HRVATSKA POŠTANSKA BANKA d.d.

Annual report, Financial statements and Independent auditor's report for the year ended December 31 2010

Zagreb, April 2011.

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 2010, 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 Commercial 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 statement of financial position, income statement with statement of comprehensive income, 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 2010	1 EUR = 7.385173 HRK	1 USD = 5.568252 HRK
31 December 2009	1 EUR = 7.306199 HRK	1 USD = 5.089300 HRK

Summary of operation and key financial indicators

in HRK million

Group	2010	2009	2008	2007	2006
Key indicators					
Net profit for the year	52	(447)	4.5	129	90
Total assets	14,978	14,108	14,710	14,561	11,270
Loans and advances to customers	8,946	7,869	8,129	7,288	5,980
Deposits	11,381	10,701	11,116	10,714	8,654
Equity	1,182	637	911	956	825
Other indicators					
Return on share capital	5.40%	-68.29%	0.77%	22.05%	15.33%
Return on assets	0.35%	-3.17%	0.03%	0.89%	0.80%
Operating expenses[1]/operating income ratio	71.62%	85.45%	75.99%	64.17%	73.39%
Regulatory capital	1,681	1,037	1,197	1,181	888
Capital adequacy	16.99%	10.32%	11.53%	12.19%	11.75%

Bank	2010	2009	2008	2007	2006
Key indicators					
Net profit for the year	51	(449)	9	121	101
Total assets	14,787	13,981	14,637	14,536	11,278
Loans and advances to customers	8,873	7,823	8,097	7,286	5,998
Deposits	11,208	10,585	11,044	10,691	8,651
Equity	1,190	647	924	964	840
Other indicators					
Return on share capital	5.26%	-68.59%	1.49%	20.68%	17.29%
Return on assets	0.34%	-3.21%	0.06%	0.83%	0.90%
Operating expenses[1]/operating income ratio	71.00%	85.37%	75.69%	63.65%	70.27%
Regulatory capital	1,654	1,012	1,156	1,135	866
Capital adequacy	16.82%	10.13%	11.19%	11.73%	11.45%

[1] *general and administrative expenses and depreciation*

President of the Supervisory Board's Statement of Condition

Dear shareholders, business partners, clients, it's an honor to present the Annual Report of the HPB Group for the year ended on December 31st, 2010.

HPB, as the largest banking group with Croatian ownership, has performed very well during 2010. Accomplished results reflect the Group's focus on business consolidation in the environment marked by economic slowdown of Croatian economy. Consequently, Republic of Croatia and Croatian Institute for Pension Insurance have strengthened the Bank's capital base with a capital hike in the amount of HRK 500 million. Additionally, a HRK 200 million investment into Bank's regulatory capital was made during first half of 2010, which ensured stability of the Bank's business and enhanced its prospects to further increase market share in the future.

At the end of 2010 Bank controlled 3.8 percent of the Croatian banking market, representing an increase of 0.1 percentage points compared to the previous year. Total assets have increased by 5.8 percent, owing to substantial increase of loan portfolio and despite of significantly limited growth possibilities in highly competitive banking market, and amounted to HRK 14,8 million as at 2010 year end. Bank continued its successful cooperation with Republic of Croatia, Government sponsored entities and Local government bodies, by further expending its loan portfolio into the sector. On the other hand, 7.8 percent increase in client deposits, especially retail deposits which increased by 15.0 percent compared to last year, is the result of nurturing partnership relations between the Bank and its clients. Aforementioned demanding market conditions, that affected the Bank's business during 2010, led to conservative management of Bank's assets, as well as rational cost management. Loan portfolio and other interest bearing placements growth, as well as efficient business activity, marked by already mentioned cost management, led to net profit after taxation in the amount of HRK 50.8 million for the Bank, and HRK 52.4 million for the Group.

Even though the Supervisory Board I am heading is acting in its current composition from March 30th, 2011, I can express my satisfaction with the efforts of the Bank's management aimed towards implementation of efficient corporate governance model, development of new products and services and business process rationalization. Supervisory Board will continue to provide support to the Bank's Management Board in its efforts to further improve Bank's business model, to the satisfaction of the Bank's customers and owners.

To conclude, I would like to thank the members of the Management Board, as well as all employees on results achieved in 2010. Since our expectations in the future will not be any less demanding compared to the last year, I believe that the Bank, as well as the Group, will successfully cope with all the challenges that lie ahead during next year. I would also like to thank the Group's clients for choosing HPB as their business partner.

Damir Kaufman
President of the Management Board

President of the Management Board's Statement of the Bank's Condition

Esteemed shareholders, business partners, clients,

on behalf of the Management Board, I am presenting you the results of Hrvatska poštanska banka and HPB Group for the year ended on December 31st, 2010.

With great pleasure we can anounce that most of our plans regarding the Bank's operation, as well as solving demanding busines situations and keeping the trust of our clients, were implemented in a very satisfactory way. We entered 2010 with lots of enthusiasm and determination, ready to work hard in order to make Bank's position on the competitive banking market in Croatia better and more stable. Today, we can conclude that we have succeeded. The Bank has maintained its market share, while the clients confirmed their loyalty, thererby giving a strong boost to our endeavour.

Unconsolidated financial results of the Bank

With efficient cost management and business rationalization during 2010, the Bank has returned on the path of profitability, realizing net profit after tax in the amount of HRK 50.8 million.

Total assets of the Bank amounted to HRK 14.8 billion on December 31st, 2010, representing an increase of 5.8 percent compared to the end of last year, mainly due to stronger loan activities. Net loans to customers increased by 13.4 percent during 2010, mostly because of increase of corporate loans. At the same time, level of retail housing loans has increased by 21.9 percent.

The Bank has retained the trust of its clients, reflected through 7.8 percent increase in deposits from customers. Highest growth was recorded in retail deposits, that increased by 15.0 percent compared to last year's level, out of which term deposits increased by HRK 753.0 million.

Net interest income realized during 2010 is higher by HRK 35.2 million or 9.9 percent compared to 2009. On the other hand, despite of placements growth, gross interest income is lower by 12.8 percent due to a higher share of bad loans, provisioned for in 2009 and 2010, which do not generate interest income, as well as due to the Bank's decision to lower interest rates on loans during 2010.

During 2010, Bank also lowered fees and commissions it charges to its clients, resulting in 2.5 percent decrease in gross fee and commission income compared to last year. However, fees and commissions expenses have simultaneously decreased by 9.2 percent, in line with the rationalization of payments and card operations. As a result of these changes, net fee and commission income was higher by 13.6 percent compared to 2009 and amounted to HRK 198.4 million.

Despite of ATM network expansion, opening of new outlets, and implementation of new IT core system during 2010, the level of general and administrative expenses and depreciation was lower by HRK 15.5 million or 3,2 percent compared to 2009. Restrictive cost management resulted in improved C/I indicator, which is lower by 14.4 percentage points, and equaled 71.0 percent at 2010 year-end.

Further to mentioned above, net profit before impairments and provisions amounts to HRK 194.3 million, which is threefold as much as was realized during 2009. Continued consolidation of business during 2010 resulted in further impairment provisions in amount of HRK 137.8 million.

Consolidated financial results of HPB Group

HPB Group consists of Hrvatska poštanska banka, HPB Stambena štedionica, savings and loans society, HPB Invest, which manages investment funds, and real estate management company HPB Nekretnine. All members of HPB Group have achieved positive financial results during 2010. Accordingly, net profit of HPB Stambena štedionica amounted to HRK 0.9 million, net profit of HPB Invest amounted to HRK 1.0 million, while HPB Nekretnine realized net profit of HRK 0.4 million.

Due to effects of aforementioned positive movements, as with the Bank, so with the other members of the Group, consolidated net profit of the HPB Group for 2010 amounts to HRK 52.2 million, as opposed to loss of HRK 446.8 million reported during 2010.

Total assets of the HPB Group have increased by 6.2 percent to HRK 15.0 billion on December 31st, 2010. Achieved growth during 2010 was mainly derived from expansion of customer loans, that increased by 13.7 percent. On the other hand, within liabilities structure, deposits from customers increased by 8.3 percent or HRK 856.8 million, hence borrowings decreased by HRK 533.2 million, due to reduced need for such financing.

Business processes and environment during 2010

Several important changes in operations occurred during 2010, aimed towards enhancing organization and efficiency of business units of the Bank. In the second half of the year, new organizational structure was implemented with the goal to, among other things, simplify human resources and business unit management, and improve information flows and communication. Also, end of implementation of central banking application Finacle was undoubtedly important for the Bank, enabling faster and easier launch of new products and services, as well as possibility to create special product packages designated for individual groups of clients. Given the scope of the project, HPB is the first Bank in the region which successfully implemented this kind of complete on-line system, which created foundations for further expansion into the banking market.

In line with the goal to make the Bank more available to its clients, new outlets were opened in Zagreb, Split and Trogir. Accordingly, Bank's business network consisted of 8 branches, 35 outlets and 10 separate counters, as per 2010 year end. Products and services are available to clients also through 1,100 post offices, thereby making the Bank available in each corner of Croatia. Positive movements are also visible in distribution channel, where the number of ATM's increased by 17.4 percent to 256, while the number of EFT-POS terminals was higher by 6.0 percent and totaled 1,750.

At the end of 2010, capital base of the Bank was significantly strengthened by HRK 450 million capital hike by the Government of Croatia, and a debt-to-equity swap of Croatian Pension Insurance Fund's hybrid instrument in the amount of HRK 50 million. The Bank's shareholder's equity was thereby increased to HRK 1.2 billion, while capital adequacy ratio equaled 16.82 percent by the end of 2010. Enhanced capital base now enables the Bank to readily answer market challenges, assures better quality of financial services offered to its clients and allows credit expansion to Croatian businesses and people.

Finally, I would like to thank our clients, business partners and shareholders on bestowed trust, support and cooperation. I would especially like to thank our employees on dedicated work and contribution to success of Hrvatska poštanska banka. I expect and hope for an even greater engagement of all participants in business processes of the Bank that will lay foundations for further strengthening of the Bank's market position in the future.

mr. Čedo Maletić
President of the Management Board

Macroeconomic movements in Croatia during 2010

According to inital estimates, GDP decreased by 0.7 percent annualy during the last quarter of 2010, thereby resuling in a 1.4 percent decrease of GDP for the whole of 2010. GDP fall is mainly derived from annual decline of industrial production (-1.4 pct.) and continued drop in intensity of construction activity (-16.3 pct.) and retail sales turnover (-1.8 pct.). Industrial production decreased by 1.4 pct. during 2010 in spite of an upsurge between July and September, wherein production of intermediary products experienced the steepest decline, as opposed to stronger growth of production of pharmaceutical products, leather, tobacco and paper. Trade activity during 2010 is lower by 1.8 pct. compared to last year, despite growing during the second half of the year, where July is significant because it was the first month with real annual turnover growth in two years.

Unfavourable trends in real sector of economy continue to reflect indicators in the labour market, where according to seasonaly adjusted data, unemployment growth trend, which lasts from the end of 2010, also continues, but growth intensity is constantly decreasing from the beginning of 2010. Number of unemployed individuals increased during 2010 by 28.3 thousand or 9.7 percent compared to 2009, thereby numbering 319,845 at 2010 year-end, with unemployment rate of 18.8 percent. Despite negative trends during 2010, positive annual changes were recorded by the end of the year. Accordingly, nominal gross salary level increased by 1.1 percent and net salary level by substantialy high 6.7 pct. resulting from base effect due to abolition of 'crisis tax' in July (2 pct.) and November (4 pct.). If the mentioned base effect were to be excluded, net salary growth would equal 3.7 percent.

Average annual inflation rate is lowered from 2.4 percent in 2009 to 1.1 percent during 2010, whereby deceleration of inflation was achieved in conditions of weak domestic demand, reduced labour unit costs and stable HRK/EUR exchange rate. On the other hand, pressure on inflation acceleration during 2010 was mainly derived from crude oil price level growth, as well as food and other commodities on the world market. This pressures were amplified by depreciation of HRK towards USD.

According to preliminary data, total goods exports amounted to EUR 8.9 billion during 2010, representing an increase of 18.2 percent compared to last year, while goods imports mildly decreased (-0.6 pct.) and amounted to EUR 15.1 billion. Deficit in international trade is lower by almost one fifth compared to 2009, thereby resulting in an increase of imports coverage by exports from 49.5 pct. to 58.9 percent. Increase in total goods exports mainly results from ship exports growth, as well as metal ore and metallic waste, medical and pharmaceutical products, and chemical fertilizers. A decrease or stagnation occured in imports of most of the imported goods, except oil and petroleum products, organic chemical producs, as well as machinery and devices, where total imported value increased. Unfavourable trend of decreasing foreign investments in Croatia, which lasts from 2008, is continued in 2010 also. Accordingly, 1.2 billion EUR was invested in Croatia during first eleven months of 2010, which is 30.8 percent lower than last year, and represents the lowest amount of investments in the last six years.

Croatian gross foreign debt amounted to EUR 45.8 billion as at December 31 2010, consisting also of circular indebtness because of abolishment of an foreign legal entity, through which certain investments was made during 2008 and 2009, that were by the end of 2010 included in the foreign debt total. Gross foreign debt has increased by EUR 1.2 billion in relation to the end of 2009, whereby central government indebtness increased by EUR 0.8 billion (mainly due to USD 1.25 billion bond issue on the American market in July of 2010), banks' debt increased by EUR 0.1 billion, and indebtness of other domestic sectors increased by app. EUR 0.4 billion.

Average HRK/EUR exchange rate during 2010 equaled 7.286, representing a 0.73 pct. decrease compared to 2009, however – HRK/EUR exchange rate equaled 7.385 by the end of December 2010, which is an annual increase of 1.1 pct. in relation to the same rate at the end of December 2009 when it equaled 7.306. Croatian National Bank has intervened several times during the year on the foreign currency market in order to stabilize the kuna exchange rate.

Banks' aggregate balance sheet continued to grow moderatly during the first three quarters of 2010, achieving total assets' growth of 2.7 percent under significant influence of depreciation of kuna in respect to swiss franc. Total assets of the banks amounted to HRK 384.4 billion by the end of third quarter of 2010, representing an increase of HRK 10.0 billion in relation to December 2009.

After two years of stagnation, total deposits have significantly increased during the first three quarters of 2010, wherein retail deposits continued to grow from the end of 2009, while movement in corporate deposits reversed during the third quarter of 2010, resulting in their substantial growth. Savings and term deposits of companies decreased by 0.7 pct. during 2010, while retail deposits increased by 8.0 pct.

Annual growth rate of banks' placements to non-banking sector equals 6.9 pct. for 2010, which indicates a trend of moderate recovery of banks' credit acivity during 2010. However, aforementioned apreciation of the swiss franc, as well as euro, towards kuna significantly contributed to this growth, which would equal 3.6 pct. if exchange rate impacts were to be excluded. By observing sectoral structure, it is evident that almost all loan activity during 2010 was focused towards corporate sector, resulting in an increase of 8.8 percent (7 percent, excl. exchange rate effects), mostly relating to loans for turnable funds. On the other hand, retail loans decreased by 1.4 percent (excl. exchange rate effects) under the impact of unfavourable movements in labour market, and because abstaining from consumption and absence of a significant interest rate drop. Loans to Croatian state increased by 14.7 pct. compared to last year.

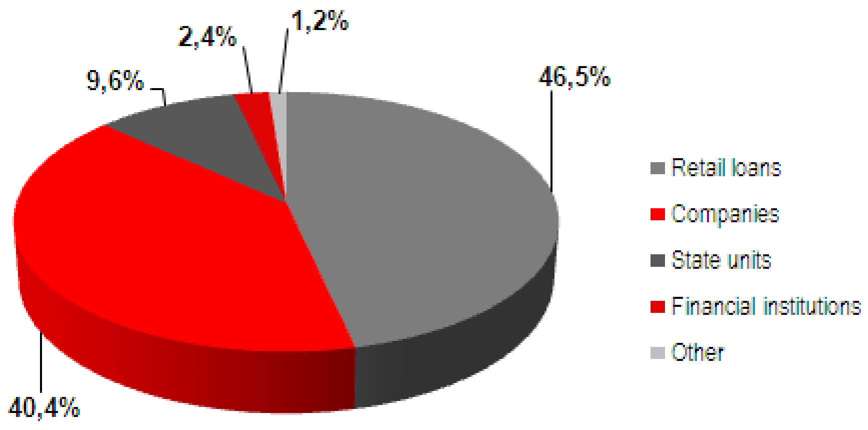
In line with very good liquidity of financial system during 2010, interest rates on deposits decreased from the beginning of the year, whilst active interest rates mostly stagnated or only mildly decreased, thereby resulting in net interest margin increase during 2010.

CNB's decision to lower obligatory reserve rate from 14 to 13 pct. came into force in February.

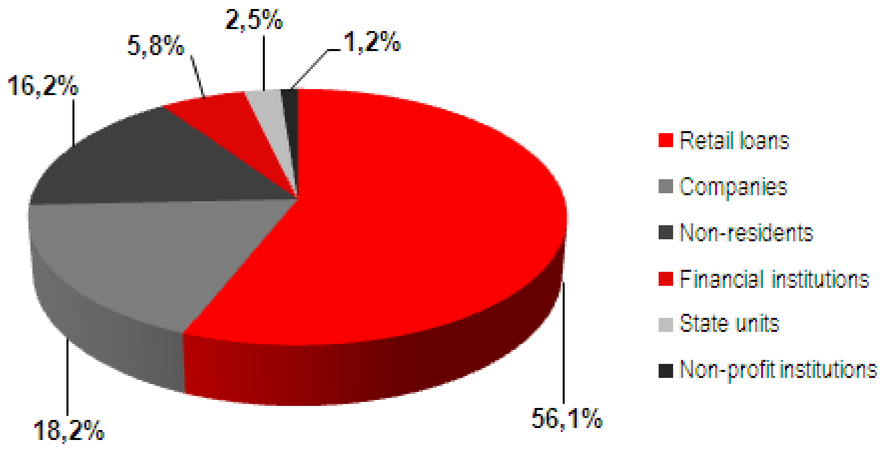
Regulation of the CNB based on Basel II, that came into force in March 2010, resulted in an increase of minimal required capital adequacy rate, from 10 to 12 percent. Average adequacy rate during 2010 equaled 18.36 percent.
Banks' total profit before taxation amounts to HRK 4.5 billion accoring to preliminary dana, representing an increase of 7.3 percent or HRK 307.3 million in relation to 2009.

Structure of total loans and deposits in Croatia

Total gross loans structure per sector (in pct.)



Total deposits structure per sector (in pct.)



Description of the Group's operation

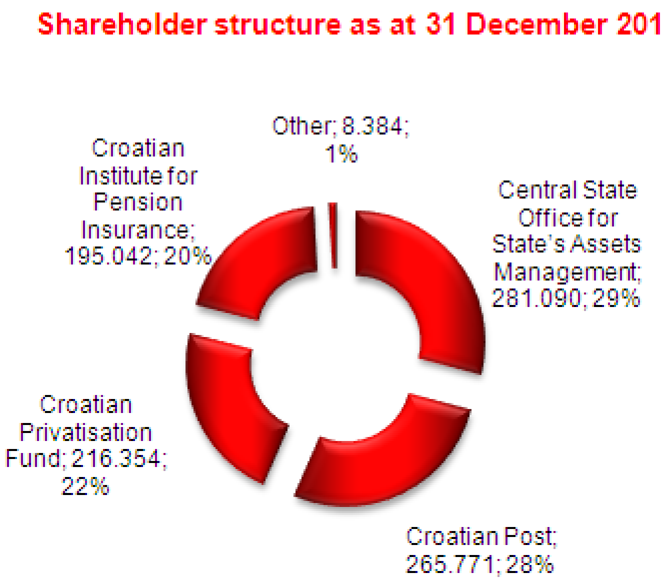
Hrvatska poštanska banka d.d.

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 2010, the Bank operated through eight branches, thirty five outlets and ten detached tellers.

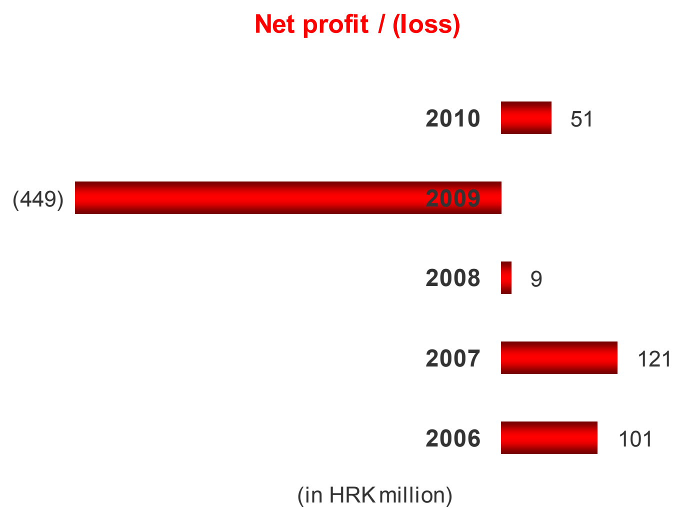
The Bank's main activity is operation in all kinds of deposit and loan activities for corporate and retail customers in domestic and foreign currency, performance of domestic and foreign payment transaction activities, issue of guarantees, sureties and other forms of guarantees, trade in foreign currency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

As a bank in domestic ownership, HPB is in the group of leading banks in the Republic of Croatia, and with its assets in the amount of HRK 14.8 billion is ranked seventh among 33 banks altogether.

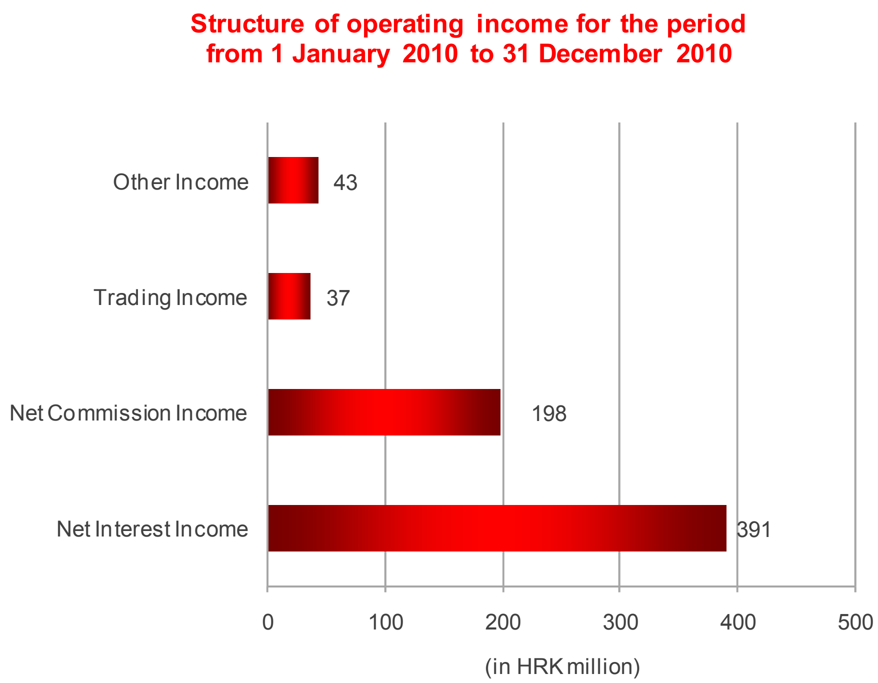
The Bank is 100% owner of HPB Stambena štedionica d.d., HPB Invest d.o.o., the investment fund management company, and HPB Nekretnine d.o.o., the company for real estate and construction, which together form the HPB Group.



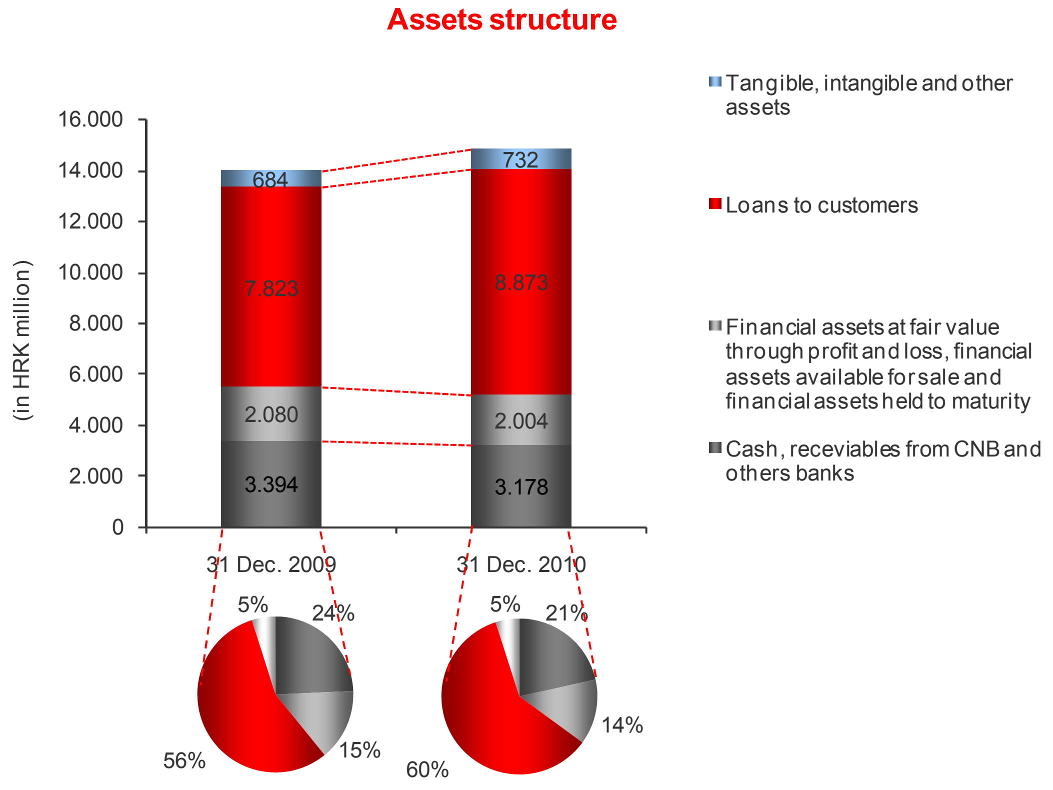
In 2010, the Bank realized profit after tax in the amount to HRK 50.8. Profit before provisions and impairments amounted to HRK 194.3 million. Meanwhile, provisions for impairment losses on loans and other assets amounted to HRK 136.6 million and provisions for liabilities and charges HRK 1.2 million.



