Software HRK '000	Leasehold improvements HRK '000	Licences HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost					
Balance as at 1 January 2009	29,032	56,317	30,339	127,751	243,439
Additions				44,861	44,861
Brought into use	17,348	8,551	8,245	(34,144)	-
Write-offs	(35)	-	-	-	(35)
Balance at 31 December 2009	**46,345**	**64,868**	**38,584**	**138,468**	**288,265**
Accumulated depreciation					
Balance as at 1 January 2009	(19,091)	(23,980)	(14,658)	-	(57,729)
Charge for the year	(7,546)	(14,650)	(8,636)	-	(30,832)
Write- offs	35	-	-	-	35
Balance at 31 December 2009	**(26,602)**	**(38,630)**	**(23,294)**	**-**	**(88,526)**
Carrying value					
Balance at 1 January 2009	9,941	32,337	15,681	127,751	185,710
Balance at 31 December 2009	**19,743**	**26,238**	**15,290**	**138,468**	**199,739**

Bank

2008	Software HRK '000	Leasehold improvements HRK '000	Licences HRK '000	Assets in the course of construction HRK '000	Total HRK '000
Cost					
Balance as at 1 January 2008	23,947	46,324	21,387	63,687	155,345
Additions	-	-	-	88,149	88,149
Brought into use	5,140	9,993	8,952	(24,085)	-
Written-offs	(55)	-	-	-	(55)
Balance at 31 December 2008	**29,032**	**56,317**	**30,339**	**127,751**	**243,439**
Accumulated depreciation					
Balance as at 1 January 2008	(15,356)	(11,588)	(9,694)	-	(36,638)
Charge for the year	(3,790)	(12,392)	(4,964)	-	(21,146)
Written-offs	55	-	-	-	55
Balance at 31 December 2008	**(19,091)**	**(23,980)**	**(14,658)**	**-**	**(57,729)**
Carrying value					
Balance at 1 January 2008	8,591	34,736	11,693	63,687	118,707
Balance at 31 December 2008	**9,941**	**32,337**	**15,681**	**127,751**	**185,710**

Assets under construction at 31 December 2009. mostly relating to investments in application software, licenses and Leasehold improvements at cost of HRK 138,468 thousand (2008th: 127,751 thousand HRK), who are preparing for possible future use by the Bank. During 2009. the Group did not conduct a test of the recoverable amount under IAS 36, due to current lack of elements needed to conduct the test.

17 NET DEFERRED TAX ASSET

a) Recognised deferred tax assets and liabilities - Group

Movements in temporary differences and components of deferred tax assets and deferred tax liabilities in 2009 are as follows:

Group **2009**	**2009** **HRK '000**	**Income / (expense) to income statement** **HRK '000**	**Credited / (charged) to equity** **HRK '000**	**2008** **HRK '000**
Deferred tax assets				
Loans and advances to customers	14,771	(1,196)	-	15,967
Other provisions	3,047	1,170	-	1,877
Financial assets	17,111	(2,125)	-	19,236
Fair value reserve	358	-	(12,861)	13,219
Deferred tax liabilities				
Borrowings	(750)	84	-	(834)
Revaluation reserve	(3,931)	-	(2,700)	(1,231)
Prepaid expenses	(710)	-	-	(710)
Net deferred tax asset	**29,896**	**(2,067)**	**(15,561)**	**47,524**

Movements in temporary differences and components of deferred tax assets and deferred tax liabilities in 2008 are as follows:

Group **2008**	**2008** **HRK '000**	**Income / (expense) to income statement** **HRK '000**	**Credited / (charged) to equity** **HRK '000**	**2007** **HRK '000**
Deferred tax assets				
Loans and advances to customers	15,967	3,787	-	12,180
Other provisions	1,877	(915)	-	2,792
Financial assets	19,236	16,709	-	2,527
Fair value reserve	13,219	-	12,347	872
Deferred tax liabilities				
Borrowings	(834)	(87)	-	(747)
Fair value reserve	(1,231)	-	8	(1,239)
Prepaid expenses	(710)	(365)	-	(345)
Net deferred tax asset	**47,524**	**19,129**	**12,355**	**16,040**

17 NET DEFERRED TAX ASSETS (continued)

b) Recognised deferred tax assets and liabilities – Bank

Movements in temporary differences and components of deferred tax assets and deferred tax liabilities in 2009 are as follows:

Bank **2009**	**2009** **HRK '000**	**Income / (expense) to income statement** **HRK '000**	**Credited / (charged) to equity** **HRK '000**	**2008** **HRK '000**
Deferred tax assets				
Loans and advances to customers	13,648	(1,285)	-	14,933
Other provisions	2,928	1,197	-	1,731
Financial assets	17,111	(2,125)	-	19,236
Fair value reserve	-	-	(12,602)	12,602
Deferred tax liabilities				
Borrowings	(795)	(38)	-	(834)
Revaluation reserve	(3,931)	-	(2,700)	(1,231)
Net deferred tax asset	**28,961**	**(2,175)**	**(15,302)**	**46,438**

Movements in temporary differences and components of deferred tax assets and deferred tax liabilities in 2008 are as follows:

Bank **2008**	**2008** **HRK '000**	**Income / (expense) to income statement** **HRK '000**	**Credited / (charged) to equity** **HRK '000**	**2007** **HRK '000**
Deferred tax assets				
Loans and advances to customers	14,933	3,313	-	11,620
Other provisions	1,732	(903)	-	2,635
Financial assets	19,236	16,709	-	2,527
Fair value reserve	12,602	-	12,129	473
Deferred tax liabilities				
Borrowings	(834)	(87)	-	(747)
Fair value reserve	(1,231)	-	8	(1,239)
Net deferred tax asset	**46,438**	**19,032**	**12,137**	**15,269**

18 OTHER ASSETS

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Fees receivable	38,199	39,797	37,343	37,782
Foreclosed assets held for sale	135,958	56,317	135,958	56,317
Items in course of collection	8,415	19,803	8,415	19,803
Deferred fee expense	3,978	7,715	3,978	4,168
Prepaid expenses	4,961	7,560	2,880	7,309
Other receivables	29,202	24,086	16,374	14,326
Total gross amounts	**220,713**	**155,278**	**204,948**	**139,705**
Allowance for impairment losses	(26,966)	(6,013)	(26,951)	(4,813)
Total	**193,747**	**149,265**	**177,997**	**134,892**

At 31 December 2009, the Group and Bank had HRK 135,958 thousand of foreclosed assets (2008: HRK 56,318 thousand). Foreclosed assets consist of HRK 92,456 thousand of construction property, HRK 35,471 thousand of land and HRK 8,030 thousand of equipment. Additionally, a subsequent estimate of market value of foreclosed assets determined that the market value is lower than book value, resulting in recognized impairment loss amounting HRK 23,648 thousand.