Total operating income increased by 15 % compared to 2009. The most significant part of operating income is net interest income, representing 58.4% (HRK 391.5 million) of total income.

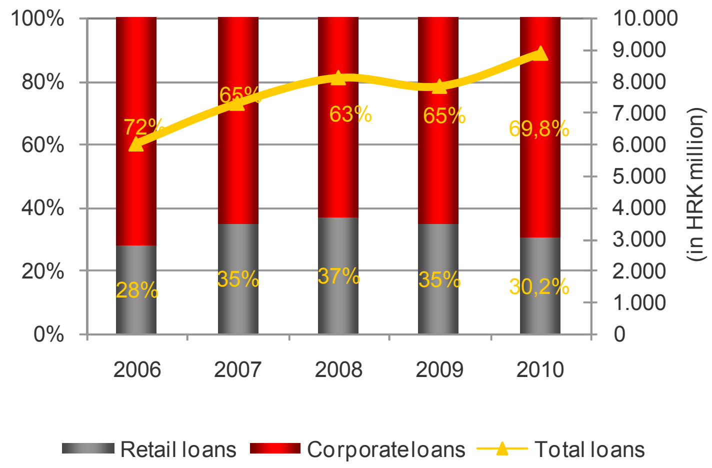


At 2010 year-end, the Bank's assets amounted to HRK 14,787 million, representing a HRK 806.3 million or 5.8% increase compared to 2009. The most significant part within assets structure are loans and advances to customers (60.0%), placements with and loans to other banks and the CNB obligatory reserve (16.2%), and financial assets at fair value through profit or loss (6.8%).



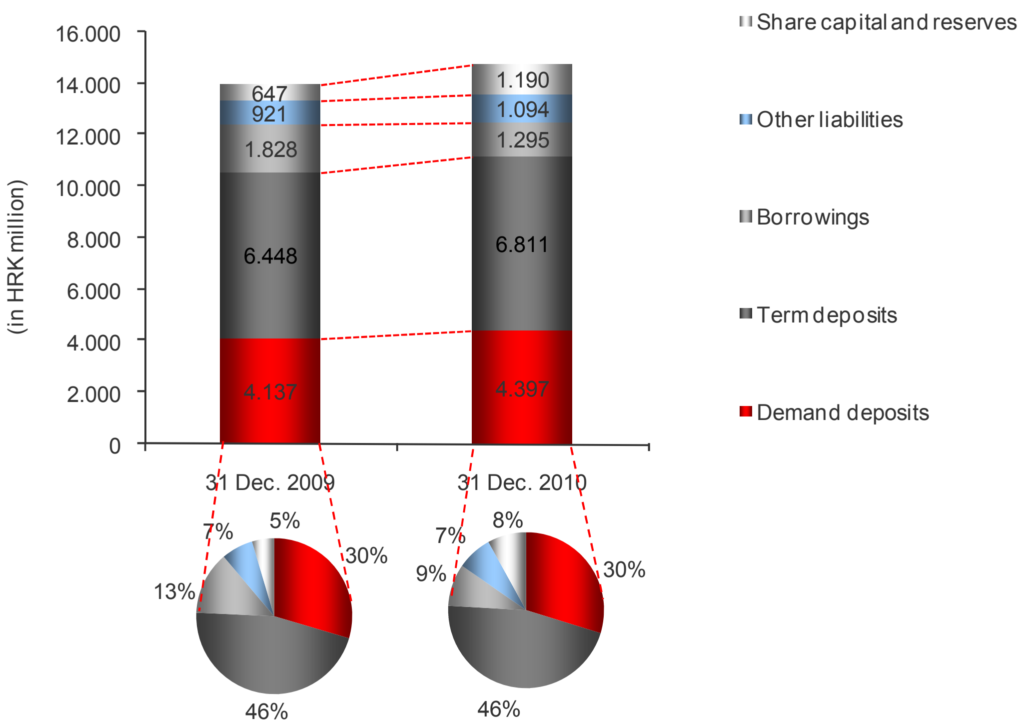
At 31 December 2010, total loans amounted to HRK 8,873.2 million, representing a 13.4% increase compared to 2009. The loan portfolio structure is comprised of corporate loans which have a share of 69.8% and retail loans representing 30.2 percent.

Structure and movement in net loans



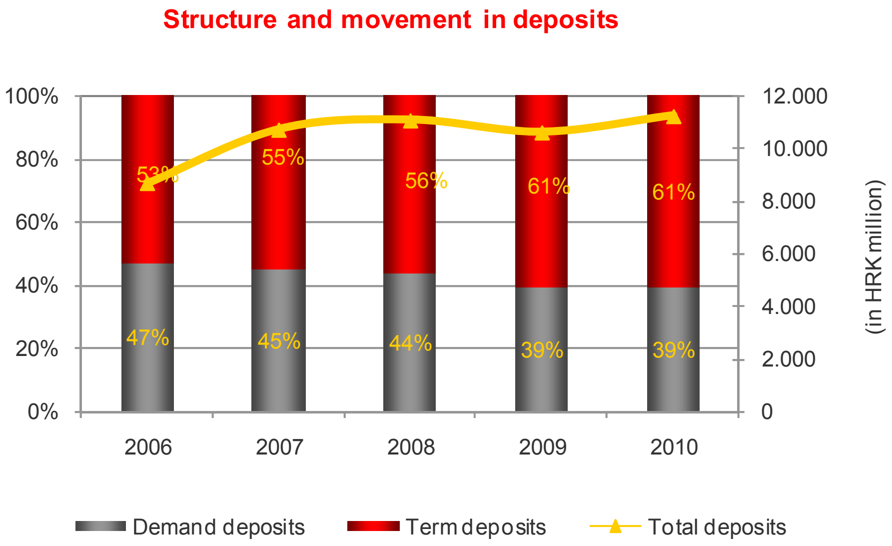
The most significant part within liabilities are term deposits (46.1%) and demand deposits (29.7%).

Liabilities structure



Deposits from customers increased by 7.8% during 2010, and growth of total deposits (including deposits from banks) equals 5.9%.

The structure of deposits is dominated by term deposits (60.8%), compared to demand deposits (39.2%). Term deposits increased by 6.3%, and their share within the structure of total deposits decreased by 0.1 percentage points (from 60.9% to 60.8%). Demand deposits in 2010 recorded an increase of 5.6%.



Retail operation

HPB performs retail operation through its own operational network which comprises 8 branches, 35 outlets and 10 apart counters, as well as through more than 1,100 post offices throughout the territory of the Republic of Croatia.

With the goal to make its products and services more accessible to its clients, the Bank opened new outlets in Zagreb, Split and Trogir during 2010.

Alongside its operational network expansion, HPB continued to develop and improve direct banking distribution channels and installed 38 new ATMs and 88 EFTPOS terminals. At the end of 2010, the Bank had its own network of 256 ATMs and 1,750 EFTPOS terminals.

In 2010 the Bank continued with introduction of new credit and savings products, customized them according to requirements of customers, improved its Internet banking service and expanded the range of credit card products.

Within overall structure of deposits, retail deposits have increased by 15.0 percent and constitute 59.8 percent of total deposits, amounting to HRK 6.6 billion at 2010 year-end. Therein, demand deposits amounted to 2.2 billion, representing an increase of 5.1 percent in relation to 31 December 2009, whilst term deposits amounted to HRK 4.4 billion, which is an increase of 20.5 percent. The high growth of term deposits resulted from the expansion of business network, and policies that stimulated interest on term savings during 2010.

Gross retail loan portfolio amounted to HRK 3.0 billion at 31 December 2010. In total gross loans and structure, retail loans make up 30.9 percent, whilst in the total retail loans structure, the main part relates to non-purpose loans, then used credit lines. The share of housing loans increased by 21.9 pct. during 2010.

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

Corporate operation

At the end of 2010 the total gross loans to companies amounted to HRK 6.7 billion, representing an increase of HRK 1.2 billion or 21.7 pct. compared to 2009. Within the loan structure, short-term loans make up 50.1 pct. and 49.9 pct. relates to long-term loans. Long-term loans were financed by funds from HBOR and own long-term resources. As per 31 December 2010 total deposits of legal entities (excluding deposits of banks) amounted to HRK 4.4 billion, whereat demand deposits increased 5.9 pct. compared to previous year.

Despite the economic crisis during 2010 the Bank expressed willingness to compete with the leading banks in Croatia and therefore the focus in corporate operation was on maintaining high level of quality and price of service wherewith existing customers were retained and new ones were acquisitioned. Expansion of business is continued in the segment of large enterprises and public sector where total gross loans increased by 30.2 pct. or HRK 1.1 billion and make up a share of 70.9 pct. in total corporate loans structure.

The center of activity in dealing with legal entities during 2010 was on programs for financing production, turism and crafts throught colaboration with HBOR, the Ministry of Sea,Traffic and Turism, Ministry of the Economy, Ministry of Agriculture, Croatian chamber of trades and crafts, counties and other institutions, and especially with HAMAG (Croatian Agency for Small Enterprises).

Investment banking

During 2010, the Investment Banking Division continued with its operations as an agent in trade of securities on domestic as well as on regional financial markets, and offered service as an agent in buying and selling of securities on all developed world markets. Regarding to current gradual restoration of confidence in capital market, and building of trust in exiting the crisis, which is present on capital markets, expectations are that in the next period this service will be embraced in a larger scale.

Throughout the past year, as well as previous ones, the Bank has pursued a policy of reducing credit exposure in the field of business with margin loans.

2010 has, although with much better market sentiment than 2009, and also by the influence of slow growth of American economy, seen certain optimism and occasional indication of growth but also large fluctuations and uncertainty on capital markets throughout the world. Persistent lower liquidity of shares and negligent interest of investors for investments as well as increased need for liquid funds of clients, which is manifested through the withdrawal of a large portion of assets in the portfolio management, had a significant impact on the total value of assets under management, which declined by 84 pct. this year.

In January 2010, the Bank acted as an agent and underwriter, and had successfully implemented sales of bonds issued by HP (Croatian Post) and a tranche of commercial paper of H1 Telekom.

In custody services and depository bank services during 2010, Bank continued to provide services on domestic, as well on foregin regional financial markets, and expanded services with new contracts on regional financial market.

As per 31 December 2010 total asset in Bank's custody amounted to HRK 3.44 billion, including funds of HPB Group (in 2009 HRK 3.48 billion). Furthermore, at 31 December 2010 total asset of investment and pension funds, where Bank acts as a depositary bank, amounted to HRK 3.10 billion (2009: HRK 3.34 billion)

Treasury operation

Significantly improved liquidity and further lowering of interest rates have market Treasury's operations on the money market during 2010. In conditions where the system was highly liquid, the Bank has managed its liquidity very well, and broadened its cooperation with investment funds through placements of surplus liqudity into units in money funds.

The Bank has maintained its position as one of the leading banks on domestic money market through continuous daily trading of money market instruments, with investment funds and other banks. Alongside high liquidity reserves in the form of Ministry of Finance treasury bills, volume of short term loans and repo contracts has also increased.

The Bank also participated as one of the arrangers of several syndicized loans and bond issues during 2010. Participation in bond issues on the domestic market enabled a significant increase in trade volume and number of transactions with debt instruments. Additionaly, the Bank's portfolio of debt securities has also increased.

Through the Treasury product sales department and Foreign currency trading department, the Bank has provided a large number of its clients with an opportunity to contract a spot or forward foreign currency transaction. Trading in foreign currency market was marked with further narrowing of spreads, but the Bank has, by maintaining good relationship with its corporate clients, as well as through stronger trading with foreign banks, managed to realize higher net gain from foreign currency trading compared to 2009.

Successful cooperation with FINA collection center for foreign currencies, as well as cooperation with foreign banks regarding dealings with foreign currency notes, contributed to the position of the Bank as one of the most important participants in cash trading on Croatian market.

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 are established by internal acts and procedural documents, is carried out by accountable persons of business areas and by functions of internal audit.

Principles of the internal control system are reflected through:

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

The goal of internal controls and control procedures is to ensure the precision and reliability of the Bank's financial data, and are divided to:

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

Internal controls represent a reasonable guarantee that business goals will be achieved in a scheduled manner within a given time frame, by applying current regulations.

Internal audit

The internal audit is organized as an independent function, that is based on professional principles of internal auditing, alongside 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 Management Board with prior consent of the Audit Committee and the Supervisory Board.

Report on audit results is submitted to the subject of internal audit, amenable member of the Bank's Management Board, and Audit Committee.

Internal audit office also drafts Reports on operations which are submitted to the Management Board, Audit Committee and Supervisory Board.

Development plan

In 2011, the Bank intends to significantly broaden its palette of offered products to existing clients, and attract new clients by expanding its business network through opening of new outlets and widening of distribution channels via partnership with Croatian Post, as well as by increasing the number of its ATMs.

Beside this, further assets' increase is expected in 2011, based on loan growth in all business segments, whereby the placements would be financed by higher deposit base. Bank's focus on enhancement of its market position would be supported by assets' growth, alongside continuous efforts to additionaly improve the quality of services, as well as to develop relationship with the clients. Alongside intensive corporate loan activity, current offer in the retail segment will be enlarged by new attractive products, which will beside the aforementioned expansion of the business network contribute to higher share of retail loan portfolio.

Accordingly, it is planned that the Bank will in 2011 commence with a project for Customer Relationship Management, as well as with the management reporting project. Also, implementation of the advanced risk management will be continued in 2011.

Successful implementation of aforementioned project would enable the Bank to build an independent business mode,l within which the Bank would be prepared to offer its clients a comprehensive palette of services. This would fulfill strategic prerequisites for further business development, in retail, as well as in corporate segment of banking.

Risks exposure

The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk, currency risk, operational risk and interest rate risk in the Bank's non-trading book.

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 Bank'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 through off-balance-sheet items, through commitments arising from unused facilities and guarantees issued.

The main categories of liquidity risk to which the Group is exposed are structural liquidity risk and liquidity risk of financial instruments (financial assets held for trading, financial assets available for sale).

The exposure to market risk occurs in respect of balance sheet and off-balance-sheet positions recognised at fair value, including financial assets held for trading, financial assets available for sale and positions denominated in foreign currency (including placements and liabilities linked to foreign currencies via foreign currency clause).

Operational risk is attributable to all of business activities, processes, products and systems of the Bank. Pperational risk is a risk of an event which, as a consequence, exposes the Bank to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk.

Exposure to interest rate risk in the Bank's non-trading book arises as a consequence of mismatch between assets and liabilities distributed according to the possibility of interest rate change criterion (repricing gaps) and various natures of interest rates (referent interest rates), by which the Bank contracts placements and funds.

Detailed description of risk management of the Group and the Bank is outlined in note 2, within financial reports.

HPB Invest d.o.o.

HPB Invest d.o.o. (in further text reffered as Company) is a company for investment funds management, which was founded on July 22 2005. The Compay is 100% owned by Hrvatska poštanska banka and started with operations on October 5 2005. Shareholder's capital amounts to HRK 13.5 million.

As per December 31 2010, the Company manages seven open-end investment funds with public offer, and one closed-end investment fund with public offer, specialized for investment in real estate HPB Real d.d., which entered a process of liquidation at the end of 2010. Total assets under management of Company's open-end investment funds with public offer amounts to HRK 394.0 million, representing a decrease of 0.23 percent compared to last year.

Negative impacts of global financial crisis have blocked the realization of HPB Real's investment projects, thereby resulting in a liquidation process of the fund which will be ended in 2011.

Structure of assets under management is as follows:

Fund	**Assets under management HRK '000**	**Yield from the beginning of the year %**
HPB Novčani fund	227,770	3.87%
HPB Obveznički fund	13,400	4.31%
HPB Global fund	88,982	(8.06)%
HPB Dionički fund	18,102	(7.53)%
HPB Dynamic fund	20,315	(11.10)%
HPB Titan fund	10,188	5.05%
HPB WAV fund	15,716	18.01%

HPB Invest d.o.o. also manages Umirovljenički fund (pension fund) for which it makes payments in line with selection of fund members and according to Pension fund Law. Total assets of Umirovljenički fund amounts to HRK 1,856.0 million as at December 31 2010. The Company made payments in December 2010 to members of Umirovljenički fund as follows:

Model B, basic register:

- HRK 707.0 million, fourth instalment

Model B, register of family pensions and highest pensions

- HRK 119.0 million, third instalment

As per December 31 2010, total balance sheet of the Company amounted to HRK 20.6 million, and the Company achieved after tax profit amounting to HRK 1.08 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 is not exposed to liquidity risk, and according to assessment of the Company, no risk exists that it will not be able to settle its short term obligations. Most of the Company's assets are interest bearing, whilst most of the financial liabilities do not bear interest. Interest rate risk is linked with placements to banks exposure. At the reporting date, the Company has debt securities whose fair value changes are recorded in profit or loss account, and all the changes in market conditions will directly impact on gains less losses from financial instruments at fair value through profit or loss. The Company manages operational risks.

HPB Stambena štedionica d.d.

HPB- Stambena štedionica („the Company“) is a credit institution which collects deposits from citizens and approves housing loans with state subsidies. The Company was founded in mid-April of 2006.

As the fifth largest on the savings-banks market, the Company has almost 49,000 registered savings contracts, with a value of EUR 250 million.

Although recessionary business enviroment decreased the demand of citizens for housing savings and housing loans during 2010, the Company has increased the number of new housing savings contracts by almost 5 percent compared to 2009. Furthermore, approved housing loans increased by 58 percent, wherein 90 percent relates to interfinancing loans.

The parent company, Hrvatska poštanska banka, was the primary housing savings sales channel, brokering 64 percent of new savings contracts, while 25 percent of new contracts was brokered through a limited number of Croatian Post's offices, thereby proving that Croatian Post is a strategicaly important distribution channel of the Company.

Operating income amounting to HRK 707 thousand was achieved in 2010, representing an increase of 75 percent compared to last year. Meanwhile, realized net profit in amount of HRK 885 thousand is several times higher than last year's. By the end of 2010, total assets of the Company amounted to HRK 235 million, which is a 37 percent increase in relation to 2009.

Development plan

Emphasis will be made on continuation of positive features of financial operations of the Company. Also, Croatian Post will be furtherly actively introduced as a strategicaly important distribution channel. Other basic goals of Company's business will include the strengthening of synergy with the parent company.

Risks

The most significant types of financial risks which affect the Company are: credit risk, liquidity risk, market risk and operational risk. Market risk includes exchange rate risk, and interest rate risk. The Company develops a comprehensive system of risk management by implementing policies and procedures, as well as establishing acceptable limits for risk levels in line with prescribed policies and procedures. Limits are set with respect to regulatory capital and relate to all types of risks.

In order to manage the level of credit risk, the Company tries to do business with customers with good loan activity, simultaneously obtaining adequate collaterals. Types and values of collateral obtained depend upon the assessment of individual client’s credit risk.

Liquidity risk management is realized through operative management of short term liquidity and management of long term liquidity. Managing short term liquidity is realized through maintenance of required level of liquidity reserve, as well as by planning of daily and weekly cash flows in order to settle obligations and housing loan outflows in a timely manner.

Management of currency risk is defined by regulations according to which the Company is obliged to adjust its liabilities and assets with foreign currency clause with prescribed limits, with respect to regulatory capital.

Interest rate risk management is directed towards reconciliation of assets and liabilities with respect to a posibility of change in interest rates. Most of the interest bearing assets and liabilities have fixed interest rate.

Considering that the Company is exposed to operational risks in all of its operations, endeavours are made to minimize this risks, by implementing controls in work procedures and by preventing possible mistakes.

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 million.

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 2010, the balance sheet of HPB Nekretnine. amounted to HRK 32.83 million, while the net profit for the period amounted to HRK 366 thousand.

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.

A rise in demand for specific services which the Company offers is expected in the future (after stagnation on the real estate market. This increase in demand is a basis for creation of the Company's business and development policy. Therefore, the Group will become more recognizable and a synergy effect will be accomplished.

Risks

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 and healthy corporate culture, the Croatian agency for financial services supervision (Hrvatska agencija za nadzor financijskih usluga – "HANFA") and the Zagreb Stock Exchange (Zagrebačka burza d.d. – „ZSE") established a Corporate Management Codex during 2007, which was upgraded in 2010 and reconciliated with Capital Market Law, Commercial Companies Law and Regulations of 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 Codex, adopted by HANFA and ZSE, during 2010, 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 do that themselves out of any reason, without uncommon expenses for these shareholders, who are obliged to vote in General Assembly in line with directives of the shareholders. The Bank also sets out requirements for participation in General Assembly in accordance with the Commercial Companies Act and the Bank's Statute. During the process of increasing share capital of the Bank in 2010, 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 majority shareholders were not able to directly secure the funds needed for an increase of share capital. New shares were issued based on payments made in cash by the Republic of Croatia, and by converting claims based on cash payments made into Bank's additional regulatory capital by the Croatian Institute for Pension Insurance (Hrvatski zavod za mirovinsko osiguranje – "HZMO"), with complete exclusion of priority rights of existing shares. During 2010, the Supervisory Board did not set up an appointment committee or a reward committee, nor was a statement of reward policy for Management and Supervisory Board rewards published. The Bank does not have a long term succession plan and majority of Supervisory Board members do not have independent member status. Detailed explanations relating to recommendations not adopted, or departures from certain Codex recommendations during 2010, 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 also 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 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 determination, measurement and monitoring of risks in the Bank's operations, as well as establishing corresponding internal control mechanisms.

A description of basic characteristics of internal supervision in the Company and risk management in respect of financial reporting is 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 (HZMO and the Croatian Privatisation Fund – "HFP") and public companies (Croatian Post – "HP"), 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 authoritizations

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 submit 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 of up to five years from December 30 2010, 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 450,000,000.00. 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 by taking into account the Credit Institutions Act. Among other duties, the Supervisory Board approves the Management Board's decisions on the Bank's business policies, financial planning and the framework of annual internal audit programme, as well as annual risk control function programme and compliance function programme.

Members of the Supervisory Board during 2010 were, until the XXX. General Assembly held on June 29 2010, as follows:

mr.sc. Zdravko Marić	President
Vedran Duvnjak	Vice president
prof.dr.sc. Drago Jakovčević	Member
mr.sc. Grga Ivezić	Member
Robert Jukić	Member
Marijo Dragun	Member
Maja Vrtarić	Member

By the decision of the XXX. General Assembly of the Bank, held on June 29 2010, member of the Supervisory Board, Maja Vrtarić, was recalled.

In the XXXII. General Assembly of the Bank, held on March 30 2011, a new Supervisory Board of the Bank was chosen, with following members:

Damir Kaufman
Anita Pavković
Krešimir Bračić
Dario Čorić
Mario Mikulić
Dražen Kobas
Marin Palada

During the first inaugurating session of the Supervisory Board, held on April 1 2011, new President and Vice president of the Supervisory board were chosen as follows:

Damir Kaufman	President
Dražen Kobas	Vice President

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,also in accordance with the Credit Institutions Act.

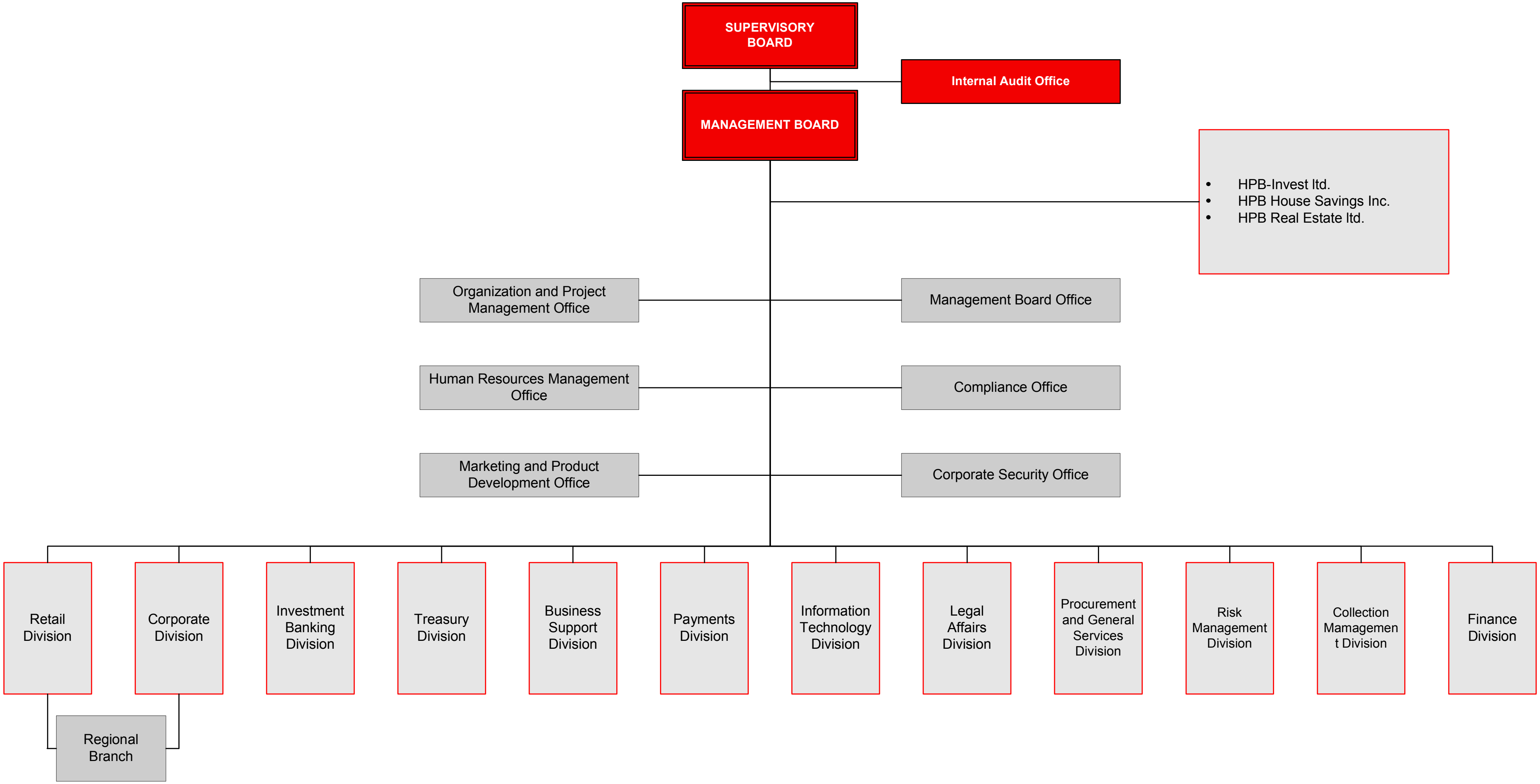
Among other things, the Management Board is responsible to ensure that the Bank operates in accordance with the regulations on the risk management, as prescribed by the Credit Institutions Act and related regulations which are framework for banking operations or other financial services provided, and regulations based on the Credit Institutions Act and other laws, 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 with respect 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 unimpeded 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 2010 the Management Board consisted of the following members:

Čedo Maletić	President
Dubravka Kolarić	Member

The Management Board, in accordance with the business processes requirements sets up permanent and temporary boards and delegations. Permanent boards are: Loan Approval Committee, Assets and Liability Management Committee and Operational Risk Committee.

The Croatian Postal Bank Inc. - Organizational scheme



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 37 to 160 were authorized by the Management Board on April 20 2010 for issue to the Supervisory Board and are signed below to signify this.

On behalf of Hrvatska poštanska banka d.d.

HRVATSKA POŠTANSKA BANKA DIONIČKO DRUŠTVO ZAGREB

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

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Independent Auditor's Report

To the Shareholders of Hrvatska poštanska banka d.d. Zagreb:

We have audited the accompanying unconsolidated and consolidated financial statements of Hrvatska poštanska banka d.d. Zagreb ("the Bank") and its subsidiaries (together "the Group") as presented on pages 37 to 144, which comprise the unconsolidated and consolidated statements of financial position as at 31 December 2010 and the unconsolidated and consolidated statements of income, statements of other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion the unconsolidated and consolidated financial statements, set out on pages 37 to 144, give a true and fair view of the financial position of the Bank and the Group, respectively as at 31 December 2010 and of their financial performance and their cash flows for the year then ended in accordance with statutory accounting requirements for banks in the Republic of Croatia.

Emphasis of the Matter

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 145 to 160, which comprise the unconsolidated balance sheet as of 31 December 2010, and the unconsolidated statements of income, changes in equity and cash flows for the year then ended, as well as the reconciliation to the unconsolidated financial statements. These forms and the accompanying reconciliation to the unconsolidated financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 37 to 144, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Bank. Our opinion is not modified in respect of this matter.

Other Matters

Audit of previous year financial statements

The unconsolidated and consolidated financial statements of the Bank and the Group for the year ended 31 December 2009 were audited by another auditor who expressed an unmodified opinion on those statements on 29 April 2010.

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor and Member of the Board

Zagreb, 15 April 2011

	Notes	Group 2010 HRK '000	Group 2009 HRK '000
ASSETS			
Cash and amounts due from banks	5	776,891	1,118,648
Obligatory reserve with Croatian National Bank	6	1,077,730	1,128,341
Loans and receivables to banks	7	1,329,676	1,160,955
Financial assets at fair value through profit or loss	8	1,010,696	947,607
Financial assets available for sale	9	552,112	648,448
Financial assets held to maturity	10	595,965	596,574
Loans and receivables to customers	11	8,946,416	7,868,666
Assets held for sale	12	21,551	21,551
Property and equipment	14	153,635	165,396
Investment property	15	10,703	10,956
Intangible assets	16	225,052	200,052
Net deferred tax asset	17	26,088	29,896
Tax prepayment		207	17,595
Other assets	18	251,228	193,747
TOTAL ASSETS		**14,977,950**	**14,108,432**
LIABILITIES			
Financial liabilities at fair value through profit or loss	19	402	1,550
Deposits from banks	20	186,340	363,380
Deposits from customers	21	11,194,337	10,337,575
Borrowings	22	1,294,797	1,827,935
Hybrid instruments	23	609,716	456,950
Provisions for liabilities and charges	24	36,182	34,971
Other liabilities	25	474,544	449,352
TOTAL LIABILITIES		**13,796,318**	**13,471,712**
EQUITY			
Share capital	26	966,640	654,320
Capital reserve	26	228,136	40,460
Treasury shares		(874)	(874)
Statutory reserve	26	-	19,258
General banking risk reserve	26	-	170,836
Fair value reserve	26	2,193	9,398
Revaluation reserve	26	4,768	4,888
Other reserves	26	-	36,606
Retained earnings/(loss)	26	(19,231)	(298,172)
TOTAL EQUITY		**1,181,632**	**636,720**
TOTAL LIABILITIES AND EQUITY		**14,977,950**	**14,108,432**

The significant accounting policies and other notes on pages 47 to 144 form an integral part of these consolidated financial statements.

Consolidated income statement
for the year ended 31 December 2010

	Notes	Group 2010 HRK '000	Group 2009 HRK '000
Interest and similar income	27	830,923	949,858
Interest expense and similar charges	28	(434,040)	(587,591)
Net interest income		**396,883**	**362,268**
Fee and commission income	29	594,101	610,825
Fee and commission expense	30	(381,803)	(420,820)
Net fee and commission income		**212,298**	**190,005**
Gains less losses arising from financial instruments at fair value through profit or loss	31	8,036	31,767
Gains less losses arising from financial instruments available for sale	32	3,359	(20,861)
Gains less losses arising from dealing in foreign currencies		25,653	27,815
Other operating income	33	44,087	11,247
Dealing and other (expense)/income		**81,134**	**49,968**
Operating income		**690,316**	**602,240**
General and administrative expenses	34	(425,273)	(428,273)
Other expenses	-	-	(24,854)
Depreciation and amortisation	14,15,16	(69,161)	(79,947)
Impairment losses on loans and receivables to customers and other assets	35	(136,535)	(509,863)
Provisions for liabilities and charges	24	(1,210)	(3,954)
Operating expenses		**(632,178)**	**(1,046,891)**
PROFIT/(LOSS) BEFORE TAX		**58,138**	**(444,651)**
Income tax expense	17, 36	(5,897)	(2,190)
PROFIT/ (LOSS) FOR THE YEAR		**52,241**	**(446,841)**

The significant accounting policies and other notes on pages 47 to 144 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2010

	Group 2010 HRK '000	Group 2009 HRK '000
Profit/(loss) for the year	**52,241**	**(446,841)**
Gains/(losses) on remeasuring available-for-sale assets	(9,007)	77,846
Changes in revaluation reserves	(128)	(43)
Effect of income tax relating to other comprehensive income	1,810	(15,561)
Net other comprehensive income/(loss) for the year	**(7,325)**	**62,242**
Total comprehensive income/(loss), net of tax	**44,916**	**(384,599)**

The significant accounting policies and other notes on pages 47 to 144 form an integral part of these consolidated financial statements.

Group

	Share capital HRK '000	Capital reserve HRK '000	Treasury shares HRK '000	Reserves HRK '000	Fair value reserve HRK '000	Revaluation reserve HRK '000	Retained earnings HRK '000	Total HRK '000
Balance at 1 January 2009	**584,780**	**-**	**(874)**	**226,700**	**(52,878)**	**4,922**	**148,669**	**911,319**
Chare capital increase	69,540	-	-	-	-	-	-	**69,540**
Capital reserve	-	40,460	-	-	-	-	-	**40,460**
Revaluation reserve	-	-	-	-		(43)		**(43)**
Gains/(losses) from financial assets available for sale	-	-	-	-	77,846			**77,846**
Deferred tax	-	-	-	-	(15,570)	9		**(15,561)**
Net profit /(loss) for 2009	-	-	-	-	-	-	(446,841)	**(446,841)**
Balance at 31 December 2009	**654,320**	**40,460**	**(874)**	**226,700**	**9,398**	**4,888**	**(298,172)**	**636,720**
Balance at 1 January 2010	**654,320**	**40,460**	**(874)**	**226,700**	**9,398**	**4,888**	**(298,172)**	**636,720**
Share capital increase	312,320	-	-	-	-	-	-	**312,320**
Capital reserve	-	187,676	-	-	-	-	-	**187,676**
Loss allocation from 2009	-	-	-	-	-	-	-	-
- transfer from statutory reserve	-	-	-	(19,258)	-	-	19,258	**-**
- transfer from general banking risk reserve	-	-	-	(170,836)	-	-	170,836	**-**
- transfer from other reserves	-	-		(36,606)	-	-	36,606	**-**
Revaluation reserve	-	-	-	-		(128)		**(128)**
Gains/(losses) from financial assets available for sale	-	-	-	-	(9,007)			**(9,007)**
Deferred tax	-	-	-	-	1,802	8		**1,810**
Net profit/(loss) for 2010	-	-	-	-	-	-	52,241	**52,241**
Balance at 31 December 2010	**966,640**	**228,136**	**(874)**	**-**	**2,193**	**4,768**	**(19,231)**	**1,181,632**

The significant accounting policies and other notes on pages 47 to 144 form an integral part of these consolidated financial statements.

Consolidated cash flow statement
for the year ended 31 December 2010

	Notes	Group 2010 HRK '000	Group 2009 HRK '000
Cash flows from operating activities			
Profit before tax		58,138	(444,651)
Adjustment for:			
- Depreciation and amortisation	14, 15, 16	69,161	79,947
- Foreign exchange (gains) / losses	33	(5,127)	(3,565)
- Impairment losses on loans and receivables to customers and other assets	35	136,535	509,863
- Impairment losses on provisions for liabilities and charges	24	1,210	3,954
- Net unrealised losses/(gains) on financial assets at fair value through profit or loss	31	(8,036)	(31,767)
- Reversal of impairment loss on land and buildings	14,15,16	-	(41)
Changes in operating assets and liabilities			
Net decrease/(increase) in loans and receivables to banks		(176,975)	7,932
Net (increase)/decrease in financial assets at fair value through profit or loss		(61,097)	662,125
Net increase in loans and receivables to customers		(1,207,036)	(197,257)
Net increase in other assets		(36,807)	(62,847)
Net decrease in deposits from banks		(177,040)	(49,978)
Net increase in deposits from customers		856,763	(320,750)
Net (decrease)/increase in other liabilities		24,044	(30,383)
Net cash (outflow)/inflow from operating activities before tax		**(526,268)**	**122,582**
Income tax received/(paid)		248	(10,472)
Net cash (outflow)/inflow from operating activities		**(526,020)**	**112,110**
Cash flow from investing activities			
Purchase of property and equipment and intangible assets		(82,189)	(69,603)
Disposal of financial assets available for sale		335,201	282,045
Acquisition of financial assets available for sale		(234,784)	(562,870)
Maturity/(acquisition) of financial assets held to maturity		434	(6,462)
Dividend receipts		4,560	4,876
Net cash outflow from investing activities		**23,222**	**(352,014)**
Cash flow from financing activities			
Increase in hybrid instruments		152,766	139,733
Increase in borrowings		7,664,897	27,601,006
Decrease in borrowings		(8,174,454)	(27,651,258)
Chare capital increase		499,996	110,000
Net cash (outflow)/inflow from financing activities		**143,206**	**199,481**
Effect of foreign exchange differences on cash and cash equivalents		15,824	(12,354)
Net (decrease)/increase in cash and cash equivalents		**(343,769)**	**(52,777)**
Cash and cash equivalents at the beginning of the year	39	**3,330,343**	**3,383,120**
Cash and cash equivalents at the end of the year	39	**2,986,574**	**3,330,343**

The significant accounting policies and other notes on pages 47 to 144 form an integral part of these consolidated financial statements.

Unconsolidated statement of financial position
as at 31 December 2010

	Notes	Bank 2010 HRK '000	Bank 2009 HRK '000
ASSETS			
Cash and amounts due from banks	5	776,885	1,118,618
Obligatory reserve with Croatian National Bank	6	1,077,730	1,128,341
Loans and receivables to banks	7	1,323,676	1,146,701
Financial assets at fair value through profit or loss	8	1,004,909	947,607
Financial assets available for sale	9	458,038	611,318
Financial assets held to maturity	10	541,078	521,365
Loans and receivables to customers	11	8,873,240	7,822,590
Assets held for sale	12	21,551	21,551
Investment in subsidiaries	13	73,990	73,990
Property and equipment	14	153,582	165,327
Intangible assets	16	224,748	199,739
Net deferred tax asset	17	25,130	28,961
Tax prepayment		-	16,792
Other assets	18	232,640	177,997
TOTAL ASSETS		**14,787,197**	**13,980,897**
LIABILITIES			
Financial liabilities at fair value through profit or loss	19	402	1,550
Deposits from banks	20	186,340	363,380
Deposits from customers	21	11,021,660	10,221,168
Borrowings	22	1,294,797	1,827,935
Hybrid instruments	23	609,716	456,950
Provisions for liabilities and charges	24	36,164	34,949
Other liabilities	25	448,080	428,121
TOTAL LIABILITIES		**13,597,159**	**13,334,053**
EQUITY			
Share capital	26	966,640	654,320
Capital reserve	26	228,136	40,460
Treasury shares	26	(874)	(874)
Statutory reserve	26	-	19,258
General banking risk reserve	26	-	170,836
Fair value reserve	26	3,316	10,834
Revaluation reserve	26	4,768	4,888
Other reserves	26	-	36,606
Retained earnings/(loss)	26	(11,948)	(289,484)
TOTAL EQUITY		**1,190,038**	**646,844**
TOTAL LIABILITIES AND EQUITY		**14,787,197**	**13,980,897**

The significant accounting policies and other notes on pages 47 to 144 form an integral part of these unconsolidated financial statements.

	Notes	Bank 2010 HRK '000	Bank 2009 HRK '000
Interest and similar income	27	821,397	941,587
Interest expense and similar charges	28	(429,898)	(585,259)
Net interest income		**391,499**	**356,328**
Fee and commission income	29	578,691	593,295
Fee and commission expense	30	(380,247)	(418,576)
Net fee and commission income		**198,444**	**174,719**
Gains less losses arising from financial instruments at fair value through profit or loss	31	7,832	31,767
Gains less losses arising from financial instruments available for sale	32	3,706	(20,519)
Gains less losses arising from dealing in foreign currencies		25,683	27,796
Other operating income	33	42,852	12,690
Dealing and other (expense)/ income		**80,073**	**51,734**
Operating income		**670,016**	**582,781**
General and administrative expenses	34	(407,018)	(411,733)
Other expenses		-	(24,854)
Depreciation and amortisation	14, 16	(68,682)	(79,494)
Impairment losses on loans and receivables to customers and other assets	35	(136,546)	(509,403)
Provisions for liabilities and charges	24	(1,215)	(3,937)
Operating expenses		**(613,461)**	**(1,029,421)**
PROFIT BEFORE TAX		**56,555**	**(446,640)**
Income tax expense	17, 36	(5,719)	(2,175)
PROFIT/(LOSS) FOR THE YEAR		**50,836**	**(448,815)**
		kn	**kn**
Earnings/(Loss) per share	37	**82,30**	**(797,99)**

The significant accounting policies and other notes on pages 47 to 144 form an integral part of these unconsolidated financial statements.

	Bank 2010 HRK '000	Bank 2009 HRK '000
Profit/(loss) for the year	**50,836**	**(448,815)**
Gains/(losses) on remeasuring available-for-sale assets	(9,398)	76,554
Changes in revaluation reserves	(128)	(43)
Effect of income tax relating to other comprehensive income	1,888	(15,302)
Net other comprehensive income/(loss) for the year	**(7,638)**	**61,209**
Total comprehensive income/(loss), net of tax	**43,198**	**(387,606)**

The significant accounting policies and other notes on pages 47 to 144 form an integral part of these unconsolidated financial statements.

Unconsolidated statement of changes in equity for the year ended 31 December 2010

Bank

	Share capital HRK '000	Capital reserve HRK '000	Treasury shares HRK '000	Reserves HRK '000	Fair value reserve HRK '000	Revaluation reserve HRK '000	Retained earnings HRK '000	Total HRK '000
Balance at 1 January 2009	**584,780**	**-**	**(874)**	**226,700**	**(50,409)**	**4,922**	**159,331**	**924,450**
Chare capital increase	69,540	-	-	-	-	-	-	**69,540**
Capital reserve	-	40,460	-	-	-	-	-	**40,460**
Revaluation reserve	-	-	-	-	-	(43)	-	**(43)**
Gains/(losses) from financial assets available for sale	-	-	-	-	76,554	-	-	**76,554**
Deferred tax	-	-	-	-	(15,311)	9	-	**(15,302)**
Net profit /(loss) for 2009	-	-	-	-	-	-	(448,815)	**(448,815)**
Balance at 31 December 2009	**654,320**	**40,460**	**(874)**	**226,700**	**10,834**	**4,888**	**(289,484)**	**646,843**
Balance at 1 January 2010	**654,320**	**40,460**	**(874)**	**226,700**	**10,834**	**4,888**	**(289,484)**	**646,843**
Share capital increase	312,320	-	-	-	-	-	-	**312,320**
Capital reserve	-	187,676	-	-	-	-	-	**187,676**
Loss allocation from 2009	-	-	-	-	-	-	-	-
- transfer from statutory reserve	-	-	-	(19,258)	-	-	19,258	-
- transfer from general banking risk reserve	-	-	-	(170,836)	-	-	170,836	-
- transfer from other reserves	-	-	-	(36,606)	-	-	36,606	-
Revaluation reserve	-	-	-	-	-	(128)	-	**(128)**
Gains/(losses) from financial assets available for sale	-	-	-	-	(9,398)	-	-	**(9,398)**
Deferred tax	-	-	-	-	1,880	8	-	**1,888**
Net profit/(loss) for 2010	-	-	-	-	-	-	50,836	**50,836**
Balance at 31 December 2010	**966,640**	**228,136**	**(874)**	**-**	**3,316**	**4,768**	**(11,948)**	**1,190,038**

The significant accounting policies and other notes on pages 47 to 144 form an integral part of these unconsolidated financial statements.

	Notes	Bank 2010 HRK '000	Bank 2009 HRK '000
Cash flows from operating activities			
Profit before tax		56,555	(446,640)
Adjustment for:			
- Depreciation and amortisation	14, 16	68,682	79,494
- Foreign exchange (gains)/ losses	33	(5,098)	(3,565)
- Impairment losses on loans and receivables to customers and other assets	35	136,546	509,403
- Impairment losses on provisions for liabilities and charges	24	1,215	3,937
- Net unrealised losses / (gains) on financial assets at fair value through profit or loss	31	(1,815)	(31,112)
- Reversal of impairment loss on land and buildings	14,15,16	-	(41)
Changes in operating assets and liabilities			
Net decrease/(increase) in loans and receivables to banks		(176,975)	458
Net (increase)/decrease in financial assets at fair value through profit or loss		(55,487)	641,665
Net increase in loans and receivables to customers		(1,179,673)	(183,150)
Net increase in other assets		(41,267)	(61,621)
Net decrease in deposits from banks		(177,040)	(49,978)
Net increase in deposits from customers		800,492	(365,231)
Net (decrease)/increase in other liabilities		18,812	(80,091)
Net cash (outflow)/inflow from operating activities before tax		**(555,053)**	**13,528**
Income tax received/(paid)		-	1,271
Net cash (outflow)/inflow from operating activities		**(555,053)**	**14,799**
Cash flow from investing activities			
Investments in subsidiaries		-	(20,440)
Purchase of property and equipment and intangible assets		(81,989)	(67,513)
Disposal of financial assets available for sale		358,400	250,956
Acquisition of financial assets available for sale		(200,726)	(562,870)
Maturity/(acquisition) of financial assets held to maturity		(19,899)	24,382
Dividend receipts		4,560	4,876
Net cash outflow from investing activities		**60,531**	**(370,608)**
Cash flow from financing activities			
Increase in hybrid instruments		152,766	139,733
Increase in borrowings		7,664,897	27,710,344
Decrease in borrowings		(8,174,454)	(27,651,258)
Share capital increase		499,997	110,000
Net cash (outflow)/inflow from financing activities		**143,206**	**308,819**
		15,824	(12,354)
Effect of foreign exchange differences on cash and cash equivalents		152,766	139,733
Net (decrease)/increase in cash and cash equivalents		**(335,492)**	**(59,344)**
Cash and cash equivalents at the beginning of the year	39	**3,316,060**	**3,375,404**
Cash and cash equivalents at the end of the year	39	**2,980,568**	**3,316,060**

The significant accounting policies and other notes on pages 47 to 144 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 April 20 2011 for approval by the Supervisory Board.

The principal accounting policies applied in the preparation of these financial statements are summarized 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, Standards applicable at 31 December 2010 are referred to.

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 recognize impairment losses, in profit or loss statement, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value through profit or loss, and as per 2010. financial assets available for sale). The Group and Bank have made such portfolio-based provisions of HRK 130.927 thousand and HRK 129.608 thousand respectively (2009: HRK 129.544 thousand and HRK 128.167 thousand respectively) in compliance with these regulations and have recognized losses in respect of such provisions of HRK 1,046 thousand and HRK 1,100 thousand respectively, within impairment losses on loans and receivables to customers and other assets for the year (2009: Group income of HRK 6,738 thousand and Bank HRK 7,180 thousand respectively) and additional expense of HRK 337 thousand, and Bank HRK 341 thousand within provisions for liabilities and charges (2009.: Group income of HRK 4,234 thousand, Bank 4.251 thousand). The Group and Bank recognize such provisions in the income statement 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 receivables 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 amortized or historical cost.

The financial statements have been prepared in a format generally adopted and internationally recognized 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 financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

c) 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).

d) 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)

e) 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.

f) Interest income and expense

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) 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 accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

h) Dividend income

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

i) Gains less losses from financial instruments at fair value throught profit or loss and financial instruments available for sale

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 financial instruments available for sale comprise realised gains from financial instruments available for sale.

j) 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)

k) Foreign currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange applicable 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 applicable 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 applicable 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.

l) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

I) Financial instruments (continued)

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.

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. 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. This 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, i.e. 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)

l) 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 initially recognized at at acquirement cost, and afterwards measured applying internal models of fair value estimation.

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, gains and losses arising from foreign exchange rate differences, 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 closing price. 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)

l) 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 objective 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 of impairment allowances 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 on portfolio basis

In addition to the above described impairment losses on assets identified as impaired, the Group recognises portfolio based impairment losses, in income statement, on balance and off-balance-sheet credit risk exposures, not recognized as impaired, at rates from 0.85 - 1.20%, in accordance with internal acts based on the regulations prescribed by the CNB.

Debt securities carried at fair value at the balance sheet date, initially recognized as financial assets at fair value through profit or loss, as well as financial assets available for sale, are excluded from calculation basis of these impairments.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) 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)

m) 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 amortization 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 are 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 future date 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 amount is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

n) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Income tax (continued)

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 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.

o) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Property and equipment (continued)

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

The estimated useful lives are as follows:

	2010	2009
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.

p) 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. Group's investment property is disclosed in note 15.

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:

	2010	2009
Investment property	40 years	40 years

Residual amounts are not taken into account.

q) Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment losses. Expenditure on development activities is capitalized 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 recognized as an expense as incurred.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Intangible assets (continued)

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

	2010	**2009**
Leasehold improvements	4 years	4 years
Software	3-10 years	3-7 years
Licences	3-10 years	3-7 years

r) 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 or 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.

s) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Provisions for liabilities and charges

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

u) 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.

v) 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.

w) 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.

Retained earnings

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

x) 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.

y) 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 one closed-ended investment fund for real estate investments HPB Real in the course of liquidation. The Group also manages HPB Umirovljenički fund, a special purpose fund, established by the Croatian Government, for payment of debt to retired persons.

z) 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 with custody (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, interest rate risk in the Bank’s non-trading book, 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, procedures and manuals, 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 market risk exposure. Internal methodologies and models for managing other types of risks are also 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, Credit Committee and Operational Risk Management Committee.

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 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 placements’ credit risk, subsequent monitoring, supervision, and evaluation of recoverability of placements and off-balance sheet commitments, as well as formation of required impairments and provisions for identified losses on placements and off-balance sheet commitments, and reporting to the Management Board of the Bank.

2. RISK MANAGEMENT POLICIES (continued)

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 rate of placements, and in accordance with the CNB's Decision on Classification of Placements and Contingent Liabilities of Credit Institutions. 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 loss percentage: in subcategory B1 (loss is estimated at below 30% of nominal carrying value of the placement), in subcategory B2 (loss is estimated at between 30% and 70% of nominal carrying value of the placement), and in subcategory B3 (loss is estimated at above 70%, but below 100% of nominal carrying value of the placement). Placements estimated to be fully irrecoverable 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 placements and off-balance sheet commitments 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.