Movement in foreclosed assets

The following table represents movement in foreclosed assets during 2009:

	Group and Bank
	HRK'000
Balance at 1 January	56,317
Foreclosed in 2009	81,250
Disposed in 2009	(1,609)
Impairment loss	(23,648)
Balance at 31 December	**112,309**

Movement in impairment allowance for other assets

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

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Balance at 1 January	6,013	3,766	4,857	3,760
Increase in impairment losses	25,404	2,428	25,396	1,234
Usage	(4,451)	(181)	(3,302)	(137)
Balance at 31 December	**26,966**	**6,013**	**26,951**	**4,857**

19 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Negative fair value of futures contracts	456	1,205	456	1,205
Negative fair value of forward foreign exchange contracts	-	3,985	-	3,985
Negative fair value of cross currency swaps	1,094	1,551	1,094	1,551
Balance at 31 December	**1,550**	**6,741**	**1,550**	**6,741**

20 DEPOSITS FROM BANKS

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Demand deposits				
- in HRK	2.199	845	2.199	845
- in foreign currency	20.475	28.433	20.475	28.433
Term deposits				
- in HRK	321.214	360.420	321.214	360.420
- in foreign currency	16.074	23.226	16.074	23.226
Interest payable – not due	3.415	414	3.415	414
Interest payable – due	3	11	3	11
Total	**363.380**	**413.349**	**363.380**	**413.349**

21 DEPOSITS FROM CUSTOMERS

Group			2009 HRK '000			2008 HRK '000
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Demand deposits						
Retail	1,911,912	151,011	2,062,923	2,293,051	141,380	2,434,431
Corporate	1,066,831	171,242	1,238,073	1,321,707	143,656	1,465,363
Restricted deposits						
Retail	828	781	1,609	833	234	1,067
Corporate	775,913	29,557	805,470	866,978	27,433	894,411
	3,755,484	**352,591**	**4,108,075**	**4,482,569**	**312,703**	**4,795,272**
Term deposits						
Retail	1,461,591	2,290,937	3,752,528	1,537,382	1,587,444	3,124,826
Corporate	1,332,314	1,090,105	2,422,419	2,120,395	634,581	2,754,976
	2,793,905	**3,381,042**	**6,174,947**	**3,657,777**	**2,222,025**	**5,879,802**
Interest payable – due	4,667	94	4,761	6,895	172	7,067
Interest payable – not due	20,116	29,676	49,792	10,201	10,358	20,559
Total	**6,574,172**	**3,763,403**	**10,337,575**	**8,157,442**	**2,545,258**	**10,702,700**

Bank			2009 HRK '000			2008 HRK '000
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Demand deposits						
Retail	1,911,912	151,011	2,062,923	2,293,051	141,381	2,434,432
Corporate	1,068,806	171,242	1,240,048	1,323,477	143,656	1,467,133
Restricted deposits						
Retail	828	781	1,609	833	232	1,065
Corporate	775,913	29,557	805,470	866,978	27,434	894,412
	3,757,459	**352,591**	**4,110,050**	**4,484,339**	**312,703**	**4,797,042**
Term deposits						
Retail	1,335,742	2,290,937	3,626,679	1,460,287	1,587,444	3,047,731
Corporate	1,339,781	1,090,105	2,429,886	2,123,794	634,581	2,758,375
	2,675,523	**3,381,042**	**6,056,565**	**3,584,081**	**2,222,025**	**5,806,106**
Interest payable – due	4,667	94	4,761	6,895	172	7,067
Interest payable – not due	20,116	29,676	49,792	10,201	10,358	20,559
Total	**6,457,765**	**3,763,403**	**10,221,168**	**8,085,516**	**2,545,258**	**10,630,774**

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on Court orders.

22 BORROWINGS

Group	2009 HRK '000			2008 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Short-term borrowings from other financial institutions	347,418	-	347,418	362,200	-	362,200
Short-term borrowings from domestic banks	-	-	-	-	-	-
Long-term borrowings from banks	-	210,490	210,490	-	239,612	239,612
Long-term borrowing from HBOR (kuna and foreign currency clause)	1,260,630	-	1,260,630	1,254,802	-	1,254,802
Interest payable - due	1,414	-	1,414	1,735	-	1,735
Interest payable - not due	6,494	1,489	7,983	2,636	4,265	6,901
	1,615,956	**211,979**	**1,827,935**	**1,621,373**	**243,877**	**1,865,250**

Bank	2009 HRK '000			2008 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Short-term borrowings from other financial institutions	347,418	-	347,418	362,200	-	362,200
Short-term borrowings from domestic banks	-	-	-	-	-	-
Long-term borrowings from banks	-	210,490	210,490	-	239,612	239,612
Long-term borrowing from HBOR (kuna and foreign currency clause)	1,260,630	-	1,260,630	1,254,802	-	1,254,802
Interest payable - due	1,414	-	1,414	1,735	-	1,735
Interest payable - not due	6,494	1,489	7,983	2,636	4,265	6,901
	1,615,956	**211,979**	**1,827,935**	**1,621,373**	**243,877**	**1,865,250**

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

23 HYBRID INSTRUMENTS

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Hybrid instruments	450,705	310,601	450,705	310,601
Interest receivable – not due	6,245	270	6,245	270
	456,950	**310,871**	**456,950**	**310,871**

During 2009 the Bank received hybrid instruments amounting to HRK 250,000 thousand with following terms: maturity of 61 months at a fixed interest rate. Hybrid instrument of Croatian Post in the amount of HRK 110,000 thousand that the Bank had at 2008 year-end has been converted to equity in June 2009. (Note 26).