Portfolio based provisions for impairment 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 by 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.

2. RISK MANAGEMENT POLICIES (continued)

2.1.3. *Impairment policy of placements (continued)*

Group

%	**Loans and receivables to customers**	Impairment losses	**Loans and receivables to banks**	Impairment losses	**Financial assets available for sale**	Impairment losses	**Financial assets held to maturity**	Impairment losses	**Deposits with the CNB**	Impairment losses	**Fees receivable**	Impairment losses
2010												
A	77.65	1.36	99.96	-	-	-	95.99	0.90	100.00	-	79.18	-
A (until 90 days overdue)	1.53	1.36	-	-	-	-	-	-	-	-	0.28	-
B and C	20.82	35.85	0.04	100.00	-	-	4.01	96.16	-	-	20.55	59.48
2009												
A	78.68	1.45	99.96	-	91.73	0.89	96.70	0.97	100.00	-	94.84	-
A (until 90 days overdue)	1.23	1.00	-	-	-	-	-	-	-	-	-	-
B and C	20.10	34.52	0.04	100.00	8.27	33.34	3.30	100.00	-	-	5.16	100.00

Bank

%	**Loans and receivables to customers**	Impairment losses	**Loans and receivables to banks**	Impairment losses	**Financial assets available for sale**	Impairment losses	**Financial assets held to maturity**	Impairment losses	**Deposits with the CNB**	Impairment losses	**Fees receivable**	Impairment losses
2010												
A	77.49	1.36	99.96	-	-	-	95.60	0.99	100.00	-	78.73	-
A (until 90 days overdue)	1.54	1.36	-	-			-	-	-	-	0.28	-
B and C	20.97	35.86	0.04	100.00	-	-	4.40	94.30	-	-	20.99	59.48
2009												
A	78.56	1.46	99.96	-	91.24	0.92	96.24	0.99	100.00	-	94.72	-
A (until 90 days overdue)	1.23	1.00	-	-	-	-	-	-	-	-	-	-
B and C	20.21	34.52	0.04	100.00	8.76	33.34	3.76	100.00	-	-	5.28	100.00

2. RISK MANAGEMENT POLICIES (continued)

Maximum exposure to credit risk before consideration of collateral

This table shows the maximum exposure to credit risk as at 31 December 2010. According to changes in regulations as per March 31 2010, financial assets available for sale do not represent an exposure to credit risk any more. Had the regulations remained in force as they were at December 31 2009, Group's maximum exposure to credit risk would, on the basis of assets available for sale, be higher by HRK 552,112 thousand, and the Bank's by HRK 458,038 thousand, and would amount to HRK 14,727,711 thousand and HRK 14,497,354 respectively.

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

Maximum exposure		**Group**		**Bank**	
	Notes	**2010 HRK '000**	**2009 HRK '000**	**2010 HRK '000**	**2009 HRK '000**
Giro account with the CNB	5	324,132	716,665	324,132	716,665
Obligatory reserve with Croatian National Bank	6	1,077,730	1,128,341	1,077,730	1,128,341
Loans and receivables to banks	7	1,329,676	1,160,955	1,323,676	1,146,701
Loans and receivables to customers	11	8,946,416	7,868,666	8,873,240	7,822,590
Financial assets available for sale	9	-	648,448	-	611,318
Financial assets held to maturity	10	595,965	596,574	541,078	521,365
Fees receivable	9	29,032	36,227	28,342	35,371
Off balance sheet exposure	40	**1,872,648**	**1,904,750**	**1,871,118**	**1,902,115**
Unused facilities		1,257,965	1,309,843	1,256,435	1,307,208
Guarantees		538,632	424,371	538,632	424,371
Other off balance sheet items		76,051	170,536	76,051	170,536
Total credit exposure		**14,175,599**	**14,060,626**	**14,039,316**	**13,884,466**

2. RISK MANAGEMENT POLICIES (continued)

2.1.4. Assets exposed to credit risk

Group 2010	Loans and receivables to customers HRK '000	Loans and receivables to banks HRK '000	Financial assets held to maturity HRK '000	Deposits with the CNB HRK '000	Fees receivable HRK '000
Loans without delay and no impairment	7,595,969	1,329,676	600,396	1,348,159	26,188
Loans with delay but no impairment	149,588	-	-	-	91
Impaired loans	2,036,329	500	25,096	-	6,796
Total gross loans	**9,781,886**	**1,330,176**	**625,492**	**1,348,159**	**33,075**
Identified losses	(729,976)	(500)	(24,133)	-	(4,042)
Portfolio based provisions for losses	(105,494)	-	(5,394)	-	-
Total losses	**(835,470)**	**(500)**	**(29,527)**	**-**	**(4,042)**
Total	**8,946,416**	**1,329,676**	**595,965**	**1,348,159**	**29,033**

Group 2009	Loans and receivables to customers HRK '000	Loans and receivables to banks HRK '000	Financial assets available for sale HRK '000	Financial assets held to maturity HRK '000	Deposits with the CNB HRK '000	Fees receivable HRK '000
Loans without delay and no impairment	6,736,034	1,160,955	616,831	602,424	1,785,551	36,227
Loans with delay but no impairment	104,888	-	-	-	-	-
Impaired loans	1,720,793	500	55,633	20,556	-	1,972
Total gross loans	**8,561,714**	**1,161,455**	**672,463**	**622,979**	**1,785,551**	**38,199**
Identified losses	(594,057)	(500)	(18,548)	(20,556)	-	(1,972)
Portfolio based provisions for losses	(98,991)	-	(5,467)	(5,849)	-	-
Total losses	**(693,048)**	**(500)**	**(24,015)**	**(26,405)**	**-**	**(1,972)**
Total	**7,868,667**	**1,160,955**	**648,448**	**596,574**	**1,785,551**	**36,227**

2. RISK MANAGEMENT POLICIES (continued)

2.1.4 Assets exposed to credit risk (continued)

Bank 2010	**Loans and receivables to customers HRK '000**	**Loans and receivables to banks HRK '000**	**Financial assets held to maturity HRK '000**	**Depoziti kod HNB-a HRK '000**	**Fees receivable HRK '000**
Loans without delay and no impairment	7,522,543	1,323,676	545,042	1,348,158	25,497
Loans with delay but no impairment	149,588	-	-	-	91
Impaired loans	2,035,706	500	25,096	-	6,796
Total gross loans	**9,707,837**	**1,324,176**	**570,138**	**1,348,158**	**32,384**
Identified losses	(729,939)	(500)	(23,666)	-	(4,042)
Portfolio based provisions for losses	(104,658)	-	(5,394)	-	-
Total losses	**(834,597)**	**(500)**	**(29,060)**	**-**	**(4,042)**
Total	**8,873,240**	**1,323,676**	**541,078**	**1,348,158**	**28,342**

Bank 2009	**Loans and receivables to customers HRK '000**	**Loans and receivables to banks HRK '000**	**Financial assets available for sale HRK '000**	**Financial assets held to maturity HRK '000**	**Depoziti kod HNB-a HRK '000**	**Fees receivable HRK '000**
Loans without delay and no impairment	6,689,385	1,146,701	579,559	526,574	1,785,551	35,371
Loans with delay but no impairment	104,888	-	-	-	-	-
Impaired loans	1,720,793	500	55,633	20,556	-	1,972
Total gross loans	**8,515,065**	**1,147,201**	**635,191**	**547,129**	**1,785,551**	**37,343**
Identified losses	(594,057)	(500)	(18,548)	(20,556)	-	(1,972)
Portfolio based provisions for losses	(98,418)	-	(5,325)	(5,208)	-	
Total losses	**(692,475)**	**(500)**	**(23,873)**	**(25,764)**	**-**	**(1,972)**
Total	**7,822,590**	**1,146,701**	**611,318**	**521,365**	**1,785,551**	**35,371**

2. RISK MANAGEMENT POLICIES (continued)

2.1.4 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.

Collateral value is reviewed along the lines of internal policies and procedures, and in accordance with good business practice and current market trends.

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

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

Group 2010 HRK '000	State units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit card loans	Other loans	**Total**	**Loans and receivables to banks**	**Financial assets held to maturity**	**Deposits with the CNB**	**Fees receivable**
Gross loans	1,201,620	166,355	3,737,815	440,600	8,337	137,507	1,903,735	**7,595,969**	1,329,676	600,396	1,348,159	26,188
Total portfolio based provisions	(16,392)	(2,269)	(50,989)	(5,712)	(114)	(1,876)	(26,102)	**(103,453)**	-	(5,861)	-	-
Net loans	**1,185,228**	**164,086**	**3,686,826**	**434,888**	**8,223**	**135,631**	**1,877,633**	7,492,515	**1,329,676**	**594,535**	**1,348,159**	**26,188**
Collateral value	110,778	105,098	3,350,882	847,613	2,581	-	300,449	**4,717,400**	-	-	-	-
% collateral coverage	9.35	64.05	90.89,	194.90,	31.38	-	16.00	**62.96,**	-	-	-	-

2. RISK MANAGEMENT POLICIES (continued)

2.1.4 Assets exposed to credit risk (continued)

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

Bank 2010 HRK '000	State units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit card loans	Other loans	**Total**	**Loans and receivables to banks**	**Financial assets held to maturity**	**Deposits with the CNB**	**Fees receivable**
Gross loans	1,201,620	166,355	3,737,815	357,447	8,337	137,507	1,913,462	**7,522,543**	1,323,676	545,042	1,348,159	25,497
Total portfolio based provisions	(16,392)	(2,269)	(50,989)	(4,876)	(114)	(1,876)	(26,102)	**(102,617)**	-	(5,394)	-	-
Net loans	**1,185,228**	**164,086**	**3,686,826**	**352,571**	**8,223**	**135,631**	**1,887,340**	7,419,926	**1,323,676**	**539,648**	**1,348,159**	**25,497**
Collateral value	110,778	105,098	3,350,882	534,792	2,581	-	300,449	**4,404,580**	-	-	-	-
% collateral coverage	9.35	64.05	90.89	151.68	31.38	-	15.92	**59.36**	-	-	-	-

2. RISK MANAGEMENT POLICIES (continued)

2.1.4 Assets exposed to credit risk (continued)

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

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 portfolio based provisions, are disclosed below:

Group 2010 HRK '000	**Loans and receivables to customers**		**Fees receivable**
	Companies	**Total**	
Gross loans	149,588	**149,588**	91
Total portfolio based provisions	(2,041)	**(2,041)**	
Net loans	**147,547**	**147,547**	**91**
Collateral value	158,187	**158,187**	
% collateral coverage	107.21	107.21	

Bank 2010 HRK '000	**Loans and receivables to customers**		**Fees receivable**
	Companies	**Total**	
Gross loans	149,588	**149,588**	91
Total portfolio based provisions	(2,041)	**(2,041)**	
Net loans	**147,547**	**147,547**	**91**
Collateral value	158,187	**158,187**	
% collateral coverage	107.21	107.21	

2. RISK MANAGEMENT POLICIES (continued)

2.1.4 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 2010	**Loans and receivables to customers**								
HRK '000	Companies	Housing loans	Mortgage loans	Other loans	**Total**	**Loans and receivables to banks**	**Financial assets held to maturity**	**Deposits with the CNB**	**Fees receivable**
Gross loans	1,585,421	18,855	313	431,740	**2,036,329**	500	25,096	-	6,796
Total identified losses	(434,048)	(5,569)	(166)	(290,193)	**(729,976)**	(500)	(23,666)	-	(4,042)
Net loans	**1,151,373**	**13,286**	**147**	**141,547**	**1,306,353**	**-**	**1,430**	**-**	**2,754**
Collateral value	2,319,469	29,467	-	579,548	**2,928,484**	-	-	-	-
% collateral coverage	201.45	221,79,	-	409,44	224,17,	**-**	**-**	**-**	**-**

Bank 2010	**Loans and receivables to customers**								
HRK '000	Companies	Housing loans	Mortgage loans	Other loans	**Total**	**Loans and receivables to banks**	**Financial assets held to maturity**	**Deposits with the CNB**	**Fees receivable**
Gross loans	1,585,421	18,232	313	431,740	**2,035,706**	500	25,096	-	6,796
Total identified losses	(434,048)	(5,532)	(166)	(290,193)	**(729,939)**	(500)	(23,666)	-	(4,042)
Net loans	**1,151,373**	**12,700**	**147**	**141,547**	**1,305,767**	**-**	**1,430**	**-**	**2,754**
Collateral value	2,319,469	28,403	-	579,548	**2,927,420**	-	-	-	-
% collateral coverage	201.45	223.65	-	409.44	224.19	**-**	**-**	**-**	**-**

2. RISK MANAGEMENT POLICIES (continued)

2.1.4 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
	2010 HRK '000	2009 HRK '000
Net loans to customers		
Large companies	1,397,244	1,037,010
Small and medium enterprises	361,979	419,702
Retail	15,418	22,348
Total	**1,774,641**	**1,479,060**

2.1.5. 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
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Agriculture and forestry	418,573	241,070	418,573	241,070
Industry	1,911,963	2,007,316	1,911,963	2,007,316
Construction	510,504	464,072	510,504	464,072
Transport, storage and communication	228,870	203,520	228,870	203,520
Retail	898,756	988,426	898,756	988,426
Tourism	458,742	302,603	458,742	302,603
Services	863,668	680,915	863,668	691,673
Ministry of Finance RH	1,081,918	154,610	1,081,918	154,610
Other	276,657	417,255	286,383	417,257
Total gross loans to corporate	**6,649,651**	**5,459,787**	**6,659,377**	**5,470,547**
Loans to retail customers (gross)	3,066,356	3,031,449	2,982,693	2,974,144
- covered by collateral*	7,647,662	-	7,490,187	-
Accrued interest	65,879	70,478	65,767	70,374
Impairment losses	(835,470)	(693,048)	(834,597)	(692,475)
Total	**8,946,416**	**7,868,666**	**8,873,240**	**7,822,590**

**collateral amount for 2009 is not displayed because of incomparability*

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:

- Liquidity Risk Management Policy and
- Manual For Liquidity Risk Management.

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
- reporting and supervision of limits used
- control function

Liquidity risk management is realized through:

- operational management of daily liquidity
- operational management of short term liquidity
- structural liquidity management

Operational management of daily and short term liquidity is realized through:

- planning and projecting daily/ten-days/monthly cash flow
- maintaining minimum weekly and monthly liquidity coefficient in HRK, total of all convertible currencies and non-convertible currencies individually, calculated according to CNB's Decision on Liquidity Risk Management, within the prescribed limit

Structural liquidity management is realized through:

- maintaining positions depending on gap limits between receivables and liabilities according to remaining contractual maturity
- maintaining positions in accordance with liquidity risk exposure limits
- diversification of sources of funding

2. RISK MANAGEMENT POLICIES (continued)

2.2 Liquidity risk (continued)

Risk division is reporting monthly about liquidity risk and liquidity risk exposure limits during sessions of Assets and Liability Management Committee.

The Group is submitting monthly reports to the CNB in form and in deadline prescribed by Decision on Liquidity Risk Management, with end-of-the-month status. Prescribed quantitative requirements consist of following reports: about the amount of highly liquid assets (presently marketable assets), about the maturity gap of assets and liabilities (expected inflows and outflows form), about the level of minimal liquidity coefficient and funds concentration within total liabilities. Information is delivered for two periods: up to one week and up to one month, separately for HRK, convertible currencies and each non-convertible currency individually (if they represent a significant amount). The Group has maintained all limits above prescribed levels during 2010. The Bank maintains obligatory reserve and minimal foreign currency receivables within limits prescribed by Decision on Reserve Requirements and Decision on Minimum Required Amount of Foreign Currency Claims.

Treasury division reports monthly to Assets and Liability Management Committee about planned outflows and inflows.

Responsibility for managing liquidity risk is held by the Bank’s Management Board. The Bank’s Asset and Liability Committee is authorized by the Management Board to manage liquidity risk. The Committee makes decisions and conclusions regarding liquidity management in it’s sessions. Each division to which these decisions and conclusions made by the committee relate, is obliged to enact them.

As a part of liquidity risk management system, authority, responsibilities and procedures in conditions of liquidity crisis are determined separately.

The Group prescribes and implements stress tests of it’s liquidity. Risk division conducts tests of immunity to stress by taking into account all the factors specific to the Bank (internal factors) and market factors (external factors).

Immunity to stress tests are conducted for HRK and total convertible currencies, for periods up to one week and up to one month.

Long term liquidity management is realized through maintaining positions in accordance with limits of exposure to liquidity risk.

2.2.1. Maturity analysis

A maturity analysis of assets and liabilities, as well as equity, of the Group and the Bank, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss that are analyzed as current based on their classification and the Group’s and the Bank’s trading intention, as at 31 December 2010 and 31 December 2009, is presented in the tables further on.

2. RISK MANAGEMENT POLICIES (continued)

2.2 Liquidity risk (continued)

2.2.1 Maturity analysis (continued)

Group 2010
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	776,891	-	-	-	-	776,891
Obligatory reserve with Croatian National Bank	1,077,730	-	-	-	-	1,077,730
Loans and receivables to banks	414,456	735,380	72,984	859	105,998	1,329,676
Financial assets at fair value through profit and loss	1,003,643	7,053	-	-	-	1,010,696
Financial assets available for sale	1	24,795	215,819	100,936	210,561	552,112
Financial assets held to maturity	32,329	60,903	85,310	27,453	389,968	595,965
Loans and receivables to customers	2,293,135	419,549	2,982,598	1,364,178	1,886,957	8,946,416
Assets held for sale	-	-	-	-	21,551	21,551
Property and equipment	-	-	-	-	153,635	153,635
Investment property	-	-	-	-	10,703	10,703
Intangible assets	-	-	-	-	225,052	225,052
Net deferred tax asset	-	-	-	-	26,088	26,088
Tax prepayment	-	-	207		-	207
Other assets	114,824	969	20,040	424	114,971	251,228
TOTAL ASSETS	**5,713,009**	**1,248,649**	**3,376,958**	**1,493,849**	**3,145,485**	**14,977,950**
LIABILITIES						
Financial liabilities at fair value through profit or loss	402	-	-	-	-	402
Deposits from banks	170,410	7,393	8,537	-	-	186,340
Deposits from customers	5,143,508	1,351,270	3,837,750	787,812	73,997	11,194,337
Borrowings	79,030	112,576	171,925	312,094	619,172	1,294,797
Hybrid instruments	-	9,074	-	200,000	400,642	609,716
Provisions for liabilities and charges	14,007	1,911	3,183	8,629	8,452	36,182
Other liabilities	368,886	24,213	32,573	20,337	28,534	474,544
Total equity	-	-	-	-	1,181,632	1,181,632
TOTAL LIABILITIES AND EQUITY	**5,776,242**	**1,506,437**	**4,053,968**	**1,328,872**	**2,312,430**	**14,977,950**
MATURITY GAP	**(63,233)**	**(257,788)**	**(677,010)**	**164,977**	**833,055**	**-**
CUMULATIVE MATURITY GAP	**(63,233)**	**(321,021)**	**(998,031)**	**(833,055)**	**-**	**-**

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
Loans and receivables to 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 receivables 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	-	-	-	-	165,396	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)

Bank 2010
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	776,885	-	-	-	-	776,885
Obligatory reserve with Croatian National Bank	1,077,730	-	-	-	-	1,077,730
Loans and receivables to banks	408,456	735,380	72,984	859	105,998	1,323,676
Financial assets at fair value through profit and loss	997,856	7,053	-	-	-	1,004,909
Financial assets available for sale	1	23,502	215,819	88,642	130,074	458,038
Financial assets held to maturity	32,329	56,809	78,752	22,169	351,019	541,078
Loans and receivables to customers	2,288,550	418,672	2,979,723	1,355,110	1,831,184	8,873,240
Assets held for sale	-	-	-	-	21,551	21,551
Investments in subsidiaries	-	-	-	-	73,990	73,990
Property and equipment	-	-	-	-	153,582	153,582
Intangible assets	-	-	-	-	224,748	224,748
Net deferred tax asset	-	-	-	-	25,130	25,130
Other assets	105,084	1,187	10,975	424	114,970	232,640
TOTAL ASSETS	**5,686,891**	**1,242,603**	**3,358,253**	**1,467,203**	**3,032,248**	**14,787,197**
LIABILITIES						
Financial liabilities at fair value through profit or loss	402	-	-	-	-	402
Deposits from banks	170,410	7,393	8,537	-	-	186,340
Deposits from customers	5,145,732	1,349,820	3,798,147	686,946	41,015	11,021,660
Borrowings	79,030	112,576	171,925	312,094	619,172	1,294,797
Hybrid instruments	-	9,074	-	200,000	400,642	609,716
Provisions for liabilities and charges	14,006	1,894	3,183	8,629	8,452	36,164
Other liabilities	353,222	23,982	24,920	20,337	25,618	448,080
Total equity	-	-	-	-	1,190,038	1,190,038
TOTAL LIABILITIES AND EQUITY	**5,762,802**	**1,504,740**	**4,006,711**	**1,228,007**	**2,284,938**	**14,787,197**
MATURITY GAP	**(75,911)**	**(262,137)**	**(648,458)**	**239,196**	**747,310**	**-**
CUMULATIVE MATURITY GAP	**(75,911)**	**(338,048)**	**(986,507)**	**(747,310)**	**-**	**-**

2. RISK MANAGEMENT POLICIES (continued)

2.2 Liquidity risk (continued)

2.2.1 Maturity analysis (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
Loans and receivables to 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 receivables 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)

2.3. 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 subjected 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 through acquisitions or disposals of financial instruments in accordance with the risk limits set in Market Risk Management Manual.

Market risk management of the Bank is conducted in accordance with regulatory requirements, as is defined by 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 Finance 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.

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 securities risk

Financial assets at fair value through profit or loss

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

The table below shows the movement in given figures as at 31 December 2010 and 31 December 2009.

2010	**Position HRK'000**	**VaR HRK'000**
Currency risk	47,330	(407)
Interest rate risk	886,806	(8,813)
Investment risk in equity securities	53,371	(3,134)
Correlation effect	-	4,273
Market risk		**(9,624)**
2009		
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)**

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 and equity securities within the available for sale portfolio.

Bank

Debt securities	Market value HRK'000	VaR HRK'000
2010	458,636	(3,294)
2009	586,690	(1,626)

Equity securities	Market value HRK'000	VaR HRK'000
2010	15,539	(2,179)
2009	39,844	(7,259)

2. RISK MANAGEMENT POLICIES (continued)

2.4. Interest rate risk (continued)

b) Interest rate risk in the Bank's non-trading book

Interest rate risk in the Bank's non-trading book is a risk which can have a negative effect on economic value of the Bank's book and earnings (net interest income), because of variation of market interest rates Exposure to interest rate risk in the Bank's book arises as a consequence of:

- mismatch between assets and liabilities distributed according to the possibility of interest rate change criterion (repricing gaps)

- various natures of interest rates (referent interest rates), by which the Bank contracts placements and funds.

Accordingly, all interest sensitive items in the Bank's non-trading book are exposed to interest rate risk in the bank's non-trading book.

Interest rate risk in the Bank's non-trading book is managed according to the regulations. In line with CNB's Decision on management of interest rate risk in the bank's non-trading book that took effect on March 31 2010, the Bank is required to submit quarterly reports to the CNB about the interest rate risk in the bank's non-trading book, on individual and consolidated basis.

Until aforementioned Decision took effect, the Bank had managed it's interest rate risk in the bank's non-trading book based on internal models from profit perspective and economic value of capital perspective, but the results and indicators of these calculations are not comparable due to change of methodology of assessment of interest rate risk in the Bank's non-trading book.

Beside regulations about managing interest rate risk in the bank's non-trading book, following acts are prescribed:

- Risk Management policy
- Manual on interest rate risk in the bank's non-trading book

Manual on interest rate risk in the bank's non-trading book defines the management process, evaluation methods and measures of exposure to interest rate risk in the bank's non-trading book, as well as exposure limits and ways and frequency of reporting about the Bank's exposure the interest rate risk in the bank's non-trading book.

The Bank is estimating interest rate risk in the bank's non-trading book by observing this risk from two perspectives:

- Perspective of economic value: potential market value decrease of the Bank's non-trading book because of interest rate movements in the market (adjusted to the CNB's Decision on managing interest rate risk in the bank's non-trading book)
- Profit perspective: potential decrease of net interest income because of movements in market interest rates

Perspective of economic value of capital

The Bank uses simplified calculation of estimated change in economic value of the bank's book by applying standard interest shock on non-trading book positions which are exposed to interest rate risk, for all significant currencies separately and other currencies jointly. Interest sensitive positions of the non-trading book are distributed in 13 time-

2. RISK MANAGEMENT POLICIES (continued)

2.4. Interest rate risk (continued)

zones, whereby positions with fixed interest rate, variable interest rate and interest rate which can be changed by Management Board's decision (administrative interest rate) are distinguished, and estimates a change in market value of the Bank's non-trading book by applying basic simulation of parallel interest rates movements by 2 basis points. The Bank calculates a ratio between the change in economic value of the non-trading book and regulatory capital, and maintains it on a level below 18 percent (legal ratio prescribed by the CNB's Decision equals 20 percent). Change in economic value of capital was below legal and internal limits during the whole of 2010.

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. To measure interest rate risk from the profit perspective, the Bank to simulates 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 realized net interest income for the observed period (from beginning of the year) projected to a yearly basis. The Bank has maintained prescribed limit throughout the whole of 2010.

Additionally, at least once a year stress tests are conducted, whereby the Bank tests effects of adverse interest rate movements for specific product types on the market, on net interest income, by assuming a decrease of active interest rates and an increase of passive interest rates.

Risk divisions is reporting monthly to the Asset and Liabilities Committee about exposure the interest rate risk in the Bank's non-trading book.

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 2010 the value of assets denominated in EUR or in EURO linked currencies amounted to HRK 5,387,642 thousand (2009: HRK 4,761,151 thousand) while liabilities denominated in EUR or EURO linked currencies amounted to HRK 5,419,996 thousand (2009: HRK 4,849,821 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 324 thousand (2009: 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 2010 and 31 December 2009 in HRK and foreign currencies (values denominated in HRK with foreign currency clause are mostly linked to EUR).

HPB
HRVATSKA POŠTANSKA BANKA

2. RISK MANAGEMENT (continued)

2.5.1 Currency risk analysis (continued)

Group 2010

HRK '000	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	623,365	-	109,753	43,773	776,891
Obligatory reserve with Croatian National Bank	989,034	-	88,696	-	1,077,730
Loans and receivables to banks	301,136	-	973,333	55,207	1,329,676
Financial assets at fair value through profit and loss	853,360	142,515	2,796	12,025	1,010,696
Financial assets available for sale	289,082	205,421	56,965	644	552,112
Financial assets held to maturity	456,713	128,621	10,631	-	595,965
Loans and receivables to customers	5,028,327	3,418,537	430,879	68,673	8,946,416
Assets held for sale	21,551	-	-	-	21,551
Property and equipment	153,635	-	-	-	153,635
Investment property	10,703	-	-	-	10,703
Intangible assets	225,052	-	-	-	225,052
Net deferred tax asset	26,088	-	-	-	26,088
Tax prepayment	207	-	-	-	207
Other assets	244,705	1,512	4,591	420	251,228
TOTAL ASSETS	**9,222,958**	**3,896,606**	**1,677,644**	**180,742**	**14,977,950**
LIABILITIES					
Financial liabilities at fair value through profit or loss	80	-	-	322	402
Deposits from banks	158,103	-	12,682	15,555	186,340
Deposits from customers	6,498,925	224,441	4,310,198	160,773	11,194,337
Borrowings	309,170	827,918	157,709	-	1,294,797
Hybrid instruments	559,039	50,677	-	-	609,716
Provisions for liabilities and charges	36,182	-	-	-	36,182
Other liabilities	453,136	-	21,202	206	474,544
Total equity	1,181,632	-	-	-	1,181,632
TOTAL LIABILITIES AND EQUITY	**9,196,267**	**1,103,036**	**4,501,791**	**176,856**	**14,977,950**
NET FOREIGN EXCHANGE POSITION	**26,691**	**2,793,570**	**(2,824,147)**	**3,886**	**-**

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**
Loans and receivables to 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 and receivables 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)

Bank 2010

HRK '000

	HRK	HRK with foreign currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	623,359	-	109,753	43,773	776,885
Obligatory reserve with Croatian National Bank	989,034	-	88,696	-	1,077,730
Loans and receivables to banks	295,136	-	973,333	55,207	1,323,676
Financial assets at fair value through profit and loss	847,573	142,515	2,796	12,025	1,004,909
Financial assets available for sale	268,622	131,807	56,965	644	458,038
Financial assets held to maturity	431,770	98,677	10,631	-	541,078
Loans and receivables to customers	5,038,053	3,335,635	430,879	68,673	8,873,240
Assets held for sale	21,551	-	-	-	21,551
Investments in subsidiaries	73,990	-	-	-	73,990
Property and equipment	153,582	-	-	-	153,582
Intangible assets	224,748	-	-	-	224,748
Net deferred tax asset	25,130	-	-	-	25,130
Other assets	226,265	1,364	4,591	420	232,640
TOTAL ASSETS	**9,218,813**	**3,709,998**	**1,677,644**	**180,742**	**14,787,197**
LIABILITIES					
Financial liabilities at fair value through profit or loss	80	-	-	322	402
Deposits from banks	158,103	-	12,682	15,555	186,340
Deposits from customers	6,511,080	39,609	4,310,198	160,773	11,021,660
Borrowings	309,170	827,918	157,709	-	1,294,797
Hybrid instruments	559,039	50,677	-	-	609,716
Provisions for liabilities and charges	36,164	-	-	-	36,164
Other liabilities	426,672	-	21,203	206	448,080
Total equity	1,190,038	-	-	-	1,190,038
TOTAL LIABILITIES AND EQUITY	**9,190,346**	**918,204**	**4,501,792**	**176,856**	**14,787,197**
NET FOREIGN EXCHANGE POSITION	**28,467**	**2,791,794**	**(2,824,148)**	**3,886**	**-**

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
Loans and receivables to 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 and receivables 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
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)

2.6. Operational risk management

The Group is subject to operational risk in all its business activities, processes and systems. Appropriate operational risk management is ensured through application of procedures, as well as authorization and responsibilities systems, which are prescribed in detail in internal acts, Risk management policy and Operational risk management manual as root documents.

The Group defines operational risk as a risk of an event which, as a consequence, exposes the Group to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk. Significant operational risk is a risk of an event resulting in significant loss because of operational risk.

The Group collects and analyses internal data about events due to operational risk and establishes prerequisites for application of other methods. Systematical identification, assessment and control of operational risk exposure is enacted through operational risk management structure.

In order to efficiently manage operational risk, the Bank created Operational risk management committee.

The Group applies standardized approach when calculating capital requirement for operational risk.

2.7. Capital management

Capital allocation

Capital allocation is based primarily on regulatory requirements. The process of capital allocation to specific activities is conducted independent of individuals responsible for each section of these activities.

Even though maximization of returns on risk weighted capital is the most important basis 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.

2. RISK MANAGEMENT (continued)

2.7 Capital management (continued)

Due to changes in regulations during 2010, calculation of capital requirements for credit institutions was changed also. Owing to this, capital requirements figures for 2009 and 2010 are not comparable. Calculation methodology for 2009 was based on credit risk weighted assets and off-balance sheet items which carried defined risk weights, depending on asset type. New regulations from March 2010 resulted in capital requirement calculation which is based on exposures to clients sorted in prescribed exposure categories, which are then weighted by risk weights specific to client's exposure category (exposure to the state, institutions, public units, retail etc.), remaining maturity of the placement, type of collateral underlying the placement (e.g. residential property, commercial property etc.), placement diversification, determined delay in payment of past-due amounts and the level of impairments made. Risk weights are defined by Decision on capital adequacy. Te Bank applies standardized approach when calculating capital requirements.

	2010. '000 kn	2009. '000 kn
REGULATORY CAPITAL		
Basic capital	1,109,485	615,830
Additional capital	600,642	450,000
Deductions from regulatory capital	(55,850)	(54,253)
Total regulatory capital	**1,654,277**	**1,011,577**

	'000 kn
Credit risk weighted assets	9,733,468
Exoposure of foreign exchange position to the currency risk	53,308
Exposure to position risks	169,030
Exposure to settlement risk and counterparty risk	22,119
CREDIT RISK WEIGHTED ASSETS AND EXPOSURE TO OTHER RISKS	**9,982,826**
Capital adequacy ratio 2009	**10.13**

	'000 kn
Credit risk exposure (standardized approach)	**8,356,374**
Capital requirement for currency risk	5,680
Capital requirement for positional risk	22,277
Capital requirement for investment in equity instruments risk	24,484
Capital requirement for operational risk	125,022
Total initial capiral requirements	**177,462**
Capital adequacy ratio 2010	**16.82**

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.

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 receivables to customers.

Group	**Notes**	**2010 HRK '000**	**2009 HRK '000**
Impairment losses on loans and receivables to customers	11	835,470	693,048
Provisions for off-balance-sheet exposures	24	19,575	19,237
Total		**855,045**	**712,285**

Bank	**Notes**	**2010 HRK '000**	**2009 HRK '000**
Impairment losses on loans and receivables to customers	11	834,597	692,475
Provisions for off-balance-sheet exposures	24	19,556	19,215
Total		**854,153**	**711,690**

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (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 judgment in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the 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 receivables, and the rate of impairment loss recognized, was as follows:

Group	**2010**	**2009**
Gross value of exposure (HRK'000)	2,068,721	1,799,453
Impairment rate	36.7%	35.3%

Bank	**2010**	**2009**
Gross value of exposure (HRK'000)	2,068,098	1,799,453
Impairment rate	36.7%	35.3%

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2010 would lead to the recognition of an additional impairment loss of HRK 20,687 thousand for the Group (2009: HRK 17,995 thousand), and HRK 20,681 thousand for the Bank (2009: HRK 17,995 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 and 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 2010 estimated on a portfolio basis amounted to HRK 130,927 thousand (2009: HRK 129,544 thousand) of the relevant on- and off-balance-sheet exposure of the Group, and HRK 129,608 thousand (2009: HRK 128,167 thousand) of the relevant on- and off-balance-sheet exposure of the Bank.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Financial assets carried at amortized cost (continued)

At the minimum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 20,748 thousand (2009: HRK 19,341 thousand) lower than the amount recognised by the Group and HRK 20,652 thousand (2009: HRK 19,422 thousand) lower than the amount recognised by the Bank.

At the maximum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 24,602 thousand (2009: HRK 25,908 thousand) higher than the amount recognised by the Group and HRK 24,339 thousand (2009: HRK 25,355 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 receivables to customers at 31 December 2010 include exposures with a carrying value of HRK 2,035,706 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 2010 include property, plant and equipment with a carrying value of HRK 138,012 thousand which represent foreclosed assets collected in settlement of non-performing debts. No discrepancy between carrying value and current market value was determined in 2010, and accordingly impairments of these assets were not recognized (2009.: impairment loss of HRK 23,648 thousand). Net book value of foreclosed assets amounts to HRK 112,364 thousand as at December 2010.

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 2010, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss amounted to HRK 596,356 thousand (2009: HRK 601,038 thousand). As at 31 December 2010, the carrying amount of treasury bills classified as financial assets available for sale amounted to HRK 206,043 thousand (2009: 332,283).

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 283,074 thousand

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(2009: HRK 199,961 thousand) being carried at amounts HRK 2,983 thousand higher (2009: HRK 5,048 thousand higher), and financial assets available for sale of HRK 221,699 thousand (2009: HRK 202,957 thousand) being carried at amounts HRK 740 thousand lower (2009 HRK 735 thousand lower), 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, the Group discounts expected future cash flows in respect of the liabilities, using CNB's discount rate.

Taxation

The Group acknowledges 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, as well as custody services.

4 SEGMENT REPORTING (continued)

Group **2010**
HRK'000

	Corporate	Retail	Treasury	Investment banking and asset management	Unallocated	Total
Net interest income	244,119	47,553	97,788	1,323	6,100	396,883
Net fee and commission income	35,337	155,994	1,165	6,951	12,851	212,298
Dealing and investment income	-	-	41,781	-	(173)	41,608
Other income	4,764	3,118	30,410	-	1,235	39,527
Operating income	**284,220**	**206,665**	**171,144**	**8,274**	**20,013**	**690,316**
General and administrative expenses	-	-	-	-	(425,273)	(425,273)
Depreciation and amortisation	-	-	-	-	(69,161)	(69,161)
Impairment losses on loans and receivables to customers and other assets	(93,247)	(39,069)	(3,123)	(7)	(1,089)	(136,535)
Provisions for liabilities and charges	-	-	-	-	(1,210)	(1,210)
Operating expenses	**(93,247)**	**(39,069)**	**(3,123)**	**(7)**	**(496,732)**	**(632,178)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**58,138**
Income tax expense	-	-	-	-	(5,897)	(5,897)
Profit for the year	**-**	**-**	**-**	**-**	**(5,897)**	**52,241**
Segment assets	6,429,989	3,070,091	4,832,679	27,551	-	14,360,310
Unallocated assets	-	-	-	-	617,640	617,640
Total assets	**6,429,989**	**3,070,091**	**4,832,679**	**27,551**	**617,640**	**14,977,950**
Segment liabilities	5,726,482	6,621,746	820,214	52,926	-	13,221,368
Unallocated equity and liabilities	-	-	-	-	1,756,582	1,756,582
Total equity and liabilities	**5,726,482**	**6,621,746**	**820,214**	**52,926**	**1,756,582**	**14,977,950**

5 SEGMENT REPORTING (continued)

Group — **2009**, **HRK'000**

	Corporate	Retail	Treasury	Investment banking and asset management	Unallocated	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 receivables to customers and other assets	(342,942)	(158,563)	(13,211)	(1,401)	6,254	(509,863)
Other expenses	-	-	-	-	(24,854)	(24,854)
Provisions for liabilities and charges	-	-	-	-	(3,954)	(3,954)
Operating expenses	**(342,942)**	**(158,563)**	**(13,211)**	**(1,401)**	**(530,774)**	**(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)

Bank 2010 HRK'000

	Corporate	Retail	Treasury	Investment banking and asset management	Unallocated	Total
Net interest income	244,835	47,553	97,788	1,323	-	391,499
Net fee and commission income	35,337	155,994	1,165	6,951	(1,003)	198,444
Dealing and investment income	-	-	41,781	-	-	41,781
Other income	4,764	3,118	30,410	-	-	38,292
Operating income	**284,936**	**206,665**	**171,144**	**8,274**	**(1,003)**	**670,016**
General and administrative expenses	-	-	-	-	(407,018)	(407,018)
Depreciation and amortisation	-	-	-	-	(68,682)	(68,682)
Impairment losses on loans and receivables to customers and other assets	(93,247)	(39,069)	(3,123)	(7)	(1,100)	(136,546)
Provisions for liabilities and charges	-	-	-	-	(1,215)	(1,215)
Operating expenses	**(93,247)**	**(39,069)**	**(3,123)**	**(7)**	**(478,015)**	**(613,461)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	56,555
Income tax expense	-	-	-	-	(5,719)	(5,719)
Profit for the year	**-**	**-**	**-**	**-**	**(5,719)**	**50,836**
Segment assets	6,439,715	3,070,091	4,832,679	101,541	-	14,444,026
Unallocated assets	-	-	-	-	343,171	343,171
Total assets	**6,439,715**	**3,070,091**	**4,832,679**	**101,541**	**343,171**	**14,787,197**
Segment liabilities	5,738,637	6,621,746	820,214	52,926	-	13,233,523
Unallocated equity and liabilities	-	-	-	-	1,553,674	1,553,674
Total equity and liabilities	**5,738,637**	**6,621,746**	**820,214**	**52,926**	**1,553,674**	**14,787,197**

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 receivables to customers and other assets	(342,942)	(158,563)	(13,211)	(1,401)	6,714	(509,403)
Other expenses	-	-	-	-	(24,854)	(24,854)
Provisions for liabilities and charges	-	-	-	-	(3,937)	(3,937)
Operating expenses	**(342,942)**	**(158,563)**	**(13,211)**	**(1,401)**	**(513,303)**	**(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**

5 CASH AND RECEIVABLES FROM BANKS

Group

	2010 HRK '000			2009 HRK '000		
	In HRK	**In foregin currency**	**Total**	**In HRK**	**In foregin currency**	**Total**
Cash in hand						
Held by the Bank	208,323	99,820	308,142	118,727	122,905	241,632
Held by other parties	144,613	-	144,613	160,346	-	160,346
Cheques in the course of collection	-	4	4	-	5	5
	352,935	**99,824**	**452,759**	**279,073**	**122,910**	**401,983**
Amounts due from banks						
Current accounts with domestic banks	-	1,766	1,766	-	1,951	1,951
Current accounts with foreign banks	-	51,937	51,937	-	57,504	57,504
Giro account with the CNB	270,429	-	270,429	657,210	-	657,210
	270,429	**53,703**	**324,132**	**657,210**	**59,455**	**716,665**
Total	**623,364**	**153,527**	**776,891**	**936,283**	**182,365**	**1,118,648**

Bank

	2010 HRK '000			2009 HRK '000		
	In HRK	**In foregin currency**	**Total**	**In HRK**	**In foregin currency**	**Total**
Cash in hand						
Held by the Bank	208,316	99,820	308,136	118,697	122,905	241,602
Held by other parties	144,613	-	144,613	160,346	-	160,346
Cheques in the course of collection	-	4	4	-	5	5
	352,929	**99,824**	**452,753**	**279,043**	**122,910**	**401,953**
Amounts due from banks						
Current accounts with domestic banks	-	1,766	1,766	-	1,951	1,951
Current accounts with foreign banks	-	51,937	51,937	-	57,504	57,504
Giro account with the CNB	270,429	-	270,429	657,210	-	657,210
	270,429	**53,703**	**324,132**	**657,210**	**59,455**	**716,665**
Total	**623,358**	**153,527**	**776,885**	**936,253**	**182,365**	**1,118,618**

6 OBLIGATORY RESERVE WITH CROATIAN NATIONAL BANK

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Obligatory reserve				
- in HRK	988,396	1,046,026	988,396	1,046,026
- in foreign currency	88,696	81,566	88,696	81,566
Mandatory Croatian National Bank treasury bills	-	-	-	-
Interest receivable – due	638	749	638	749
Interest receivable – not due	-	-	-	-
Total	**1,077,730**	**1,128,341**	**1,077,730**	**1,128,341**

The CNB determines the obligatory reserve requirement for banks, 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 2010 equaled 13% (2009: 14%) of HRK and foreign currency deposits, borrowings and issued debt securities.

At 31 December 2010 the required minimum rate of maintenance of the kuna obligatory reserve with the CNB equaled 70% (2009: 70%), while the remaining 30% (2009: 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 2010, the annual interest rate on the HRK obligatory reserve payable by the CNB was 0.75% (2009: 0.75%).

60% of the foreign currency obligatory reserve (2009: 60%) is maintained with the CNB, while the remaining 40% (2009: 40%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). 75% (2009: 50%) of the foreign currency obligatory reserve is required to be held in HRK and is added to the HRK obligatory reserve (see above).

7 LOANS AND RECEIVABLES TO BANKS

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Short-term placements with domestic banks	121,000	278,847	115,000	264,593
Short-term placements with foreign banks	1,024,049	815,371	1,024,049	815,371
Short-term loans to domestic banks	-	-	-	-
Short –term loans to domestic banks HBOR	72,984	-	72,984	-
Total short-term placements and loans	**1,218,033**	**1,094,218**	**1,212,033**	**1,079,964**
Guarantee deposits with foreign banks	4,073	3,860	4,073	3,860
Long-term placements with domestic banks	51,452	61,724	51,452	61,724
Long-term placements with domestic banks HBOR	54,546	-	54,546	-
Total long-term placements and loans	**110,071**	**65,584**	**110,071**	**65,584**
Short-term placements with domestic non-bank financial institutions	500	500	500	500
Long-term placements with domestic non-bank financial institutions	858	431	858	431
Total placements with non-bank financial institutions	**1,358**	**931**	**1,358**	**931**
Specific provision for placements with non-bank financial institutions	**(500)**	**(500)**	**(500)**	**(500)**
Interest receivable – not due	714	722	714	722
Total interest receivable	**714**	**722**	**714**	**722**
Total	**1,329,676**	**1,160,955**	**1,323,676**	**1,146,701**

Long-term placements with domestic banks include an amount of HRK 51,452 thousand (2009: HRK 61,724 thousand) held at domestic banks, pledged as collateral for the repayment of long-term borrowings repayable in 17 installments from 14 September 2009 to 14 September 2015. Guarantee deposits mainly relate to deposits for card operations.

Movement in impairment allowance

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

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Balance as at 1 January	500	500	500	500
(Decrease)/increase in impairment loss on loans and receivables to banks	-	-	-	-
Balance as at 31 December	**500**	**500**	**500**	**500**

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Trading instruments				
Debt securities, quoted on active markets				
Domestic government bonds	282,143	199,961	282,143	199,961
Corporate debt securities	3,908	-	3,908	-
Debt securities, quoted on active markets	**286,051**	**199,961**	**286,051**	**199,961**
Debt securities, not-quoted on active markets				
Treasury bills issued by Ministry of Finance	601,337	601,038	596,356	601,038
Units in investment funds, quoted on active markets	61,628	87,426	60,824	87,426
Equity securities, quoted on active markets	53,372	51,145	53,372	51,145
	1,002,388	**939,570**	**996,603**	**939,570**
Positive fair value of foreign exchange derivatives				
- forward contracts, OTC	1,253	1,893	1,253	1,893
- futures, quoted on active markets	-	224	-	224
	1,253	**2,117**	**1,253**	**2,117**
Interest receivable – not due	**7,055**	**5,920**	**7,053**	**5,920**
Total	**1,010,696**	**947,607**	**1,004,909**	**947,607**

9 FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Debt securities, quoted on active markets				
Domestic government bonds	242,330	190,291	170,009	173,629
Bills of exchange	-	29,327	-	6,724
Corporate bonds	75,606	6,724	75,606	29,327
Commercial paper	-	55,259	-	55,259
	523,979	**281,601**	**245,615**	**264,939**
Equity securities, non-quoted on active markets				
- Treasury bills	206,043	323,283	206,043	323,283
Equity securities, non- quoted on active markets				
- corporate	2,200	2,243	2,200	2,243
- non-banking financial institutions	21,794	21,794	1,334	1,334
	23,994	**24,037**	**3,534**	**3,577**
Equity securities, quoted on active markets				
- corporate	-	25,059	-	25,059
- non-banking financial institutions	15,539	14,785	15,539	14,785
	15,539	**39,844**	**15,539**	**39,844**
Interest receivable - due	1	-	1	-
Interest receivable – not due	4,847	3,698	3,555	3,548
Impairment allowance for identified losses	(16,248)	(18,548)	(16,248)	(18,548)
Portfolio based provisions	-	(5,467)	-	(5,326)
Total	**552,112**	**648,448**	**458,038**	**611,318**

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

According to CNB regulations, the Bank and Group have recognized portfolio based provisions for identified losses until March 31 2010, after which they were no longer recognized in line with changes in regulation prescribed by the CNB.

The movement in the impairment allowance for financial assets available for sale in 2010, recognized in the income statement, is as follows:

Group			2010 HRK '000			2009 HRK '000
	Impairments for identified losses	Portfolio based provisions	Total	Impairments for identified losses	Portfolio based provisions	Total
At January 01	**18,548**	**5,467**	**24,015**	**4,000**	**2,781**	**6,781**
Increase/(decrease) of impairment losses	(2,300)	(5,467)	**(7,767)**	14,548	2,686	**17,234**
As December 31	**16,248**	**-**	**16,248**	**18,548**	**5,467**	**24,015**

Bank			2010 HRK '000			2009 HRK '000
	Impairments for identified losses	Portfolio based provisions	Total	Impairments for identified losses	Portfolio based provisions	Total
At January 01	**18,548**	**5,326**	**23,874**	**4,000**	**2,658**	**6,658**
Increase/(decrease) of impairment losses	(2,300)	(5,326)	**(7,626)**	14,548	2,668	**17,216**
At December 31	**16,248**	**-**	**16,248**	**18,548**	**5,326**	**23,874**

10 FINANCIAL ASSETS HELD TO MATURITY

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Domestic government bonds	391,049	390,556	346,348	346,284
Bonds issued by Croatian Bank for Reconstruction and Development	11,708	17,299	11,708	17,299
Corporate bonds	30,787	30,357	30,787	30,357
Bonds issued by banks	6,991	6,920	6,991	6,920
Bills of exchange	168,639	140,520	168,639	140,520
Treasury bills	10,237	31,165	-	-
	619,411	**616,817**	**564,473**	**566,698**
Interest receivable – not due	**6,081**	**6,162**	**5,665**	**5,749**
Impairment allowance for identified losses	**(23,666)**	**(20,556)**	**(23,666)**	**(20,556)**
Portfolio based provisions	**(5,861)**	**(5,849)**	**(5,394)**	**(5,208)**
Total	**595,965**	**596,574**	**541,078**	**521,365**

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			**2010 HRK'000**			**2009 HRK'000**
	Impairments for identified losses	**Portfolio based provisions**	**Total**	**Impairments for identified losses**	**Portfolio based provisions**	**Total**
At January 1	**20,556**	**5,849**	**26,405**	**5,151**	**5,891**	**11,042**
Increase/(decrease) in impairment losses	5,337	12	**5,349**	15,405	(42)	**8,767**
Write-offs	(2,227)	-	**(2,227)**	-	-	-
At December 31	**23,667**	**5,861**	**29,527**	**20,556**	**5,849**	**26,405**

Bank			**2010 HRK'000**			**2009 HRK'000**
	Impairments for identified losses	**Portfolio based provisions**	**Total**	**Impairments for identified losses**	**Portfolio based provisions**	**Total**
At January 1	**20,556**	**5,208**	**25,764**	**5,151**	**5,514**	**10,665**
Increase/(decrease) in impairment losses	5,337	186	**5,523**	15,405	(306)	**15,099**
Write-offs	(2,227)	-	**(2,227)**	-	-	-
At December 31	**23,667**	**5,394**	**29,060**	**20,556**	**5,208**	**25,764**

11 LOANS AND RECEIVABLES TO CUSTOMERS

	Group 2010 HRK '000	Group 2009 HRK '000	Bank 2010 HRK '000	Bank 2009 HRK '000
Short-term loans				
Corporate	3,336,907	1,600,778	3,336,907	1,600,778
Retail	854,829	866,338	854,829	866,338
Total short-term loans	**4,191,736**	**2,467,116**	**4,191,736**	**2,467,116**
Long-term loans				
Corporate	3,312,744	3,859,010	3,322,470	3,869,769
Retail	2.211.527	2,165,111	2,127,864	2,107,806
Total long-term loans	**5.524.271**	**6,024,121**	**5,450,334**	**5,977,575**
Total gross loans	**9.716.007**	**8,491,236**	**9,642,070**	**8,444,691**
Interest receivable – due	42,653	53,608	42,544	53,504
Interest receivable – not due	23,226	16,870	23,223	16,870
Impairment allowance for identified losses	**(729.976)**	**(594,057)**	**(729,939)**	**(594,057)**
Portfolio based provisions	**(105.494)**	**(98,991)**	**(104,658)**	**(98,418)**
Total	**8,946,416**	**7,868,666**	**8,873,240**	**7,822,590**
Total impairment allowance and provisions as a percentage of gross loans to customers	**8.60%**	**8.16%**	**8.66%**	**8.20%**

11 LOANS AND RECEIVABLES TO CUSTOMERS (continued)

Movement in impairment allowance

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

Group	Impairments for identified losses	Portfolio based provisions	2010 HRK'000 Total	Impairments for identified losses	Portfolio based provisions	2009 HRK'000 Total
At 1 January	**594,057**	**98,991**	**693,048**	**187,215**	**108,374**	**295,589**
Increase/(decrease) in impairment losses	130,409	6,503	**136,912**	425,703	(9,383)	**416,320**
Amounts recovered during the year	(1,353)	-	**(1,353)**	(1,814)	-	**(1,814)**
Net foreign exchange loss/(gain)	2,756	-	**2,756**	(25)	-	**(25)**
Write-offs and other	4,107	**-**	**4,107**	(17,022)	**-**	**(17,022)**
At 31 December	**729,976**	**105,494**	**835,470**	**594,057**	**98,991**	**693,048**

Bank	Impairments for identified losses	Portfolio based provisions	2010 HRK'000 Total	Impairments for identified losses	Portfolio based provisions	2009 HRK'000 Total
At 1 January	**594,057**	**98,418**	**692,475**	**187,215**	**107,960**	**295,175**
Increase/(decrease) in impairment losses	130,372	6,240	**136,612**	425,703	(9,542)	**416,161**
Amounts recovered during the year	(1,353)	-	**(1,353)**	(1,814)	-	**(1,814)**
Net foreign exchange loss/(gain)	2,756	-	**2,756**	(25)	-	**(25)**
Write-offs and other	4,107	**-**	**4,107**	(17,022)	**-**	**(17,022)**
At 31 December	**729,939**	**104,658**	**834,598**	**594,057**	**98,418**	**692,475**

12 ASSETS HELD FOR SALE

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

	Industry	Domicile	Ownership at 31 December 2010 %
H1 Telekom d,d,	Telecomunications	Croatia	41.25

On 25 March 2008 the Bank made an agreement with H1 Telekom d.d. on the conversion of the Bank's receivables based on a long term loan contract 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.