24 PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Provisions for court cases	12,808	7,056	12,808	7,056
Provisions for potential and other liabilities	2,926	2,380	2,926	2,380
Provisions for off-balance-sheet exposures	19,237	23,471	19,215	23,466
Balance at 31 December	**34,971**	**32,907**	**34,949**	**32,902**

Movement in provisions for impairment

The movement in provisions for liabilities and charges is as follows:

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Balance at 1 January	32,907	31,900	32,901	31,895
Increase in impairment losses	3,953	1,007	3,937	1,007
Usage	(1,889)	-	(1,889)	-
Balance at 31 December	**34,971**	**32,907**	**34,949**	**32,902**

25 OTHER LIABILITIES

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Suppliers	22,166	9,843	21,459	9,248
Salaries, deductions from salaries, taxes and contributions	16,669	15,775	15,406	15,103
Liabilities for retirement, severance payments and other liabilities	14,641	12,658	14,641	12,588
Fees payable	17,811	19,646	19,116	21,000
Items in the course of settlement	257,968	258,487	257,999	258,493
Deferred fee income	73,853	79,837	68,238	74,665
Other liabilities	46,243	70,435	31,262	61,617
Balance at 31 December	**449,352**	**466,681**	**428,121**	**452,714**

Liabilities in the course of settlement mainly relate to liabilities for repayment of pensions on behalf of the Croatian Pension Fund in the amount of HRK 191 million (2008: HRK 188 million) and liabilities for transfer of cash inflows from the Bank's account to retail clients who do not hold accounts with the Bank in the amount of HRK 35 million (2008: HRK 33 million).

26 EQUITY

a) Share capital

As at 31 December 2009, authorised, issued and fully paid ordinary share capital amounted to HRK 654,320 thousand (2008.: HRK 584,780 thousand) and comprised 594,836 (2008.: 531,618 thousand) approved ordinary shares with a nominal value of HRK 1,100 each. Increase of shareholders' capital in June 2009, amounting to HRK 110,000 thousand by issuing 63.218 new ordinary shares with a nominal value of HRK 1,100 each, resulted in capital gain in amount of HRK 40.460 thousand. As of 31 December 2009, the Bank had 795 treasury shares (2008: 795) in the total amount of HRK 874 thousand (2008: HRK 874 thousand).

The shareholder structure is as follows:

	Paid capital HRK'000	2009 Ownership %	Paid capital HRK'000	2008 Ownership %
Croatian Post	265,771	40,62%	196,231	33.56%
Croatian Privatisation Fund	216,354	33,07%	216,354	37.00%
Croatian Pension Fund	163,811	25,04%	163,811	28.01%
Other	8,384	1,28%	8,384	1.43%
Total	**654,320**	**100,00%**	**584,780**	**100.00%**

b) Statutory reserve

The Bank is required to build a legal reserve by appropriating 5% of net profit for the year until the reserve reaches 5% of share capital. The balance on the legal reserve at 31 December 2009 amounted to HRK 19,258 thousand (2008: HRK 19,258 thousand), or 2.94% (2008: 3.29%) of share capital. The legal reserve may be used to cover prior period losses if the losses are not covered by current year profits or if other reserves are not available.

26 EQUITY (continued)

c) General banking risk reserve

The Group recognises a reserve for general banking risks, which represents a reserve for potential losses in excess of those expected and provided for through recognized impairment losses.

In accordance with CNB regulations, the Bank is required to create and maintain provisions for general banking risks, if the growth in the Bank's balance-sheet and off-balance-sheet exposure exceeds 15% of balance sheet and off-balance-sheet exposure at the previous year end. The Bank has not recognised any increase in the reserve for general banking risks (2008: 0).

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

d) Fair value reserve

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

Bank has, based on recommendations of the CNB, decreased unrealized loss on changes in the fair value of shares of INA, recognizing it as other expenses of 2009 in the amount of HRK 24,846 thousand.

e) Revaluation reserve

A revaluation reserve in the amount of HRK 4,888 thousand (2008: HRK 4,922 thousand), net of tax, arises from the revaluation of land and buildings of the Group.

f) Proposed dividends

Dividends payable are not accounted for until they have been ratified at the General Assembly of Shareholders. Management will not propose any dividend payment for the year ended 31 December 2009 (2008: 0).

g) Other reserves

Other reserves as at 31 December 2009 amounted to HRK 36,606 thousand (2008: HRK 36,606 thousand) whose purpose is determined by Bank's Management and Supervisory Board.

h) Retained earnings

Retained earnings comprise unallocated accumulated earnings from previous years.

27 INTEREST AND SIMILAR INCOME

a) Analysis by product

	Group		Bank	
	2009 HRK '000	**2008 HRK '000**	**2009 HRK '000**	**2008 HRK '000**
Loans and advances to customers				
-Corporate	450,374	434,239	451,091	434,460
-Retail	286,758	286,286	283,824	284,606
	737,132	**720,525**	**734,915**	**719,066**
Placements with and loans to banks	35,333	70,252	33,910	68,970
Debt securities	154,342	93,012	149,711	90,897
Bills of exchange	14,604	16,992	14,604	16,991
Obligatory reserve with the Croatian National Bank	8,447	10,949	8,447	10,949
Total	**949,858**	**911,730**	**941,587**	**906,873**

b) Analysis by source

	Group		Bank	
	2009 HRK '000	**2008 HRK '000**	**2009 HRK '000**	**2008 HRK '000**
Companies	411,634	400,466	412,351	400,688
Individuals	286,758	286,286	283,824	284,606
State and the public sector	194,595	128,884	189,964	126,769
Banks and other financial institutions	54,171	94,068	52,748	92,784
Other organisations	2,700	2,026	2,700	2,026
Total	**949,858**	**911,730**	**941,587**	**906,873**

28 INTEREST EXPENSE AND SIMILAR CHARGES

a) Analysis by product

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Borrowings	118,735	76,503	118,735	76,503
Deposits from customers				
corporate	241,948	231,561	242,243	231,561
retail	178,032	120,285	175,412	119,328
	419,980	**351,846**	**417,655**	**350,889**
Deposits from banks	48,434	37,477	48,434	37,477
Other	441	326	435	326
Total	**587,591**	**466,152**	**585,259**	**465,195**

b) Analysis by recipient

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Companies	90,203	102,676	90,498	102,676
Individuals	178,032	120,284	175,412	119,328
State and public sector	45,079	36,888	45,079	36,888
Banks and other financial institutions	262,305	199,188	262,299	199,187
Other	11,971	7,116	11,971	7,116
Total	**587,591**	**466,152**	**585,259**	**465,195**

29 FEE AND COMMISSION INCOME

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Commissions from cash-based payment transactions	408,394	392,743	408,394	392,743
Commissions from non-cash-based payment transactions	33,619	32,853	33,619	32,852
Commissions from retail and credit card business	109,398	95,654	109,398	95,654
Commissions from letters of credit, guarantees and foreign currency payment transactions	20,892	20,884	20,892	20,884
Other commissions	38,522	57,755	20,992	29,435
Total	**610,825**	**599,889**	**593,295**	**571,568**