In 2009 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 2010 there was no change in equity stake value of H1 Telecom d.d..

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	
	2010 HRK '000	2009 HRK '000
H1 Telekom d.d.	21,551	21,551
Total	**21,551**	**21,551**

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

	Group and Bank	
	2010 HRK'000	2009 HRK '000
Balance at January 1	**21,551**	**26,833**
Impairment loss	-	(5,282)
Balance at December 31	**21,551**	**21,551**

13 INVESTMENTS IN SUBSIDIARIES

a) The Group's subsidiaries are as follows:

	Industry	Domicile	Ownership at 31 December 2010 %
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
	2010 HRK '000	2009 HRK '000
HPB Invest d.o.o.	13,500	13,500
HPB Nekretnine d.o.o.	20,490	20,490
HPB Stambena štedionica d.d.	40,000	40,000
Total	**73,990**	**73,990**

c) Movements in investment in subsidiaries were as follows:

		Bank
	2010 HRK '000	2009 HRK '000
Balance as at 1 January	**73,990**	**53,550**
Investment in HPB Nekretnine d.o.o.	-	20,440
Balance as at 31 December	**73,990**	**73,990**

14 PROPERTY AND EQUIPMENT

Group

2010	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 2010	158,083	240,898	377	399,358
Revaluation of buildings and land	(86)	-	-	(86)
Additions	-	28	21,754	21,782
Written-off	-	(1,883)	-	(1,883)
Brought into use	-	19,733	(19,733)	-
Balance as at 31 December 2010	**157,997**	**258,775**	**2,398**	**419,170**
Accumulated depreciation				
Balance as at 1 January 2010	(50,618)	(183,344)	-	(233,962)
Charge for the year	(2,842)	(30,590)	-	(33,432)
Written-off	-	1,859	-	1,859
Balance as at 31 December 2010	**(53,460)**	**(212,075)**	**-**	**(265,535)**
Carrying value				
Balance as at 1 January 2010	107,465	57,554	377	165,396
Balance as at 31 December 2010	**104,537**	**46,700**	**2,398**	**153,635**

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	(27,152)	-
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**

As at December 31 2010 assets in the course of construction comprise equipment at cost of HRK 2,398 thousand (2009: HRK 377 thousand).

14. PROPERTY AND EQUIPMENT (continued)

Bank

2010	**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 2010	158,083	240,670	378	399,131
Revaluation of buildings and land	(86)	-	-	(86)
Additions	-	-	21,754	21,754
Written-off	-	(1,874)	-	(1,874)
Brought into use	-	19,733	(19,733)	-
Balance as at 31 December 2010	**157,997**	**258,529**	**2,399**	**418,925**
Accumulated depreciation				
Balance as at 1 January 2010	(50,618)	(183,186)	-	(233,804)
Charge for the year	(2,842)	(30,547)	-	(33,389)
Revaluation of buildings and land	-	-	-	-
Written-off	-	1,850	-	1,850
Balance as at 31 December 2010	**(53,460)**	**(211,883)**	**-**	**(265,343)**
Carrying value				
Balance as at 1 January 2010	107,465	57,484	378	165,327
Balance as at 31 December 2010	**104,537**	**46,646**	**2,399**	**153,582**

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
Revaluation of buildings and land	-	-	-	-
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)
Revaluation of buildings and land	-	-	-	-
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**

As at December 31 2010 assets in the course of construction comprise equipment at cost of HRK 2,399 thousand (2009: HRK 378 thousand).

15 INVESTMENT PROPERTY

Group and Bank	2010 HRK '000	2009 HRK '000
Cost		
Balance as at 1 January	11,956	9,089
Increase	-	2,507
Written - off	-	-
Sales	-	-
Balance at 31 December	**11,956**	**11,596**
Accumulated depreciation		
Balance as at 1 January 2010	(640)	(418)
Sales	-	-
Charge for the year	(253)	(222)
Balance at 31 December	**(893)**	**(640)**
Carrying value		
Balance as at 1 January	10,956	8,671
Balance at 31 December	**10,703**	**10,956**

16 INTANGIBLE ASSETS

Group 2010	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 2010	46,853	64,874	38,584	138,471	288,782
Additions	-	179	-	61,104	61,283
Brought into use	150,253	3,760	12,740	(166,753)	-
Written-offs	(1,593)	(2,329)	-	-	(3,922)
Balance at 31 December 2010	**195,513**	**66,484**	**51,324**	**32,822**	**346,143**
Accumulated depreciation					
Balance as at 1 January 2010	(26,800)	(38,636)	(23,294)	-	(88,730)
Charge for the year	(14,133)	(13,981)	(7,404)	-	(35,518)
Written-offs	1,191	1,966	-	-	3,157
Balance at 31 December 2010	**(39,742)**	**(50,651)**	**(30,698)**	**-**	**(121,091)**
Carrying value					
Balance at 1 January 2010	20,053	26,238	15,290	138,471	200,052
Balance at 31 December 2010	**155,771**	**15,833**	**20,626**	**32,822**	**225,052**

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	-	-	-	44,862	44,862
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**	**138,471**	**288,782**
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)	-	(31,003)
Written-offs	35	-	-	-	35
Balance at 31 December 2009	**(26,800)**	**(38,636)**	**(23,294)**	**-**	**(88,730)**
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**	**138,471**	**200,052**

As at 31 December 2010 assets in the course of construction comprise application software, licences and leasehold improvements at a cost of HRK 32,822 thousand (2009: HRK 138,471 thousand), which are being prepared for use by the Group. Decrease in the assets in the course of construction during 2010 resulted from bringing into use the central banking application Finacle core.

16 INTANGIBLE ASSETS (continued)

Bank

2010	**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 2010	46,345	64,868	38,584	138,468	288,265
Additions	-	-	-	61,104	61,104
Brought into use	150,253	3,760	12,740	(166,753)	-
Write-offs	(1,593)	(2,317)	-	-	(3,910)
Balance at 31 December 2010	**195,005**	**66,311**	**51,324**	**32,819**	**345,459**
Accumulated depreciation					
Balance as at 1 January 2010	(26,602)	(38,630)	(23,294)	-	(88,526)
Charge for the year	(13,963)	(13,969)	(7,404)	-	(35,336)
Write- offs	1,191	1,960	-	-	3,151
Balance at 31 December 2010	**(39,374)**	**(50,639)**	**(30,698)**	**-**	**(120,711)**
Carrying value					
Balance at 1 January 2010	19,743	26,238	15,290	138,468	199,739
Balance at 31 December 2010	**155,631**	**15,672**	**20,626**	**32,819**	**224,748**

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)	-
Written-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)
Written-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**

Assets under construction at 31 December 2010 mostly relating to investments in application software, licenses and leasehold improvements at cost of HRK 32,819 thousand (2009: 138,468 thousand HRK), who are preparing for possible future use by the Bank. Decrease in the assets in the course of construction during 2010 resulted from bringing into use the central banking application Finacle core.

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 2010 are as follows:

Group **2010**	**2010** **HRK '000**	**Income / (expense) to income statement** **HRK '000**	**Credited / (charged) to equity** **HRK '000**	**2009** **HRK '000**
Deferred tax assets				
Loans and advances to customers	11,422	(3,349)	-	14,771
Other provisions	1,165	(1,881)	-	3,047
Financial assets	16,651	(460)	-	17,111
Fair value reserve	280	-	(78)	358
Deferred tax liabilities				
Borrowings	(678)	72	-	(750)
Fair value reserve and revaluation reserve	(2,043)	-	1,888	(3,931)
Prepaid expenses	(709)	1	-	(710)
Net deferred tax asset	**26,088**	**(5,617)**	**1,810**	**29,896**

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)
Fair value reserve and revaluation reserve	(3,931)	-	(2,700)	(1,231)
Prepaid expenses	(710)	-	-	(710)
Net deferred tax asset	**29,896**	**(2,067)**	**(15,561)**	**47,524**

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 2010 are as follows:

Bank **2010**	**2010** **HRK '000**	**Income / (expense) to income statement** **HRK '000**	**Credited / (charged) to equity** **HRK '000**	**2009** **HRK '000**
Deferred tax assets				
Loans and advances to customers	10,230	(3,418)	-	13,648
Other provisions	1,118	(1,810)	-	2,928
Financial assets	16,651	(460)	-	17,111
Fair value reserve	-	-	-	-
Deferred tax liabilities				
Borrowings	(826)	(31)	-	(795)
Fair value reserve and revaluation reserve	(2,043)	-	1,888	(3,931)
Net deferred tax asset	**25,130**	**(5,719)**	**1,888**	**28,961**

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)
Fair value reserve and revaluation reserve	(3,931)	-	(2,700)	(1,231)
Net deferred tax asset	**28,961**	**(2,175)**	**(15,302)**	**46,438**

18 OTHER ASSETS

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Fees receivable	33,075	38,199	32,384	37,343
Foreclosed assets held for sale	138,012	135,958	138,012	135,958
Items in course of collection	26,190	8,415	26,190	8,415
Deferred fee expense	3,037	3,978	1,110	3,978
Prepaid expenses	10,967	4,961	10,798	2,880
Other receivables	69,400	29,202	53,573	16,374
Total gross amounts	**280,681**	**220,713**	**262,067**	**204,948**
Allowance for impairment losses	(29,453)	(26,966)	(29,427)	(26,951)
Total	**251,228**	**193,747**	**232,640**	**177,997**

At 31 December 2010, Bank had HRK 138,012 thousand gross carrying value of foreclosed assets (2009: HRK 135,958 thousand). Foreclosed assets consist of HRK 94,851 thousand of construction property, HRK 35,132 thousand of land and HRK 8,029 thousand of equipment. Market value estimate of these assets in 2010 did not determine any deviation between fair and book value, and therefore no impairment loss was recognized (2009, loss HRK 23,647 thousand).

Movement in foreclosed assets

The following table represents movement in foreclosed assets during 2010:

	Group and Bank
	HRK'000
Balance at 1 January	112,309
Foreclosed in 2010	2,232
Disposed in 2010	(177)
Balance at 31 December	**114,364**

Movement in impairment allowance for other assets

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

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Balance at 1 January	26,966	6,013	26,951	4,857
Increase in impairment losses	4,405	25,414	4,399	25,396
Usage	(1,918)	(4,441)	(1,923)	(3,302)
Balance at 31 December	**29,453**	**26,966**	**29,427**	**26,951**

19 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Negative fair value of futures contracts	-	456	-	456
Negative fair value of forward foreign exchange contracts	155	-	155	-
Negative fair value of cross currency swaps	247	1,094	247	1,094
Balance at 31 December	**402**	**1,550**	**402**	**1,550**

20 DEPOSITS FROM BANKS

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Demand deposits				
- in HRK	28,173	2,199	28,173	2,199
- in foreign currency	28,237	20,475	28,237	20,475
Term deposits				
- in HRK	129,537	321,214	129,537	321,214
- in foreign currency	-	16,074	-	16,074
Interest payable – not due	393	3,415	393	3,415
Interest payable – due	-	3	-	3
Total	**186,340**	**363,380**	**186,340**	**363,380**

21 DEPOSITS FROM CUSTOMERS

Group	2010 HRK '000			2009 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Demand deposits						
Retail	1,956,319	207,084	2,163,403	1,911,912	151,011	2,062,923
Corporate	1,150,420	183,008	1,333,431	1,066,831	171,242	1,238,073
Restricted deposits						
Retail	5,320	1,051	6,371	828	781	1,609
Corporate	818,126	17,459	835,585	775,913	29,557	805,470
	3,930,185	**408,602**	**4,338,787**	**3,755,484**	**352,591**	**4,108,075**
Term deposits						
Retail	1,625,580	2,920,911	4,546,491	1,461,591	2,290,937	3,752,528
Corporate	1,140,117	1,097,114	2,237,232	1,332,314	1,090,105	2,422,419
	2,765,697	**4,018,025**	**6,783,722**	**2,793,905**	**3,381,042**	**6,174,947**
Interest payable – due	1	-	1	4,667	94	4,761
Interest payable – not due	27,483	44,345	71,827	20,116	29,676	49,792
Total	**6,723,366**	**4,470,971**	**11,194,337**	**6,574,172**	**3,763,403**	**10,337,575**

Bank	2010 HRK '000			2009 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Demand deposits						
Retail	1,956,319	207,084	2,163,403	1,911,912	151,011	2,062,923
Corporate	1,152,026	183,008	1,335,034	1,068,806	171,242	1,240,048
Restricted deposits						
Retail	5.320	1.051	6.371	828	781	1.609
Corporate	818.126	17.459	835.585	775.913	29.557	805.470
	3.931.791	**408.602**	**4.340.393**	**3.757.459**	**352.591**	**4.110.050**
Term deposits						
Retail	1,440,747	2,920,911	4,361,658	1,335,742	2,290,937	3,626,679
Corporate	1,150,667	1,097,114	2,247,781	1,339,781	1,090,105	2,429,886
	2,591,414	**4,018,025**	**6,609,439**	**2,675,523**	**3,381,042**	**6,056,565**
Interest payable – due	1	-	1	4,667	94	4,761
Interest payable – not due	27,483	44,344	71,827	20,116	29,676	49,792
Total	**6,550,689**	**4,470,971**	**11,021,660**	**6,457,765**	**3,763,403**	**10,221,168**

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

22 BORROWINGS

Group	2010 HRK '000			2009 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Short-term borrowings from other financial institutions	81,000	-	81,000	347,418	-	347,418
Long-term borrowings from banks	-	156,667	156,667	-	210,490	210,490
Long-term borrowing from HBOR (kuna and foreign currency clause)	1,051,543	-	1,051,543	1,260,630	-	1,260,630
Interest payable - due	492	-	492	1,414	-	1,414
Interest payable - not due	4,053	1,042	5,095	6,494	1,489	7,983
Total	**1,137,088**	**157,709**	**1,294,797**	**1,615,956**	**211,979**	**1,827,935**

Bank	2010 HRK '000			2009 HRK '000		
	In HRK	In foreign currency	Total	In HRK	In foreign currency	Total
Short-term borrowings from other financial institutions	81,000	-	81,000	347,418	-	347,418
Long-term borrowings from banks	-	156,667	156,667	-	210,490	210,490
Long-term borrowing from HBOR (kuna and foreign currency clause)	1,051,543	-	1,051,543	1,260,630	-	1,260,630
Interest payable - due	492	-	492	1,414	-	1,414
Interest payable - not due	4,053	1,042	5,095	6,494	1,489	7,983
Total	**1,137,088**	**157,709**	**1,294,797**	**1,615,956**	**211,979**	**1,827,935**

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	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Hybrid instruments	600,642	450,705	600,642	450,705
Interest receivable – not due	9,074	6,245	9,074	6,245
	609,716	**456,950**	**609,716**	**456,950**

The Bank received a hybrid instruments amounting to HRK 200,000 thousand during 2010, with following terms: maturity of 61 months at a fixed interest rate. Existing hybrid instrument of Croatian pension fund in the amount of HRK 50,000 thousand has been converted to equity in December 2010.

24 PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Provisions for court cases	13,951	12,808	13,951	12,808
Provisions for potential liabilities	340	857	340	857
Provisions for other liabilities	2,317	2,069	2,317	2,069
Provisions for off-balance-sheet exposures	19,574	19,237	19,556	19,215
Balance at 31 December	**36,182**	**34,971**	**36,164**	**34,949**

Movement in provisions for liabilities and charges

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

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Balance at 1 January	34,971	32,907	34,949	32,901
Increase in impairment losses	1,211	3,954	1,215	3,937
Usage	-	(1,890)	-	(1,889)
Balance at 31 December	**36,182**	**34,971**	**36,164**	**34,949**

25 OTHER LIABILITIES

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Suppliers	24,378	22,166	23,673	21,459
Salaries, deductions from salaries, taxes and contributions	18,302	16,669	17,436	15,406
Liabilities for retirement, severance payments and other liabilities	14,310	14,641	14,310	14,641
Fees payable	14,734	17,811	15,439	19,116
Items in the course of settlement	308,485	257,968	308,233	257,999
Deferred fee income	60,044	73,853	51,167	68,238
Other liabilities	34,291	46,243	17,822	31,262
Balance at 31 December	**474,544**	**449,352**	**448,080**	**428,121**

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 211 million (2009: HRK 191 million) and liabilities for transfer of cash inflows from the Bank's account to customers who do not hold accounts with the Bank in the amount of HRK 29 million (2009: HRK 35 million).

26 EQUITY

a) Share capital

As at 31 December 2010, authorised, issued and fully paid ordinary share capital amounted to HRK 966,640 thousand (2009.: HRK 654,320 thousand) and comprised 878,764 (2009.: 594,836) approved ordinary shares with a nominal value of HRK 1,100 each. Increase of shareholders' capital in December 2010, amounting to HRK 499,997 thousand by issuing 283,928 new ordinary shares with a nominal value of HRK 1,100 each, resulted in capital reserve amounting to HRK 187,676 thousand. As of 31 December 2010, the Bank had 795 treasury shares (2009: 795) in the total amount of HRK 874 thousand (2009: HRK 874 thousand).

The shareholder structure is as follows:

	Paid capital HRK'000	2010 Ownership %	Paid capital HRK'000	2009 Ownership %
Central State Office for State's Assets Management	255,536	29.08%	-	-
Croatian Post	241,610	27.49%	216,354	33.07%
Croatian Privatisation Fund	196,685	22.38%	196,231	40.62%
Croatian Pension Fund	177,311	20.18%	163,811	25.04%
Other	7,622	0.87%	8,384	1.27%
Total	**878,764**	**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 2010 amounted to HRK 0 (2009: HRK 19,258 thousand), or 0% (2009: 2.94%) of share capital. Statutory reserve amounting to 19,258 thousand was used during 2010 to cover the loss from 2009 .

26 EQUITY (continued)

c) 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.

d) Revaluation reserve

A revaluation reserve in the amount of HRK 4,768 thousand (2009: HRK 4,888 thousand), net of tax, arises from the revaluation of land and buildings of the Group.

e) 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 2010 (2009: 0).

f) Other reserves

Other reserves as at 31 December 2010 amounted to HRK 0 (2009: HRK 36,606 thousand).

g) Retained earnings/(losses)

Retained loss comprises unallocated accumulated losses from previous years.

27 INTEREST AND SIMILAR INCOME

a) Analysis by product

	Group		Bank	
	2010 HRK '000	**2009 HRK '000**	**2010 HRK '000**	**2009 HRK '000**
Loans and advances to customers				
-Corporate	419,447	450,374	420,214	451,091
-Retail	268,574	286,758	264,807	283,824
	688,020	**737,132**	**685,021**	**734,915**
Placements with and loans to banks	10,368	35,333	9,978	33,910
Debt securities	111,294	154,342	105,157	149,711
Bills of exchange	13,648	14,604	13,648	14,604
Obligatory reserve with the Croatian National Bank	7,593	8,447	7,593	8,447
Total	**830,923**	**949,858**	**821,397**	**941,587**

b) Analysis by source

	Group		Bank	
	2010 HRK '000	**2009 HRK '000**	**2010 HRK '000**	**2009 HRK '000**
Companies	405,222	411,634	405,989	412,351
Individuals	268,574	286,758	264,807	283,824
State and the public sector	126,953	194,595	120,816	189,964
Banks and other financial institutions	28,523	54,171	28,133	52,748
Other organisations	1,652	2,700	1,652	2,700
Total	**830,923**	**949,858**	**821,397**	**941,587**

28 INTEREST EXPENSE AND SIMILAR CHARGES

a) Analysis by product

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Borrowings	48,722	118,735	48,722	118,735
Deposits from customers				
corporate	166,337	241,948	166,388	242,243
retail	210,503	178,032	206,310	175,412
	376,840	**419,980**	**372,698**	**417,655**
Deposits from banks	7,789	48,434	7,789	48,434
Other	689	441	689	435
Total	**434,040**	**587,591**	**429,898**	**585,259**

b) Analysis by recipient

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Companies	59,399	90,203	59,450	90,498
Individuals	210,503	178,032	206,310	175,412
State and public sector	53,393	45,079	53,393	45,079
Banks and other financial institutions	101,674	262,305	101,674	262,299
Other	9,071	11,971	9,071	11,971
Total	**434,040**	**587,591**	**429,898**	**585,259**

29 FEE AND COMMISSION INCOME

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Commissions from cash-based payment transactions	400,681	408,394	400,681	408,394
Commissions from non-cash-based payment transactions	26,535	33,619	26,535	33,619
Commissions from retail and credit card business	110,002	109,398	108,586	109,398
Commissions from letters of credit, guarantees and foreign currency payment transactions	19,053	20,892	19,053	20,892
Other commissions	37,830	38,522	23,836	20,992
Total	**594,101**	**610,825**	**578,691**	**593,295**

30 FEE AND COMMISSION EXPENSE

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Commissions on cash-based payment transactions	317,951	334,492	317,951	334,492
Commissions on non-cash-based payment transactions	31,465	45,438	31,465	45,438
Commissions on credit card transactions	23,705	27,974	23,705	27,974
Other commissions	8,682	12,916	7,126	10,672
Total	**381,803**	**420,820**	**380,247**	**418,576**

31 GAINS LESS LOSSES FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Gains less losses from financial assets at fair value through profit or loss				
Realised gains/(losses)				
- Debt securities	2,449	(3,982)	2,422	(3,982)
- Equity securities	-	-	-	-
- Investment funds	4,249	-	4,249	-
- Forward foreign exchange contracts - OTC	(653)	4,637	(653)	4,637
	6,044	**655**	**6,018**	**655**
Unrealised gains/(losses)				
- Debt securities	4,905	13,296	4,728	13,296
- Investment funds	(3,841)	7,967	(3,841)	7,967
- Equity securities	876	10,479	876	10,479
- Futures	-	28	-	28
- Forward foreign exchange contracts - OTC	51	(658)	51	(658)
	1,992	**31,112**	**1,815**	**31,112**
Total	**8,036**	**31,767**	**7,832**	**31,767**

32 GAINS LESS LOSSES FROM FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Realised gains on disposal of debt securities available for sale	2,208	114	2,208	456
Realised gains on disposal of equity securities available for sale	1,151	616	1,498	616
Impairment of equities	-	(21,591)	-	(21,591)
Total	**3,359**	**(20,861)**	**3,706**	**(20,519)**

33 OTHER OPERATING INCOME

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Dividend income	4,560	4,876	4,560	4,876
Net foreign exchange gain from translation of monetary assets and liabilities	5,127	3,565	5,098	3,565
Derecognition of liabilities on dormant customer accounts	2,509	77	2,509	77
Other income	31,891	2,729	30,685	4,172
Total	**44,087**	**11,274**	**42,852**	**12,690**

An income amounting to HRK 24,8 million, realized through a sale of an equity instrument, is stated within other income, and relates to previously recognized loss due to operational risk within other expenses.

34 GENERAL AND ADMINISTRATIVE EXPENSES

	Group		Bank	
	2010 HRK '000	**2009 HRK '000**	**2010 HRK '000**	**2009 HRK '000**
Materials and services	138,625	121,683	133,346	119,121
Administration and marketing	26,264	33,119	24,955	32,401
Post and telecommunications	34,785	41,957	34,501	41,554
Personnel expenses	193,771	182,723	183,218	170,958
Deposit insurance expenses	18,177	19,934	17,694	19,563
Other general and administrative costs	13,650	28,857	13,304	28,136
Total	**425,273**	**428,273**	**407,018**	**411,733**

a) Personnel expenses

	Group		Bank	
	2010 HRK '000	**2009 HRK '000**	**2010 HRK '000**	**2009 HRK '000**
Net salaries, severance payments and other expenses	91,236	84,680	86,731	79,260
Taxes and contributions (including employer's contributions)	93,816	89,597	89,066	84,118
Other payments to employees	8,106	7,653	7,276	7,177
Fees to Supervisory Board members	613	793	145	403
Total	**193,771**	**182,723**	**183,218**	**170,958**

As at 31 December 2010 the Bank had 1012 employees (2009: 973), while the Group had 1051 employees (2009: 1013).

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

		Group		Bank	
	Notes	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Impairment losses					
Loans and receivables to customers	11	(129,056)	(423,888)	(129,019)	(423,888)
Interest receivable		1,096	(32,064)	1,096	(32,064)
Financial assets available for sale	9	(3,124)	(14,548)	(3,124)	(14,548)
Financial assets held to maturity	10	-	(15,405)	-	(15,405)
Other assets	18	(4,405)	(25,414)	(4,399)	(25,396)
Assets held for sale	12	-	(5,282)	-	(5,282)
Loans and receivables to banks	7	-	-	-	-
Total release/(charge)		**(135,489)**	**(516,601)**	**(135,447)**	**(516,583)**
Portfolio based provisions for identified losses					
Loans and receivables to customers	11	(6,503)	9,383	(6,240)	9,542
Financial assets available for sale	9	5,468	(2,687)	5,326	(2,668)
Financial assets held to maturity	10	(11)	42	(186)	306
Other assets	18	-	-	-	-
Loans and receivables to banks	7	-	-	-	-
Total release/(charge)		**(1,046)**	**6,738**	**(1,100)**	**7,180**
Total impairments and provisions for identified losses					
Loans and receivables to customers	11	(135,559)	(414,505)	(135,259)	(414,346)
Interest receivable		1,096	(32,064)	1,096	(32,064)
Financial assets available for sale	9	2,344	(17,235)	2,203	(17,216)
Financial assets held to maturity	10	(12)	(15,363)	(186)	(15,099)
Other assets	18	(4,405)	(25,414)	(4,399)	(25,396)
Assets held for sale	12	-	(5,282)	-	(5,282)
Loans and receivables to banks	7	-	(10)	-	-
Total release/(charge)		**(136,535)**	**(509,863)**	**(136,546)**	**(509,403)**

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	
	2010 HRK '000	**2009 HRK '000**	**2010 HRK '000**	**2009 HRK '000**
Current income tax expense	(280)	(123)	-	-
Deferred income tax relating to the origination and reversal of temporary differences	(5,617)	(2,067)	(5,719)	(2,175)
Total income tax expense in income statement	**(5,897)**	**(2,190)**	**(5,719)**	**(2,175)**

Movement in income tax liabilities recognized directly in equity

	Group		Bank	
	2010 HRK '000	**2009 HRK '000**	**2010 HRK '000**	**2009 HRK '000**
Deferred tax income relating to unrealized loss on available-for-sale investments recognized in fair value reserve	(78)	(12,861)	-	(12,602)
Deferred tax income/(charges) relating to revaluation reserve on land and buildings	1,888	(2,700)	1,888	(2,700)
Total income / (expense) on the basis of income tax recognized directly in equity reserves	**1,810**	**(15,561)**	**1,888**	**(15,302)**

Reconciliation of income tax expense

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

	Group		Bank	
	2010 HRK '000	**2009 HRK '000**	**2010 HRK '000**	**2009 HRK '000**
Profit / (loss) before tax	58,138	(444,651)	56,555	(446,640)
Income tax at 20% (2009: 20%)	(11,628)	-	(11,311)	-
Expenses not deductible for tax purposes	(13,107)	(9,380)	(12,899)	(9,270)
Income not subject to tax	13,048	7,193	12,963	7,095
Taxable income	-	(3)	-	-
Deferred tax income	(61)	-	-	-
Effect of unrecognized deferred tax	5,851	-	5,528	-
	(5,897)	**(2,190)**	**(5,719)**	**(2,175)**
Effective income tax rate	10.1%	-	10.1%	-

36 INCOME TAX EXPENSE (continued)

Unrecognized deferred tax in respect of tax losses disposable in prospective periods

As at December 31 2010, a subsidiary of the Bank had gross accumulated tax losses of HRK 9,687 thousand (2009: HRK 10,797 thousand) available for reduction of taxable profits of prospective periods. As at December 31 2010, the Bank had gross accumulated tax losses amounting to HRK 449.721 thousand (2009: HRK 477.361 thousand), available for reduction of taxable profits until December 31 2014. Accumulated tax losses are not recognized as deferred tax assets because it is not possible to estimate the amount of future taxable profits, which could be used to offset available tax losses.

The availability of tax losses for reduction of taxable profits, for the Group without the Bank, of prospective periods is as follows:

Group (without Bank)	**2010.**	**2010.**	**2009.**	**2009.**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
	Gross tax losses	**Taxable profits**	**Gross tax losses**	**Taxable profits**
31 December 2011	4,499	900	5,618	1,124
31 December 2012	3,109	622	3,109	622
31 December 2013	2,070	414	2,070	414
Total tax losses carried forward	**9,678**	**1,936**	**10,797**	**2,160**

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 616,907 (2009: 562,432). 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: 616,907 (2009: 562,432).

		Bank
	2010	**2009**
	HRK '000	**HRK '000**
Net profit/(loss) for the year	50,836	(448,815)
Profit allocated to cover losses from previous years	50,836	-
Average number of ordinary shares in issue (excluding treasury shares)	616,907	562,432
Earnings/(loss) per share (in HRK)	**82,30**	**(797,99)**

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	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Giro account with the CNB	5	270,428	657,210	270,428	657,210
Obligatory reserve with the CNB	6	1,077,730	1,128,341	1,077,730	1,128,341
Bonds issued by the Republic of Croatia		931,164	793,251	812,432	732,316
Ministry of Finance treasury bills		817,620	955,487	802,400	924,322
Loans and advances to the Republic of Croatia		1,014,550	208,115	1,014,550	208,115
Deposits from the Republic of Croatia		(1,017,139)	(816,711)	(1,017,139)	(816,711)
Total		**3,094,352**	**2,925,693**	**2,960,401**	**2,833,593**

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	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Loans and advances	201,004	226,882	201,004	226,882
Deposits	(480,170)	(484,616)	(480,170)	(484,616)
Total	**(279,167)**	**(257,734)**	**(279,167)**	**(257,734)**

39 CASH AND CASH EQUIVALENTS

		Group		Bank	
	Notes	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Cash and receivables from banks	5	776,891	1,118,648	776,885	1,118,618
Obligatory reserve with Croatian National Bank	6	1,077,730	1,128,341	1,077,730	1,128,341
Placements to banks with original maturity up to 90 days		1,105,763	1,074,939	1,099,763	1,060,686
Items in course of collection	18	26,190	8,415	26,190	8,415
Total		**2,986,574**	**3,330,343**	**2,980,568**	**3,316,060**

40 COMMITMENTS AND CONTINGENCIES

	Group		Bank	
	2010 HRK '000	2009 HRK '000	2010 HRK '000	2009 HRK '000
Guarantees denominated in HRK	531,172	414,424	531,172	414,424
Guarantees denominated in foreign currencies	7,460	9,947	7,460	9,947
Letters of credit	75,592	80,936	75,592	80,936
Accepted bills of exchange	-	89,600	-	89,600
Undrawn lending commitments	1,257,965	1,309,843	1,256,435	1,307,208
Other off-balance-sheet items	459	-	459	-
Total	**1,872,648**	**1,904,750**	**1,871,118**	**1,902,115**

At 31 December 2010, 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 19,574 thousand, (2009: HRK 19,237 thousand), and the Bank in the amount of HRK 19,556 thousand (2009: HRK 19,215 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**
2010	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Forward foreign exchange contracts – OTC EUR	246,032	29,541	-	-	275,573	998	155
Cross currency swaps-OTC	101,572	-	-	-	101,572	254	247
Futures	-	-	-	-	-	-	-
	374,604	**29,541**	**-**	**-**	**377,145**	**1,252**	**402**

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**

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 Central State Office for State's Assets Management under Croatian Government, Hrvatska pošta d.d. ("Croatian Post") , the Croatian Privatisation Fund and Hrvatski zavod za mirovinsko osiguranje ("HZMO") which together own 99.13% (2009: 98.73 %) of the Bank's shares at year end. The remaining 0.87% (2009: 1.27%) 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 members of the Management Board, 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, as well as placements in debt securities issued by Croatian Post. 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. Exposure to Republic of Croatia is disclosed in Note 38. Concentracion of Assets and liabilities.

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 (2009: -).

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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 years ended 31 December 2010 and 31 December 2009 of the Group, arising from transactions with related parties were as follows:

Group 2010	**Exposure* HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expense HRK'000**
Key shareholders				
Croatian Post	71,233	93,934	390,550	323,792
HZMO	-	18,394	52	3,511
Croatian Privatisation Fund	45,965	335	3,212	193
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	2,275	2,012	45	16,064
Long-term benefits (loans and deposits)	30,852	644	1,115	164
Severance payments	-	-	-	1,076
Companies under significant influence	80,670	1,141	5,609	93
Total	**230,995**	**116,460**	**400,583**	**344,893**

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**

* Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 28,837 thousand (2009: HRK 32,497 thousand) of off-balance-sheet exposure, whereof HRK 27,173 thousand (2009: HRK 30,947 thousand) relates to Croatian Post and key management personnel.

Exposure to key members of the Group's Management include loan receivables in the amount of 30,849 thousand (2009:26,423 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 years ended 31 December 2010 and 31 December 2009 of the Bank, arising from transactions with related parties were as follows:

Bank 2010	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
Key shareholders				
Croatian Post	71,233	93,934	390,550	323,792
HZMO	-	18,394	52	3,511
Croatian Privatisation Fund	45,965	335	3,212	193
Subsidiaries				
HPB Invest	49,571	7,726	935	24
HPB Nekretnine	10,311	308	1,334	1,728
HPB Stambena štedionica	144	4,147	850	25
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	1,069	1,950	39	14,631
Long-term benefits (loans and deposits)	26,450	644	942	164
Severance payments	-	-	-	1,076
Companies under significant influence	80,670	1,141	5,609	93
Total	**285,413**	**128,579**	**403,523**	**345,237**

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**

*Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 28,729 thousand (2009: HRK 33,272 thousand) of off-balance-sheet exposures, whereof HRK 27,065 thousand (2009: HRK 30,732 thousand) relates to Croatian Post and key management personnel.

c) State owned companies

Major shareholders of the Bank, which together own 99.13% 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 parties, which is disclosed in Note 38.

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.

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 the end of the year 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				
2010	76,869	103,982	January 2011	104,051
2009	127,645	351,709	From January until November 2010	355,439

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 2010 assets purchased and subject to agreements to resell them and linked transactions were as follows:

	Carrying amounts of receivables HRK'000	Fair value of assets held as collateral HRK'000	Repurchase date	Repurchase price HRK'000
Loans and advances to customers – reverse repurchase agreement				
2010	83,281	81,443	From January until May 2011	84,000
Linked transactions				
2009	2,801	370	January 2010	2,801

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's 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 Bank's balance sheet. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2010, the total assets under custody held by the Bank on behalf of customers amounted to HRK 3.44 billion (2009: HRK 3.48 billion), including custody of HPB funds.

In addition, at 31 December 2010, total assets of investment and pension funds to which the Bank act as a depository bank, amounted to HRK 3.10 billion (2009: HRK 3.34 billion).

Furthermore, the Bank manages loan exposures of other parties as follows:

	2010 HRK '000	2009 HRK '000
Assets		
Corporate	272,171	251,422
Retail	634,115	614,282
Giro accounts	59,890	28,508
Total assets	**966,176**	**894,211**
Liabilities		
Croatian Employment Office	97,983	43,246
Counties	29,176	29,298
Government of the Republic of Croatia	658,633	626,926
HBOR	10,025	14,923
Development and Employment Fund	165,198	171,250
Other liabilities	5,161	8,568
Total liabilities	**966,176**	**894,211**

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 2010**	**Average interest rates 2009**
Cash and receivables from banks	0.17%	0.35%
Obligatory reserve with Croatian National Bank	0.75%	0.75%
Loans and receivables to banks	0.80%	2.76%
Financial assets at fair value through profit or loss	5.36%	6.88%
Financial assets available for sale	5.78%	7.18%
Financial assets held to maturity	7.11%	6.96%
Loans and receivables to customers	8.34%	8.76%
Liabilities		
Deposits from banks	2.35%	7.47%
Deposits from customers	3.15%	3.84%
Borrowings	3.13%	5.28%
Hybrid instruments	7.02%	7.27%

Bank

Assets	**Average interest rates 2010**	**Average interest rates 2009**
Cash and receivables from banks	0.17%	0.35%
Obligatory reserve with Croatian National Bank	0.75%	0.75%
Loans and receivables to banks	0.77%	2.67%
Financial assets at fair value through profit or loss	5.37%	6.88%
Financial assets available for sale	6.00%	7.21%
Financial assets held to maturity	7.14%	7.06%
Loans and receivables to customers	8.36%	8.78%
Liabilities		
Deposits from banks	2.35%	7.47%
Deposits from customers	3.15%	3.86%
Borrowings	3.13%	5.28%
Hybrid instruments	7.02%	7.27%

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 provisons 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 2010 and 31 December 2009.

Group			**2010 HRK '000**			**2009 HRK '000**
	Carrying amount	**Fair value**	**Unrecognised gains / (losses)**	**Carrying amount**	**Fair value**	**Unrecognised gains / (losses)**
Cash and receivables from banks	776,891	776,891	-	1,118,648	1,118,648	-
Obligatory reserve with the Croatian National Bank	1,077,730	1,077,730	-	1,128,341	1,128,341	-
Loans and receivables to banks	1,329,676	1,327,077	(2,599)	1,160,955	1,156,963	(3,992)
Financial assets at fair value through profit or loss	1,010,696	1,010,696	-	947,607	947,607	-
Financial assets available for sale	552,112	552,112	-	648,448	648,448	-
Financial assets held to maturity	595,965	496,461	(99,504)	596,574	497,062	(99,512)
Loans and receivables to customers	8,946,416	8,927,771	(18,645)	7,868,666	7,818,714	(49,953)
Financial liabilities at fair value through profit or loss	402	402	-	1,550	1,550	-
Deposits from banks	186,340	186,256	84	363,380	357,616	5,764
Deposits from customers	11,194,337	11,168,798	25,539	10,337,575	10,300,292	37,283
Borrowings	1,294,797	1,294,243	554	1,827,935	1,807,123	20,812
Total			**(94,570)**			**(89,597)**

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank			2010 HRK '000			2009 HRK '000
	Carrying amount	Fair value	Unrecognised gains / (losses)	Carrying amount	Fair value	Unrecognised gains / (losses)
Cash and receivables from banks	776,885	776,885	-	1,118,618	1,118,618	-
Obligatory reserve with the Croatian National Bank	1,077,730	1,077,730	-	1,128,341	1,128,341	-
Placements with and loans to other banks	1,323,676	1,321,156	(2,520)	1,146,701	1,142,883	(3,818)
Financial assets at fair value through profit or loss	1,004,909	1,004,909	-	947,607	947,607	-
Financial assets available for sale	458,038	458,038	-	611,318	611,318	-
Financial assets held to maturity	541,078	451,415	(89,663)	521,365	431,210	(90,155)
Loans and advances to customers	8,873,240	8,873,240	-	7,822,590	7,786,090	(36,500)
Financial liabilities at fair value through profit or loss	402	402	-	1,550	1,550	-
Deposits from banks	186,340	186,256	84	363,380	357,616	5,764
Deposits from customers	11,021,660	11,006,523	15,137	10,221,168	10,180,211	40,957
Borrowings	1,294,797	1,294,243	554	1,827,935	1,807,123	20,812
Total			**(76,409)**			**(77,762)**

Balance sheet as at 31.12.2010

	2010 HRK '000	2009 HRK '000
Cash and deposits with the CNB	1,786,998	2,169,207
- cash	452,953	401,953
- deposits held with the CNB	1,334,045	1,767,254
Deposits with banking institutions	1,235,794	1,192,950
Treasury bills issued by the Ministry of Finance and the CNB Treasury bills	802,400	921,089
Securities and other financial instruments held for trading	400,247	338,531
Securities and other financial instruments available for sale	248,440	287,720
Securities and other financial assets held to maturity	535,413	515,616
Securities and other finanacial instruiments at fair value through profit or loss – non actively traded	-	-
Derivative financial instruments	1,253	2,117
Loans to financial institutions	290,092	86,183
Loans to customers	8,656,328	7,679,671
Investment in subsidiaries, associated companies and joint venture	95,541	95,541
Assets acquired in lieu of uncollectible receivables	114,364	112,309
Tangible assets (less depreciation)	158,710	170,629
Interest, fees and other assets	464,685	414,060
TOTAL ASSETS	**14,790,265**	**13,985,623**
LIABILITIES		
Borrowings from financial institutions	1,260,508	1,736,692
- short-term borrowings	124,786	365,681
- long-term borrowings	1,135,722	1,371,011
Deposits	10,293,809	9,723,983
- giro and current account deposits	2,276,665	2,099,820
- savings deposits	1,278,168	1,230,311
- term deposits	6,738,976	6,393,852
Other borrowings	26,340	55,771
- short-term borrowings	-	-
- long-term borrowings	26,340	55,771
Financial derviatives and other traded financial liabilities	402	1,550
Debt securities – issued	-	-
- Short term debt securities	-	-
- Long term debt securities	-	-
Subordinated instruments - issued	-	-
Subordinated debt	600,642	450,705
Interest, fees and other liabilities	1,418,526	1,370,079
TOTAL LIABILITIES	**13,600,227**	**13,338,780**
EQUITY		
Share capital	1,193,902	693,905
Profit /(loss) for the year	50,836	(448,815)
Retained earnings (loss)	(63,659)	158,456
Statutory reserves	-	19,258
Statutory and other capital reserve	5,643	213,205
Unrealised gain (loss) on financial assets available for sale	3,316	10,834
Hedge transactions reserve	-	-
TOTAL EQUITY	**1,190,038**	**646,843**
TOTAL LIABILITIES AND EQUITY	**14,790,265**	**13,985,623**

Income statement for the year ended 31 December 2010

	2010 HRK '000	2009 HRK '000
Interest income	823,011	941,725
Interest expense	(448,688)	(604,878)
Net interest income	**374,323**	**336,847**
Fee and commission income	578,701	593,294
Fee and commission charges	(380,247)	(418,576)
Net fee and commission income	**198,454**	**174,718**
Profit / loss from investments in subsidiaries, associated companies and joint venture	-	(5,282)
Profit / loss from dealing activities	33,515	59,563
Profit / loss from embedded derivatives	-	-
Profit / loss from assets at fair value trought profit or loss – non actively traded	-	-
Profit / loss from trading with available for sale financial assets	3,398	(20,599)
Profit / loss from trading with held to maturity financial assets	-	-
Profit / loss from hedge transactions	-	80
Income from investment in subsidiaries, associated companies and joint ventures	-	-
Income from other equity investments	4,560	4,876
Net foreign exchange profit / loss	8,796	3,458
Other income	42,826	14,223
Other expense	(41,901)	(97,452)
General and administrative expense and depreciation	(427,128)	(442,344)
Net operating income before provisions and impairment losses	**196,843**	**28,088**
Provisions and impairment losses	(140,288)	(476,903)
PROFIT / LOSS BEFORE TAX	**56,555**	**(448,815)**
INCOME TAX EXPENSE	(5,719)	**-**
PROFIT / LOSS FOR THE YEAR	**50,836**	**(448,815)**
Earnings per share	82.30	-

Statement of changes in equity for the year ended 31 December 2010

Bank	Share capital HRK '000	Treasury shares HRK '000	Statutory and other reserves HRK '000	Retained earnings / loss HRK '000	Profit / loss for the year HRK '000	Unrealised gain/ (loss) on financial assets available for sale HRK '000 kn	Total equity HRK '000
Balance at 1 January 2010	**694,779**	**(874)**	**232,463**	**158,456**	**(448,815)**	**10,834**	**646,843**
Changes in accounting policies and correction of errors	-	-	-	-	-	-	-
Restated balance at 1 January 2010	694,779	(874)	232,463	158,456	(448,815)	10,834	646,843
Disposal of financial assets available for sale	-	-	-	-	-	3,706	**3,706**
Change in the fair value of financial assets available for sale	-	-	-	-	-	(11,224)	**(11,224)**
Deferred tax on items directly recognised or transferred from equity and reserves	-	-	(120)	-	-	-	**(120)**
Other gains / losses recognised directly in equity	-	-	-	-	-	-	-
Net gains/losses recognised directly in equity	**-**	**-**	**(120)**	**-**	**-**	**(7,518)**	**(7,638)**
Profit/loss for the year	-	-	-	-	50,836	-	50,836
Total recognised gains/ (losses) for 2010	**-**	**-**	**(120)**	**-**	**50,836**	**(7,518)**	**43,198**
Increase / decrease in share capital	499,997	-	-	-	-	-	499,997
Purchase / sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Transfer to reserves	-	-	(226,700)	(222,115)	448,815	-	-
Dividends paid	-	-	-	-	-	-	-
Profit allocation	**-**	**-**	**(226,700)**	**(222,115)**	**448,815**	**-**	**-**
Balance at 31 December 2010	**1,194,776**	**(874)**	**5,643**	**(63,659)**	**50,836**	**3,316**	**1,190,038**

Statement of changes in equity for the year ended 31 December 2009

Bank	Share capital HRK '000	Treasury shares HRK '000	Statutory and other reserves HRK '000	Retained earnings / loss HRK '000	Profit / loss for the year HRK '000	Unrealised gain/ (loss) on financial assets available for sale HRK '000 kn	Total equity HRK '000
Balance at 1 January 2009	**584,780**	**(874)**	**232,061**	**150,175**	**8,717**	**(50,409)**	**924,450**
Changes in accounting policies and correction of errors	-		-	-	-	-	**-**
Restated balance at 1 January 2010	584,780	(874)	232,061	150,175	8,717	(50,409)	924,450
Disposal of financial assets available for sale	-	-	-	-	-	(1,072)	**(1,072)**
Change in the fair value of financial assets available for sale	-	-	-	-	-	77,626	**77,626**
Deferred tax on items directly recognised or transferred from equity and reserves	-	-	(34)	-	-	(15,311)	**(15,345)**
Other gains / losses recognised directly in equity	-	-	-	-	-	-	**-**
Net gains/losses recognised directly in equity	**-**	**-**	**(34)**	**-**	**-**	**61,243**	**61,209**
Profit/loss for the year	-	-	-	-	(448,815)	-	(448,815)
Total recognised gains/ (losses) for 2010	**-**	**-**	**(34)**	**-**	**(448,815)**	**61,243**	**(387,606)**
Increase / decrease in share capital	109,999	-	-	-	-	-	109,999
Purchase / sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Transfer to reserves	-	-	436	8,281	(8,717)	-	-
Dividends paid	-	-	-	-	-	-	-
Profit allocation	**-**	**-**	**436**	**8,281**	**(8,717)**	**-**	**-**
Balance at 31 December 2009	**694,779**	**(874)**	**232,463**	**158,456**	**(448,815)**	**10,834**	**646,843**

Cash flow statement for the year ended 31 December 2010

	2010 HRK '000	2009 HRK '000
OPERATING ACTIVITIES		
Cash flow from operating activities before changes in operating assets	**256,085**	**109,342**
Profit / loss before tax	56,555	(448,815)
Impairment losses and provisions for liabilities and charges	137,761	513,340
Amortisation and depreciation	68,682	79,494
Net unrealised gains/losses on financial assets at fair value through profit or loss	(1,815)	(31,112)
Reversal of impairment loss on land and buildings	-	-
Other gains/ losses	(5,098)	(3,565)
Net cash inflow / decrease of operating assets	**(1,172,039)**	**72,342**
Treasury bills issued by Ministry of Finance and CNB bills	118,689	328,781
Deposits with banking institutions and loans to financial institutions	(253,354)	13,650
Loans to customers	(975,764)	(196,342)
Securities and other financial instruments held for trading	(61,715)	(40,002)
Securities and other financial instruments available for sale	41,372	27,876
Other operating assets	(41,267)	(61,621)
Net changes in operating liabilites	**518,574**	**(480,069)**
Demand deposits	176,845	(484,732)
Savings and term deposits	392,981	84,010
Derivative financial liabilities and other liabilities held for trading	(1,148)	(5,191)
Other liabilities	(50,104)	(74,156)
Net cash flow from operating activities before tax	**(397,380)**	**(298,385)**
Income tax paid	-	1,271
Net cash inflow / outflow from operating activities	**(397,380)**	**(297,114)**
INVESTMENT ACTIVITIES		
Net cash flow from investing activities	**(97,143)**	**(58,695)**
Disposal/acquisition/ of property and equipment and intangible assets	(81,989)	(67,513)
Disposal/acquisition of investment in subsidiaries, associated companies and joint ventures	-	(20,440)
Maturity/acquisition of securities and other financial instruments held to maturity	(19,714)	24,382
Dividend receipts	4,560	4,876
FINANCIAL ACTIVITIES		
Cash flow from financing activities	**143,206**	**308,819**
Net increase /decrease in borrowings	(509,556)	59,086
Net increase/decrease in subordinated debt	152,766	139,733
Increase in share capital	499,997	110,000
Net increase in cash and cash equivalents	**(351,316)**	**(46,990)**
Effect of foreign exchange differences on cash and cash equivalents	15,824	(12,354)
Net increase/decrease in cash and cash equivalents	**(335,492)**	**(59,344)**
Cash and cash equivalents at the beginning of the year	**3,316,060**	**3,375,404**
Cash and cash equivalents at the end of the year	**2,980,568**	**3,316,060**