30 FEE AND COMMISSION EXPENSE

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Commissions on cash-based payment transactions	334,492	321,002	334,492	321,002
Commissions on non-cash-based payment transactions	45,438	45,682	45,438	45,682
Commissions on credit card transactions	27,974	23,971	27,974	23,971
Other commissions	12,916	19,698	10,672	12,807
Total	**420,820**	**410,353**	**418,576**	**403,462**

31 GAINS LESS LOSSES ARISING FROM DEALING SECURITIES

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Gains less losses from financial assets at fair value through profit or loss				
Realised gains/(losses)				
- Debt securities	(3,982)	(11,148)	(3,982)	(11,148)
- Equity securities	-	164	-	164
- Investment funds	-	(1,395)	-	(1,395)
- Forward foreign exchange contracts - OTC	4,637	4,937	4,637	4,937
	655	**(7,442)**	**655**	**(7,442)**
Unrealised gains/(losses)				
- Debt securities	13,296	(4,227)	13,296	(4,227)
- Investment funds	7,967	(17,196)	7,967	(17,196)
- Equity securities	10,479	(68,345)	10,479	(68,345)
- Futures	28	(327)	28	(327)
- Forward foreign exchange contracts - OTC	(658)	1,611	(658)	1,611
	31,112	**(88,484)**	**31,112**	**(88,484)**
Total	**31,767**	**(95,926)**	**31,767**	**(95,926)**

32 GAINS LESS LOSSES ARISING FROM INVESTMENT SECURITIES

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Realised gains on disposal of debt securities available for sale	114	49	456	134
Realised gains on disposal of equity securities available for sale	616	12,010	616	12,010
Impairment of debt securities	(21,591)	-	(21,591)	-
Total	**(20,861)**	**12,059**	**(20,519)**	**12,144**

In accordance with Article 61 of IAS 39, the Bank conducted an impairment of shares of Croatia osiguranje during 2009, recognizing a loss which by the end of 2009. amounted to 21,591 thousand.

33 OTHER OPERATING INCOME

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Dividend income	4,876	27,569	4,876	31,914
Derecognition of liabilities on dormant customer accounts	77	2,169	77	2,169
Reversal of impairment loss on land and buildings	-	-	-	-
Other income	2,729	12,996	4,172	11,453
Net foreign exchange gain from translation of monetary assets and liabilities	3,565	853	3,565	843
Total	**11,274**	**43,587**	**12,690**	**46,379**

34 GENERAL AND ADMINISTRATIVE EXPENSES

	Group		Bank	
	2009 HRK '000	**2008 HRK '000**	**2009 HRK '000**	**2008 HRK '000**
Materials and services	121,683	115,564	119,121	111,954
Administration and marketing	33,119	45,168	32,401	43,943
Post and telecommunications	41,957	32,196	41,554	31,993
Personnel expenses	182,723	168,530	170,958	155,774
Deposit insurance expenses	19,934	17,419	19,563	17,419
Other general and administrative costs	28,857	22,684	28,136	21,911
Net foreign exchange loss from translation of monetary assets and liabilities	-	-	-	-
Total	**428,273**	**401,561**	**411,733**	**382,994**

a) Personnel expenses

	Group		Bank	
	2009 HRK '000	**2008 HRK '000**	**2009 HRK '000**	**2008 HRK '000**
Net salaries, severance payments and other expenses	84,680	86,338	79,260	80,938
Taxes and contributions (including employer’s contributions)	89,597	73,957	84,118	67,806
Other payments to employees	7,653	6,838	7,177	6,475
Fees to Supervisory Board members	793	1,397	403	555
Total	**182,723**	**168,530**	**170,958**	**155,774**

As at 31 December 2009 the Bank had 973 employees (2008: 902), while the Group had 1013 employees (2008: 942).

35 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS AND OTHER ASSETS

	Notes	Group 2009 HRK '000	Group 2008 HRK '000	Bank 2009 HRK '000	Bank 2008 HRK '000
Identified losses					
Loans to customers	11	(455,952)	(133,340)	(455,952)	(133,340)
Financial assets available for sale	9	(14,548)	(2,501)	(14,548)	(2,501)
Financial assets held to maturity	10	(15,405)	(5,151)	(15,405)	(5,151)
Other assets	18	(25,396)	(2,428)	(25,396)	(1,234)
Assets held for sale	12	(5,282)	-	(5,282)	-
Loans and advances to other banks	7	-	-	-	-
Total release/(charge)		**(516,583)**	**(143,420)**	**(516,583)**	**(142,226)**
Unidentified losses					
Loans to customers	11	9,383	9,332	9,542	9,626
Financial assets available for sale	9	(2,687)	(1,738)	(2,668)	(1,935)
Financial assets held to maturity	10	42	(3,616)	306	(3,239)
Other assets	18	(8)	-	-	-
Loans and advances to other banks	7	(10)	43	-	-
Total release/(charge)		**6,720**	**4,021**	**7,180**	**4,452**
Total identified and unidentified losses					
Loans to customers	11	(446,569)	(124,008)	(446,410)	(123,714)
Financial assets available for sale	9	(17,235)	(4,239)	(17,216)	(4,436)
Financial assets held to maturity	10	(15,363)	(8,767)	(15,099)	(8,390)
Other assets	18	(25,404)	(2,428)	(25,396)	(1,234)
Assets held for sale	12	(5,282)	-	(5,282)	-
Loans and advances to other banks	7	(10)	43	-	-
Total release/(charge)		**(509,863)**	**(139,399)**	**(509,403)**	**(137,774)**

36 INCOME TAX EXPENSE

Total recognized income tax expense calculated at the income tax rate of 20%, comprises income tax expense recognized in the income statement and movements in deferred tax recognized in equity, as follows:

Income tax expense recognized in the income statement

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Current income tax expense	-	(21,766)	-	(15,490)
Deferred income tax relating to the origination and reversal of temporary differences	(2,190)	19,129	(2,175)	19,032
Total income tax expense in income statement	**(2,190)**	**(2,637)**	**(2,175)**	**3,542**

Movement in income tax liabilities recognized directly in equity

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Deferred tax income relating to unrealized gains on available-for-sale investments recognized in fair value reserve	(15,570)	12,347	(12,602)	12,129
Deferred tax income/(charges) relating to revaluation reserve on land and buildings	(2,700)	8	(2,700)	8
Total income / (expense) income tax expense recognized directly in equity reserves	**(18,270)**	**12,355**	**(15,302)**	**12,137**

Reconciliation of income tax expense

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

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Profit before tax	(444,651)	7,157	(446,640)	5,175
Income tax at 20% (2008: 20%)		(1,431)	-	(1,035)
Expenses not deductible for tax purposes	(9,380)	(11,142)	(9,270)	(11,032)
Income not subject to tax	7,193	10,002	7,095	15,609
Taxable income	(3)	(66)	-	-
	(2,190)	**(2,637)**	**(2,175)**	**3,542**
Effective income tax rate	-	36,8%	-	-

36 INCOME TAX EXPENSE (continued)

Deferred tax in respect of unused tax losses

As at 31 December 2009, a subsidiary of the Bank had gross accumulated tax losses of HRK 10,797 thousand (2008: HRK 11,366 thousand) available for reduction of taxable profits of prospective periods.