Reconciliation of the balance sheet at 31 December 2010

	Supplementary report HRK '000	Financial statements HRK '000	Difference HRK '000
Cash and deposits with the CNB			
- cash	452,953	-	452,953
- deposits with the CNB	1,334,045	-	1,334,045
Cash and amounts due from banks	-	776,885	(776,885)
Obligatory reserve with Croatian National Bank	-	1,077,730	(1,077,730)
Deposits with banking institutions	1,235,794	-	1,235,794
Loans and receivables to banks	-	1,323,676	(1,323,676)
Treasury bills issued by Ministry of Finance and CNB bills	802,400	-	802,400
Securities and other financial instruments held for trading	400,247	-	400,247
Financial assets at fair value through profit or loss	-	1,004,909	(1,004,909)
Securities and other financial instruments available for sale	248,440	-	248,440
Financial assets held for sale	-	458,038	(458,038)
Securities and other financial instruments held to maturity	535,413	-	535,413
Financial assets held to maturity	-	541,078	(541,078)
Securities and other finanacial instruiments at fair value through profit or loss – non actively traded	-	-	-
Derivative financial assets	1,253	-	1,253
Loans to financial institutions	290,092	-	290,092
Loans to customers	8,656,328	-	8,656,328
Loans and receivables to customers	-	8,873,240	(8,873,240)
Investment in subsidiaries, associated companies and joint ventures	95,541	-	95,541
Assets held for sale	-	21,551	(21,551)
Investment in subsidiaries	-	73,990	(73,990)
Foreclosed assets	114,364	-	114,364
Tangible assets (less depreciation)	158,710	-	158,710
Property and equipment	-	153,582	(153,582)
Intangible assets	-	224,748	(224,748)
Net deferred tax asset	-	25,130	(25,130)
Interest, fees and other assets	464,685	-	464,685
Tax prepayment	-	-	-
Other assets	-	232,640	(232,640)
TOTAL ASSETS	**14,790,265**	**14,787,197**	**3,068**

Reconciliation of the balance sheet at 31 December 2010 (continued)

	Supplementary report HRK '000	Financial statements HRK '000	Difference HRK '000
LIABILITIES			
Financial liabilities at fair value through profit or loss	-	402	(402)
Borrowings from financial institutions			
- short-term borrowings	124,786	-	124,786
- long-term borrowings	1,135,722	-	1,135,722
Borrowings	-	1,294,797	(1,294,797)
Deposits			
- giro and current account deposits	2,276,665	-	2,276,665
- savings deposits	1,278,168	-	1,278,168
- term deposits	6,738,976	-	6,738,976
Deposits from banks	-	186,340	(186,340)
Deposits from customers	-	11,021,660	(11,021,660)
Other borrowings			
- short-term borrowings	-	-	-
- long-term borrowings	26,340	-	26,340
Financial derviatives and other traded liabilities	402	-	402
Debt securities – issued	-	-	-
- Short term debt securities	-	-	-
- Long term debt securities	-	-	-
Subordianted debt – issued	-	-	-
Issued hybrid instrument	600,642	-	600,642
Hybrid instruments	-	609,716	(609,716)
Provisions for liabilities and charges	-	36,164	(36,164)
Net deferred tax liabilties	-	-	-
Interest, fees and other liabilities	1,418,526	-	1,418,526
Other liabilities	-	448,080	(448,080)
TOTAL LIABILITIES	**13,600,227**	**13,597,159**	**3,068**
EQUITY			
Share capital	1,193,902	966,640	227,262
Capital reserve	-	228,136	(228,136)
Treasury shares	-	(874)	874
Profit (loss) for the year	50,836	-	50,836
Retained earnings	(63,659)	(11,948)	(51,711)
Statutory reserve	-	-	-
Other reserves	-	-	-
Statutory and other capital reserve	5,643	-	5,643
General banking risk reserve	-	-	-
Revaluation reserve	-	4,768	(4,768)
Unrealised gain (loss) on financial assets available for sale	3,316	3,316	-
Hedge transactions reserve	-	-	-
TOTAL EQUITY	**1,190,038**	**1,190,038**	**-**
TOTAL LIABILITIES AND EQUITY	**14,790,265**	**14,787,197**	**3,068**

Reconciliation of the balance sheet as at 31 December 2010

1 Reclassification of foreign currency account held with the foreign banks in the amount of HRK 51,937 thousand from item Deposits with banking institutions in the balance sheet supplementary report to the item Cash and amounts due from banks in the financial statements.

2 Reclassification of foreign currency accounts held with the domestic banks in the amount of HRK 1,766 thousand from item Deposits with banking institutions in the balance sheet supplementary report to the item Cash and amounts due from banks in the financial statements.

3 Reclassification of giro account in the amount of HRK 270,428 thousand from the item Deposits with the CNB in the balance sheet supplementary report to the item Cash and amounts due from banks in the financial statements.

4 Reclassification of deposits held with non-banking financial institutions in the amount of HRK 859 thousand (accounts 5214) from the item Interest, fees and other assets in the balance sheet supplementary report to the item Loans and receivables to banks in the financial statements.

5 Reclassification of loan to HBOR in the amount of HRK 127,530 thousand from item Loans to financial institutions in the balance sheet supplementary report to the item Loans and receivables to banks in the financial statements.

6 Reclassification of receivables from not-due interest in the amount of HRK 40,208 thousand from the item Interest, fees and other assets in the balance sheet supplementary report to the items: Loans and receivables to banks in the amount of HRK 714 thousand, Financial assets at fair value through profit or loss in the amount of HRK 7,053 thousand, Financial assets available for sale in the amount of HRK 3,554 thousand, Financial assets held to maturity in the amount of HRK 5,665 thousand and Loans and receivables to customers in the amount of HRK 23,222 thousand in the financial statements.

7 Reclassification of receivables for due interest in the amount of HRK 43,148 thousand from item Interest, fees and other assets in the balance sheet supplementary report to items: Obligatory reserve with CNB in the amount of HRK 638 thousand, Financial assets held to maturity in the amount of HRK 1 thousand and Loans and receivables to customers in the amount of HRK 42,554 thousand in the financial statements.

8 Reclassification of portfolio based provisions related to the items Deposits with the CNB in the amount of HRK 13,475 thousand, Deposits with the banking institutions in the amount of HRK 12,483 thousand, Loans to financial institutions in the amount of HRK 2,930 thousand and Interest, fees and other assets in the amount of HRK 1,522 thousand in the supplementary balance sheet to the item Provisions for portfolio based impairment losses regarding Loans and receivables to customers in the financial statements in the total amount of HRK 30,410 thousand.

9 Reclassification of HRK 802,400 thousand from the item Treasury bills issued by the Ministry of Finance and CNB Treasury bills in the balance sheet supplementary report to the item Financial assets at fair value through profit or loss of HRK 596,356 thousand and Financial assets available for sale in the amount of HRK 206,043 in the financial statements.

10 Reclassification of HRK 224,748 thousand from the item Interest, fees and other assets in the balance sheet supplementary report to the item Intangible assets in the financial statements.

11 Reclassification of HRK 1,253 thousand from the item Derivative financial instruments in the balance sheet supplementary report to the item Financial assets at fair value through profit or loss in the financial statements.

12 Reclassification of the amount of HRK 165,492 thousand from the item Loans to the financial institutions (without banks) in the balance sheet supplementary report to the item Loans and receivables to customers in the financial statements.

13 Reclassification of credit card receivables (CNB account 14811) amounting to HRK 16,064 thousand from the item Interest, fees and other assets in the balance sheet supplementary report to the item Loans and receivables to customers in the financial statements.

14 Reclassification of the amount of HRK 27,999 thousand from the item Interest, fees and other assets in the balance sheet supplementary report to the item Net deferred tax asset in the financial statements.

15 Netting of the deferred tax liability in the amount of HRK 2,869 thousand from the item Interest, fees and other liabilities in the balance sheet supplementary report to the item Net deferred tax asset in the financial statements.

16 Reclassification of the amount of HRK 114,364 thousand from the item foreclosed assets in the balance sheet supplementary report to the item Other assets in the financial statements.

17 Reclassification of the stock of office supplies of HRK 5,128 thousand from the item Tangible assets (less depreciation) in the balance sheet supplementary report to the item Other assets in the financial statements.

18 Reclassification of HRK 21,551 thousand from the item Investment in subsidiaries, associated companies and joint venture in the balance sheet supplementary report to the item Assets held for sale in the financial statements.

19 Reclassification of long-term borrowings of HRK 1,135,722 thousand from the item Borrowings from financial institutions in the balance sheet supplementary report to the item Borrowings in the financial statements.

20 Reclassification of HRK 26,340 thousand from item the Other borrowings in the balance sheet supplementary report to the item Borrowings in the financial statements.

21 Reclassification of Financial derivatives and other traded liabilities of HRK 402 thousand from the item Financial liabilities at fair value through profit or loss in the balance sheet supplementary report to the item Financial liabilities at fair value through profit or loss in the financial statements.

22 Reclassification of HRK 86,390 thousand from the item Interest, fees and other liabilities in the balance sheet supplementary report to the item Borrowings in the amount of HRK 5,096 thousand, Deposits from banks in the amount of HRK 393 thousand, Deposits from customers in the amount of HRK 71,827 thousand and Hybrid instrument in the amount of HRK 9,074 in the financial statements.

23 Reclassification of HRK 493 thousand interest payable-due from the item Interest, fees and other assets in the balance sheet supplementary report to the item Borrowings in the amount of HRK 492 thousand, and Deposits from customers in the amount of HRK 1 thousand in the financial statements.

24 Reclassification of HRK 12,198 thousand temporary transfers for the purpose of investment in companies' share capital from the item Interest, fees and other assets in the balance sheet supplementary report to the item Deposits from customers in the financial statements.

25 Reclassification of HRK 200 thousand in course of settelment – retail related (CNB account 2690) from the item Interest, fees and other assets in the balance sheet supplementary report to the item Cash and amounts due from banks in the financial statements.

26 Reclassification of Restricted deposits of HRK 832,133 thousand from the item Interest, fees and other assets in the balance sheet supplementary report to the items: Deposits from the customers in the amount of HRK 829,771 thousand and HRK 2,362 thousand (group of CNB accounts 81131 - Liabilities towards HBOR) in the balance sheet supplementary report to the item Borrowings in the financial statements.

27 Reclassification of Provisions for liabilites and charges of HRK 36,164 thousand from the item Interest, fees and other assets in the balance sheet supplementary report to the Provisions for liabilites and charges in the financial statements.

28 Reclassification of giro and current account deposits of HRK 2,276,665 thousand, savings deposits of HRK 1,278,168 thousand and term deposits of HRK 6,738,976 thousand in the balance sheet supplementary report to Deposits from banks in the amount of HRK 185,947 thousand and to Deposits from customers in the amount of HRK 10,107,862 thousand in the financial statements.

29 Reclassification of HRK 228,136 thousand from Share capital in the balance sheet supplementary report to Capital reserve in the financial statements.

30 Treasury shares in the amount of HRK 874 thousand are shown as a reduction in share capital in the financial statements.

31 Reclassification of HRK 50,836 thousand from the item Profit for the year in the balance sheet supplementary report to Retained earnings/(loss) in the financial statements.

32 Reclassification of the treasury share reserve in the amount of HRK 874 thousand from item Statutory and other capital reserve in the balance sheet supplementary report to the item Retained earnings in the financial statements.

33 Reclassification of HRK 4,768 thousand from the item Statutory and other capital reserve in the balance sheet supplementary report to the item Revaluation reserve in the financial statements.

Reconciliation of the income statement supplementary refor the year ended 31 December 2010

	Supplementary report HRK '000	Financial statements HRK '000	Difference HRK '000
Interest income	823,011	821,397	1,614
Interest expense	(448,688)	(429,898)	(18,790)
Net interest income	**374,323**	**391,499**	**(17,176)**
Fee and commission income	578,702	578,691	11
Fee and commission expense	(380,247)	(380,247)	-
Net fee and commission income	**198,454**	**198,444**	**10**
Gains less losses arising from financial instruments at fair value through profit or loss	-	7,832	(7,832)
Gains less losses arising from financial instruments available for sale	-	3,706	(3,706)
Gains less losses arising from dealing in foreign currencies	-	25,683	(25,683)
Other operating income	-	42,852	(42,852)
Operating income		**670,016**	
Other non-interest income	93,095	-	93,095
Other non-interest expense	41,897	-	41,897
Net other non-interest income	**51,198**	**-**	**51,198**
Net non-interest income	**249,652**	**-**	249,652
General and administrative expense and depreciation	427,132	475,700	(48,568)
Net operating income before provisions and impairment losses	**196,843**	-	**196,843**
Impairment losses on loans and advances to customers and other assets	-	136,546	(136,546)
Provisions for liabilities and charges	-	1,215	(1,215)
Operating expenses	**-**	**613,461**	**(613,461)**
Impairment losses and provisions	138,848	-	138,848
Provisions for portfolio based impairment losses	1,440	-	1,440
Total provisions for impairment losses	**140,288**	**-**	**140,288**
PROFIT BEFORE TAX	**56,555**	**56,555**	**-**
Income tax expense	(5,719)	(5,719)	-
PROFIT FOR THE YEAR	**50,836**	**50,836**	**-**
Earnings per share	**82,30**	**82,30**	**-**

Reconciliation of the income statement for the year ended 31 December 2010

1 **Re**conciliation of foreign exchange differences

Reclassification of HRK 1,614 thousand of net foreing exchange differences from the item Interest income in the income statement supplementary reportto the item Other operating income in the financial statements.

Reclassification of HRK 1,162 thousand of net foreign exchange differences from the item Impairment losses and provisions in the income statement supplementary reportto the item Other operating income in the financial statements.

Reclassification of HRK 1,096 thousand of net foreing exchange differences from the item Interest expense in the income statement supplementary reportto the item Other operating income in the financial statements.

Reclassification of HRK 11 thousand of net foreing exchange differences from the item Fee and commission income in the income statement supplementary reportto the item Other operating income in the financial statements.

Reclassification of HRK 25,683 thousand arising from trading currencies from the item Other non-interest income in the income statement supplementary reportto the item Gains less losses arising from dealing with foreign currencies in the financial statements.

Reclassification of HRK 308 thousand from the item Securities and other financial instruments available for sale in Other non- interest income in the income statement supplementary to the item Other operating income in the financial statements.

Reclassification of HRK 8,796 thousand from the item Other non-interest income (foreing exchange differences on revaluation of assets at the mid CNB rate) in the income statement supplementary reportto the item Other operating income in the financial statements.

Reclassification of HRK 2,756 thousand (foreing exchange differences on impairment losses on CNB accounts 6409 and 6419) from the item Impairment losses on loans and advances to customers and other assets in the income statement supplementary reportto the item Other operating income in the financial statements.

2 Reclassification of HRK 17,694 thousand of the insurance premium expense from the item Interest expense in the income statement supplementary report to the item General and administrative expense in the financial statements.

3 Reclassification of HRK 3,706 thousand from Realised gains from financial asset avaible fore sale from the item Other non-interest income in the income statement supplementary reportto the item Gains less losses arising from financial instruments available for sale in the financial statements.

4 Reclassification of HRK 8,434 thousand from the item Other non-intereset income in the income statement supplementary reportto the item Gains less losses arising from financial instruments at fair value through profit or loss in the financial statements.

5 Reclassification of HRK 602 thousand from the item Other non-interest income in the income statement supplementary report to the item Gains less losses arising from financial instruments at fair value through profit or loss in the financial statements.

6 Reclassification of HRK 4,560 thousand from the item Other non-interest income in the income statement supplementary report to the item Other income in the financial statements, given that it relates to the dividend income.

7 Reclassification of the amount of HRK 32,808 thousand from the item Other non-interest income (other income at the CNB account s68, less 68010, 6885 and income from released impairment losses on the account 6881 and 6882) in the income statement supplementary report to the item Other income in the financial statements.

8 Reclassification of the amount of HRK 9,444 thousand from the item Other non-interest income (income from released impairment losses on 6882) in the income statement supplementary report to the item General and administrative expenses in the financial statements,

9 Reclassification of the amount of HRK 188 thousand from the item Other non-interest income (income from released impairment at the account 68804) in the income statement supplementary report to the item Provisions for liabilites and charges in the financial statements,

10 Reclassification of the amount of HRK 24,955 thousand from the item Other non-interest expense (expenses at the account 627) in the income statement supplementary reportto the tem General and administrative expenses in the financial statements.

11 Reclassification of the amount of HRK 15,363 thousand from the item Other non-interest expense (expenses at accounts 634 and 635 and 6310 and 6311) in the income statement supplementary reportto the item General and administrative expense in the financial statements.

12 Reclassification of the amount of HRK 1,579 thousand from item Other non interest expense (expenses at accounts 633 and 638) in the income statement supplementary reportto the item Provisions for liabilities and charges in the financial statements.

13 Reclassification of the amount of HRK 209 thousand from item Other non interest expense in the income statement supplementary reportto the item Other operating income in the financial statements.

14 Reclassification of the amount of HRK 177 thousand from item Other non interest expense in the income statement supplementary reportto the item Other operating income in the financial statements.

15 Reclassification of the amount of HRK 135,447 thousand (account 647) from the item Provisions for identified losses in the in the income statement supplementary report to the item Impairment losses on loans and receivables to customers and other assets in the financial statements.

16 Reclassification of the amount of HRK 1,100 thousand from Provisions for portfolio based impairment losses in the income statement supplementary report to the item Impairment losses on loans and receivables to customers and other assets in the financial statements.

17 Reclassification of the amount of HRK 341 thousand from the item Provisions for portfolio based impairment losses on off-balance sheet exposure in the income statement supplementary reportto the item Provisions for liabilities and charges in the financial statements.

18 Reclassification of the amount of HRK 517 thousand from item Provisions for identified losses in the income statement supplementary report to the item Provisions for liabilities and charges in the financial statements.

Reconciliation of the statement of changes in equity for the year ended 31 December 2010

Bank	Share capital HRK '000	Treasury shares HRK '000	Statutory and other reserves HRK '000	Retained earnings / loss HRK '000	Profit / loss for the year HRK '000	Unrealised gain (loss) on financial assets available for sale HRK '000	Total equity HRK '000
Balance at 1 January 2010	**694,779**	**(874)**	**232,463**	**158,456**	**(448,815)**	**10,834**	**646,843**
Changes in accounting policies and correction of errors	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Restated balance at 1 January 2010	694,779	(874)	232,463	158,456	(448,815)	10,834	646,843
Disposal of financial assets available for sale	-	-	-	-	-	3,706	**3,706**
Change in the fair value on financial assets available for sale	-	-	-	-	-	(11,224)	**(11,224)**
Deferred tax on items directly recognised or transferred from equity and reserves	-	-	(120)	-	-	-	**(120)**
Other gains / losses recognised directly in equity	-	-	-	-	-	-	**-**
Net gains / losses recognised directly in equity	**-**	**-**	**(120)**	**-**	**-**	**(7,518)**	**(7,638)**
Profit / loss for the year	-	-	-	-	50,836		50,836
Total recognised income / expense for 2010	**-**	**-**	**(120)**	**-**	**50,836**	**(7,518)**	**43,198**
Increase / decrease in share capital	499,997	-	-	-	-	-	499,997
Purchase / sale of treasury shares	-	-	-	-	-	-	**-**
Other changes	-	-	-	-	-	-	**-**
Transfer to reserves	-	-	(226,700)	(222,115)	448,815	-	-
Dividends paid	-	-	-	-	-	-	**-**
Profit allocation	**-**	**-**	**(226,700)**	**(222,115)**	**448,815**	**-**	**-**
Balance at 31 December 2010	**1,194,776**	**(874)**	**5,643**	**(63,659)**	**50,836**	**3,316**	**1,190,038**

Statutory and other capital reserves, Reserve for general banking risk, Revaluation reserve and other reserves in the financial statements are comprised in the item Statutory and other reserves in the changes in equity supplementary report.

The item retained earnings in the financial statements is presented in items Retained earnings / losses, profit /loss for the year.

Reconciliation of statement of cash flows for the year ended 31 December 2010

	Supplementary report HRK '000	Financial statements HRK '000	Difference HRK '000
Cash flows from operating activities			
Profit before tax	56,555	56,555	-
Adjustment:			
- Amortisation and depreciation	68,682	68,682	-
- Foreign exchange losses/gains	(5,098)	(5,098)	-
- Impairment losses on loans and receivables to customers and other assets	-	136,546	(136,546)
- Impairment losses on provisions for liabilities and charges	-	1,215	(1,215)
Impairment losses and provisions	137,761	-	137,761
- net gains on financial assets at fair value through profit or loss	(1,815)	(1,815)	-
Changes in operating assets and liabilities			
Net decrease in loans and receivables to banks	-	(176,975)	176,975
Net (increase)/decrease in financial assets at fair value through profit or loss	-	(55,487)	55,487
Treasury bills issued by Ministry of Finance and CNB bills	118,689	-	118,689
Deposits with banking institutions and loans to financial institutions	(253,354)	-	(253,354)
Loans to customers	(975,764)	-	(975,764)
Securities and other financial instruments held for trading	(61,715)	-	(61,715)
Net (increase)/decrease in loans and receivables to customers	-	(1,179,673)	1,179,673
Net (increase)/decrease in other assets	(41,267)	(41,267)	-
Net (decrease)/increase in deposits from banks	-	(177,040)	177,040
Net increase/(decrease) in deposits from customers	-	800,492	(800,492)
Net increase/(decrease) in other liabilities	-	18,812	(18,812)
Demand deposits	176,845	-	176,845
Savings and term deposits	392,981	-	392,981
Derivative financial liabilities and other liabilities held for trading	(1,148)	-	(1,148)
Other liabilities	(50,104)	-	(50,104)
Net cash inflow from operating activities before tax	**-**	**(555,053)**	**555,053**
Income tax paid	-	-	**-**
Net cash inflow from operating activities	**-**	**(555,053)**	**555,053**
Cash flow from investing activities			
Investment in subsidiaries	-	-	**-**
Investment in associated compaines	-	-	**-**
Purchase of property, plant and equipment and intangible assets	(81,989)	(81,989)	**-**
Disposal of financial assets available for sale	41,372	358,400	**(317,028)**
Stjecanje financijske imovine raspoložive za prodaju	-	(200,726)	**200,726**
Maturity/(acquisition) of financial assets held to maturity	(19,714)	(19,714)	**-**
Dividend receipts	4,560	4,560	**-**
Net cash inflow/(outflow) from investing activities	**-**	**60,531**	**(60,531)**
Cash flow from financing activities			
Increase in subordinated debt	152,766	152,766	**-**
Increase in borrowings	-	7,664,897	**(7,664,897)**
Repayment of borrowings	-	(8,174,454)	**8,174,454**
Net increase /decrease in borrowings	(509,556)	-	**(509,556)**
Increase in share capital	499,997	499,997	**-**
Net cash inflow from financing activities	**-**	**143,206**	**(143,206)**
Effect of foreign exchange differences on cash and cash equivalents	15,824	15,824	**-**
Net increase in cash and cash equivalents	**(335,492)**	**(335,492)**	**-**
Cash and cash equivalents at the beginning of the year	**3,316,060**	**3,316,060**	**-**
Cash and cash equivalents at the end of the year	**2,980,568**	**2,980,568**	**-**

1 Reclassification of HRK 137,761 thousand from the item Impairment losses and provisions in the supplementary cash flow report to the items: Impairment losses on loans and receivables to customers and other assets in the amount of HRK 136,546 thousand and to Provisions for liabilities and charges in the amount of HRK 1,215 thousand in the financial statements,

2 Reclassification of HRK 118,689 thousand from the item Treasury bills issued by the Ministry of finance and CNB bills, Deposits and loans to financial institutions of HRK 253,354 thousand, Loans to customers of HRK 975,764 thousand, Securities and other financial instruments held for trading of HRK 61,715 thousand, Demand deposits of HRK 176,845 thousand, Saving and term deposits of HRK 392,981 thousand, Financial derivatives and other traded financial liabilities of HRK 1,148 thousand, Other liabilities of HRK 50,104 thousand and Disposal of financial asset held for trading of HRK 41,372 thousand in the supplementary cash flow report to: Net increase/decrease in loans and receivables to banks amounting to HRK 176,975 thousand, Net increase/decrease in financial asset at fair value throught profit or loss in the amount of HRK of 55,487 thousand, Net increase/decrease in loans to customers amounting to HRK 1,179,673 thousand, Net increase/decrease in deposits from banks of HRK 177,040 thousand, Net increase/ decrease in deposits to customers of HRK 800,492 thousand, Net increase/decrease in other liabilities of HRK 18,812 thousand and to items Disposal of financial asset held for trading of HRK 358,400 thousand and Acqusition of financial asset held for trading of HRK 200,726 thousand.

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OUTLET SPLIT - BIHAĆKA

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Telefon	021 340 626
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OUTLET SPLIT - DUBROVAČKA

Address:	Dubrovačka 31, 21000 Split
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Address:	Ruđera Boškovića 18a, 21000 Split
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Address:	Ivana Danila 12, 21216 Kaštel Stari
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OUTLET TROGIR

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OUTLET SINJ

Address:	Vrlička 50, 21230 Sinj
phone:	021 708 080
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APART COUNTER ALKARSKI DVORI

Address:	Put Petrovca 12, 21230 Sinj
phone:	021 823 133
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APART COUNTER TRILJ

Address:	Bana Josipa Jelačića 8, 21240 Trilj
phone:	021 830 410
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OUTLET MAKARSKA

Address:	Trg 4. svibnja 533 broj 1, 21300 Makarska
phone:	021 695 760
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OUTLET DUBROVNIK

Address:	Vukovarska 16, 20000 Dubrovnik
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OUTLET KONAVLE

Address:	Gruda 43, 20215 Gruda
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APART COUNTER CAVTAT

Address:	Trumbićeva 10, 20210 Cavtat
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