The availability of tax losses for reduction of taxable profits of prospective periods is as follows:

Group

Expiry of tax losses	**2009 HRK '000 Gross tax losses**	**2008 HRK '000 Taxable profits**	**2009 HRK '000 Gross tax losses**	**2008 HRK '000 Taxable profits**
31 December 2011	5,618	1,124	6,187	1,238
31 December 2012	3,109	622	3,109	622
31 December 2013	2,070	414	2,070	414
Total tax losses carried forward	**10,797**	**2,160**	**11,366**	**2,274**

37 EARNINGS OR LOSS PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the profit for the period attributable to equity holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic earnings per share was 562,432 (2008: 530,823). 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: 562.432 (2008: 530,823).

	Bank	
	2009 HRK '000	**2008 HRK '000**
Net profit/(loss) for the year	(448,815)	8,717
Profit for the year attributable to ordinary shareholders	-	8,717
Average number of ordinary shares in issue (excluding treasury shares	562,432	530,823
Earnings/(loss) per share (in HRK)	**(797,99)**	**16,42**

38 CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts directly due from and to the Republic of Croatia. The amounts at year end, including accrued interest, are as follows:

		Group		Bank	
	Notes	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Giro account with the CNB	5	657,210	518,011	657,210	518,011
Obligatory reserve with the CNB	6	1,128,341	1,119,720	1,128,341	1,119,720
Bonds issued by the Republic of Croatia		793,251	864,559	732,316	810,678
Ministry of Finance treasury bills		955,487	1,249,870	924,322	1,249,870
Loans and advances to the Republic of Croatia		208,115	79,756	208,115	79,756
Deposits from the Republic of Croatia		(816,711)	(932,356)	(816,711)	(932,356)
Repurchase agreements with the CNB		-	-	-	-
Total		**2,925,693**	**2,899,560**	**2,833,593**	**2,845,679**

The Bank's exposure towards local government and state institutions not directly funded by the State Budget (excluding state owned companies) is presented below:

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Loans and advances	226,882	114,288	226,882	114,288
Deposits	(484,616)	(623,777)	(484,616)	(623,777)
Total	**(257,734)**	**(509,489)**	**(257,734)**	**(509,489)**

39 CASH AND CASH EQUIVALENTS

		Group		Bank	
	Notes	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Cash and receivables from banks	5	1,118,648	936,127	1,118,618	936,119
Obligatory reserve with Croatian National Bank	6	1,128,341	1,119,720	1,128,341	1,119,720
Placements to banks with original maturity up to 90 days		1,074,940	1,307,470	1,060,686	1,299,762
Items in course of collection	19	8,415	19,803	8,415	19,803
Total		**3,330,344**	**3,383,120**	**3,316,060**	**3,375,404**

40 COMMITMENTS AND CONTINGENCIES

	Group		Bank	
	2009 HRK '000	2008 HRK '000	2009 HRK '000	2008 HRK '000
Guarantees denominated in HRK	414,424	524,448	414,424	524,448
Guarantees denominated in foreign currencies	9,947	22,128	9,947	22,128
Letters of credit	80,936	60,214	80,936	60,214
Accepted bills of exchange	89,600	124,800	89,600	124,800
Undrawn lending commitments	1,309,843	1,590,035	1,307,208	1,589,423
Other off-balance-sheet items	-	23,398	-	23,398
Total	**1,904,750**	**2,345,023**	**1,902,115**	**2,344,411**

At 31 December 2009, the Group and the Bank recognized portfolio-based provisions for off-balance-sheet risks arising from the issue of guarantees, letters of credit and undrawn lending commitments, the Group in the amount of HRK 19,237 thousand, (2008: HRK 23,471 thousand), and the Bank in the amount of HRK 19,215 thousand (2008: HRK 23,466 thousand which are included in Provisions for liabilities and charges (see Note 24).

41 DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

The Group had the following derivative contracts, accounted for as trading instruments, open at year-end.

Group and Bank	**Notional amount, remaining life**					**Fair values**	
	Up to 3 months	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
2009	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Forward foreign exchange contracts – OTC EUR	7,306	-	-	-	7,306	-	-
Cross currency swaps-OTC	368,703	-	-	-	368,703	1,893	1,094
Futures	-	-	-	-	-	224	456
	368,703	**-**	**-**	**-**	**376,009**	**2,127**	**1,550**

Group and Bank	**Notional amount, remaining life**					**Fair values**	
	Up to 3 months	**3-12 months**	**1 – 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
2008	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Forward foreign exchange contracts – OTC EUR	117,006	-	-	-	117,006	4,343	3,984
Cross currency swaps-OTC	275,234	-	-	-	275,234	2,622	1,551
Futures	21,973	-	-	-	21,973		1,206
	414,213	**-**	**-**	**-**	**414,213**	**6,965**	**6,741**

42 RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska poštanska banka Group. The key shareholders of the Bank and of the Group are the Croatian Privatisation Fund, Hrvatska pošta d.d. ("Croatian Post") and Hrvatski zavod za mirovinsko osiguranje ("HZMO") which together own 98.73 % (2008: 98.57 %) of the Bank's shares at year end. The remaining 1.27% (2008: 1.43%) of the shares are publicly held. The Bank considers that it has an immediate related party relationship with its key shareholders; its subsidiaries and the investment funds managed by one of its subsidiaries, HPB Invest d.o.o.; the Supervisory and Management Board members and other executive management (together "key management personnel"); and entities controlled, jointly controlled or significantly influenced by key management personnel, in accordance with the definitions contained in IAS 24 "Related Party Disclosures" ("IAS 24").

a) Key transactions with immediate related parties

Croatian Post performs domestic payment transactions for and on behalf of the Bank. Exposure to Croatian Post mainly comprises fees receivable based on domestic payment transactions performed for and on behalf of the Bank. Liabilities towards Croatian Post are mainly in respect of demand and term deposits. Expenses include commission expense for services provided and interest expense payable on its deposits with the Bank.

Income from HZMO arises from services provided in respect of payment of pensions and other fees payable by HZMO.

The exposure to HPB Invest consists of investment into investment funds managed by HPB Invest. The Bank performs payment transactions on behalf of its subsidiaries and, accordingly, recognizes income. Expenses payable to HPB Nekretnine relate to the services performed by the subsidiary in respect of estimation of collateral.

Key management personnel held no ordinary shares at the year-end (2008: -).

42 RELATED PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with immediate related parties

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the year ended 31 December 2009 and 31 December 2008 of the Group, arising from transactions with related parties were as follows:

Group 2009	**Exposure* HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expense HRK'000**
Key shareholders				
Croatian Post	84,749	74,342	403,472	339,600
HZMO	1	50,010	5,767	10
Croatian Privatisation Fund	69,572	31,365	8,450	221
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	1,653	2,545	4	18,467
Long-term benefits (loans and deposits)	26,004	780	1,106	78
Severance payments				
Companies under significant influence	92,841	50	2,147	
Total	**274,821**	**159,092**	**420,946**	**358,375**

Group 2008	**Exposure* HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expense HRK'000**
Key shareholders				
Croatian Post	71,446	142,128	393,245	291,422
HZMO	-	-	5,455	-
Croatian Privatisation Fund	100,890	132,353	8,450	50
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	2,245	8,030	9	39,303
Long-term benefits (loans and deposits)	35,696	4,480	1,437	235
Severance payments	-	-	-	19
Companies under significant influence	88,158	58	2,848	12
Total	**298,435**	**287,049**	**411,444**	**331,041**

* Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 32,497 thousand (2008: HRK 13,553 thousand) of off-balance-sheet exposure, whereof HRK 30,947 thousand (2008: HRK 16,038 thousand) relates to Croatian Post and key management personnel.

Exposure to key members of the Management Group include loan receivables in the amount of 26,423 thousand (2008: 36,251 thousand).

42 RELATED PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with immediate related parties

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the year ended 31 December 2009 and 31 December 2008 of the Bank, arising from transactions with related parties were as follows:

Bank 2009	**Exposure* HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expense HRK'000**
Key shareholders				
Croatian Post	84,749	74,342	403,472	339,600
HZMO	1	50,010	5,767	10
Croatian Privatisation Fund	69,572	31,365	8,450	221
Subsidiaries				
HPB Invest	78,343	3,254	1,628	19,486
HPB Nekretnine	31,928	898	1,283	1,803
HPB Stambena štedionica	40,271	7,086	1,339	266
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	1,448	2,294	3	15,474
Long-term benefits (loans and deposits)	22,770	780	971	78
Severance payments				
Companies under significant influence	92,841	50	2,147	
Total	**421,924**	**170,079**	**425,060**	**376,937**

Bank 2008	**Exposure* HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expense HRK'000**
Key shareholders				
Croatian Post	71,446	142,128	393,245	291,422
HZMO	-	-	5,455	-
Croatian Privatisation Fund	100,890	132,353	8,450	50
Subsidiaries				
HPB Invest	71,613	452	1,222	180
HPB Nekretnine	9,657	1,234	1,318	1,742
HPB Stambena štedionica	40,000	3,478	777	38
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	2,107	8,018	8	32,902
Long-term benefits (loans and deposits)	31,162	3,692	1,257	123
Severance payments	-	-	-	19
Companies under significant influence	88,158	58	2,848	12
Total	**415,033**	**291,413**	**414,580**	**326,488**

* Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 33,272 thousand (2008: HRK 13,605 thousand) of off-balance-sheet exposures, whereof HRK 13,732 thousand (2008: HRK 16,605 thousand) relates to Croatian Post and key management personnel.

c) State owned companies

The three major shareholders of the Bank, which together own 98.73% of its shares, are state agencies or state owned companies, all mainly funded from the State Budget. Accordingly, transactions and balances with other state owned companies, including credit risk exposures guaranteed by the state, also represent related party relationships. The Bank has significant exposure to these companies.

43 REPURCHASE AND RESALE AGREEMENTS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. At the balance sheet date, the Banke did not enter into linked sell and buy-back transactions.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognised and the proceeds are accounted for as interest bearing borrowings. At 31 December 2009 assets sold under repurchase agreements were as follows:

	Fair value of underlying assets	Carrying amount of corresponding liabilities	Repurchase date	Repurchase price
	HRK'000	HRK'000		HRK'000
Debt securities at fair value through profit or loss – repurchase agreements				
2009	127,645	351,709	FromJanuary until Noveber 2010	355,439
2008	365,648	362,818	FromJanuary until March 2009	363,791

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

The Bank also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to customers and are accounted for as loans and advances to customers; the underlying financial instruments are not recognised. At 31 December 2009 assets purchased subject to agreements to resell them and linked transactions were as follows:

	Carrying amounts of receivable	Fair value of assets held as collateral	Repurchase date	Repurchase price
	HRK'000	HRK'000		HRK'000
Loans and advances to customers – reverse repurchase agreement				
2009	2,801	370	January 2010	2,801
Linked transactions				
2008	229,462	228,547	January 2009	229,637

44 MANAGED FUNDS FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Bank provides trust and custody services to companies, banks, individuals, and investment funds (Group investment funds) whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognized in the balance sheet of the Bank. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2009, the total assets under custody held by the Bank on behalf of customers were HRK 3.48 billion, including custody of HPB funds (2008: HRK 3.89 billion).

In addition, at 31 December 2009, total assets of investment and pension funds to which the Bank is a depository bank, amounted to HRK 3.34 billion (2008: HRK 3.83 billion).

Further, the Bank manages a number of loans on behalf of third parties as follows:

	2009 HRK '000	2008 HRK '000
Assets		
Corporate	251,422	255,451
Retail	614,282	553,832
Giro accounts	28,508	40,037
Total assets	**894,211**	**849,320**
Liabilities		
Croatian Employment Office	43,246	48,186
Counties	29,298	31,076
Government of the Republic of Croatia	626,926	569,097
HBOR	14,923	15,137
Development and Employment Fund	171,250	175,155
Other liabilities	8,568	10,669
Total liabilities	**894,211**	**849,320**

45 AVERAGE INTEREST RATES

Average interest rates calculated as the weighted average of each category of interest-earning asset and interest-bearing liability, are presented below:

Group

Assets	**Average interest rates 2009**	**Average interest rates 2008**
Cash and receivables from banks	0.35%	0.50%
Obligatory reserve with Croatian National Bank	0.75%	0.85%
Placements with and loans to other banks	2.76%	4.71%
Financial assets at fair value through profit or loss	6.88%	6.46%
Financial assets available for sale	7.18%	7.07%
Financial assets held to maturity	6.96%	6.05%
Loans and advances to customers	8.76%	8.72%
Liabilities		
Deposits from banks	7.47%	4.18%
Deposits from customers	3.84%	2.55%
Borrowings	5.28%	4.48%
Hybrid instruments	7.27%	5.39%

Bank

Assets	**Average interest rates 2009**	**Average interest rates 2008**
Cash and receivables from banks	0.35%	0.50%
Obligatory reserve with Croatian National Bank	0.75%	0.85%
Placements with and loans to other banks	2.67%	4.69%
Financial assets at fair value through profit or loss	6.88%	6.46%
Financial assets available for sale	7.21%	7.16%
Financial assets held to maturity	7.06%	6.17%
Loans and advances to customers	8.78%	8.74%
Liabilities		
Deposits from banks	7.47%	4.18%
Deposits from customers	3.86%	2.55%
Borrowings	5.28%	4.48%
Hybrid instruments	7.27%	5.39%

46 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial assets at fair value through profit or loss and financial assets available for sale are measured at fair value. Originated loans and receivables and held-to-maturity assets are measured at amortized cost less impairment.

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

Loans

The fair value of loans and advances is calculated based on discounted expected future cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, 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 including portfolio based impairment allowances for performing loans calculated at rates prescribed by the CNB. 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 made 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-term maturity, the fair value of loans and advances is not significantly different from their carrying value. Differences between the fair value of future losses from currently performing loans in the portfolio and the effect of the portfolio based provisions recognized in accordance with CNB rules, are not taken into account.

Investments carried at cost

For equity investments for which a quoted market price is not available, fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where discounted cash flow techniques provide insufficiently reliable valuations due to a number of uncertainties related to estimations of future cash flows, investments are carried at cost less impairment. There is no indication for impairment of these investments.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Borrowings

Most of the Group's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the balance sheet date to the Group for new debt of similar type and remaining maturity. As the majority of the Group's long-term debt is with variable interest rates being market rates, hence the carrying amount of these borrowings approximates their fair value.

The following table represents the Group's and the Bank's estimate of the fair value of financial instruments as of 31 December 2009 and 31 December 2008.

Group			**2009 HRK '000**			**2008 HRK '000**
	Carrying amount	**Fair value**	**Unrecognised gains / (losses)**	**Carrying amount**	**Fair value**	**Unrecognised gains / (losses)**
Cash and receivables from banks	1,118,648	1,118,648	-	936,127	936,127	-
Obligatory reserve with the Croatian National Bank	1,128,341	1,128,341	-	1,119,720	1,119,720	-
Placements with and loans to other banks	1,160,955	1,156,963	(3,992)	1,407,963	1,407,286	(677)
Financial assets at fair value through profit or loss	947,607	947,607	-	1,558,597	1,558,597	-
Financial assets available for sale	648,448	648,448	-	334,622	334,622	-
Financial assets held to maturity	596,574	596,574	-	607,188	607,188	-
Loans and advances to customers	7,868,666	7,818,714	(49,953)	8,128,505	8,068,116	(60,389)
Financial liabilities at fair value through profit or loss	-	-	-	6,741	6,741	-
Deposits from banks	363,380	357,616	5,764	413,349	413,231	118
Deposits from customers	10,337,575	10,300,292	37,283	10,702,700	10,684,956	17,744
Borrowings	1,827,935	1,807,123	20,812	1,865,250	1,846,371	18,879
Total			**9,914**			**(24,325)**

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank			2009 HRK ‘000			2008 HRK ‘000
	Carrying amount	Fair value	Unrecognised gains / (losses)	Carrying amount	Fair value	Unrecognised gains / (losses)
Cash and receivables from banks	1,118,618	1,118,618	-	936,119	936,119	-
Obligatory reserve with the Croatian National Bank	1,128,341	1,128,341	-	1,119,720	1,119,720	-
Placements with and loans to other banks	1,146,701	1,142,883	(3,818)	1,386,235	1,385,896	(339)
Financial assets at fair value through profit or loss	947,607	947,607	-	1,558,577	1,558,577	-
Financial assets available for sale	611,318	611,318	-	320,162	320,162	-
Financial assets held to maturity	521,365	521,365	-	562,823	562,823	-
Loans and advances to customers	7,822,590	7,786,118	(36,472)	8,096,536	8,046,116	(50,420)
Financial liabilities at fair value through profit or loss	-	-	-	6,741	6,741	-
Deposits from banks	363,380	357,616	5,764	413,349	413,231	118
Deposits from customers	10,221,168	10,180,211	40,957	10,630,774	10,618,308	12,466
Borrowings	1,827,935	1,807,123	20,812	1,865,250	1,846,371	18,879
Total			**27,216**			**(19,296)**

47 EVENTS OCCURING AFTER BALANCE SHEET DATE

After the expiration of 2009 business year, The Bank, in accordance with the intent expressed in note 2.7., issued bonds in the nominal amount of HRK 200 million, dating March 30th 2010. The entire issued amount is subordinated to all other obligations of the Bank and is included in additional regulatory capital of the Bank as a hybrid instrument. The capital adequacy ratio on March 31 2010 equals 12,47 percent.

Hrvatska poštanska banka d.d.

The Bank's Headquarters	Jurišićeva 4 10000 Zagreb Hrvatska tel.: +385 62 472 472 , +385 800 472 472 fax: +385 1 4810 773 e-mail: hpb@hpb.hr SWIFT: HPBZHR2X web site: www.hpb.hr
Zagreb Branch	Jurišićeva 4 10 000 Zagreb tel.: +385 1 4804 486 fax: +385 1 4804 598
Jurišićeva outlet	Jurišićeva 4 10 000 Zagreb tel.: +385 1 4804 615/551 fax: +385 1 4804 522
Detached teller Jurišićeva 13	Jurišićeva 13 10 000 Zagreb tel.: +385 1 4800 051 fax: +385 1 4800 067
Hoto Vile outlet	Ulica dr. Franje Tuđmana 4 10 434 Strmec tel.: +385 1 3369 650 fax: +385 1 3369 660
Autobusni kolodvor outlet	Avenija Marina Držića 4 10 000 Zagreb tel.: +385 1 6323 550 fax: +385 1 6323 569
Dubrava outlet	Avenija Dubrava 47 10 000 Zagreb tel.: +385 1 2908 971 fax: +385 1 2908 978

Zaprešić outlet	Drage Švajcara 5 10 290 Zaprešić tel.: +385 1 3340 271 fax: +385 1 3340 278
Britanski trg outlet	Britanski trg 12 10 000 Zagreb tel.: +385 1 4686 001 fax: +385 1 4686 009
Gajnice outlet	Huzjanova 2 10 000 Zagreb tel.: + 385 1 3466 930 fax: + 385 1 3466 939
Velika Gorica outlet	Trg kralja Tomislava 37 10 410 Velika Gorica tel.: +385 1 6238 600 fax: +385 1 6238 614
Poslovnica Sesvete	Trg D. Domjanića 2 10360 Sesvete tel.: + 385 1 2019 270 fax: + 385 1 2019 287
Praška closed-type outlet	Praška 5 10 000 Zagreb tel.: +385 1 4888 300 fax: +385 1 4804 455
Split Branch	Bihaćka 2a 21 000 Split tel.: +385 21 340 621 fax: +385 21 340 630
Split outlet	Bihaćka 2a 21 000 Split tel.: +385 21 340 626 fax: +385 21 340 629

Split Dubrovačka outlet	Dubrovačka 31 21 000 Split tel.: +385 21 401 620/624 fax: +385 21 401 639
Kaštel Stari outlet	Ivana Danila bb 21 216 Kaštel Stari tel.: +385 21 246 184 fax: +385 21 246 199
Sinj outlet	Vrlička 50 21 230 Sinj tel.: +385 21 708 080 fax: +385 21 708 097
Detached teller Trilj	Bana Jelačića 8 21 240 Trilj tel.: +385 21 830 410 fax: +385 21 830 427
Makarska outlet	Trg 4. svibnja 533. broj 1 21 300 Makarska tel.: +385 21 695 760 fax: +385 21 695 768
Varaždin Branch	Trg slobode 9a 42 000 Varaždin tel.: +385 42 215 332 fax: +385 42 215 329
Varaždin outlet	Trg slobode 9a 42 000 Varaždin tel.: +385 42 215 320 fax: +385 42 215 330

Dubrovnik Branch	Vukovarska 16 20 000 Dubrovnik tel.: +385 20 362 050 fax.: +385 20 362 040
Dubrovnik outlet	Vukovarska 16 20 000 Dubrovnik tel.: +385 20 362 045 fax.: +385 20 362 048
Konavle Outlet	Gruda 43 20 215 Gruda tel.: +385 20 450 800 fax: +385 20 450 802
Detached teller Cavtat	Trumbićeva 10 20 210 Cavtat tel.: +385 20 450 810 fax: +385 20 450 811
Rijeka Branch	Andrije Medulića 6 51 000 Rijeka tel.: +385 51 356 000 fax: +385 51 356 017
Rijeka outlet	Korzo 13 51 000 Rijeka tel.: +385 51 301 282 fax.: +385 51 301 288
Zadar Branch	Kralja S. Držislava 1 23 000 Zadar tel.: +385 23 350 012 fax.: +385 23 350 013

Zadar outlet	Zrinsko Frankopanska 8 23 000 Zadar tel.: +385 23 350 000 fax.: +385 23 350 018
Slavonski Brod outlet	M. Gupca 3 35 000 Slavonski Brod tel.: +385 35 212 530 fax: +385 35 212 539
Gospić outlet	Trg Stjepana Radića bb 53 000 Gospić tel.: +385 53 617 101 fax: +385 53 617 109
Virovitica outlet	Trg Kralja Zvonimira 3 33 000 Virovitica tel.: +385 33 740 060 fax: +385 33 740 068
Vukovar outlet	J.J. Strossmayera 4 32 000 Vukovar tel.: +385 32 451 000/010 fax: +385 32 451 019
Pula Branch	Anticova 9 52 100 Pula tel.: +385 52 544 922 fax: +385 52 544 929
Pula outlet	Anticova 9 52 100 Pula tel.: +385 52 300 602/603 fax: +385 52 300 609

Detached teller Ližnjan	Ližnjan 146 tel.: +385 52 578 550 fax: +385 52 578 552
Detached teller Banjole	Kamik bb 52 100 Pula tel.: +385 52 573 409 fax: +385 52 573 378
Poreč outlet	Trg slobode 14 52 440 Poreč tel.: +385 52 703 220 fax: +385 52 703 229

Osijek Agro-Branch	Trg Ante Starčevića 7 31 000 Osijek tel.: +385 31 284 881 fax: +385 31 284 888
Osijek outlet	Trg Ante Starčevića 7 31 000 Osijek tel.: +385 31 284 880 fax: +385 31 284 888
Detached teller Osijek	Alojzija Stepinca 17 31 000 Osijek tel. +385 31 200 937 fax. +385 31 200 974
Detached teller Beli Manastir	Imre Nagya 2e 32 100 Beli Manastir tel.: +385 31 701 412 fax.: +385 31 701 414
Detached teller Đakovo	Trg Franje Tuđmana 1a 31 400 tel.: +385 31 701 412 fax.: +385 31 701 414
Detached teller Našice	Strossmayerova 2 31 500 Našice tel.: +385 31 620 172 fax.: +385 31 615 173
Detached teller Donji Miholjac	Vukovarska 4 31 540 Donji Miholjac tel.: +385 31 620 040 fax.: +385 31 620 099
Detached teller Valpovo	Osječka 2 31 550 Valpovo tel.: +385 31 654 042 fax.: +385 31 654 086

Detached teller Belišće	Gutmanova 24 31 051 Belišće tel.: +385 31 665 174 fax. + 385 31 665 169
Vinkovci Branch	Trg dr. Franje Tuđmana 2 32 100 Vinkovci tel.: +385 32 455 550 fax.: +385 32 455 559
Vinkovci outlet	Trg dr. Franje Tuđmana 2 32 100 Vinkovci tel.: +385 32 455 503 fax.: +385 32 455 508
Vukovar outlet	Strossmayerova 4 32 000 Vukovar tel.: +385 32 451 013 fax.: +385 32 451 019

HPB Invest d.o.o.

Praška 5
10 000 Zagreb

tel: +385 1 4805 052
fax: +385 1 4804 599
e-mail: hpb.invest@hpb-invest.hr
web site: www.hpb-invest.hr

HPB Stambena štedionica d.d.

Praška 5
10 000 Zagreb

tel.: +385 800 232 332
fax: +385 1 4888 164
e-mail: hpb.stedionica@hpb-stedionica.hr

HPB Nekretnine d.o.o.

Vukovarska 20
10 000 Zagreb

tel: +385 1 4805 066
fax: +385 1 4839 235
e-mail: hpb.nekretnine@hpb.hr